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"I/A" ITEM NOTE

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 and 10th European Development Funds (financial year 2013)

1. Article 11(8) of the Internal Agreement applicable to the 10th 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 247, 9.9.2006, p. 32 and OJ L 202, 3.8.2007, p.35)¹.
2. The ACP Working Party examined the annual Report of the Court of Auditors on the European Development Funds for the financial year 2013, together with the Commission's replies to the Court's observations (see OJ C 398, 12.11.2014, p. 289), in the presence of a representative of the Court of Auditors.

¹ A similar provision is included in the Internal Agreements governing the 8th and 9th 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 and 10th EDFs for the financial year 2013, as contained in documents 5135/15, 5136/15 and 5138/15, 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 Report¹
concerning the activities funded by the eighth, ninth and tenth
European Development Funds (EDFs), for the financial year 2013

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 2013 shows that the error rate has increased compared to the previous year and that this error rate is still too high. The Working Party urges the Commission to work towards the agreed target of 2% error rate.
2. 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
 - the payments made by the EDFs were materially affected by error. The Working Party notes that, concerning the payments underlying the accounts, the Court estimated the most likely error rate to be 3,4%.

¹ OJ C 398, 12.11.2014, p. 289.

3. The Working Party took note of the positive developments, e.g., the increase in the number and value of recovered interest for pre-financing payments as well as the decrease in number of budget support related errors from 2011 to 2013. The Working Party welcomes further refinements made by the Commission to the residual error rate (RER) study regarding the refinements in the calculation of error rates on individual transactions and the treatment of transactions for which no information was readily available.
4. The Working Party remains concerned with the Court's findings that examined systems are partially effective. Particular attention should be given to ex-ante checks given the high-risk operational environment of the Commission. The Working Party invites the Commission to implement all necessary measures to address existing weaknesses.
5. The Working Party welcomes the fact that in May 2013 the Commission adopted an action plan to address weaknesses identified in the implementation of control systems, and the Court has recognized good progress in its implementation although further work is still required.
6. In agreement with the Court, the Working Party acknowledges that improvements should continue to 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:
 - endorsing compliance with procurement rules by beneficiaries;
 - promoting better document management among implementing partners and beneficiaries;
 - enhancing the quality of expenditure verifications carried out by external auditors;
 - making sure that recovery orders in respect of interest on pre-financing over 750 000 euro are issued annually;
 - continued attention to the budget support transactions;

- completing the development of the CRIS system, to allow interest on pre-financing of between 250 000 and 750 000 euro be recognised as financial revenue;
- continuing the implementation of the Acton Plan reviewing the residual error rate (RER) methodology by disclosing the scope of the RER study, and addressing the weaknesses in the control system, including data quality.

7. The Working Party welcomes the report on the progress in the implementation of the DG DEVCO action plan received in September 2014 that addresses a number of recommendations made by the Court in the previous annual reports. Regular information from the Commission about the improvements of its financial control systems and the results of evaluations of the outcomes of measures undertaken is of essence and highly recommended. In that regard, it invites the Commission to continue regularly updating the ACP Working Party in the course of 2015 on the implementation of the Action Plan.
8. While noting the Court's conclusions and recommendations in its latest report (paragraphs 48 to 51 of the Report), the Working Party took 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 3 to the Annual Report. The Working Party took 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.
