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COVER NOTE

from: Mr Vítor CALDEIRA, President of the Court of Auditors
date of receipt: 25 October 2012
to: Mrs Erato KOZAKOU-MARCOULLIS, President of the Council of the
European Union

Subject: Report on the annual accounts of the European Police Office for the financial
year 2011 together with the Office's replies

Madam,

I enclose in all the official languages of the European Union a copy of the Court of Auditors' report on the annual accounts of the European Police Office for the financial year 2011.

This report is accompanied by the Office's replies and will shortly be published in the Official Journal of the European Union.

(Complimentary close).

(s.) Vítor CALDEIRA

Encl.: Report on the annual accounts of the European Police Office for the financial year 2011 together with the Office's replies.

ЕВРОПЕЙСКА СМЕТНА ПАЛАТА
TRIBUNAL DE CUENTAS EUROPEO
EVROPSKÝ ÚČETNÍ DVŮR
DEN EUROPÆISKE REVISIONSRET
EUROPÄISCHER RECHNUNGSHOF
EUROOPA KONTROLLIKODA
ΕΥΡΩΠΑΪΚΟ ΕΛΕΓΚΤΙΚΟ ΣΥΝΕΔΡΙΟ
EUROPEAN COURT OF AUDITORS
COUR DES COMPTES EUROPÉENNE
CÚIRT INIÚCHÓIRÍ NA HEORPA



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EUROPEISKA REVISIONSRÄTTEN

Report on the annual accounts
of the European Police Office
for the financial year 2011

together with the Office's replies

INTRODUCTION

1. The European Police Office (hereinafter “the Office”), which is located in The Hague, was established by Council Decision (2009/371/JHA)¹. The objective of the Office is to support and strengthen action by the Member States' police authorities and other law enforcement services and their mutual cooperation in preventing and combating serious crime affecting two or more Member States, terrorism and forms of crime which affect a common interest covered by a Union policy².

INFORMATION IN SUPPORT OF THE STATEMENT OF ASSURANCE

2. The audit approach taken by the Court comprises analytical audit procedures, direct testing of transactions and an assessment of key controls of the Office's supervisory and control systems. This is supplemented by evidence provided by the work of other auditors (where relevant) and an analysis of management representations.

STATEMENT OF ASSURANCE

3. Pursuant to the provisions of Article 287 of the Treaty on the Functioning of the European Union, the Court has audited the annual accounts³ of the Office, which comprise the “financial statements”⁴ and the “reports on the

¹ OJ L 121, 15.5.2009, p. 37.

² The ***Annex*** summarises the Office's competences and activities. It is presented for information purposes.

³ These accounts are accompanied by a report on the budgetary and financial management during the year, which gives further information on budget implementation and management.

⁴ The financial statements include the balance sheet and the economic outturn account, the cash-flow table, the statement of changes in net assets and a summary of the significant accounting policies and other explanatory notes.

implementation of the budget”⁵ for the financial year ended 31 December 2011, and the legality and regularity of the transactions underlying those accounts.

The Management’s responsibility

4. As authorising officer, the Director implements the revenue and expenditure of the budget in accordance with the financial rules of the Office, under his own responsibility and within the limits of the authorised appropriations⁶. The Director is responsible for putting in place⁷ the organisational structure and the internal management and control systems and procedures relevant for drawing up final accounts⁸ that are free from material misstatement, whether due to fraud or error, and for ensuring that the transactions underlying those accounts are legal and regular.

The Auditor’s responsibility

5. The Court’s responsibility is to provide, on the basis of its audit, the European Parliament and the Council⁹ with a statement of assurance as to the reliability of the annual accounts of the Office and the legality and regularity of the transactions underlying them.

6. The Court conducted its audit in accordance with the IFAC International Standards on Auditing and Codes of Ethics and the INTOSAI International

⁵ The budget implementation reports comprise the budget outturn account and its annex.

⁶ Article 33 of Commission Regulation (EC, Euratom) No 2343/2002 (OJ L 357, 31.12.2002, p. 72).

⁷ Article 38 of Regulation (EC, Euratom) No 2343/2002.

⁸ The rules concerning the presentation of the accounts and accounting by the Agencies are laid down in Chapters 1 and 2 of Title VII of Regulation (EC, Euratom) No 2343/2002 as last amended by Regulation (EC, Euratom) No 652/2008 (OJ L 181, 10.7.2008, p. 23) and are integrated as such in the Financial Regulation of the Office.

⁹ Article 185(2) of Council Regulation (EC, Euratom) No 1605/2002.

Standards of Supreme Audit Institutions. These standards require that the Court plans and performs the audit to obtain reasonable assurance as to whether the annual accounts of the Office are free of material misstatement and the transactions underlying them are legal and regular.

7. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts and the legality and regularity of the transactions underlying them. The procedures are selected based 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 requirement of the legal framework of the European Union, whether due to fraud or error. In assessing those risks, the auditor considers internal controls relevant to the preparation and fair presentation of the accounts and supervisory and control systems implemented to ensure legality and regularity of underlying transactions, in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made, as well as evaluating the overall presentation of the accounts.

8. The Court considers that the audit evidence obtained is sufficient and appropriate to provide a basis for the opinions set out below.

Opinion on the reliability of the accounts

9. In the Court's opinion, the Office's Annual Accounts¹⁰ present fairly, in all material respects, its financial position as of 31 December 2011 and the results of its operations and its cash flows for the year then ended, in accordance with

¹⁰ The Final Annual Accounts were drawn up on 10 July 2012 and received by the Court on 12 July 2012. The Final Annual Accounts, consolidated with those of the Commission, are published in the Official Journal of the European Union by 15 November of the following year. These can be found on the following website <http://eca.europa.eu> or <http://www.europol.europa.eu/>.

the provisions of its Financial Regulation and the accounting rules adopted by the Commission's accounting officer¹¹.

Opinion on the legality and the regularity of the transactions underlying the accounts

10. In the Court's opinion, the transactions underlying the annual accounts of the Office for the financial year ended 31 December 2011 are legal and regular in all material respects.

11. The comments which follow do not call the Court's opinions into question.

COMMENTS ON BUDGETARY AND FINANCIAL MANAGEMENT

12. In 2010, more than 1,6 million euro had to be cancelled and in 2011, 1,9 million euro (9 % of the appropriations carried over from 2010) were cancelled. As in 2010, carry-overs of commitment appropriations were also high in 2011, with 4,2 million euro (41 %) for Title II (administrative expenditure) and 10,6 million euro (46 %) for Title III (operational expenditure). The high carry-over and cancellation rates and also the high number of 11 budget transfers made in 2011 indicate difficulties in the planning and/or implementation of the Office's activities.

13. The level of payments against commitments was low, with 34 % for Title II and 45 % for Title III and is at odds with the budgetary principle of annuality.

¹¹ The accounting rules adopted by the Commission's accounting officer are derived from International Public Sector Accounting Standards (IPSAS) issued by the International Federation of Accountants or, in their absence, International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

COMMENTS ON KEY CONTROLS OF THE OFFICE'S SUPERVISORY AND CONTROL SYSTEMS

14. Procedures concerning the establishment, approval and recording of exceptions and deviations from policies and procedures have not been adopted. Exceptions and deviations were recorded for 7 % of 2011 payments.

15. The accounting system has not been fully validated by the Accounting Officer. Key processes such as year end closing and the establishment of staff's financial rights are not yet covered.

16. Weaknesses were found as regards the physical verification and recording of assets before and after the move to the new headquarters. In addition, insurance contracts do not reflect the value of the Office's assets. Whereas, before the move, net assets were over-insured by about 17 million euro, they are now under-insured by about 21 million euro.

17. There is considerable room for improving the preparation, execution and documentation of procurement procedures.

OTHER COMMENTS

18. The Office's Financial Regulation refers to detailed rules and procedures laid down in its Implementing Rules. However, they have not yet been adopted.

19. The general conditions of the contract between the Office and the host country on the use of the new headquarters do not include any provision for dilapidation costs¹². However, Annex IV of the lease stipulates that the Office will have to remove a significant number of items when the contract comes to an end. There is no estimate of the related cost and no provision for this has been recorded in the accounts.

¹² The cost of bringing the building back to its initial condition when the lease comes to an end.

20. There is considerable room for improving the transparency of recruitment procedures: questions for written tests and interviews were set after the applications had been examined by the selection board; no threshold scores were set for admission to written tests and interviews and for being included in the list of suitable candidates; selection boards did not document all their meetings and decisions.

21. According to the EU Staff Regulations, a maximum of 12 days of untaken annual leave can be carried forward to the next year. More days can only be carried forward in exceptional circumstances. However, the Office accepted carry-overs in excess of the 12 days for about 25 % of its staff of approximately 500.

This Report was adopted by Chamber IV, headed by Dr Louis GALEA, Member of the Court of Auditors, in Luxembourg at its meeting of 18 September 2012.

For the Court of Auditors

Vítor Manuel da SILVA CALDEIRA
President

European Police Office (The Hague)
Competences and activities

<p>Areas of Union competence deriving from the Treaty <i>(Article 88 of the Treaty on the functioning of the European Union)</i></p>	<p>“Europol's mission shall be to support and strengthen action by the Member States' police authorities and other law enforcement services and their mutual cooperation in preventing and combating serious crime affecting two or more Member States, terrorism and forms of crime which affect a common interest covered by a Union policy”.</p>
<p>Competences of the Office <i>(Council Decision 2009/371/JHA establishing the European Police Office (Europol) (ECD))</i></p>	<p>Competence Europol's competence shall cover organised crime, terrorism and other forms of serious crime affecting two or more Member States in such a way as to require a common approach by the Member States owing to the scale, significance and consequences of the offences. Europol's competence shall also cover related criminal offences as defined in art. 4 (3) ECD.</p> <p>Principal tasks</p> <ul style="list-style-type: none"> - to collect, store, process, analyse and exchange information and intelligence; - to notify the competent authorities of the Member States without delay via the national unit referred to in Article 8 of information concerning them and of any connections identified between criminal offences; - to aid investigations in the Member States, in particular by forwarding all relevant information to the national units; - to ask the competent authorities of the Member States concerned to initiate, conduct or coordinate investigations and to suggest the setting up of joint investigation teams in specific cases; - to provide intelligence and analytical support to Member States in connection with major international events; - to prepare threat assessments, strategic analyses and general situation reports relating to its objective, including organised crime threat assessments; - to provide support to Member States in their tasks of gathering and analysing information from the Internet in order to assist in the identification of criminal activities facilitated by or committed using the Internet. <p>Additional tasks</p> <ul style="list-style-type: none"> - to develop specialist knowledge of the investigative procedures of the competent authorities of the Member States and to provide advice on investigations; - to provide strategic intelligence to assist and promote the efficient and effective use of the resources available at national and Union level for operational activities and the support of such activities. <p>Additionally, assist Member States through support, advice and research in the following areas</p> <ul style="list-style-type: none"> - the training of members of their competent authorities, where appropriate in cooperation with the European Police College; - the organisation and equipment of those authorities by facilitating the provision of technical support between the Member States; - crime prevention methods; - technical and forensic methods and analysis, and investigative procedures. <p>And Europol shall also act as the Central Office for combating euro counterfeiting in accordance with Council Decision 2005/511/JHA of 12 July 2005 on protecting the euro against counterfeiting. Europol shall process and transfer financial messaging data in accordance with the Agreement between the European Union and the United States of America on the processing and transfer of Financial Messaging Data from the European Union to the United States for purposes of the “Terrorist Finance Tracking Program”.</p> <p>And Europol shall continue efforts to establish the Prüm Helpdesk in order to support the daily application of the “Prüm Decisions” in accordance with the Council conclusions of 13 December 2011 on intensifying the implementation of the “Prüm Decisions”.</p>
<p>Governance</p>	<p>Management Board The Management Board shall be composed of one representative of each Member State and one representative of the Commission.</p> <p>Director</p> <ul style="list-style-type: none"> - Is appointed by the Council, acting by qualified majority, from a list of at least three candidates presented by the Management Board, for a four-year period (may be extended once for not more than four years). - Is assisted by three Deputy Directors appointed for a four-year period extendable once. - Leads Europol and is accountable to the Management Board in respect of the performance of his duties. - Is Europol's legal representative. <p>External audit</p> <ul style="list-style-type: none"> - European Court of Auditors (ECA); - Internal Audit Service (IAS) of the Commission; - Joint Supervisory Body (JSB); - Additionally: Internal Audit Function (IAF) and Data Protection Officer (DPO) – functionally independent, associated with the line organisation (established based on the Europol Council Decision). <p>Discharge Authority The European Parliament, taking into account a recommendation from the Council acting by qualified majority.</p>

Resources made available to the Office in 2011 (2010)	Final budget 2011 84,8 (92,8) million euro Staff establishment plan 2011 <ul style="list-style-type: none"> - 457 (453) temporary staff - 25 (25) seconded national experts - 73 (78) contract staff
Products and services in 2011 (2010)	Europol as the principal EU support centre for law enforcement operations Analysis Work Files, operational analysis reports and other reporting, operational support on the spot and from the headquarters, Joint Investigation Teams <ul style="list-style-type: none"> - Europol supported competent authorities in EU Member States in 13,697 cross-border cases, an increase of 17% over 2010. 21% of these cross border cases were related to drugs. - Europol initiated or actively supported 694 investigations in the Member States with in-depth analytical and operational support, most of which are still ongoing. Operations focused on the areas of cannabis, facilitated illegal immigration, and synthetic drugs and trafficking in human beings were most frequently supported by Europol. - Europol produced 984 cross match reports and 340 operational analysis reports. - Lead investigator(s) of operations in the Member States and Member States' experts expressed a high level of satisfaction with the analysis and operational support provided by Europol. - There was a substantial increase in the amount of operational support provided to Member States confirming the trend evident in previous years for increased requests for all Europol services. Europol continued to provide financial support for operational meeting attendance and to support euro counterfeiting investigations. - Europol undertook a substantial amount of work to develop the New Analysis Work File (AWF) Concept (NAC) that will lead to several important benefits to the Member States including a faster response to Member State requests. - Europol supported 17 Joint Investigation Teams in 2011 as a full member. - Europol established an improved Operational Centre enabling enhanced coordination of all incoming information, centralised routing of operational information, management and coordination function and operational prioritisation function. - Europol intensively supported the establishment and implementation of the EU Policy Cycle 2011-2013 which is based on the OCTA 2011. Several workshops were organised at Europol to elaborate strategic goals for each of the eight priorities for the fight against organised crime and to convert these strategic goals into annual operational action plans based on the template developed by Europol. - A dedicated unit within Europol continued to fulfil Europol's role in the Terrorist Finance Tracking Programme (TFTP) and processed all related US requests and information leads. Europol also started an awareness campaign on the TFTP for practitioners of competent authorities, prosecutors etc. and at meetings of experts in Brussels where the EU equivalent system of the US TFTP was discussed. Strategic analysis capability Strategic analysis reports (Threat Assessments, Situation Reports and Intelligence Notifications) <ul style="list-style-type: none"> - Threat Assessments: Credit card fraud; Trafficking in human beings; Comparison of US and EU priorities and methods in combating transnational organised crime; Organised Crime Threat Assessment (OCTA); Organised crime in the Danube region; Major international sports event (football Eurocup Poland and Ukraine); Visa liberalisation for Ukraine: security impact on the EU; Visa liberalisation for Moldova: security impact on the EU. - Situation Reports: Joint report (Frontex, Olaf, Taxud, European Commission) on organised crime at EU borders; Nuclear and radioactive events; EU Terrorism Situation and Trend Report (TE-SAT). - OC-SCAN Threat Notices: Trafficking in endangered species by Organised Crime Groups (OCGs); Involvement of a mobile OCG in the illegal trade in rhino horn; illegal waste trafficking and disposal, growth in the trade in counterfeit and other illegal pesticides across Europe. - Knowledge Products: Europol's contribution to the Handbook for CSDP Missions; Fact Sheet and Risk Profile for Joint Police Operation 'Eurocar'. Europol as the EU criminal information hub Information management capabilities, Secure Information Exchange Network Application (SIENA) Europol Information System (EIS), Liaison Bureaux network <ul style="list-style-type: none"> - In total 222,135 SIENA messages were received by Europol, Member States and external partners in 2011. This is an increase of 34% compared to 2010. - By the end of 2011, 15 Member States' national asset recovery offices were linked to SIENA. The project continues in 2012. - At the end of 2011, thirteen Member States were using automatic data loaders to enable automatic feeding of data into the EIS. The project continues in 2012. - The EIS content reached 200 000 objects on 28 October 2011. - Work continued to improve federated search capabilities across all Europol applications. - The Europol Links Manager (ELM) went live at the end of October 2011. The new function enables automated cross-checking of AWF's, 10.4 repository, the EIS, and the ERES. - Europol liaison officers ensure a live link between Europol headquarters in The Hague and 27 Europol National Units in the national capitals of the Member States. This is a unique network of 145 liaison officers who play an important role in everyday law enforcement activities by facilitating the exchange of information, as well as providing support and coordination for ongoing investigations. Europol also hosts liaison officers from 10 non-EU countries and organisations who work together with Europol on the basis of cooperation agreements. This Liaison Bureaux Network is supported by secure channels of communication provided by Europol. In addition, Europol has seconded two

liaison officers to Washington (USA) and one to Interpol's headquarters in Lyon (France).

Europol as the EU centre for law enforcement expertise

Europol Platforms for Experts (EPE), Data exchange platforms and storage solutions, Knowledge products and services, Training, Conferences and awareness sessions

- Nineteen platforms have been created on the Europol Platform for Experts for which the number of accounts and active users are continuously growing.
- In relation to cybercrime, Europol took steps to consolidate its operational and strategic expertise in key work areas relating to online crime, including intrusion and identity theft, child sexual exploitation, mass marketing fraud, payment card fraud and intellectual property theft. Improvements to the Cyber Crime Centre infrastructure and tools were realised. Europol has also built on existing partnerships with other EU cyber-security bodies such as the European Network and Information Security Agency (ENISA), Eurojust, the European Police College (CEPOL), to ensure that the EU provides a collective response to the evolving threat of cybercrime.
- The European Commission/OLAF, the European Central Bank and Europol jointly organised the 2nd International Conference on the protection of the Euro against counterfeiting (2011 Euro Conference) at Europol's new headquarters in The Hague from 23 to 25 November 2011.
- Europol supported CEPOL in the development and delivery of training/awareness packages to further support Member States in implementing National Intelligence Models. Europol participated in 2011 in a one week seminar at CEPOL for planning the training packages.

External relations

Relations with cooperation partners

- Europol cooperates with a number of EU partners, and with third countries and organisations. The exchange of information with these partners takes place on the basis of cooperation agreements. Strategic agreements make it possible for the two parties involved to exchange all information with the exception of personal data, while operational agreements also allow the exchange of personal data.
- Europol currently cooperates with 18 non-EU countries, 9 EU bodies and agencies and 3 other international organisations, including Interpol, which features in many aspects of Europol's operational work.
- Interpol¹ and Europol endorsed a collaborative operational action plan in key security areas in October 2011.
- At the end of 2011, four operational cooperation partners were using direct access to SIENA. The project will continue in 2012.
- The Heads of Europol National Units (HENUs) of all EU Member States, including observers from cooperation partners (such as Eurojust and Interpol) and the Commission, meet on a regular basis to assist Europol on operational matters and to provide support in the establishment of Joint Investigation Teams involving Europol.

Source: Information supplied by the Office.

¹ International Criminal Police Organisation (ICPO).

EUROPOL'S REPLIES

9. Europol reflected the assets in the final accounts, based on a statement of assurance from the Host State, confirming to Europol the correctness of the values of the transferred assets, in line with the lease agreement. Europol holds the view that the statement of assurance gives sufficient evidence for including the asset values into the final accounts. In addition to the assurance statement, the Host State provided a certified opinion by the audit service of the Ministry of Finance of The Netherlands ('Auditdienst Rijk – Ministerie van Financiën') which confirms the correctness of the values of the assets transferred by the Host State to Europol.

14. An amount of 22,6 million euro was carried forward from 2010 to 2011. Europol considers it to be a considerable improvement that carry-forwards were decreased to 15,0 million euro across the budget.

Special circumstances during 2011 held up budget implementation, such as the delayed move (3 months) to the new building. 2011 being the second year for Europol to operate financially as an EU agency, dedicated additional actions were taken to further align activities with the principle of budget annuality. An audit by the Internal Audit Service (IAS) of the European Commission, performed in 2011 on planning and budgeting process, confirmed positive developments in this regard.

15. Reference is made to Europol's response under item 14.

16. Exceptions in the area of recruitment, procurement activities and all financial transactions are recorded. Europol has developed an own Process Framework (PF) which is based on and recognises applicable standards and norms. Nonetheless, Europol acknowledges the ECA's comment and will further streamline the management and recording of exceptions to (financial) processes to fully comply with the observations made by the ECA.

17. Key processes feeding into the accounting system of Europol were validated, including budget commitment as well as payment processes covering also salary expenditure. However, Europol acknowledges the comment of the ECA and will expand its validation activities in this regard.

EUROPOL - European Police Office

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18. Considerable efforts were undertaken to confirm the physical location of the concerned assets for the final accounts.

As soon as the final asset value transferred by the Host State was known, concerned insurance policies were updated.

Having now concluded the transfer process of assets from the Host State, Europol will conduct another full physical verification of assets and will act upon the results as a matter of priority.

19. Europol acknowledges the need for improving the preparation and execution of procurement procedures, including the underlying documentation. Next to process refinements, supporting organisational changes are considered for implementation by the end of 2012.

20. Europol will prepare and adopt implementing rules to the Financial Regulation (FR) applicable to Europol, following the adoption of the new Framework Financial Regulation at EU level. The current implementing provisions of the EU Framework Financial Regulation are applied by analogy within Europol.

21. Dilapidation costs for the new building of Europol and the external disaster recovery site were reflected as contingent liabilities in the final annual accounts 2011. Europol will seek independent reinsurance concerning the estimated costs, taking into account the costs such a review will imply.

22. Europol considers the confidentiality of selection texts to be of great importance. Access to test material is restricted.

Thresholds for admission to tests and interviews were introduced as from July 2012 onwards.

Europol holds the view that all key findings of selection committees which are of relevance to appointments are properly documented. Nonetheless, Europol will take further action to identify additional refinements as highlighted by the ECA.

23. Europol addresses the comment of the ECA in the context of human resources related performance monitoring.