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COVER NOTE

From:	Mr Vítor CALDEIRA, President of the European Court of Auditors
date of receipt:	4 November 2015
To:	Mr Jean ASSELBORN, President of the Council of the European Union
Subject:	Report on the annual accounts of the European Training Foundation for the financial year 2014 together with the Foundation's reply

Delegations will find attached the European Court of Auditors' report on the annual accounts of the European Training Foundation for the financial year 2014.

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

Encl.: Report on the annual accounts of the European Training Foundation for the financial year 2014 together with the Foundation'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 Training Foundation
for the financial year 2014

together with the Foundation's reply

INTRODUCTION

1. The European Training Foundation (hereinafter “the Foundation”, aka “ETF”), which is located in Turin, was established by Council Regulation (EEC) No 1360/90¹ (recast (EC) No 1339/2008). The Foundation’s task is to support the reform of vocational training in the European Union’s partner countries. To do this, it assists the Commission in the implementation of various programmes (e.g. IPA, FRAME, GEMM)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 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:

- (a) the annual accounts of the Foundation, which comprise the financial statements³ and the reports on the implementation of the budget⁴ for the financial year ended 31 December 2014, and
- (b) the legality and regularity of the transactions underlying those accounts.

¹ OJ L 131, 23.5.1990, p. 1.

² **Annex II** summarises the Foundation’s competences and activities. It is presented for information proposes.

³ 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.

⁴ These comprise the budgetary outturn account and the annex to the budgetary outturn account.

The management's responsibility

4. The management is responsible for the preparation and fair presentation of the annual accounts of the Foundation and the legality and regularity of the underlying transactions⁵:
- (a) The management's responsibilities in respect of the Foundation'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 officer⁶; making accounting estimates that are reasonable in the circumstances. The Director approves the annual accounts of the Foundation 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 declares, inter alia, that he has reasonable assurance that they present a true and fair view of the financial position of the Foundation 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 Council⁷ 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

⁵ Articles 39 and 50 of Commission Delegated Regulation (EU) No 1271/2013 (OJ L 328, 7.12.2013, p. 42).

⁶ 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.

⁷ Article 107 of Regulation (EU) No 1271/2013.

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 Foundation 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 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. In preparing this report and Statement of Assurance, the Court considered the audit work of the independent external auditor performed on the Foundation's accounts as stipulated in Article 208(4) of the EU Financial Regulation⁸.

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 Foundation's annual accounts present fairly, in all material respects, its financial position as at 31 December 2014 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 2014 are legal and regular in all material respects.

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

⁸ Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council (OJ L 298, 26.10.2012, p. 1).

COMMENTS ON BUDGETARY MANAGEMENT

11. Cancellations of appropriations carried-over from 2013 were high for title I (15,9 %) and title II (7,6 %) which indicates an over-estimation of financial needs.

12. The overall level of committed appropriations was high at 99,9 %. The level of committed appropriations carried over to 2015 was high for title II (administrative expenditure) at 0,75 million euro, i.e. 36,2 % (2013: 0,55 million euro, i.e. 30 %). The main reason was planned purchases made at the end of 2014 for the renewal of office furniture (0,37 million euro), software (0,14 million euro) and hardware (0,1 million euro).

OTHER COMMENT

13. In 2005 new EU Staff Regulations entered into force, including provisions that future remunerations of officials recruited before 1 May 2004 should not be less than under the previous EU Staff Regulations. The Court's audit revealed that this was not complied with and, in the case of 2 of the 96 temporary agents employed at that time, this led to a total underpayment of 14 745 euro (salary cost for ETF) for the period 2005 to 2014. The Foundation has made the supplementary salary payments in June 2015.

FOLLOW-UP OF PREVIOUS YEAR'S COMMENTS

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

This Report was adopted by Chamber IV, headed by Mr Milan Martin CVIKL, Member of the Court of Auditors, in Luxembourg at its meeting of 8 September 2015.

For the Court of Auditors

Vítor Manuel da SILVA CALDEIRA

President

Follow-up of previous year's comments

Year	Court's comment	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
2013	At the end of 2013, the Foundation had 7,5 million euro in accounts at a single bank with a low credit rating (F3, BBB).	Ongoing (amount reduced to 1,8 million euro)

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

Areas of Union competence deriving from the Treaty <i>(Article 166(3) of the Treaty on the Functioning of the European Union)</i>	<p>The Union and the Member States shall foster cooperation with third countries and the competent international organisations in the sphere of vocational training.</p>
Competences of the Foundation <i>(Council Regulation (EEC) No 1360/90)</i>	<p>Objective</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 Council Regulation (EC) No 1085/2006 and Regulation No 1638/2006 of the European Parliament and of the Council 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 the ETF Founding 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

	<p>of human capital development;</p> <ul style="list-style-type: none"> – 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 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>European Court of Auditors.</p> <p>Internal audit</p> <p>European Commission's Internal Audit Service (IAS).</p> <p>Discharge authority</p> <p>European Parliament acting on a recommendation from the Council.</p>
Resources made available to the Foundation in 2014 (2013)	<p>Budget at 31 December 2014</p> <p>Received 21,4 million euro (22,0) for commitments and payments, of which:</p> <p>EU Contribution 20,2 million euro composed of:</p> <ul style="list-style-type: none"> – 20,1 million euro (20,1) funded by EU contribution – 14 552,88 euro (0) in interest generated on EU contribution. <p>Other contributions:</p> <ul style="list-style-type: none"> – 1, 1 million euro (1,8) subsidy from European Commission services for FRAME project (DG ELARG Agreement Number 2013/316-651) and GEMM project (DG DEVCO grant contract number ENPI/2012/302-153) – 314,66 euro (1 081,20) in interest generated on Italian Trust Fund contribution – 124 924,46 euro (14 946,19) in miscellaneous revenues (recovered expenditure). <p>Staff at 31 December 2014</p> <p>94 (96) temporary posts in the establishment plan, of which 92 (92) posts occupied.</p> <p>41 (40) other staff (local staff, contract staff, seconded national experts)</p> <p>Total staff: 133 (132), assigned to the following duties:</p> <ul style="list-style-type: none"> – operational tasks: 76 (76,5) – administrative tasks: 28 (28) + 2 from the ETF's replacement pool

	<p>depending on needs</p> <p>– corporate coordination and communication tasks: 27 (25,5).</p>						
<p>Products and services supplied during the financial year 2014 (2013)</p>	<p>Activities</p> <p>The Foundation contributes, in the context of the EU's 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 Foundation'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>The ETF 2014 Work Programme identifies 19 corporate results contributing to improving human capital development in neighbouring countries. These impact-oriented results were shaped by the ETF's role in projecting the external dimension of EU skills policies and instruments to support the EU as a global actor.</p> <p>The dynamic environment in which the ETF operates, with evolving partner country contexts and EU priorities, demanded as always a high level of flexibility in continually updating and adjusting expected results. The 2014 context was marked in particular by continuing political instability in the Southern and Eastern Mediterranean, and in Eastern Europe owing to the military crisis in Ukraine.</p> <p>In line with the ETF Mid Term Perspective 2014 - 17, the 2014 results advance three corporate strategic objectives: (1) reinforcing evidence-based VET (Vocational education and training) policy analysis; (2) modernising VET systems in a lifelong learning perspective; (3) increasing the relevance of VET provision.</p> <p>The following table shows the completion rate of the results according to actions and outputs achieved under each strategic objective.</p> <table border="1"> <thead> <tr> <th>2014-17 mid-term strategic objectives and 2014 annual objectives</th><th>2014 completion %</th></tr> </thead> <tbody> <tr> <td> <u>Strategic objective 1:</u> Reinforce evidence-based VET policy analysis <u>Annual objective 1:</u> To reinforce partner country policy analysis capacity in the field of human capital development </td><td>88 %</td></tr> <tr> <td> <u>Strategic objective 2:</u> Modernise VET systems in a lifelong learning Perspective <u>Annual objective 2:</u> To support partner countries in modernising their VET systems in a lifelong learning perspective – including multi-level governance and quality assurance. </td><td>94 %</td></tr> </tbody> </table>	2014-17 mid-term strategic objectives and 2014 annual objectives	2014 completion %	<u>Strategic objective 1:</u> Reinforce evidence-based VET policy analysis <u>Annual objective 1:</u> To reinforce partner country policy analysis capacity in the field of human capital development	88 %	<u>Strategic objective 2:</u> Modernise VET systems in a lifelong learning Perspective <u>Annual objective 2:</u> To support partner countries in modernising their VET systems in a lifelong learning perspective – including multi-level governance and quality assurance.	94 %
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<u>Strategic objective 3:</u> Increase the relevance of VET provision in respect of the labour market, economic and social cohesion <u>Annual objective 3:</u> To increase the relevance of VET provision through innovative approaches - qualifications and qualification systems, learning and teaching in VET, employment and employability, skills dimension of migration and mobility and entrepreneurial learning and enterprise skills.	92 %
<u>Completion rate</u>	91 %

In addition to completing the 2014 results, the ETF also delivered a further eight corporate outputs from its 2013 Work Programme resulting from changes in its environment. These outputs represented an additional 6 % of ETF work in 2014. This leads to an overall completion rate of 97 %, when referring to the ETF interventions in the partner countries.

In 2013 the completion rate against outputs was 144 over 152 representing **94,73 %**.

A further confirmation of the ETF's strong performance and the value of its contribution to the EU as a global actor is the increasing demand for ETF support to EU external relations assistance. In 2014 the ETF received and managed a total of 82 requests for assistance from EU services at headquarters and from EU Delegations, compared with 78 in 2013. In the context of its work programme 2014, the Foundation also responded to direct requests from the European Commission throughout the year.

	2014	2013
Ongoing Commission requests	82	78
% Requests addressed to countries in South Eastern Europe and Turkey	34 %	38 %
% Requests addressed to Southern and Eastern Mediterranean countries	42 %	28 %
% Requests addressed to Eastern European countries	17 %	18 %
% Requests addressed to Central Asian countries	7 %	15 %

Source: Annex supplied by the Foundation.