Official Journal
of the European Union

EN
C series

C/2024/6040

10.10.2024

The ECA's statement of assurance to the European Parliament and the Council on the 9th, 10th and 11th EDFs - Independent auditor's report

(C/2024/6040)

Opinion

I. We have audited:

(a) the annual accounts of the 9th, 10th and 11th EDFs, which comprise the balance sheet, the statement of financial performance, the cash flow statement, the statement of changes in net assets, notes to the financial statements and the report on financial implementation for the financial year ended 31 December 2023, approved on 25 June 2024;

(b) the *legality and regularity* of the underlying *transactions* of which financial management falls to the Commission ([1]).

Reliability of the accounts

Opinion on the reliability of the accounts

II. In our opinion, the annual accounts of the 9th, 10th and 11th EDFs for the year ended 31 December 2023 present fairly, in all material respects, their financial position as at 31 December 2023, the *results* of their operations, their cash flows and the changes in their net assets for the year then ended, in accordance with the EDF Financial Regulation and with accounting rules 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

III. In our opinion, the revenue underlying the accounts for the year ended 31 December 2023 is legal and regular in all material respects.

Expenditure

Adverse opinion on the legality and regularity of expenditure

IV. In our opinion, owing to the significance of the matter described under 'Basis for adverse opinion on the legality and regularity of expenditure', the expenditure accepted in the accounts for the year ended 31 December 2023 is materially affected by *error*.

([1]) Pursuant to Articles 43, 48-50 and 58 of the Financial Regulation applicable to the 11th EDF, this statement of assurance does not extend to the EDF resources managed by the EIB.

Basis for Opinion

V. We have conducted our audit in accordance with the IFAC *International Standards on Auditing (ISAs)* and Codes of Ethics and the INTOSAI International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under these standards and codes are described in more detail in the 'Auditor's responsibilities' section of our report. We have also met independence requirements and fulfilled our ethical obligations under the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Basis for adverse opinion on the legality and regularity of expenditure

VI. Our overall *estimated level of error* for expenditure accepted in the accounts of the 9th, 10th and 11th EDFs for the year ended 31 December 2023 is 8,9 %. A substantial proportion of this expenditure (amounting to EUR 2,7 billion in 2023 and representing 96 % of our audit population) is materially affected by error. This applies to nearly all expenditure except budget support and administrative expenditure. The effects of the errors we found are therefore both material and pervasive to the year's accepted expenditure.

Key audit matters

VII. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters.

Accrued charges

VIII. We assessed the accrued charges presented in the accounts which are subject to a high degree of estimation. At year-end 2023, the Commission estimated that eligible expenses incurred but not yet reported by beneficiaries amounted to EUR 5 074 million (year-end 2022: EUR 5 427 million).

IX. We examined the calculation of these accrual estimates and reviewed a sample of 30 individual *pre-financing payments* and 18 invoices recorded but not yet checked to address the risk that the accrual was misstated. The work performed led us to conclude that the accrued charges recognised in the final accounts were appropriate.

Potential impact on the 2023 EDF accounts of the United Kingdom's withdrawal from the European Union

X. On 1 February 2020, the United Kingdom (UK) ceased to be an EU member state. Following the conclusion of the agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community (the 'Withdrawal Agreement') between the two parties, the UK committed to remain party to the EDF until the *closure* of the 11th EDF and all previous unclosed EDFs. The UK will assume the same obligations as the member states under the internal agreement by which the 11th EDF was set up, as well as the obligations arising from previous EDFs until their closure.

XI. The Withdrawal Agreement also states that, where the amounts from projects under the 10th EDF or from previous EDFs have not been committed or have been decommitted on the date of entry into force of this agreement, the UK's share of those amounts will not be reused. The same applies to the UK's share of funds not committed or decommitted under the 11th EDF after 31 December 2023.

XII. Based on this and our examination, there is no financial impact to report on the 2023 EDF accounts. We conclude that the EDF accounts as at 31 December 2023 correctly reflect the state of the withdrawal process at that date.

Responsibilities of management (the Commission)

XIII. In accordance with Articles 310 to 325 of the TFEU and with the 11th EDF Financial Regulation, management is responsible for preparing and presenting the EDF annual accounts on the basis of internationally accepted accounting standards for the public sector and for the legality and regularity of the underlying transactions. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to *fraud* or error. The management is ultimately responsible for the legality and regularity of the transactions underlying the EDF accounts.

XIV. When preparing the EDF accounts, the management is responsible for assessing the EDFs' ability to continue as a going concern, disclosing any relevant matters and using the going concern basis of accounting unless it either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

XV. The management is responsible for overseeing the EDFs' financial reporting process.

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

XVI. Our objectives are to obtain reasonable assurance as to whether the EDF accounts are free from material misstatement and the underlying transactions are legal and regular, and to provide, on the basis of our audit, the European Parliament and the Council with a *statement of assurance* as to the reliability of the accounts and the legality and regularity of the underlying transactions. Reasonable assurance is a high level of assurance, but it is not a guarantee that the audit has necessarily detected all instances of a material misstatement or non-compliance that may exist. These can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence any economic decisions taken on the basis of these EDF accounts.

XVII. For revenue, we examine all contributions from member states and a sample of other types of revenue transactions.

XVIII. For expenditure, we examine payment transactions once expenditure has been incurred, recorded and accepted. This examination covers all categories of payments (other than advances) at the point they are made. Advance payments are examined once the *recipient* of funds has provided evidence of their proper use and the institution or body has accepted that evidence by clearing the advance payment, which might not happen until a subsequent year.

XIX. We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the EDF accounts and of material non-compliance of the underlying transactions with the requirements of the EDF legal framework, whether due to fraud or error. We design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. Instances of material misstatement or non-compliance resulting from fraud are more difficult to detect than those resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Consequently, there is a greater risk of such instances not being detected.

— Obtain an understanding of internal control relevant to the audit in order to design appropriate audit procedures, but not for the purpose of expressing an opinion on the *effectiveness* of the internal control.

— Evaluate the appropriateness of the accounting policies used by management and the reasonableness of management's accounting estimates and related disclosures.

— Conclude as to the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, as to whether material uncertainty exists owing to events or conditions that may cast significant doubt on the EDFs' ability to continue as a going concern. If we conclude that such material uncertainty exists, we are required to draw attention in our report to the related disclosures in the EDF accounts or, if these disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the EDFs to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the annual accounts, including all disclosures, and assess whether the annual accounts fairly represent the underlying transactions and events.

XX. We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including findings of any significant deficiencies in internal control.

XXI. Of the matters discussed with the Commission, we determine which were of most significance in the audit of the EDF accounts and are therefore the key audit matters for the current period. We describe these matters in our report unless law or regulation precludes public disclosure or, as happens extremely rarely, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh any public interest benefits.

5 July 2024.

Tony MURPHY
President

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