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COVER NOTE

From:	Mr Vítor CALDEIRA, President of the European Court of Auditors
date of receipt:	16 October 2014
To:	Mr Linas LINKEVICIUS, 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 2013 together with the Centre's replies

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 2013.

This report is accompanied by the Centre's replies 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 2013 together with the Centre's replies.[1]

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

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EUROPEAN COURT OF AUDITORS
COUR DES COMPTES EUROPÉENNE
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Report on the annual accounts of the European Monitoring Centre for Drugs and Drug Addiction for the financial year 2013

together with the Centre's replies

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INTRODUCTION

1. The European Monitoring Centre for Drugs and Drug Addiction (hereinafter "the Centre", aka "EMCDDA"), which is located in Lisbon, was established by Council Regulation (EEC) No 302/93[2]. 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[3].

INFORMATION IN SUPPORT OF THE STATEMENT OF ASSURANCE

2. 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 (where relevant) and an analysis of management representations.

STATEMENT OF ASSURANCE

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

[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] ***Annex II*** summarises the Centre's competences and activities. It is presented for information purposes.

(a) the annual accounts of the Centre, which comprise the financial statements[4] and the reports on the implementation of the budget[5] for the financial year ended 31 December 2013, and

(b) the legality and regularity of the transactions underlying those accounts.

The management's responsibility

4. 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 transactions[6]:

(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 officer[7]; 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

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[4] These include the balance sheet and the economic outturn account, the cash flow table, the statement of changes in net assets and a summary of the significant accounting policies and other explanatory notes.

[5] These comprise the budgetary outturn account and the annex to the budgetary outturn account.

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

[7] 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.

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.

(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

5. The Court's responsibility is, on the basis of its audit, to provide the European Parliament and the Council[8] 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.

6. 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

[8] Article 107 of Regulation (EU) No 1271/2013.

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.

7. 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

8. In the Court's opinion, the Centre's annual accounts present fairly, in all material respects, its financial position as at 31 December 2013 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

9. In the Court's opinion, the transactions underlying the annual accounts for the year ended 31 December 2013 are legal and regular in all material respects.

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

COMMENTS ON THE LEGALITY AND REGULARITY OF TRANSACTIONS

11. The Centre launched a procurement procedure to rent photocopying machines over a four-year period for a maximum amount of 160 000 euro. The technical requirements were subject to a significant modification during the

procedure. Following this modification, an amended contract notice was published extending the deadline for the submission of tenders, but there was no clear indication of the changes in the technical requirements. The latter were again adjusted for the conclusion of the contract, in accordance with the option announced in the published specifications, leading to a decrease in the contract value by 35 %. The information published on the contract's price structure was not sufficiently clear and this led to a misinterpretation by one bidder, who therefore had lower chances to win the procedure. In addition, the evaluation criteria were not sufficiently specific to ensure full transparency and equal treatment of bidders. The above referred weaknesses affected the efficiency and effectiveness of this procurement procedure and created a risk of hampering competition.

FOLLOW-UP OF PREVIOUS YEARS' COMMENTS

12. 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 Milan Martin CVIKL, Member of the Court of Auditors, in Luxembourg at its meeting of 22 July 2014.

For the Court of Auditors

Vítor Manuel da SILVA CALDEIRA
President

ANNEX I

Follow-up of previous years' comments

Year	Court´s comment	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
2011	The Centre currently bears the annual cost of about 275 000 euro for unused office space in its former building and in the new Headquarters. The Centre should continue, in cooperation with the European Commission and National Authorities, to seek adequate solutions for the unused office space.	**Ongoing**
2011	The Centre's procurement files were not always complete and adequately organised.	**Completed**

Year	Court´s comment	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
2012	In 2012, the Centre gave grants to Member States' national drug monitoring centres (beneficiaries) in order to support cooperation under the REITOX network[1]. Total grant expenditure in 2012 was 2,6 million euro, representing 16 % of total operating expenditure. The Centre's ex ante verifications before reimbursement of costs claimed by beneficiaries consist of a desk analysis of cost claims and of audit certificates issued by external auditors contracted by the beneficiaries. The Centre does not usually obtain from beneficiaries any documents to substantiate the eligibility and accuracy of the costs claimed. Ex post on-the-spot verifications of costs at beneficiary level are rare[2]. Existing controls therefore provide only limited assurance to the Centre's management as to the eligibility and accuracy of the costs claimed by beneficiaries. For the transactions audited by the Court supporting documentation was obtained by the Centre on the Court's behalf which provided reasonable assurance as to their legality and regularity. A random verification of supporting documents and a higher coverage of beneficiaries by on-the-spot verifications could considerably increase assurance.	**Ongoing**
2012	No ex post verifications were carried out for any transactions made after 2008, except for grants	**Ongoing**

Year	Court´s comment	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
2012	The Centre had not yet adopted Business Continuity or Disaster Recovery Plans.	**Completed**
2012	The Centre currently bears the annual cost of about 200 000 euro for unused office space in its former building and in the new Headquarters. The Centre should continue, in cooperation with the Commission and National Authorities, to seek adequate solutions for this unused office space.	**Ongoing**

[1] Under the European Information Network on Drugs and Drug Addiction (REITOX) the Centre collects country data on drugs from national drug monitoring centres.

[2] In 2011, two ex post verifications were carried out in two Member States. No such verifications took place in 2012.

ANNEX II

European Monitoring Centre for Drugs and Drug Addiction (Lisbon)

Competences and activities

Areas of Union competence deriving from the Treaty *(Articles 168 and 114 of the Treaty on the Functioning of the European Union)*	The Union shall complement the Member States' action in reducing drugs-related health damage, including information and prevention.
Competences of the Centre *(Regulation (EC) No 1920/2006 of the European Parliament and of the Council)*	**Objectives** To provide the Union and its Member States with factual, objective, reliable and comparable information at Union level concerning drugs, drug addiction and their consequences. The Monitoring Centre is to focus on the following priority areas: (1) monitoring the state of the drugs problem and emerging trends, in particular those involving multi-drug use; (2) monitoring the solutions and providing information on best practices; (3) assessing the risks of new psychoactive substances and maintaining a rapid information system; (4) developing tools and instruments to help Member States to monitor and evaluate their national policies and the Commission to monitor and evaluate Union policies. **Tasks** – To collect and analyse data; – to improve data-comparison methods; – to disseminate data; – to cooperate with European and international bodies and organisations and with countries outside the Union; – to identify new developments and changing trends.
Governance	**Management Board** Comprises one representative from each Member State, two representatives from the Commission and two independent experts, designated by the European Parliament, who are particularly knowledgeable in the field of drugs. The Management Board adopts the work programme, the general activities report and the budget, and gives an opinion on the final accounts. **Executive Committee** *Composition* Chairperson of the Management Board Vice-Chairperson of the Management Board Two other elected members from the Management Board representing the Member States Two representatives from the Commission **Director** Appointed by the Management Board on a proposal by the Commission. **Scientific Committee** Delivers opinions. It consists of, at most, fifteen well-known scientists appointed in view of their excellence by the Management Board following a call for expressions of interest. The Management Board may also appoint a panel of experts to the extended Scientific Committee for the risk assessment of new psychoactive substances. **External audit** European Court of Auditors. **Internal audit**

	European Commission's Internal Audit Service (IAS). **Discharge authority** European Parliament, acting on a recommendation from the Council.
Resources made available to the Centre in 2013 *(2012)*	**Budget** 16,31 *(16,32)* million euro. Union subsidy: 95,4 % *(95,3 %).* **Staff at 31 December 2013** Number of posts in establishment plan: 84 *(84)* Posts occupied: 76 *(79)* + 24 *(25)* other staff (seconded national experts, contract staff and temporary replacements) Total staff: 100 (*104)* Allocated to the following tasks: – operational: 61 (*64,5)* – administrative and IT support: 28,5 *(29)* – mixed: 10,5 (*10,5)*
Products and services 2013 *(2012)*	**Network** The Centre runs a computerised network for the collection and exchange of information called the ''European Information Network on Drugs and Drug Addiction'' (Reitox); this network connects national drug information networks, specialist centres in the Member States and the information systems of international organisations working with the Centre. **Publications** 2013 was the first year of the 2013-15 EMCDDA strategy and work programme and the first year of implementation of the new communication strategy adopted by the Management Board in July 2012, together with the three-year work programme. In accordance with this strategy, some product line were streamlined and others were redesigned. There is therefore no strict correspondence between the 2013 products and those of 2012. – European Drug Report – Trends and developments (23 language versions) publication and interactive *website (Annual report on the state of the drug problem in Europe; 22 language versions, publication and interactive website)* – Perspectives on drugs (PODs) - 11 (*0*), EN, interactive website – Selected issues - 0 *(2)*, EN – Statistical bulletin and interactive website containing over 350 *(350)* tables and 100 *(100)* graphs – General report of activities – annual, EN – Drugnet Europe newsletter – four issues, EN *(4)* – Drugs in focus (policy briefings) – 0 *(1)* – Centre Scientific Monograph – 0 *(0)*, EN – Centre Insights – 1 *(3)*, EN – Manuals – 1 *(2)*, EN – Centre thematic papers – 2 *(8)* – EMCDDA Papers – 4 *(0)*, EN – Policy profiles – 1 *(0)*, EN – Joint publications – 1 *(2)*: EN – Outputs linked to the implementation of the Council Decision on new psychoactive substances (2005/387/JHA) – 2 *(2)*, EN – Drug profiles – 0 new *(0)* and zero updated *(0)* – Technical and scientific studies, including articles and scientific summaries 28 (*23)* – Ad-hoc publications – 1 *(3)*, EN – Brochures – 1 *(1)*, EN – Work programmes and strategies – 3 *(2)*, EN – Data collection, validation, storage and retrieval system (Fonte) **Other websites**

	Reorganisation/updating/content development of public Centre website including: – Country overviews – Drug treatment overviews, health and social responses profiles, prevention profiles – European legal database on drugs – Evaluation instruments bank – Best practice portal (exchange on drug demand reduction action, harm reduction and treatment modules) – Topic pages – Publications database **Promotional material** Conference materials: 4 EN *(2)* Media products: 12 *(13)* news releases and 13 *(10)* fact sheets, EN **Participation in international conferences, technical and scientific meetings:** 285 *(266).*

Source: Annex supplied by the Centre.