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COVER NOTE

from: Mr Vítor CALDEIRA, President of the Court of Auditors
date of receipt: 15 November 2012
to: Mrs Erato KOZAKOU-MARCOULLIS, President of the Council of the
European Union

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

Sir,

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 GNSS Agency for the financial year 2011.

This report is accompanied by the Agency'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 GNSS Agency for the financial year 2011 together with the Agency'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



CORTE DEI CONTI EUROPEA
EIROPAS REVĪZIJAS PALĀTA
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EURÓPAI SZÁMVEVŐSZÉK
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EUROPEISKA REVISIONSRÄTTEN

Report on the annual accounts
of the European GNSS Agency
for the financial year 2011

together with the Agency's replies

INTRODUCTION

1. The European GNSS (Global Navigation Satellite System) Agency (hereinafter "the Agency"), which is located in Brussels, was set up by Regulation (EU) No 912/2010 of the European Parliament and the Council¹, repealing Council Regulation (EC) No 1321/2004² and amending Regulation (EC) 683/2008³, to manage the public interests relating to the European GNSS programmes and to act as the regulatory agency for the programme during the deployment and operational phases of the Galileo Programme. Regulation (EC) No 683/2008 of the European Parliament and the Council reduced the responsibilities of the Agency to the control of the security of Galileo systems and to the preparation of their commercialisation⁴. According to Decision 2010/803/UE of the Member States⁵, the Agency will be relocated to Prague as of 1 September 2012.

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 Agency'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.

¹ OJ L 276, 20.10.2010, p. 11.

² OJ L 246, 20.7.2004, p. 1.

³ OJ L 196, 24.7.2008, p. 1.

⁴ The **Annex** summarises the Agency's competences and activities. It is presented for information purposes.

⁵ OJ L 342, 28.12.2010, p. 15.

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 accounts⁶ of the Agency, which comprise the “financial statements”⁷ and the “reports on the implementation of the budget”⁸ 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 Agency, under his own responsibility and within the limits of the authorised appropriations⁹. The Director is responsible for putting in place¹⁰ the organisational structure and the internal management and control systems and procedures relevant for drawing up final accounts¹¹ 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.

⁶ 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.

⁷ 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.

⁸ The budget implementation reports comprise the budget outturn account and its annex.

⁹ Article 33 of Commission Regulation (EC, Euratom) No 2343/2002 (OJ L 357, 31.12.2002, p. 72).

¹⁰ Article 38 of Regulation (EC, Euratom) No 2343/2002.

¹¹ 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 Agency.

The Auditor's responsibility

5. The Court's responsibility is to provide, on the basis of its audit, the European Parliament and the Council¹² with a statement of assurance as to the reliability of the annual accounts of the Agency 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 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 Agency 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.

¹² Article 185(2) of Council Regulation (EC, Euratom) No 1605/2002.

Opinion on the reliability of the accounts

9. In the Court's opinion, the Agency's Annual Accounts¹³ fairly present, 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 the provisions of its Financial Regulation and the accounting rules adopted by the Commission's accounting officer¹⁴.

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 Agency 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 KEY CONTROLS OF THE AGENCY'S SUPERVISORY AND CONTROL SYSTEMS

12. Ex-post audits carried-out for the Agency by an external audit firm in respect of grant payments made in previous years under the Sixth Framework Programme for Research and Development (FP6)¹⁵ frequently called into question the declarations of cost made by the beneficiaries. At the end of 2011,

¹³ The Final Annual Accounts were drawn up on 15 June 2012 and received by the Court on 29 June 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. They can be found on the following website <http://eca.europa.eu> or <http://gsa.europa.eu/>

¹⁴ 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.

¹⁵ The audited grants account for 50 % of all FP6 grants under the Second and Third Calls (65,3 million euro).

the amounts in dispute were estimated at 1,7 million euro or 5 % of the audited grants.

13. In 2011, the Agency made grant payments under the Seventh Framework Programme for Research and Development (FP7) amounting to 5,8 million euro. In order to verify the expenditure claimed by the beneficiaries (private and public entities performing research), the Agency, although it performs reasonableness checks, does not usually request supporting documentation that would address the risk of ineligible expenditure.

14. In 2011, payments amounting to 4,8 million euro (22 % of the amounts paid during the year) were made after the deadlines stipulated in the Financial Regulation¹⁶.

OTHER COMMENTS

15. The Court had qualified its opinion on the reliability of the Agency's 2010 accounts on the grounds of incorrect accounting treatment of tangible fixed assets related to the Galileo satellite programme¹⁷. These assets were incorporated in two satellites that were launched in October 2011. On 27th September 2012 the Court received confirmation from DG ENTR that these assets are now under the control of the Commission and are not to be capitalised in the Agency's accounts according to International accounting standards¹⁸. The Court considers that there is no longer the basis for a qualification on such grounds for 2011.

16. As noted in the previous year's report, the staff selection procedures audited showed that the threshold scores were not determined for admission to written tests and interviews or for inclusion in the list of suitable candidates. These

¹⁶ Approximately 9 days' delay on average.

¹⁷ Regulation (EC) No 683/2008 on the further implementation of European satellite navigation programmes (EGNOS and Galileo).

¹⁸ IPSAS accounting rule No 1.

practices jeopardised the transparency of the recruitment procedures.

This Report was adopted by Chamber IV, headed by Dr Louis GALEA, Member of the Court of Auditors, in Luxembourg at its meeting of 16 October 2012.

For the Court of Auditors

Vitor Manuel da SILVA CALDEIRA
President

European GNSS Agency (Brussels)**Competences and activities**

Areas of Union competence deriving from the Treaty	- Competitiveness for growth and employment
The Agency's powers <i>(Regulation (EU) No 912/2010 of the European Parliament and of the Council of 22 September 2010)</i>	Objectives - to contribute to the achievement of fully operational European satellite navigation systems established under the EGNOS and Galileo programmes Tasks - to ensure security accreditation and operation of the Galileo security centres; - to guarantee the operations of the Galileo Security Monitoring Centres (GSMC); - to contribute to the preparation of the commercialisation of the systems, including the necessary market analysis; - to accomplish other tasks that may be entrusted to it by the Commission, such as promoting application and services in the satellite navigation market, ensuring that the components of the system are certified by the appropriate, duly authorised certification bodies.
Governance	Administrative Board <i>Composition:</i> - one representative per Member State; - five representatives from the Commission; - a non-voting representative of the European Parliament; - one representative of the HR and ESA each to be invited as observers. <i>Tasks:</i> - appoints the Executive Director (ED); - adopts the annual work programme; - produces a statement of estimates of revenue and expenditure; - adopts the budget; - delivers an opinion on the final accounts of the Agency; - oversees the operation of the Galileo Security Monitoring Centre; - exercises disciplinary power over the ED; - adopts the special provisions necessary for implementing right of access to documents; - adopts the annual report on the activities and prospects of the Authority. Executive Director Appointed by the Administrative Board. Security Accreditation Board <i>Composition:</i> - one representative per Member State; - one representative from the Commission; - one representative from the HR;

	<p>- one representative of ESA to be invited as observer.</p> <p><i>Tasks:</i></p> <p>To act as the security accreditation authority;</p> <p>External audit</p> <p>Court of Auditors.</p> <p>Discharge Authority</p> <p>Parliament, acting on a recommendation from the Council.</p>
<p>Resources made available to the Agency in 2011 (2010)</p>	<p>Final Budget</p> <p>38,7 (15,9) million euro consisting of the EU subsidy of 8,2 (8,7) million euro, which is the operating subsidy from the Commission, and 30,5 (7,2) million euro in operational funds from the Commission.</p> <p>Staff as at 31 December 2011</p> <p>Authorised: 29 (28)</p> <p>Occupied: 28 (26)</p> <p>Other posts: 14 (14)</p> <p>Total: 42 (40), assigned to the following duties:</p> <p>Allocated to:</p> <ul style="list-style-type: none"> - operational tasks: 20 (18) - administrative and support tasks: 14 (14) - mixed tasks: 8 (8)
<p>Products and services 2011</p>	<p>Programmes</p> <p>Support to the European Commission in the implementation of the EGNOS and Galileo programmes.</p> <p>Systems Security</p> <p>Galileo and EGNOS Systems Security (Galileo Security Accreditation, System Safety and Security Committee – 3SC, GNSS Security Requirements, EGNOS Security);</p> <p>Public Regulated Service – PRS (Preparation of the PRS User Segment);</p> <p>Galileo Security Monitoring Centre – GSMC;</p> <p>GNSS Technology Control Regime.</p> <p>Market development</p> <p>EGNOS Market Entry (Aviation, Agriculture, Road, EDAS, Market Monitoring);</p> <p>International activities (Latin America, Israel, China, Africa);</p> <p>Information and Outreach (EGNOS Information Portal).</p> <p>Research and development</p> <p>Management of projects under the 6th Framework Programme and 7th Framework Programme (1st , 2nd and 3d calls) for research;</p> <p>Implementation/update of a web-based knowledge management and dissemination tool.</p>

Source: Information supplied by the Agency.

THE AGENCY'S REPLIES

13. The grant agreements managed by the GSA for FP6 had been inherited from the predecessor of the GSA, the Galileo Joint Undertaking (GJU). The GJU and the European Space Agency (ESA) had established their FP6 rules, slightly different from the European Commission rules. The FP6 ex-post audit controls have been finalised in 2012. The final findings of the auditors show that the costs for the sample audited were overstated by 455 836,66 EUR, or 1,4 % of the audited grants. The GSA plans to recover most of the amounts found to be incorrect by our external auditors, pending agreement with the European Commission.

14. The GSA analysis of costs is based on: the project proposal, the deliverables during the project life (quarterly reports), the final deliverables and the costs incurred. It is to be noted that the proposals include a detailed work plan (WP) with different activities necessary to achieve the project's objectives. Based on the resources which are needed to implement the work plan the beneficiaries have to set up a project budget. These proposals are evaluated and the grants awarded by experts at the Commission premises. In the future, the GSA intends to implement controls that allow an effective verification of the project costs.

15. In 2011, the Agency carried out 1 195 payment requests, out of which 140 (11,72%) with some delay. The result of the audit findings is highly influenced by some very particular but in large amounts transactions e.g. transfers of unused funds to the EC and highly complex grant agreement payments. In addition, due to the small size of the Agency, payments during holiday periods can easily be delayed due to the lack of back-ups in some key operational and administrative positions. Improved financial circuits have been implemented from April 2012, which should help reduce to the minimum payment delays.

16. The GSA has revised the selection procedure. Since 2012, the pre-selection panel determines the threshold scores at the stage of designing Vacancy Notice. The thresholds are now published in the Vacancy Notice. The questions and written tests are prepared by the experts in the Selection Panel together with the Vacancy Notice and must be ready before the Selection Panel members receive access to candidate's applications.