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COVER NOTE

From:	Mr Klaus-Heiner LEHNE, President of the European Court of Auditors
date of receipt:	28 November 2017
To:	Mr Märt KIVINE, 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 2016 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 2016.

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 2016 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 2016

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 302/93¹. 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 Centre².

TABLE 1: KEY FIGURES FOR THE CENTRE

	2015	2016
Budget (million euro) ³	18,5	15,4
Total staff as at 31 December ⁴	100	101

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.

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 This Regulation and its amendments were repealed by Regulation (EC) No 1920/2006 of the European Parliament and of the Council (OJ L 376, 27.12.2006, p. 1).

² More information on the Centre's competences and activities is available on its website: www.emcdda.europa.eu.

³ Budget figures are based on payment appropriations.

⁴ Staff includes officials, temporary and contract staff and seconded national experts.

OPINION

4. We have audited:

- (a) the accounts of the Centre which comprise the financial statements⁵ and the reports on the implementation of the budget⁶ for the financial year ended 31 December 2016, and
- (b) the legality and regularity of the transactions underlying those accounts,

as required by Article 287 of the Treaty on the Functioning of the European Union (TFEU).

Reliability of the accounts*Opinion on the reliability of the accounts*

5. In our opinion, the accounts of the Centre for the year ended 31 December 2016 present fairly, in all material respects, the financial position of the Centre at 31 December 2016, the results of its operations, its cash flows, and the changes in net assets for the year then ended, in accordance with its Financial Regulation and with accounting rules adopted by the Commission's accounting officer. These are based on internationally accepted accounting standards for the public sector.

Legality and regularity of the transactions underlying the accounts**Revenue***Opinion on the legality and regularity of revenue underlying the accounts*

6. In our opinion, revenue underlying the accounts for the year ended 31 December 2016 is legal and regular in all material respects.

⁵ The financial statements comprise the balance sheet, the statement of financial performance, the cashflow statement, the statement of changes in net assets and a summary of significant accounting policies and other explanatory notes.

⁶ The reports on implementation of the budget comprise the reports which aggregate all budgetary operations and the explanatory notes.

Payments

Opinion on the legality and regularity of payments underlying the accounts

7. In our opinion, payments underlying the accounts for the year ended 31 December 2016 are legal and regular in all material respects.

Responsibilities of management and those charged with governance

8. In accordance with Articles 310 to 325 of the TFEU and the Centre's Financial Regulation, management is responsible for the preparation and presentation of the accounts on the basis of internationally accepted accounting standards for the public sector and for the legality and regularity of the transactions underlying them. This responsibility includes the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them. The Centre's management bears the ultimate responsibility for the legality and regularity of the transactions underlying the accounts.

9. In preparing the accounts, management is responsible for assessing the Centre's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

10. Those charged with governance are responsible for overseeing the entity's financial reporting process.

Auditor's responsibilities for the audit of the accounts and underlying transactions

11. Our objectives are to obtain reasonable assurance about whether the accounts of the Centre are free from material misstatement and the transactions underlying them are legal and regular and to provide, on the basis of our audit, the European Parliament and the Council or other respective discharge authorities with a statement of assurance as to the reliability of the accounts and the legality and regularity of the transactions underlying them. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit will always detect a material misstatement or non-compliance when it exists. These can arise from fraud or error and are considered material if,

individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these accounts.

12. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts and the legality and the regularity of the transactions underlying them. The procedures selected depend on the auditor's judgment, including an assessment of the risks of material misstatement of the accounts and of material non-compliance of the underlying transactions with the requirements of the legal framework of the European Union, whether due to fraud or error. In making those risk assessments, internal controls relevant to the preparation and fair presentation of the accounts and legality and regularity of underlying transactions, is considered in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the accounts.

13. For revenue, we verify the subsidy received from the Commission and assess the Centre's procedures for collecting fees and other income, if any.

14. For expenditure, we examine payment transactions when expenditure has been incurred, recorded and accepted. Advance payments are examined when the recipient of funds provides justification for their proper use and the Centre accepts the justification by clearing the advance payment, whether in the same year or later.

15. In preparing this report and Statement of Assurance, we 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 Regulation⁷.

16. The comments which follow do not call the Court's opinion into question.

COMMENTS ON THE LEGALITY AND REGULARITY OF TRANSACTIONS

17. For two framework contracts with maximum values of 135 000 euro and 650 000 euro one of the Centre's employees acted as Authorising Officer by delegation when appointing

⁷ Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council (OJ L 298, 26.10.2012, p. 1).

the evaluation committee, taking the award decisions and signing the contracts. However, the delegation granted by the Authorising Officer was limited to 130 000 euro and did not explicitly refer to framework contracts. Payments made in 2016 amounted to 35 310 euro.

COMMENTS ON INTERNAL CONTROL

18. In its audit report of January 2016, the Commission's Internal Audit Service (IAS) highlighted a strong need to improve the Centre's management of IT projects. The IAS concluded in particular that there is no overarching long-term strategic vision for the IT systems supporting the Centre's core operational processes, that its IT project management methodology was only partially adapted to its needs and that the process to manage system requirements is inadequate. The Centre and the IAS agreed on a plan to take corrective action.

FOLLOW-UP OF PREVIOUS YEARS' COMMENTS

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

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 17 October 2017.

For the Court of Auditors

Klaus-Heiner LEHNE
President

AnnexFollow-up of previous years' comments

Year	Court's comments	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
2015	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.	Ongoing

THE MONITORING CENTRE'S REPLY

20. In accordance with the relevant rules, the maximum values of the two framework contracts just indicated the total cumulative amount of the specific contracts likely to be concluded for their execution.

That being said, the EMCDDA will adjust its decision on the delegation of the Authorising Officer's powers in order to set out more explicitly the acts covered by this delegation.