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## COVER NOTE

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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 GNSS Agency for the financial year 2016 together with the Agency's reply

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Delegations will find attached the European Court of Auditors' report on the annual accounts of the European GNSS Agency for the financial year 2016.

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

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Encl.: Report on the annual accounts of the European GNSS Agency for the financial year 2016 together with the Agency's reply.<sup>1</sup>

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<sup>1</sup> 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 2016  
  
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 2012<sup>1</sup>, was set up by Regulation (EU) No 912/2010 of the European Parliament and the Council<sup>2</sup>, repealing Council Regulation (EC) No 1321/2004<sup>3</sup> 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 Council<sup>4</sup>. The European GNSS Authority set up under Council Regulation (EC) No 1321/2004 officially took over all tasks previously assigned to the GALILEO Joint Undertaking on 1 January 2007 which are continued by the Agency 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 Agency<sup>5</sup>.

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<sup>1</sup> 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).

<sup>2</sup> OJ L 276, 20.10.2010, p. 11.

<sup>3</sup> OJ L 246, 20.7.2004, p. 1.

<sup>4</sup> OJ L 196, 24.7.2008, p. 1.

<sup>5</sup> More information on the Agency's competences and activities is available on its website: [www.gsa.europa.eu](http://www.gsa.europa.eu).

**TABLE 1: KEY FIGURES FOR THE AGENCY**

	<b>2015</b>	<b>2016</b>
Budget (million euro) <sup>6</sup>	363,8	626,4
Total staff as at 31 December <sup>7</sup>	139	160

Source: data provided by the Agency.

### **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.

#### **OPINION**

4. We have audited:

- a) the accounts of the Agency which comprise the financial statements<sup>8</sup> and the reports on the implementation of the budget<sup>9</sup> 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).

<sup>6</sup> Budget figures are based on payment appropriations.

<sup>7</sup> Staff includes officials, temporary and contract staff and seconded national experts.

<sup>8</sup> 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.

<sup>9</sup> The reports on implementation of the budget comprise the reports which aggregate all budgetary operations and the explanatory notes.

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

5. In our opinion, the accounts of the Agency for the year ended 31 December 2016 present fairly, in all material respects, the financial position of the Agency 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.

**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 Agency'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 Agency'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 Agency'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 Agency 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, are 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 Agency'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. This examination covers all categories of payments other than advances at the point they are made. Advance payments are examined when the recipient of funds provides

justification for their proper use and the Agency 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 Agency's accounts as stipulated in Article 208(4) of the EU Financial Regulation<sup>10</sup>.

#### **Other matter**

16. Without calling into question its opinion, the Court draws attention to the fact that the United Kingdom (UK) notified the European Council on 29 March 2017 of its decision to withdraw from the European Union. An agreement setting out the arrangements for its withdrawal will be negotiated. The Agency operates both Galileo Security Monitoring Centre and Galileo ground stations that are located in UK territory. The status of the UK within these frameworks remains to be determined.

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

#### **COMMENTS ON INTERNAL CONTROLS**

18. In its audit report dated November 2016, the European Commission's Internal Audit Service (IAS) concluded that no Agency-wide annual risk assessment exercise was conducted in 2016 and the Agency's significant risks are not included in its planning documents or Activity reports. In addition, the IAS also noted that the terminology used for the various elements of the performance measurement system is not consistent, therefore hampering performance monitoring. The Agency and IAS agreed a plan to take corrective action.

#### **COMMENTS ON BUDGETARY MANAGEMENT**

19. The level of carry-overs for committed appropriations was high for Title II (administrative expenditure) at 2,8 million euro, i.e. 46 % (2015: 2,5 million euro, i.e. 42 %). These carry-overs mainly relate to IT services provided in 2016 for which invoices were not received.

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<sup>10</sup> Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council (OJ L 298, 26.10.2012, p. 1).

### **OTHER COMMENTS**

20. On 15 December 2016 the Agency signed a Framework Contract on the exploitation of the Galileo satellite system during the period 2017 to 2027, amounting to 1,5 billion euro. The contract was awarded following a public procurement procedure. One of the tenderers involved has launched legal proceedings against the Agency at the European Court of Justice, challenging the outcome of the procurement procedure. The ruling of the European Court of Justice will decide on the legality and regularity of the procurement procedure for the framework contract and all related specific contracts and future payments. The first payments are expected to be made in 2017.

### **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 19 September 2017.

*For the Court of Auditors*

Klaus-Heiner LEHNE

*President*



AnnexFollow-up of previous years' comments

Year	Court's comments	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
<b>2014</b>	There is no insurance coverage for fixed tangible assets (net book value 1,0 million euro).	<b>Ongoing</b>
<b>2015</b>	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.	<b>Ongoing</b>
<b>2015</b>	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.	<b>Ongoing</b>
<b>2015</b>	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.	<b>Completed</b>
<b>2015</b>	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.	<b>N/A</b>

Year	Court's comments	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
<b>2015</b>	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.	<b>Ongoing<sup>1</sup></b>
<b>2015</b>	In 2015, the Agency had a high staff turnover with 14 staff members leaving and 26 joining <sup>2</sup> .	<b>Ongoing</b>

<sup>1</sup> The Decision adopting the European GNSS Agency programming document 2017-2020 was taken on 28 March 2017.

<sup>2</sup> Eight staff members left and 24 joined the Agency in 2016.

## THE AGENCY'S REPLY

18. The Agency has implemented the IAS findings with respect to risk management. In particular in Q4 2016 the Agency has finalised a corporate risk management policy and procedure. The Agency undertakes quarterly corporate risk management boards, through which the corporate risk register is reviewed and updated. As a first outcome of this process, the agreed corporate risks are included in Annex VIII of the provisional Single Programming Document 2018-2020 which was decided on by the Administrative Board in January 2017. Concerning the improvement of performance management, the Agency is implementing the IAS findings, in particular through finalisation in Q1 2017 of a performance indicator development and reporting process, and its flow through into the Single Programming Document.

19. It should be noted that the level of cancellations of carry-overs is very low (0.7% over all budget lines in 2016) and the GSA considers this a far better indication of budget management than the level of carry-overs itself which is unavoidably high given the operational nature of the Agency and the invoicing periods for a large number of high-value administrative contracts, thereby representing a large number of planned carry-overs – as opposed to unplanned.

20. The Agency welcomes the decision by ECA to not interfere at this stage with court proceedings referred to on the Court of Justice's publication. The application has been notified to the GSA on 13 July 2017 under reg. number T-99/17 EUTELSAT vs. GSA.