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COVER NOTE

From:	Mr Klaus-Heiner LEHNE, President of the European Court of Auditors
date of receipt:	4 November 2016
To:	Mr Peter KAZIMIR, President of the Council of the European Union
Subject:	Report on the annual accounts of the European GNSS Agency for the financial year 2015 together with the Agency's reply

Delegations will find attached the European Court of Auditors' report on the annual accounts of the European GNSS Agency for the financial year 2015.

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

Encl.: Report on the annual accounts of the European GNSS Agency for the financial year 2015 together with the Agency's reply.¹

¹ In English only. The other languages of this report are available on the European Court of Auditors' website: <http://eca.europa.eu/>.



EUROPEAN
COURT
OF AUDITORS

Report on the annual accounts
of the European GNSS Agency
for the financial year 2015

together with the Agency's reply

INTRODUCTION

1. The European GNSS (Global Navigation Satellite System) Agency (hereinafter “the Agency”, aka “GSA”), which was relocated from Brussels to Prague as of 1 September 2012², was set up by Regulation (EU) No 912/2010 of the European Parliament and the Council³ setting up the European GNSS Agency, repealing Council Regulation (EC) No 1321/2004⁴ on the establishment of structures for the management of the European satellite radio navigation programmes and amending Regulation (EC) No 683/2008 of the European Parliament and of the Council⁵. The GSA officially took over all tasks previously assigned to the GALILEO Joint Undertaking on 1 January 2007 which are continued by the GSA as “European GNSS Agency” within the scope of Regulation (EU) No 912/2010, as amended. In addition, the Commission entrusted the exploitation of the European Geostationary Navigation Overlay Service (EGNOS) to the Agency through a delegation agreement.

2. **Table 1** presents key figures for the Agency⁶

TABLE 1: KEY FIGURES FOR THE AGENCY

	2014	2015
Budget (million euro) ⁷	403,7	363,8
Total staff as at 31 December ⁸	131	139

Source: data provided by the Agency.

² Decision 2010/803/EU taken by common accord between the Representatives of the Governments of the Member States (OJ L 342, 28.12.2010, p. 15).

³ OJ L 276, 20.10.2010, p. 11.

⁴ OJ L 246, 20.7.2004, p. 1.

⁵ OJ L 196, 24.7.2008, p. 1.

⁶ More information on the Agency's competences and activities is available on its website: www.gsa.europa.eu.

⁷ Budget figures are based on payment appropriations.

⁸ Staff includes officials, temporary and contract staff and seconded national experts.

INFORMATION IN SUPPORT OF THE STATEMENT OF ASSURANCE

3. 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 and an analysis of management representations.

STATEMENT OF ASSURANCE

4. Pursuant to the provisions of Article 287 of the Treaty on the Functioning of the European Union (TFEU), the Court has audited:

- (a) the annual accounts of the Agency, which comprise the financial statements⁹ and the reports on the implementation of the budget¹⁰ for the financial year ended 31 December 2015, and
- (b) the legality and regularity of the transactions underlying those accounts.

The management's responsibility

5. The management is responsible for the preparation and fair presentation of the annual accounts of the Agency and the legality and regularity of the underlying transactions¹¹:

- (a) The management's responsibilities in respect of the Agency's annual accounts include designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies on the basis of the accounting rules adopted by the Commission's accounting officer¹²; making accounting

⁹ These include the balance sheet and the statement of financial performance, the cash flow table, the statement of changes in net assets and a summary of the significant accounting policies and other explanatory notes.

¹⁰ These comprise the budgetary outturn account and the annex to the budgetary outturn account.

¹¹ Articles 39 and 50 of Commission Delegated Regulation (EU) No 1271/2013 (OJ L 328, 7.12.2013, p. 42).

¹² The accounting rules adopted by the Commission's accounting officer are derived from the International Public Sector Accounting Standards (IPSAS) issued by the International Federation

estimates that are reasonable in the circumstances. The Agency has delegated these responsibilities to the Commission's accounting officer by means of a service level agreement. The Executive Director approves the annual accounts of the Agency after the Commission's accounting officer has prepared them on the basis of all available information and established a note to accompany the accounts in which he declares, inter alia, that he has reasonable assurance that they present a true and fair view of the financial position of the Agency in all material respects.

- (b) The management's responsibilities in respect of the legality and regularity of the underlying transactions and compliance with the principle of sound financial management consist of designing, implementing and maintaining an effective and efficient internal control system comprising adequate supervision and appropriate measures to prevent irregularities and fraud and, if necessary, legal proceedings to recover funds wrongly paid or used.

The auditor's responsibility

6. The Court's responsibility is, on the basis of its audit, to provide the European Parliament and the Council¹³ with a statement of assurance as to the reliability of the annual accounts and the legality and regularity of the underlying transactions. The Court conducts 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 the Court to plan and perform the audit to obtain reasonable assurance as to whether the annual accounts of the Agency are free from material misstatement and the transactions underlying them are legal and regular.

7. The audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts and the legality and regularity of the underlying transactions. The procedures selected depend on the auditor's judgement, which is based on an assessment of the risks of material misstatement of the accounts and material non-compliance by the underlying transactions with the requirements in the legal framework of the European Union, whether due to fraud or error. In assessing these risks, the auditor considers any internal controls relevant to the preparation and fair presentation of the accounts, as well as the supervisory and control systems that are implemented to ensure the legality and regularity of underlying transactions, and designs audit

of Accountants or, where relevant, the International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

¹³ Article 107 of Regulation (EU) No 1271/2013.

procedures that are appropriate in the circumstances. The audit also entails evaluating the appropriateness of accounting policies, the reasonableness of accounting estimates and the overall presentation of the accounts. In preparing this report and Statement of Assurance, the Court considered the audit work of the independent external auditor performed on the Agency's accounts as stipulated in Article 208(4) of the EU Financial Regulation¹⁴.

8. The Court considers that the audit evidence obtained is sufficient and appropriate to provide a basis for its statement of assurance.

Opinion on the reliability of the accounts

9. In the Court's opinion, the Agency's annual accounts present fairly, in all material respects, its financial position as at 31 December 2015 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 officer.

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

10. In the Court's opinion, the transactions underlying the annual accounts for the year ended 31 December 2015 are legal and regular in all material respects.

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

COMMENTS ON THE RELIABILITY OF THE ACCOUNTS

12. The last validation of the accounting systems was performed in 2012. The promised validation due to the expected major changes of processes and information flow following the Agency's relocation has not occurred. The new accountant plans to perform the next validation in 2020.

¹⁴ Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council (OJ L 298, 26.10.2012, p. 1).

COMMENTS ON INTERNAL CONTROLS

13. The Agency has put in place Business Continuity Plans for the security sites in France, the United Kingdom and the Netherlands. However, there is no Business Continuity Plan in place for the Headquarters in Prague and the Agency in its entirety.

COMMENTS ON BUDGETARY MANAGEMENT

14. The Agency's audited budgetary implementation report differs from the level of detail provided by most other agencies which demonstrates the need for clear guidelines on the agencies' budget reporting.

15. The level of carry-overs for committed appropriations was high for Title II (administrative expenditure) at 2,5 million euro, i.e. 42 % (2014: 3,4 million euro, i.e. 54 %). These carry-overs mainly relate to services provided in 2015 for which invoices were not received until 2016, a number of high value IT contracts, as well as a risk assessment contract signed at the end of 2015. These projects, originally planned for 2016, were started in 2015 to utilise funds released from savings on other budget lines.

OTHER COMMENTS

16. The Agency's 2015 Annual Work Programme (AWP) was only adopted in March 2015 and the adoption of its 2014-2020 Multi-annual Work Programme is outstanding. The late adoption of key planning documents puts the achievement of the Agency's objectives at risk.

17. In 2015, the Agency had a high staff turnover with 14 staff members leaving and 26 joining..

FOLLOW-UP OF PREVIOUS YEARS' COMMENTS

18. An overview of the corrective actions taken in response to the Court's comments from previous years is provided in **Annex I**.

This Report was adopted by Chamber IV, headed by Mr Baudilio TOMÉ MUGURUZA,
Member of the Court of Auditors, in Luxembourg at its meeting of 4 October 2016.

For the Court of Auditors

Klaus-Heiner LEHNE

President

Follow-up of previous years' comments

Year	Court's comment	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
2014	The level of carry-overs for committed appropriations was high for title II, administrative expenditure, at 3,4 million euro, i.e. 54 % (2013: 1,8 million euro, i.e. 52 %). These carry-overs mainly concerned services provided to the Agency in 2014 for which invoices were not received until 2015, and a number of high value IT contracts signed at the end of 2014. These IT projects, originally planned for 2015, were started in 2014 to utilise funds released from savings on other budget lines.	N/A
2014	In 2013 the Agency had awarded an eight-year (1 January 2014 – 31 December 2021) service contract for the exploitation of the European Geostationary Navigation Overlay Service (EGNOS) with a value of 436 million euro (initial contract) to a contractor. In 2014 following a direct negotiated procedure, GSA amended the initial contract for an amount of 6,3 million euro for the purchase and maintenance of 14 satellite signal receivers and 14 signal generators and some other equipment in relation to EGNOS. An arrangement between the contractor and its two subcontractors was set up, as under the initial contract, which led to an accumulation of overheads and profits. Out of the 6,3 million, only 3,2 million related to direct costs (materials, labour, transport and insurance, travel and subsistence). Overheads and other costs accounted for 1,4 million and profits and remuneration of (sub)contractors for 1,7 million.	N/A
2014	There is no insurance coverage for fixed tangible assets (net book value 1,0 million euro).	Ongoing

THE AGENCY'S REPLY

12. Since the last local system validation in 2012 there have not been any changes in local systems. The move of GSA to Prague did not result in any changes of financial circuits or processes and information flows. GSA uses standard European Commission systems validated on a global level and there are no systems interfaced with ABAC and thus impacting the financial information and the annual accounts.

The local systems were presented to the new accountant prior to acceptance of its mission. A periodical validation of the accounting systems will take place as stipulated in the Service Level Agreement between DG BUDGET and the GSA on the basis of DG BUDGET's risk assessment. The risk is currently assessed to be low and the next validation will normally be carried out in five years – or in 3 years if there are changes to the systems.

13. The Agency's global BCP has so far not been updated. The reason for this is the Agency's decision to focus in priority on securing continuity plans for its new sites, based on the assessment that for the purpose of ICS 10 the existing BCP was momentarily sufficient for its headquarters pending stabilisation of its operations and activities within such headquarters. It is the Agency's intention to proceed to such BCP update at global level within the coming year.

14. Based on a service level agreement signed with DG BUDG the Agency's accounts and related reports have been prepared by the Commission's accountant and the Agency assumed them to be in line with accepted practice.

15. The GSA made significant efforts to reduce the traditionally high level of carry-overs on Title 2 and succeeded in lowering the rate from 54 % in 2014 to only 42 % in 2015. Due to the quarterly nature of invoicing of several large contracts, certain high-value invoices relating to 2015 services were only received in 2016. Staff turnover was unexpectedly high in 2015, resulting in far lower than predicted expenditure on staff at year end which was subsequently used to fund other activities originally planned for later years.

The high level of carry-over therefore allowed forward-looking reprioritisation, while avoiding cancellations.

16. The GSA observes that all steps at GSA level related to AWP preparation and submission were completed timely. Therefore, the GSA continues to work closely with the Commission as a key stakeholder to ensuring the timely adoption of future AWPs and the MAWP.

The GSA recalls that a large part of its activities, that are delegated activities, are not directly affected by the timing of AWP adoption.

GSA reply

17. The Agency recognises a relatively high turnover, resulting from certain difficulties in attracting and retaining key staff in a very competitive and technical segment of the employment market, essentially due to its HQ location and the related disproportionately low and steadily decreasing EU correction coefficient affecting salary levels in Prague, CZ. The Agency is pursuing all available ways in order to increase its attractiveness, e.g. by insisting on the significance of its mission.