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COVER NOTE

From:	Mr Klaus-Heiner LEHNE, President of the European Court of Auditors
date of receipt:	4 November 2016
To:	Mr Peter KAZIMIR, President of the Council of the European Union
Subject:	Report on the annual accounts of the European Monitoring Centre for Drugs and Drug Addiction for the financial year 2015 together with the Centre's reply

Delegations will find attached the European Court of Auditors' report on the annual accounts of the European Monitoring Centre for Drugs and Drug Addiction for the financial year 2015.

This report is accompanied by the Centre's reply and will shortly be published in the *Official Journal of the European Union*.

Encl.: Report on the annual accounts of the European Monitoring Centre for Drugs and Drug Addiction for the financial year 2015 together with the Centre's reply.¹

¹ In English only. The other languages of this report are available on the European Court of Auditors' website: <http://eca.europa.eu/>.



EUROPEAN
COURT
OF AUDITORS

Report on the annual accounts
of the European Monitoring Centre for Drugs and Drug Addiction
for the financial year 2015

together with the Centre's reply

INTRODUCTION

1. The European Monitoring Centre for Drugs and Drug Addiction (hereinafter “the Centre”, aka “EMCDDA”), which is located in Lisbon, was created by Council Regulation (EC) No 302/93². Its main task is to collect, analyse and disseminate information as regards drugs and drug addiction in order to prepare and publish information at European level that is objective, reliable and comparable. The information is intended to provide a basis for analysing the demand for drugs and ways of reducing it, as well as, in general, phenomena associated with the drug market.

2. **Table 1** presents key figures for the Centre³.

TABLE 1: KEY FIGURES FOR THE CENTRE

	2014	2015
Budget (million euro) ⁴	15,7	18,5
Total staff as at 31 December ⁵	101	100

Source: data provided by the Centre.

INFORMATION IN SUPPORT OF THE STATEMENT OF ASSURANCE

3. The audit approach taken by the Court comprises analytical audit procedures, direct testing of transactions and an assessment of key controls of the Centre’s supervisory and control systems. This is supplemented by evidence provided by the work of other auditors and an analysis of management representations.

² OJ L 36, 12.2.1993, p. 1. This Regulation and its amendments were repealed by Regulation (EC) No 1920/2006 of the European Parliament and of the Council (OJ L 376, 27.12.2006, p. 1).

³ More information on the Centre's competences and activities is available on its website: www.emcdda.europa.eu.

⁴ Budget figures are based on payment appropriations.

⁵ Staff includes officials, temporary and contract staff and seconded national experts.

STATEMENT OF ASSURANCE

4. Pursuant to the provisions of Article 287 of the Treaty on the Functioning of the European Union (TFEU), the Court has audited:

- (a) the annual accounts of the Centre, which comprise the financial statements⁶ and the reports on the implementation of the budget⁷ for the financial year ended 31 December 2015, and
- (b) the legality and regularity of the transactions underlying those accounts.

The management's responsibility

5. The management is responsible for the preparation and fair presentation of the annual accounts of the Centre and the legality and regularity of the underlying transactions⁸:

- (a) The management's responsibilities in respect of the Centre's annual accounts include designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies on the basis of the accounting rules adopted by the Commission's accounting officer⁹; making accounting estimates that are reasonable in the circumstances. The Director approves the annual accounts of the Centre after its accounting officer has prepared them on the basis of all available information and established a note to accompany the accounts in which he declares, inter alia, that he has reasonable assurance that they present a true and fair view of the financial position of the Centre in all material respects.

⁶ These include the balance sheet and the statement of financial performance, the cash flow table, the statement of changes in net assets and a summary of the significant accounting policies and other explanatory notes.

⁷ These comprise the budgetary outturn account and the annex to the budgetary outturn account.

⁸ Articles 39 and 50 of Commission Delegated Regulation (EU) No 1271/2013 (OJ L 328, 7.12.2013, p. 42).

⁹ The accounting rules adopted by the Commission's accounting officer are derived from the International Public Sector Accounting Standards (IPSAS) issued by the International Federation of Accountants or, where relevant, the International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

- (b) The management's responsibilities in respect of the legality and regularity of the underlying transactions and compliance with the principle of sound financial management consist of designing, implementing and maintaining an effective and efficient internal control system comprising adequate supervision and appropriate measures to prevent irregularities and fraud and, if necessary, legal proceedings to recover funds wrongly paid or used.

The auditor's responsibility

6. The Court's responsibility is, on the basis of its audit, to provide the European Parliament and the Council¹⁰ with a statement of assurance as to the reliability of the annual accounts and the legality and regularity of the underlying transactions. The Court conducts its audit in accordance with the IFAC International Standards on Auditing and Codes of Ethics and the INTOSAI International Standards of Supreme Audit Institutions. These standards require the Court to plan and perform the audit to obtain reasonable assurance as to whether the annual accounts of the Centre are free from material misstatement and the transactions underlying them are legal and regular.

7. The audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts and the legality and regularity of the underlying transactions. The procedures selected depend on the auditor's judgement, which is based on an assessment of the risks of material misstatement of the accounts and material non-compliance by the underlying transactions with the requirements in the legal framework of the European Union, whether due to fraud or error. In assessing these risks, the auditor considers any internal controls relevant to the preparation and fair presentation of the accounts, as well as the supervisory and control systems that are implemented to ensure the legality and regularity of underlying transactions, and designs audit procedures that are appropriate in the circumstances. The audit also entails evaluating the appropriateness of accounting policies, the reasonableness of accounting estimates and the overall presentation of the accounts. In preparing this report and Statement of Assurance, the Court considered the audit work of the independent external auditor performed on the Centre's accounts as stipulated in Article 208(4) of the EU Financial Regulation¹¹.

¹⁰ Article 107 of Regulation (EU) No 1271/2013.

¹¹ Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council (OJ L 298, 26.10.2012, p. 1).

8. The Court considers that the audit evidence obtained is sufficient and appropriate to provide a basis for its statement of assurance.

Opinion on the reliability of the accounts

9. In the Court's opinion, the Centre's annual accounts present fairly, in all material respects, its financial position as at 31 December 2015 and the results of its operations and its cash flows for the year then ended, in accordance with the provisions of its Financial Regulation and the accounting rules adopted by the Commission's accounting officer.

Opinion on the legality and regularity of the transactions underlying the accounts

10. In the Court's opinion, the transactions underlying the annual accounts for the year ended 31 December 2015 are legal and regular in all material respects.

11. The comments which follow do not call the Court's opinions into question.

COMMENTS ON INTERNAL CONTROLS

12. In 2012 the Centre signed a framework contract with a maximum amount for signing specific contracts of 250 000 euro, which was specified in the contract notice. However, the Centre did not respect this ceiling. By the end of 2015 the total payments made under this contract amounted to 382 181 euro; i.e. exceeded it by 50 %. The payments made above the ceiling indicate that the Centre's procedure for monitoring framework contracts should be improved.

FOLLOW-UP OF PREVIOUS YEAR'S COMMENTS

13. An overview of the corrective actions taken in response to the Court's comments from previous years is provided in **Annex I**.

This Report was adopted by Chamber IV, headed by Mr Baudilio TOMÉ MUGURUZA,
Member of the Court of Auditors, in Luxembourg at its meeting of 13 September 2016.

For the Court of Auditors

(s) Vítor Manuel da SILVA CALDEIRA

President

Annex IFollow-up of previous years' comments

Year	Court's comment	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
2014	Carry-over of committed appropriations were high for Title II (administrative expenditure) with 673 534 euro, i.e. 26 % (2013: 217 061 euro, i.e. 9 %). They mainly relate to an accelerated implementation of the multi-annual ICT strategy, arising from resources initially planned for salary increases but not needed following a decision by the European Court of Justice.	N/A

THE CENTRE'S REPLY

12. In line with the relevant financial rules, the referred amount was mentioned as an estimate in the contract notice published for the purpose of the procurement at stake. The framework contract concluded pursuant to this process neither mentioned this amount nor did it refer to any maximum threshold.

The EMCDDA has terminated this contract and launched a new procurement procedure for the concerned services. The Centre signed the contract in July 2016. Furthermore it has put in place a specific process to improve the central planning and monitoring of its procurements, including for framework contracts.