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THE EUROPEAN UNION**

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from: ACP Working Party

dated: 29 January 2010

to: COREPER/Council

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Subject: Relations with the ACP States and the OCT

- Council statement concerning the statement of assurance of the Court of Auditors relating to the activities of the 7th, 8th, 9th and 10th European Development Funds for the financial year 2008
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The Court of Auditors has provided the European Parliament and the Council with a statement of assurance (SOA)<sup>1</sup> on the activities of the seventh, eighth, ninth and tenth European Development Funds as to the reliability of the accounts and the legality and regularity of the underlying transactions; this statement applies to the financial year 2008.

The ACP Working Party examined the content of this statement of assurance in the presence of a representative of the Court of Auditors. It should be noted that examination of the SOA does not form part of the discharge procedure.

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<sup>1</sup> OJ C 269, 10.11.2009, p. 257.

The Working Party has drawn up the annexed "Council statement concerning the statement of assurance of the Court of Auditors relating to the activities of the 7th, 8th, 9th and 10th European Development Funds for the financial year 2008".

It invites the Permanent Representatives Committee to propose that the Council adopt the text of this statement as an "A" item on its agenda and agree to forward it to the European Parliament.

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**Council Statement**  
**concerning the Statement of Assurance of the Court of Auditors**  
**relating to the activities of the 7th, 8th, 9th and 10th European Development Funds**  
**for the financial year 2008**

1. For the financial year 2008 the Court of Auditors has provided the European Parliament and the Council with a Statement of Assurance (SOA) on the activities of the 7th, 8th, 9th and 10th European Development Funds as to the reliability of the accounts and the legality and regularity of the underlying transactions<sup>1</sup>.
  
2. As regards the **reliability of the accounts**, the statement of assurance is globally positive. In general, the Court considers that the final annual accounts of the seventh, eighth, ninth and tenth EDFs present fairly, in all material respects, the financial position of the EDFs as of 31 December 2008, and the results of their operations and cash flows, in accordance with the provisions of the Financial Regulation.

The Council welcomes the fact that the introduction of the new accrual-based accounting system (ABAC) in 2009 in order to remedy the inadequacies of OLAS (On-line accounting system, used in the previous years) has significantly reduced the risk of material error in the annual accounts and should further strengthen the EDF accounting environment.

Concerning the estimation (based on a number of assumptions, notably the linearity of contract expenditure) of the provision for invoices receivable, the Court draws attention on the fact that the method used to estimate the provision for costs incurred is not valid for certain types of contracts. Nevertheless, the Court acknowledges that the Commission has decided to refine its method of estimation from the financial year 2009.

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<sup>1</sup> OJ C 269, 10.11.2009, p. 257.

3. As regards the **legality and regularity of the transactions underlying the accounts**, the Court is of the opinion that:

- a) the revenue and commitments of the seventh, eighth, ninth and tenth EDFs for the year 2008 were free from material error. However, the Court draws attention on the incidence of non-quantifiable error (not included in the estimation of total errors) that occurred in budget support commitments.
- b) concerning the payments of the seventh, eighth, ninth and tenth EDFs the Court's audit revealed a material incidence of errors (with a rate lying between 2% and 5%) concerning the underlying transactions authorised by the Commission delegations. In this respect, the Council notes the Commission's reply pointing out the fact that the overall error rate was strongly affected by one delegation having to work in the difficult context of a post conflict environment. On the other hand, the Court recognises that in this difficult situation it was extremely difficult for the Commission to retrieve all necessary supporting documents.

The Commission underlines the specific risks involved in managing cooperation in countries affected by particular difficulties such as war or riots. The Commission considers that the scale of the problem of missing documentation (observed by the Court in Angola) must not in any way be viewed as the general rule across all ACP cooperation management, as demonstrated by the excellent results in the other audited bodies.

- c) Budget support. The Court draws attention to the need for the Commission to pursue its efforts to substantiate its decisions on the eligibility of budget support. The Court underlines that this requires a structured and formalised demonstration that the recipient countries have a relevant reform programme and that public finance management is sufficiently transparent, accountable and effective.

The Court's audit detected a number of non-quantifiable errors. In its previous Reports the Court already recommended that compliance with the Cotonou Agreement (in particular Article 61) should be benchmarked against baseline requirements.

Nevertheless, it recognises that the Commission's assessments of compliance with the Cotonou Agreement requirements are improving. In this respect, the Council notes that in its replies the Commission recognises that improvements can be made by taking a more structured and formalised approach to assessing budget support eligibility, in line with the Cotonou Agreement, and is in the process of further refining its guidance on budget support to reinforce its approach.

The Council:

- welcomes the Court of Auditor's statement of assurance (SOA). Since its introduction, the SOA has proved its value as an important tool in promoting improvements to the EDF accounts;
- takes note of the Commission's explanations and of the measures it has taken;
- welcomes the fact that the Commission's and the Court of Auditors' views largely concur, and that the Court appreciates the efforts made by the Commission to implement its recommendations;
- invites the Commission to continue with its reform efforts and to remedy the shortcomings identified by the Court as regards the reliability of the accounts and regularity of the transactions underlying the accounts;
- reiterates the importance of the fact that, in the procedures for granting budgetary support and before making transfers of funds, the Commission should ensure that the conditions of the Cotonou Agreement and of the financing agreements are met. In this respect, the Council notes that the Commission intends to continue promoting a more intense dialogue with Members States on budgetary support;

- stresses the importance of being regularly informed on the Commission's evaluation of the effects of such measures, particularly as regards risk management, analysis of the internal control system, the audit of transactions and budget support.

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