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THE EUROPEAN UNION**

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COVER NOTE

from: Mr Vítor CALDEIRA, President of the Court of Auditors
date of receipt: 9 November 2012
to: Mrs Erato KAZAKOU-MARCOULLIS, President of the Council of the European Union
Subject: Report on the annual accounts of the European Training Foundation for the financial year 2011 together with the Foundation'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 Training Foundation for the financial year 2011.

This report is accompanied by the Foundation'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 Training Foundation for the financial year 2011 together with the Foundation'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
EUROPOS AUDITO RŪMAI

EURÓPAI SZÁMVEVŐSZÉK
IL-QORTI EWROPEA TAL-AWDITURI
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EUROOPAN TILINTARKASTUSTUOMIOISTUIN
EUROPEISKA REVISIONSRÄTTEIN

Report on the annual accounts
of the European Training Foundation
for the financial year 2011

together with the Foundation's replies

INTRODUCTION

1. The European Training Foundation (hereinafter "the Foundation"), which is located in Turin, was established by Council Regulation (EEC) No 1360/90¹. The Foundation's task is to support the reform of vocational training in the European Union's partner countries. As such, it assists the Commission in the implementation of various programmes (Phare, Tacis, CARDS and MEDA)².

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 Foundation'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 Foundation, which comprise the "financial statements"⁴ and the "reports on the implementation of the budget"⁵ for the financial year ended 31 December 2011, and the legality and regularity of the transactions underlying those accounts.

¹ OJ L131, 23.5.1990, p. 1.

² The annex summarises the Foundation's competences and activities. It is presented for information proposes.

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.

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

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 Foundation, 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 Foundation 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 Foundation are free of material misstatement and the transactions underlying them are legal and regular.

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 Foundation.

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

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

¹⁰ The Final Annual Accounts were drawn up on 29 June 2012 and received by the Court on 02 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. They can be found on the following website <http://eca.europa.eu> or <http://www.etf.europa.eu/>.

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.

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 Foundation 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 FOUNDATION'S SUPERVISORY AND CONTROL SYSTEMS

12. The Foundation has not yet adopted and implemented a treasury policy to minimise and spread financial risk while aiming at adequate returns. The account is kept in a bank which no longer has the minimum rating as indicated by the Commission.

13. The Court identified 64 contracts with a total value of 2 million euro which were not countersigned by the Foundation's contractor, creating legal uncertainty.

OTHER COMMENTS

14. Maintenance and essential services such as heating, water and electricity are not ensured for the Foundation's premises since the Consortium responsible for facility management went into liquidation in November 2011. The situation regarding the Foundation's premises is unsatisfactory and puts its activities at risk of disruption.

15. The Foundation needs to further improve the transparency of its recruitment procedures. The threshold scores for admission to interviews and written tests were not set in advance and questions for oral and written tests were not set before the applications were examined by the selection boards.

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

Annex***European Training Foundation (Turin)******Competences and activities***

Areas of Union competence deriving from the Treaty <i>(Art. 166(3) of the Treaty on the Functioning of the European Union)</i>	The Union and the Member States shall foster cooperation with third countries and the competent international organisations in the sphere of vocational training.
Competences of the Foundation <i>(Council Regulation (EEC) No 1360/90)</i>	<p>Objectives</p> <ul style="list-style-type: none"> - to contribute, in the context of EU external relations policies, to improving human capital development in the following countries: the countries eligible for support under Regulations (EC) No 1085/2006 and No 1638/2006 and subsequent related legal acts; other countries designated by decision of the Governing Board on the basis of a proposal supported by two-thirds of its members and a Commission opinion, and covered by a Union instrument or international agreement that includes an element of human capital development, and as far as available resources allow. - For the purpose of this Regulation, 'human capital development' shall be defined as work which contributes to the lifelong development of individuals' skills and competences through the improvement of vocational education and training systems. <p>Tasks</p> <p>For the purpose of achieving the objective, the Foundation, within the limits of the powers conferred on the Governing Board and following the general guidelines established at Union level, shall have the following functions:</p> <ul style="list-style-type: none"> - to provide information, policy analyses and advice on human capital development issues in the partner countries; - to promote knowledge and analysis of skills needs in national and local labour markets; - to support relevant stakeholders in partner countries in building capacity in human capital development; - to facilitate the exchange of information and experience among donors engaged in human capital development reform in partner countries; - to support the delivery of Union assistance to partner countries in the field of human capital development; - to disseminate information and encourage networking and the exchange of experience and good practice between the EU and partner countries and amongst partner countries in human capital development issues; - to contribute, at the Commission's request, to the analysis of the overall effectiveness of training assistance to the partner countries; - to undertake such other tasks as may be agreed between the Governing Board and the Commission, within the general framework of this Regulation.
Governance	<p>Governing Board</p> <p>One representative of each Member State</p> <p>Three representatives of the Commission</p> <p>Three non voting experts appointed by the European Parliament</p> <p>In addition, three representatives of the partner countries may attend meetings of the Governing</p>

	<p>Board as observers</p> <p>Director</p> <p>Appointed by the Governing Board on a proposal from the Commission</p> <p>External Audit</p> <p>Court of Auditors.</p> <p>Internal Audit</p> <p>Internal Audit Service of the Commission.</p> <p>Discharge authority</p> <p>Parliament, acting on a recommendation from the Council.</p>
Resources made available to the Foundation in 2011 (2010)	<p>Budget</p> <ul style="list-style-type: none"> - 20,3 (18,8) million euro for commitments and 19,8 (19,3) million euro for payments, of which 19,3 million euro funded by a Commission subsidy. <p>Staff at 31 December 2011</p> <ul style="list-style-type: none"> - 96 (96) temporary posts in the establishment plan, of which 90 (92) posts occupied. - 35 (36) other staff (local agents, contract agents, seconded national experts) - Total staff: 125 (128), assigned to the following duties: - operational tasks: 70 (70) - administrative tasks: 28 (31) - corporate coordination and communication tasks: 27 (27)
Products and services supplied during the financial year 2011 (2010)	<p>Activities</p> <p>The ETF contributes, in the context of the EU external relations policies, to improving human capital development (HCD) in 30 Partner Countries designated by its regulation and the Governing Board. The main activities are supporting EU policies and projects, providing policy analyses, disseminating and exchanging information and experience and supporting partner-country capacity building.</p> <p>The ETF's added value comes from its neutral, non-commercial and unique established knowledge base consisting of expertise in human capital development and its links to employment. This includes expertise in adapting the approaches to human capital development in the EU and its Member States to the context of the partner countries.</p> <p>In 2011 ETF successfully organised a conference (9 May) to present the results of the first year of the Torino Process (24 <i>Partner Countries VET policy assessments</i>) and discuss strategic policies, promoting development best practices, and facilitating coordination and harmonisation, as well as in the external dimension of internal Union Policies. It also prepared the next round of Progress Country Analysis to be undertaken in 2012. The other corporate conference was on the Institutional Arrangements in the implementation of Qualifications Frameworks, an opportunity to launch the electronic Qualifications Framework promoting exchange of expert information among Partner countries developing qualifications frameworks.</p> <p>It also worked on its main functions as follows:</p> <ul style="list-style-type: none"> - Supporting the EU policies and project cycle of External Relations instruments for the partner countries: 30 (30) outputs; - Capacity building of Partner Countries: 72 (22) outputs; - Policy analysis 22 (29) outputs;

	<p>- Dissemination and networking: 24 (30) outputs.</p> <p><i>Outputs measure the accomplishment of the results of a project, and put the budget in relation to ETF functions</i></p> <p>In addition to these functions carried out in the context of its work programme, the ETF also responded to direct requests from the European Commission throughout the year. In 2011 it reported 100 on-going Commission requests; 44 % were addressed to IPA countries and 45 % to ENPI and 10 % to DCI. (In 2010 there were 105 on-going direct requests, 62 % were addressed to IPA countries and 30 % to ENPI and 7 % to DCI).</p> <p>IPA: Instrument for Pre-Accession Assistance (Western Balkans, Turkey and Iceland).</p> <p>ENPI: European Neighbourhood and Partnership Instrument (South-East Mediterranean Region and Eastern Europe).</p> <p>DCI: Development Cooperation Instrument (Central Asia countries).</p>
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Source: Information provided by the Foundation.

THE FOUNDATION'S REPLY

12. The ETF will put in place a treasury policy including the monitoring of bank credit ratings, in view of spreading financial risk and ensuring an adequate return on cash holdings

13. This comment concerns purchase orders issued under one specific framework contract. Following the Court's comments, ETF has brought its practice in this case into line with that of all its other framework contracts, under which all purchase orders are countersigned by the contractor.

14. The ETF is doing all in its power through its contacts at local, regional and national level in Italy, as well as through its Governing Board and the European Commission, to re-establish a long-term perspective of accommodation in suitable premises in Turin, as foreseen in the Seat Agreement. Meetings have been held between the Chairman of the ETF Governing Board and the Italian Authorities and letters have been exchanged between the Commission and the Italian Government. The ETF will persevere in its efforts to reach a satisfactory solution by all possible means, not excluding legal action if necessary.

15. ETF has now adopted a standard threshold of 70 % in all phases of the selection process. Concerning the timing of the setting of test and interview questions, ETF's selection procedure foresees that the test and interview questions should be set before the CVs are distributed to the selection board. ETF will reinforce its control procedures to ensure that the procedures are respected and clearly evidenced in the files.