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5225/16

ACP 11  
PTOM 8  
FIN 30

## "I/A" ITEM NOTE

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From:	ACP Working Party
To:	Permanent Representatives Committee/Council
Subject:	Relations with the ACP States and the OCT - Discharge to be given to the Commission in respect of the financial management of the 8th, 9th, 10th and 11th European Development Funds (financial year 2014)

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1. Article 11(7) of the Internal Agreement applicable to the 11th European Development Fund (EDF) states that the discharge for the financial management of the Fund shall be given by the European Parliament on the recommendation of the Council, which shall act by the qualified majority laid down in Article 8(3) of the Internal Agreement (see OJ L 210, 6.8.2013 p.1)<sup>1</sup>.
2. The ACP Working Party examined the annual Report of the Court of Auditors on the European Development Funds for the financial year 2014, together with the Commission's replies to the Court's observations (see OJ C 373, 10.11.2015, p. 289), in the presence of a representative of the Court of Auditors.

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<sup>1</sup> A similar provision is included in the Internal Agreements governing the 8th, 9th and 10th EDFs.

3. At the end of its discussions, the Working Party:
- agreed to refer to Coreper and the Council the comments in the Annex regarding its examination of the Court's report;
  - instructed the Secretariat to draw up draft recommendations for a discharge, to be submitted to Coreper and the Council for adoption.
4. It is therefore suggested that, subject to confirmation by Coreper, the Council should, as an "A" item:
- adopt the recommendations regarding the discharge to be given by the European Parliament to the Commission in respect of the implementation of operations under the 8th, 9th, 10th and 11th EDFs for the financial year 2014, as contained in documents 5219/16, 5220/16, 5223/16 and 5224/16, drawn up by the Legal/Linguistic Experts;
  - order their publication in the Official Journal of the European Union.
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**Comments by the ACP Working Party**  
**on the Court of Auditors Annual Report<sup>1</sup>**  
**concerning the activities funded by the eighth, ninth, tenth and eleventh**  
**European Development Funds (EDFs), for the financial year 2014**

1. The Working Party welcomes the fact that, in the Court's opinion, the Commission's report on the financial management of the EDFs, established in accordance with Articles 118 and 124 of the 10th EDF Financial Regulation accurately presents financial information concerning the EDFs. The Working Party notes with concern, however, that the Court's Annual Report concerning EDF activities for the financial year 2014 shows that the error rate has increased again compared to the previous year and that this error rate is still too high. It also notes that this error rate is substantially higher than the one observed in heading 4 of the general budget. The Working Party urges the Commission to work within the agreed target of 2% error rate.
2. The Working Party welcomes the Commission's effort to reduce old open prefinancing and old RAL (le reste à liquider), and takes note of the fact that expired contracts in 2014 still represented euro 3.7 billion, of which euro 1.3 billion had expired before 2010. The Working Party invites the Commission to sustain its efforts in these matters.
3. The Working Party notes the Court's conclusions that:
  - the revenue of the EDFs was free from material error;
  - the global commitments entered into by the EDFs were also free from material error;but

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<sup>1</sup> OJ C 373, 10.11.2015, p. 289.

- the payments made by the EDFs were materially affected by error. The Working Party notes with concern that, regarding the payments underlying the accounts, the Court estimated the most likely error rate to be 3,8%. The Working Party takes note that the Commission contests the introduction of the second error rate, excluding large portion of payments.
4. The Working Party took note of the positive trend regarding the recovery of interests on prefinancing and the putting in place of the monitoring system to that respect. The Working Party invites the Commission to report on the implementation of that monitoring system by December 2016.
  5. The Working Party welcomes Court's conclusions on the Residual Error Rate study according to which it was carried out in overall accordance with the established methodology. The Working Party invites the Commission to further refine the RER study in accordance with the Court's suggestions, so that its finding could be efficiently used to improve the implementation of the control systems.

The Working Party remains concerned with the Court's findings that examined systems are only partially effective. It notes that the Commission could, in the Court's opinion, have lowered the error rate by 2.3 percentage points if it had used all the information at its disposal. It also notes that this finding is consistent with the Commission's statement that the cause of residual error lies in implementation rather than in design of controls. Therefore, the Working Party calls on the Commission to pay more attention to ex-ante checks given the high-risk operational environment of the Commission. The Working Party urges the Commission to implement all necessary measures to address existing weaknesses, and invites the Commission to engage with the Court of Auditors to clarify differences in approach regarding procurement.

6. The Working Party welcomes the fact that, at the time of the report's writing, the Commission has put in place quality grids for audits and expenditure verification, managed by the Commission itself, by the end of 2015, and plans to adapt it to expenditure verifications managed by beneficiaries in the coming year. The Working Party invites the Commission to inform on its implementation. It further invites the Commission to address weaknesses identified by the Court in respect of the implementation of control systems and inform the ACP Working Party on its actions taken in this respect.
7. In agreement with the Court, the Working Party acknowledges that improvements should be made in certain important areas, and supports the recommendation of the Court of Auditors; the Commission should demonstrate how this has been done in the context of the Annual Report of the Court of Auditors. Areas of particular importance are:
- improving internal control procedures regarding the clearance of prefinancing, especially with regards to prefinancing paid to international organisations;
  - further refining the RER study and implementing the 2015 Action Plan;
  - improving indicators of target values for the assessment of the efficiency and cost-effectiveness of controls;
  - continuing attention to the budget support transactions, including the systematic verification of the exchange rate used by partner countries.
8. While noting the Court's conclusions and recommendations in its latest report (paragraphs 48 to 50 of the Report), the Working Party takes also note of the replies given by the Commission.

9. The ACP Working Party welcomes the fact that the Commission is implementing the Court's previous recommendations which are detailed in Annex 2 to the Annual Report. The Working Party takes note of the Commission's replies given in the context of the Court's review of progress in addressing previous recommendations, but is concerned that there are outstanding recommendations and some which have been partially implemented. The Working Party invites the Commission to fully implement these recommendations at the earliest opportunity.
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