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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 Centre for Disease Prevention and Control for the financial year 2016 together with the Centre's reply

Delegations will find attached the European Court of Auditors' report on the annual accounts of the European Centre for Disease Prevention and Control for the financial year 2016.

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

Encl.: Report on the annual accounts of the European Centre for Disease Prevention and Control for the financial year 2016 together with the Centre'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 Centre for Disease Prevention and Control
for the financial year 2016

together with the Centre's reply

INTRODUCTION

1. The European Centre for Disease Prevention and Control (ECDC – hereinafter “the Centre”), which is located in Stockholm, was established by Regulation (EC) No 851/2004 of the European Parliament and of the Council¹. The Centre’s main tasks are to collect and disseminate data on the prevention and control of human diseases and to provide scientific opinions on this subject. It is also required to coordinate the European network of bodies operating in this field.

2. **Table 1** presents key figures for the Centre².

TABLE 1: KEY FIGURES FOR THE CENTRE

	2015	2016
Budget (million euro)	58,5	58,2
Total staff as at 31 December ³	260	260

Source: data provided by the Centre.

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 Centre’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 142, 30.4.2004, p. 1.

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

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

OPINION

4. We have audited:

- (a) the accounts of the Centre 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 Centre for the year ended 31 December 2016 present fairly, in all material respects, the financial position of the Centre 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 Centre'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 Centre'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 Centre'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 Centre 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 Centre'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 Centre 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 Centre'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 May 2015, the Centre's Director ad interim was appointed by a Management Board decision. As of 31 December 2016, this posting exceeded the one year maximum period stipulated in the Staff Regulations by eight months. This has also resulted in 15 additional ad interim arrangements for other staff.

⁶ 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

18. In its audit report dated October 2016, the Commission's Internal Audit Service (IAS) highlighted that, while acknowledging the Centre's ongoing efforts to strengthen its internal procurement controls, there are still significant weaknesses in the procurement process. The IAS concluded that the planning and the monitoring of procurements are weak and that procurements are not always covered by the Annual Work Programme or financing decision. Reference is also made to the Court's Report on the annual accounts of the Centre for the financial year 2015 and the reported weaknesses affecting the transparency of procurement procedures. The Centre and IAS agreed on a plan to take corrective action.

COMMENTS ON BUDGETARY MANAGEMENT

19. As in previous years carry-overs of committed appropriations were high for Title III (operating expenditure) at 7,9 million euro, i.e. 41 % (2015: 7,5 million euro, i.e. 42 %). The carry-overs mainly relate to multiannual projects in the areas of scientific advice (2,4 million euro), surveillance (1,3 million euro), public health training (1,4 million euro) and public health IT (2,1 million euro). The Centre 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.

FOLLOW-UP OF PREVIOUS YEARS' COMMENTS

20. 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 19 September 2017.

For the Court of Auditors

Klaus-Heiner LEHNE

President

Follow-up of previous years' comments

Year	Court's comments	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
2015	The Court found various weaknesses affecting the transparency of the audited procurement procedures, such as lack of a clear link with the Centre's annual work programme, insufficient substantiation of the estimated contract value or absence of a financial benchmark (threshold) to assess the tenderer's financial capacity.	Ongoing¹
2015	The overall budget execution rate was at 94 % (99 % in 2014). The decrease is related to the lower weighting factor applied to remunerations in Sweden as of 1 June 2014 and to delays in recruitments which resulted in lower than anticipated staff costs.	N/A
2015	Carry-overs of committed appropriations were high for Title II (administrative expenditure) at 1,6 million euro, i.e. 23 % (2014: 1,5 million euro, i.e. 25 %). These carry-overs mainly relate to the procurement of IT hard- and software (0,8 million euro), as well as, for real estate consultancy services for new premises (0,3 million euro) for which payments are only due in 2016.	N/A
2015	Carry-overs of committed appropriations were high for Title III (operational expenditure) at 7,5 million euro, i.e. 42 % (2014: 8,1 million euro, i.e. 49 %). The carry-overs mainly relate to multi-annual projects (5 million euro) and IT support for operational activities (1,7 million euro) which were provided and paid as planned.	N/A

¹ In 2016 two specific contracts for a total amount of 79 000 euro were signed without a supporting financing decision.

THE CENTRE'S REPLY

18. The Centre wishes to clarify that the Director's acting appointment was done in accordance with the Staff Regulations as well as the Centre's Founding Regulation. The initial recruitment for the post of Director was unsuccessful and, for operational continuity purposes, the acting arrangement was extended beyond the 12 months limit. During this extension, at the request of the Management Board the staff member accepted to forego the financial compensation foreseen in the Staff Regulations while temporarily occupying a post with a higher grade.

19. ECDC has reworked the format of its Financing Decision for procurement in its Work Programme 2017. A standardized procedure has been put in place for internal approval of new procurements, ensuring that any updates to the Financing Decision are approved by ECDC's Management Board prior to the launch of the procedure. ECDC is also following up on the general recommendations of the IAS by reviewing its internal procedures and guidance materials.

20. The Centre will carefully analyse the advantages/disadvantages, in liaison with the Court of Auditors, of introducing differentiated budget appropriations, including the risks of added complexity and additional resources needed.