



Council of the
European Union

Brussels, 1 December 2017
(OR. en)

15002/17

FIN 761

COVER NOTE

From:	Mr Klaus-Heiner LEHNE, President of the European Court of Auditors
date of receipt:	28 November 2017
To:	Mr Märt KIVINE, President of the Council of the European Union
Subject:	Report on the annual accounts of the European Foundation for the Improvement of Living and Working Conditions for the financial year 2016 together with the Foundation's reply

Delegations will find attached the European Court of Auditors' report on the annual accounts of the European Foundation for the Improvement of Living and Working Conditions for the financial year 2016.

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 Foundation for the Improvement of Living and Working Conditions for the financial year 2016 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 Foundation for the Improvement of Living and Working Conditions
for the financial year 2016
together with the Foundation's reply

INTRODUCTION

1. The European Foundation for the Improvement of Living and Working Conditions (hereinafter “the Foundation”, aka “Eurofound”), which is located in Dublin, was established by Council Regulation (EEC) No 1365/75¹. The Foundation’s task is to contribute to the planning and establishment of better living and working conditions in the Union by increasing and disseminating knowledge which is relevant to this subject.
2. **Table 1** presents key figures for the Foundation².

TABLE 1: KEY FIGURES FOR THE FOUNDATION

	2015	2016
Budget (million euro)	21,2	20,8
Total staff as at 31 December ³	111	104

Source: data provided by the Foundation.

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 Foundation’s supervisory and control systems. This is supplemented by evidence provided by the work of other auditors and an analysis of management representations.

¹ OJ L 139, 30.5.1975, p. 1.

² More information on the Foundation’s competences and activities is available on its website: www.eurofound.europa.eu.

³ Staff includes officials, temporary and contract staff and seconded national experts.

OPINION

4. We have audited:

- (a) the accounts of the Foundation which comprise the financial statements⁴ and the reports on the implementation of the budget⁵ for the financial year ended 31 December 2016, and
- (b) the legality and regularity of the transactions underlying those accounts,

as required by Article 287 of the Treaty on the Functioning of the European Union (TFEU).

Reliability of the accounts*Opinion on the reliability of the accounts*

5. In our opinion, the accounts of the Foundation for the year ended 31 December 2016 present fairly, in all material respects, the financial position of the Foundation at 31 December 2016, the results of its operations, its cash flows, and the changes in net assets for the year then ended, in accordance with its Financial Regulation and with accounting rules adopted by the Commission's accounting officer. These are based on internationally accepted accounting standards for the public sector.

Legality and regularity of the transactions underlying the accounts**Revenue***Opinion on the legality and regularity of revenue underlying the accounts*

6. In our opinion, revenue underlying the accounts for the year ended 31 December 2016 is legal and regular in all material respects.

⁴ The financial statements comprise the balance sheet, the statement of financial performance, the cashflow statement, the statement of changes in net assets and a summary of significant accounting policies and other explanatory notes.

⁵ The reports on implementation of the budget comprise the reports which aggregate all budgetary operations and the explanatory notes.

Payments*Opinion on the legality and regularity of payments underlying the accounts*

7. In our opinion, payments underlying the accounts for the year ended 31 December 2016 are legal and regular in all material respects.

Responsibilities of management and those charged with governance

8. In accordance with Articles 310 to 325 of the TFEU and the Foundation's Financial Regulation, management is responsible for the preparation and presentation of the accounts on the basis of internationally accepted accounting standards for the public sector and for the legality and regularity of the transactions underlying them. This responsibility includes the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them. The Foundation's management bears the ultimate responsibility for the legality and regularity of the transactions underlying the accounts.

9. In preparing the accounts, management is responsible for assessing the Foundation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

10. Those charged with governance are responsible for overseeing the entity's financial reporting process.

Auditor's responsibilities for the audit of the accounts and underlying transactions

11. Our objectives are to obtain reasonable assurance about whether the accounts of the Foundation are free from material misstatement and the transactions underlying them are legal and regular and to provide, on the basis of our audit, the European Parliament and the Council or other respective discharge authorities with a statement of assurance as to the reliability of the accounts and the legality and regularity of the transactions underlying them. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit will always detect a material misstatement or non-compliance when it exists. These can arise from fraud or error and are considered material if,

individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these accounts.

12. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts and the legality and the regularity of the transactions underlying them. The procedures selected depend 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 requirements of the legal framework of the European Union, whether due to fraud or error. In making those risk assessments, internal controls relevant to the preparation and fair presentation of the accounts and legality and regularity of underlying transactions, is considered in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the accounts.

13. For revenue, we verify the subsidy received from the Commission and assess the Foundation's procedures for collecting fees and other income, if any.

14. For expenditure, we examine payment transactions when expenditure has been incurred, recorded and accepted. Advance payments are examined when the recipient of funds provides justification for their proper use and the Foundation accepts the justification by clearing the advance payment, whether in the same year or later.

15. In preparing this report and Statement of Assurance, we 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 Regulation⁶.

16. The comments which follow do not call the Court's opinion into question.

COMMENTS ON THE LEGALITY AND REGULARITY OF TRANSACTIONS

17. In its Report on the annual accounts for 2014, the Court reported underpayments to staff for the period 2005 to 2014 in relation to the transition to the new EU Staff Regulations

⁶ Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council (OJ L 298, 26.10.2012, p. 1).

in 2005. Although the reasons for the underpayments (2014: non-respect of minimum guaranteed salaries; 2015: wrong multiplication factor on salaries) are different, the Court has again found underpayments (43 350 euro) and some overpayments (168 930 euro), affecting 30 active and previous staff members. Eurofound corrected all underpayments, but will not recover the overpayments (this is in line with Article 85 of the current Staff Regulations). The Foundation should analyse again any possible mistakes in relation to the transition to the 2005 Staff Regulations and carry out a full evaluation of its payroll function.

COMMENTS ON INTERNAL CONTROLS

18. In its audit report dated December 2016, the Commission's Internal Audit Service (IAS) highlighted a need to improve the Foundation's management of projects, mainly in relation to governance arrangements, monitoring and reporting. The Foundation and the IAS agreed on a plan to take corrective action.

COMMENTS ON BUDGETARY MANAGEMENT

19. The level of committed appropriations carried over increased for Title III (operational expenditure) at 2,8 million euro, i.e. 43 % (2015: 2,1 million euro, i.e. 31 %), mainly in relation to projects (studies and pilot schemes) going beyond the year end. The high level of carry-overs is in contradiction with the budgetary principle of annuality. The Foundation may consider introducing differentiated budget appropriations to better reflect the multi annual nature of operations and unavoidable delays between the signature of contracts, deliveries and payments.

OTHER COMMENT

20. The Foundation's founding regulation does not explicitly require external evaluations of its activities. The Commission's proposal for a new Founding Regulation includes the obligation of performing an evaluation every five years.

FOLLOW-UP OF PREVIOUS YEARS' COMMENTS

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

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 12 September 2017.

For the Court of Auditors

Klaus-Heiner LEHNE

President

AnnexFollow-up of previous years' comments

Year	Court's comment	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
2015	The level of committed appropriations carried over to 2016 was high for Title III (operational expenditure) at 2 135 164 euro, i.e. 31,2 % (2014: 3 814 156 euro, i.e. 53,7 %), mainly in relation to multi-annual projects implemented according to schedule.	N/A

THE FOUNDATION'S REPLY

17. A comprehensive internal audit of the payroll function took place in April 2017. Eurofound is currently awaiting the final report and due regard will be given to any recommendations made.

18. Eurofound takes note of the Court's quoting of the latest IAS report. Following previous years' practice with the IAS, Eurofound will implement the agreed action plan in close cooperation and communication with the IAS.

19. As in previous years and with the agreement of the Court, Eurofound distinguishes between planned and unplanned carry-overs. In 2016 the Agency had planned carry-overs of 3,0 million euro (as communicated to the Court) while the actual carry-overs amounted only to 2,8 million euro. The lower-than-planned figure was achieved due to timely project delivery, prompt payments to the contractors in combination with budget reductions in Title III required to balance a shortfall in Title I. While Eurofound still considers the distinction between planned and unplanned carry-overs as useful to better reflect the multi-annual nature of operations, the Foundation is carefully considering introducing differentiated budget appropriations.

20. While Eurofound's Founding Regulation does not require an external evaluation of its activities, each of the four-year work programmes since 2001 have been subject to an external evaluation. The current exercise on the 2013-2016 work programme is in progress.