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COVER NOTE

From:	Mr Vítor CALDEIRA, President of the European Court of Auditors
date of receipt:	23 October 2014
To:	Mr Linas LINKEVICIUS, President of the Council of the European Union
Subject:	Report on the annual accounts of the European GNSS Agency for the financial year 2013 together with the Agency's replies

Delegations will find attached the European Court of Auditors' report on the annual accounts of the European GNSS Agency for the financial year 2013.

This report is accompanied by the Agency's replies 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 2013 together with the Agency's replies.¹

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

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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



EUROPSKI REVIZORSKI SUD
CORTE DEI CONTI EUROPEA
EIROPAS REVĪZIJAS PALĀTA
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EUROPEISKA REVISIONSRÄTTEN

Report on the annual accounts
of the European GNSS Agency
for the financial year 2013

together with the Agency's replies

INTRODUCTION

1. The European GNSS (Global Navigation Satellite System) Agency (hereinafter “the Agency”, aka “GSA”), which is located in Prague², was set up by Regulation (EU) No 912/2010 of the European Parliament and the Council³, repealing Council Regulation (EC) No 1321/2004⁴ and amending Regulation (EC) 683/2008⁵. The Agency’s main tasks are the operation of the Galileo Security Monitoring Centre, the security accreditation of Galileo and EGNOS satellite navigation systems, the preparation of their commercialisation and the performance of other tasks in relation to the implementation of the two programmes⁶.

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.

STATEMENT OF ASSURANCE

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

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

- (a) the annual accounts of the Agency, which comprise the financial statements⁷ and the reports on the implementation of the budget⁸ for the financial year ended 31 December 2013, and
- (b) the legality and regularity of the transactions underlying those accounts.

The management's responsibility

4. 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 transactions⁹:

- (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 officer¹⁰; making accounting estimates that are reasonable in the circumstances. The Director approves the annual accounts of the Agency after its accounting officer has prepared them on the basis of all available information and established a note to accompany the accounts in which he

⁷ These 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 These comprise the budgetary outturn account and the annex to the budgetary outturn account.

⁹ Articles 39 and 50 of Commission Delegated Regulation (EU) No 1271/2013 (OJ L 328, 7.12.2013, p. 42).

¹⁰ 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 of Accountants or, where relevant, the International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

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

5. The Court's responsibility is, on the basis of its audit, to provide the European Parliament and the Council¹¹ 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.

6. 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

¹¹ Article 107 of Regulation (EU) No 1271/2013.

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 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.

7. 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

8. In the Court's opinion, the Agency's annual accounts present fairly, in all material respects, its financial position as at 31 December 2013 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

9. In the Court's opinion, the transactions underlying the annual accounts for the year ended 31 December 2013 are legal and regular in all material respects.

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

COMMENTS ON THE LEGALITY AND REGULARITY OF TRANSACTIONS

11. The Agency is in charge of organising and managing the exploitation of the European Geostationary Navigation Overlay Service (EGNOS) which is the first pan-European satellite navigation system. On the basis of a delegation agreement with the Commission, the Agency signed a contract for the exploitation of EGNOS for the 2014 to 2021 period for an amount of some

588 million euro. Although the competitiveness of the procedure is not called into question, an eligibility criterion applied in the first phase of the procurement procedure excluding applications from consortia was not in accordance with the rules on implementation of the Financial Regulation^{12 13}.

COMMENTS ON BUDGETARY MANAGEMENT

12. The overall level of committed appropriations was close to 100 % for all titles. However, carry-overs of committed appropriations were high for title II (administrative expenditure) at 1,8 million euro (52 %). This is mainly due to specific contracts signed at year-end (0,9 million euro), following the late approval of an amending budget in September that provided additional funds to the Agency. Another 0,4 million euro relate to services rendered by suppliers but not invoiced in 2013.

FOLLOW-UP OF PREVIOUS YEARS' COMMENTS

13. 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 Pietro RUSSO, Member of the Court of Auditors, in Luxembourg at its meeting of 16 September 2014.

For the Court of Auditors

¹² Article 116(6) of Commission Regulation (EC, Euratom) No 2342/2002 (OJ L 357, 31.12.2002, p. 1).

¹³ Article 121(5) of Commission Delegated Regulation (EU) No 1268/2012 (OJ L 362, 31.12.2012, p. 1).

Vítor Manuel da SILVA CALDEIRA
President

Follow-up of previous years' comments

Year	Court's comment	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
2011	<p>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.</p>	Completed
2012	<p>The overall level of committed appropriations was close to 100 % for all titles. However, carry-overs of committed appropriations were relatively high for title II (administrative expenditure) at 1,7 million euro (38 %). This was partly due to events beyond the Agency's control, such as the relocation of its seat to Prague in September 2012 (0,4 million euro) and the setting-up of the Galileo Security Monitoring Centre (0,4 million euro), which necessitated the provision of certain goods and services in the last quarter of the year. In addition, an amount of 0,7 million euro was transferred from title I (staff expenditure) to title II in November 2012 and several contracts relating to IT and legal services included in the 2013 work programme were signed in December 2012.</p>	N/A

Year	Court's comment	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
2012	The Court identified the following weaknesses in the recruitment procedures audited which affected transparency and equal treatment: no threshold scores were determined for admission to written tests and interviews or for inclusion in the list of suitable candidates; the vacancy notice made no provision for appeals by rejected candidates	Completed

European GNSS Agency (Prague)**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)</i>	<p>Objectives: To contribute to the achievement of fully operational European satellite navigation systems established under the EGNOS and Galileo programmes.</p> <p>Tasks:</p> <ul style="list-style-type: none"> – To ensure the security accreditation of the systems and the operation of the Galileo Security Monitoring Centres (GSMCs); – 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 managing EU Framework Programmes for Research and Technological Development on innovative satellite navigation applications and technologies, promoting satellite navigation applications and services, preparing for the successful commercialisation and exploitation of the systems, aiming for smooth functioning, seamless service provision, and ensuring that the systems' components obtain certification.
Governance	<p>Administrative Board</p> <p><i>Composition</i></p> <ul style="list-style-type: none"> – one representative per Member State, – five representatives from the European Commission, – a non-voting representative of the European Parliament, – one representative of the High Representative for Foreign Affairs and Security (HR) and one representative of the European Space Agency (ESA) to be invited as observers. <p><i>Tasks</i></p> <ul style="list-style-type: none"> – 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 Agency. <p>Executive Director</p> <p>Appointed by the Administrative Board.</p> <p>Security Accreditation Board</p>

	<p><i>Composition</i></p> <ul style="list-style-type: none"> – one representative per Member State, – one representative from the Commission, – one representative from the HR, – one representative of ESA to be invited as observer. <p><i>Tasks</i></p> <p>To act as the security accreditation authority in relation to the European GNSS systems.</p> <p>External audit</p> <p>European Court of Auditors.</p> <p>Discharge authority</p> <p>European Parliament acting on a recommendation from the Council.</p>
<p>Resources made available to the Agency in 2013 (2012)</p>	<p>Final Budget</p> <p>53,3 (20,8) million euro consisting of the EU subsidy of 13,9 (12,9) million euro, which is the operating subsidy from the Commission, and 39,4 (7,9) million euro in operational funds provided by the Commission to perform delegated tasks.</p> <p>Staff as at 31 December 2013</p> <p>Authorised posts: 77 (44)</p> <p>Posts occupied: 59 (39)</p> <p>Other posts: 35 (29)</p> <p>Total staff: 94 (68), assigned to the following duties:</p> <ul style="list-style-type: none"> – operational tasks: 43 (34) – administrative and support tasks: 37 (23) – mixed tasks: 14 (11)
<p>Products and services 2013</p>	<p>Programmes</p> <p>Support for the European Commission in the implementation of the EGNOS and Galileo programmes.</p> <p>Systems Security</p> <p>Systems Security (Security Accreditation of the systems and sites, Galileo System-specific Security requirements, Flight Key Cell activities).</p> <p>Support for Public Regulated Service – PRS (Preparation of the PRS User Segment).</p> <p>Operation of the Galileo Security Monitoring Centres – GSMCs.</p> <p>EGNOS/Galileo Exploitation</p> <p>Preparatory activities for EGNOS and Galileo exploitation.</p> <p>Market development</p> <p>Market analysis and publication of GNSS Market Reports.</p> <p>Market readiness for the launch of Galileo early services.</p> <p>Market development actions focused on receiver manufacturers to foster Galileo penetration in consumer and professional markets.</p> <p>Implementation of adoption roadmaps for EGNOS in all priority markets with special focus on aviation, maritime and rail.</p>

	<p>Launch of the European GNSS Service Centre helpdesk.</p> <p>Information and outreach – EGNOS information portal, GSA website, events (European Space Solutions conference in Munich, 40 participations in events with stands and brochures, EP-GSA event, opening of Facebook page for GSA)</p> <p>Research and development</p> <p>Management of projects under the 7th Framework Programme for research and under Horizon 2020.</p> <p>Maximisation of the projects' results and achievement of strategic objectives.</p> <p>Dissemination of the results of R&D.</p>
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Source: Annex supplied by the Agency.
