

Statement of Assurance (general budget) concerning the financial year 1994 (25-26 October 1995)

Caption: First Statement of Assurance relating to activities arising from the general budget. Since the entry into force of the Maastricht Treaty, the Court of Auditors must give its endorse the entire budget. It provides the European Parliament and the Council with a Statement of Assurance concerning the reliability of the accounts, and the legality and regularity of the underlying operations. The Court has decided to submit three different Statements of Assurance dedicated respectively to activities arising from the general budget, from the European Development Funds and from the ECSC. In those three cases, the Statement of Assurance is based on a special report, attached to the Statement, which develops each of the points.

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Statement of Assurance concerning activities financed from the general budget for the financial year 1994

NOTE TO THE READER

The Statement of Assurance (DAS) concerning the reliability of the accounts and the legality and regularity of the underlying transactions which is set out in the following pages is based on a Special Report which is annexed to the DAS and develops each of the points made in the statement in greater detail.

Chapter 3 of the Special Report gives details of the audit results produced by the Court.

Chapter 4 indicates which lessons may be learnt from the audit and lists the Court's main recommendations.

Introductory Remarks

The Court's mandate

(Paragraph 1.3 of the attached report)

1. Pursuant to the Treaties ⁽¹⁾, the Court of Auditors of the European Communities (hereinafter referred to as 'the Court') has examined the accounts and underlying transactions for the financial year 1994 concerning activities financed from the European Union's general budget so as to be able to submit to the European Parliament and the Council a Statement of Assurance concerning the reliability of the accounts and the legality and regularity of these operations ⁽²⁾.

The accounts and operations covered by the DAS

(Paragraph 1.5 of the attached report)

2. The accounts audited are those summarized in Volume IV (containing the consolidated revenue and expenditure account and financial balance sheet, as well as the explanatory notes) of the documents submitted by the Commission to the discharge authorities and, on 28 April 1995, to the Court of Auditors ⁽³⁾.

(Paragraph 1.7 of the attached report)

3. The DAS covers all of the accounts and all of the underlying transactions, down to the level of final taxpayers and beneficiaries.

The scope and limits of the DAS

(Paragraph 1.9 of the attached report)

4. As required by the Treaty, the DAS is global in nature: it is not intended to produce a specific assessment or arrive at a quantified conclusion on any particular operational or geographical area of Community activity.

(Paragraph 1.10 of the attached report)

5. The DAS applies to the 1994 accounts as they stand at present. The operations that come under the fields audited by the Court during the production of the DAS are likely to be subjected to further verification by

other authorities, on the basis of current regulations, particularly during the clearance of the EAGGF-Guarantee accounts.

(Paragraph 1.12 of the attached report)

6. Some checks made previously by other auditors have brought to light cases of irregularity and anomalies which the Court cannot take over as they are, in the context of the statistical method used for the DAS, but which it does take into account in its final assessment, especially as regards the traditional own resources.

(Paragraph 1.17 of the attached report)

7. The DAS itself contains no assessment of the degree of compliance with the principles of sound financial management. This is something which the Court is continuing to assess separately, as part of its other work, in particular in the context of its annual and other special reports.

(Paragraph 1.20 of the attached report)

8. Certain cases of deliberate irregularity to the detriment of the Community finances cannot, by reason of their very nature, be detected by the usual auditing procedures implemented in accordance with generally accepted auditing standards. The Court is not therefore in a position to give any assurance concerning the non-existence of cases of this type.

(Paragraph 1.24 of the attached report)

9. Because of the macro-economic nature of the statistical data on which the GNP and VAT own resources — which account for about 80 % of Community revenue — are based, the Court has limited its examination to assessing the suitability of the procedures for drawing up these data and guaranteeing their reliability.

The Court Declaration

(Paragraph 3.1 of the attached report)

10. The Court is of the opinion that:

(i) the accounts as drawn up at 31 December 1994 accurately reflect the revenue and expenditure, as well as the financial situation, of the Union; the informative value of these accounts should however be improved in several important respects on which the Court has reservations;

(ii) the Court's examination of the revenue entered in the accounts in respect of traditional own resources did not reveal any significant errors; however, it is obviously not possible to give an assurance that all chargeable imports have actually been declared and have yielded the corresponding revenue;

(iii) regarding the expenditure, there are too many errors in the transactions underlying the payments entered in the accounts for the Court to be able to give a positive global assurance as to their legality/regularity.

Regarding the reliability of the account

The consolidated revenue and expenditure account

(Paragraph 3.2 of the attached report)

11. The consolidated revenue and expenditure account gives a true picture of the Union's revenue and expenditure, but nevertheless calls for the following reservations.

(Paragraph 3.3 of the attached report)

12. Due to actual out-turn for total revenue and expenditure, the total volume of payments amounts to ECU 63 580,8 million instead of the ECU 60 304,8 million which appears in the revenue and expenditure account.

(Paragraph 3.5 of the attached report)

13. The accounting information concerning the ECU 13 000 million of payments in 1994, which consist of advances/payments on account, is not separately presented in Volume IV.

(Paragraph 3.15 of the attached report)

14. EAGGF-Guarantee expenditure amounting to ECU 45,8 million is not included in the accounts for the financial year 1994 and the budgetary principle of annuality was thus not observed.

(Paragraph 3.18 of the attached report)

15. The revenue and expenditure account does not give a fair view of the European Union's legal commitments at the close of the financial year 1994, since certain accounting commitments no longer relate to legal obligations.

The European Union's consolidated balance sheet

(Paragraph 3.44 of the attached report)

16. The European Union's consolidated balance sheet, the consolidation of which is the sole responsibility of the Commission, gives a true picture of the Union's financial situation, but nevertheless calls for the following reservations.

The Commission's balance sheet

(Paragraph 3.53 of the attached report)

17. The Court must express a reservation regarding the value (ECU 254,2 million) entered in the Commission's balance sheet for movable property located in Brussels and Luxembourg.

(Paragraph 3.71 of the attached report)

18. The magnitude of the errors and problems detected in the separate accounts concerning customs duties and agricultural levies does not allow the Court to conclude that the figure of ECU some 577 million entered

in the balance sheet is reliable.

(Paragraph 3.74 of the attached report)

19. The claims on Member States connected with the clearance of the EAGGF-Guarantee accounts for the financial years 1989 to 1991, amounting to ECU 2 000 million, are not shown in the accounts.

(Paragraph 3.81 of the attached report)

20. Various potential European Union obligations, amounting to at least ECU 88 000 million, are not shown in the financial balance sheet, or even in the Annexes showing off-balance sheet commitments.

The balance sheets of other Community institutions and bodies

(Paragraph 3.92 of the attached report)

21. The Court expresses reservations as to the value (ECU 121,1 million) of movable assets entered in the respective balance sheets of several Community institutions and bodies.

(Paragraph 3.96 of the attached report)

22. Neither the balance sheets, nor the notes to the balance sheets, of the European Parliament, the Council and the Court of Justice provide information as to the existence of significant property or similar rights (ECU 292 million), or as to property obligations (ECU 1 823 million).

With regard to the legality/regularity of the underlying transactions

Revenue-related transactions

(Paragraph 3.101 of the attached report)

23. Regarding the traditional own resources, the audits carried out on a sample of underlying transactions in the Member States did not uncover any elements that might cast doubt on the legality and regularity of the corresponding revenue, or which helped to uncover any substantial errors that were sufficiently significant to affect the Community budget at the level of entitlements established and collected. Nevertheless, it must be clear that the sample selected by the Court cannot be extracted from the whole of the population concerned, since, obviously, no authority has a list of imports containing those not declared to the customs authorities. The same problem arises above all in connection with taxes based on declarations. This being the case, it is not possible to make any judgement as to the completeness of the traditional own resources.

(Paragraph 3.114 of the attached report)

24. The own resources based on VAT and GNP do not call for any comments by the Court as far as the reliability of the calculations and the legality/regularity of the procedures used to determine the basic data are concerned.

Expenditure-related transactions

Cases of expenditure in respect of which the Court cannot give an assurance

(Paragraph 3.122 of the attached report)

25. In several areas, representing about 14 % of Community spending, the Court is unable to express an opinion. This unsatisfactory situation is largely due either to the inadequacy of the information supplied to the Court or to the unreliability of the systems in place for the management of the transactions the Court was required to audit. As a result, in those cases where the Court observed errors, the extrapolated numerical results given in this document may well underestimate the impact of these errors, since the extrapolations were made on the supposition, in the auditee's own interest, that there were no errors in the part of the budget on which the Court does not express an opinion.

(Paragraphs 3.139 to 3.143 of the attached report)

Errors affecting the legality/regularity of the commitments entered into during the financial year

(Paragraph 3.139 of the attached report)

26. The Court's audit of the commitments did not uncover any serious substantial errors ⁽⁴⁾.

(Paragraph 3.140 of the attached report)

27. The most likely cumulative volume of the transactions affected by serious formal errors concerning commitments, of which there are few, and the direct impact of which on the amounts chargeable to the budget cannot be quantified, is of the order of ECU 720 million ⁽⁵⁾.

(Paragraph 3.142 of the attached report)

28. These serious errors mainly affect the decision and commitment rules (absence of compulsory prior decision or opinion). They originate within the Community institutions.

(Paragraphs 3.144 to 3.151 of the attached report)

Errors affecting the legality/regularity of the transactions underlying the payments

(Paragraph 3.144 of the attached report)

29. The most probable cumulative amount of the very numerous serious *substantial errors* concerning payments, which resulted in the sums concerned being wrongly charged to the budget, is of the order of ECU 2 386 million.

(Paragraph 3.146 of the attached report)

30. These serious substantial errors vary greatly and particularly affect the eligibility of transactions for

Community financing, the reality or correctness of the expenditure financed, the accuracy of the way in which the Community contribution was calculated and the quality of the supporting documents on which the payments were based. They occurred in most cases at national administration level. Some concerned the Structural Funds. In that case — where payments by the Commission consist of advances/payments on account — the existence of errors at the level of the underlying transactions, in particular down to final beneficiary level, does not necessarily mean that the payments by the Commission were themselves incorrect at the time they were made. However, as such underlying transactions were financed with European Union funds the general budget is affected by these errors.

(Paragraph 3.148 of the attached report)

31. The most likely volume of transactions affected by the numerous serious *formal errors* concerning payments is ECU 2 880 million. These errors are also likely, in some cases, to have resulted in a loss to the Community budget, but their direct impact on the sums chargeable to the budget is not itself quantifiable.

(Paragraph 3.150 of the attached report)

32. These serious formal errors affect in particular the authorizing procedures implemented by the authorizing officer and the Financial Controller, the tendering procedures, and the beneficiaries' compliance with certain obligations. They originated just as much at national administration level as at the Commission.

This statement was adopted by the Court of Auditors in Luxembourg at its meeting of 25 and 26 October 1995.

For the Court of Auditors
André J MIDDELHOEK
President

(¹) Article 188 C of the Treaty establishing the European Community, Article 160 C of the Treaty establishing the European Atomic Energy Community and Article 45 C of the Treaty establishing the European Coal and Steel Community, as regards the transactions under the ECSC's former administrative budget which were incorporated into the general budget by the Merger Treaty of 8 April 1965.

(²) The EDF and the ECSC are the subject of separate statements of assurance.

(³) Documents SEC(95) 253 final, SEC(95) 254 final and SEC(95)255 final.

(⁴) An 'error' is considered to be any error in the crediting or charging of sums to the accounts and any transaction which was not carried out in accordance with the applicable legal and regulatory provisions. Substantial errors are those which have direct implications for the value of the underlying transactions. Classification in the categories of 'serious' and 'less serious' is made in the light of an analysis of the principles concerned and the facts observed (see paragraph 1.40 of the attached report).

(⁵) A 'formal error' is one which has no direct or measurable impact that is detrimental to the Community budget (see paragraph 1.40 of the attached report).