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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 Institute for Gender Equality for the financial year 2016 together with the Institute's reply

Delegations will find attached the European Court of Auditors' report on the annual accounts of the European Institute for Gender Equality for the financial year 2016.

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

Encl.: Report on the annual accounts of the European Institute for Gender Equality for the financial year 2016 together with the Institute'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 Institute for Gender Equality
for the financial year 2016
together with the Institute's reply

INTRODUCTION

1. The European Institute for Gender Equality (hereinafter “the Institute”, aka “EIGE”), which is located in Vilnius, was established by Regulation (EC) No 1922/2006 of the European Parliament and of the Council¹. The Institute’s task is to collect, analyse and disseminate information as regards gender equality and to develop, analyse, evaluate and disseminate methodological tools in order to support the integration of gender equality into all Union policies and the resulting national policies.
2. **Table 1** presents key figures for the Institute².

TABLE 1: KEY FIGURES FOR THE INSTITUTE

	2015	2016
Budget (million euro)	7,9	7,8
Total staff as at 31 December ³	42	45

Source: data provided by the Institute.

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 Institute’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 403, 30.12.2006, p. 9.

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

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

OPINION

4. We have audited:

- (a) the accounts of the Institute 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 Institute for the year ended 31 December 2016 present fairly, in all material respects, the financial position of the Institute 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 Institute'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 Institute'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 Institute'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 Institute 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 Institute'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 Institute 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 Institute'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 BUDGETARY MANAGEMENT

17. The level of committed appropriations carried over remained high for Title III (operational expenditure) at 1,7 million euro, i.e. 51 % (2015: 2,2 million euro, i.e. 60 %),

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

mainly in relation to studies going beyond the year end. The Institute 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.

COMMENTS ON INTERNAL CONTROLS

18. In 2016 the Institute launched an open call for tender for a framework contract on the maintenance and update of its gender statistics tools and resources for a maximum amount of 1,6 million euro. The call was split into two lots without indicating the respective amounts per lot. Following a question from one tenderer, the Institute clarified on its website that the maximum amount per lot was estimated at 800 000 euro. However, two separate framework contracts were signed with the same tenderer for a maximum amount of 1,6 million euro per lot and an option to further increase the amounts by up to 50 % per lot, allowing the Institute to sign specific contracts over the maximum duration of the FWC (four years) for up to 4,8 million euro or three times the amount announced in the contract notice. Furthermore, price competition in the call for tender was based on daily rates only and not also on the time needed to complete the tasks, not allowing to identify and choose the most economically advantageous offers and to ensure best value for money. These weaknesses might have affected competition. Payments made in 2016 amounted to 87 920 euro. In reaction to the audit, the Institute signed amendments to both FWC, reducing the maximum amounts to 800 000 euro each (with a potential increase by maximum 50 %).

19. The invitation to tender under a negotiated procedure with a single tenderer to procure maintenance and support for IT tools and databases capped the maximum price for all three defined outputs at 81 000 euro (excluding VAT), specifying that any offer exceeding this amount would not be considered. Having received a tender for two of the three requested outputs, the Institute signed a service contract for a price of 97 410 euro. Payments made in 2016 amounted to 73 057 euro.

COMMENTS ON SOUND FINANCIAL MANAGEMENT AND ON PERFORMANCE

20. In January 2016, the Institute published its external evaluation. It concluded that the Institute's activities were consistent with its mandate and that its administration scores relatively well in terms of governance and efficiency. However, the evaluation included several recommendations to improve the Institute's operations, for instance by setting clearer priorities, better targeting its outputs, developing synergies with relevant external actors and also by strengthening the role of its Management Board and clarifying the role of the Experts' Forum. The Institute has started to implement an action plan addressing the recommendations.

FOLLOW-UP OF PREVIOUS YEARS' COMMENTS

An overview of the corrective actions 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)
2015	The level of committed appropriations carried over under Title III remained high at 61 % (2014: 54 %). This mainly results from the nature of activities of the Institute which involve procuring studies that span over many months, often beyond year-end.	N/A

THE INSTITUTE'S - REPLY

18. The level of carry-overs in Title III remained at the given level due to significant challenges imposed on the subject five projects, which caused them to be carried forward to 2017. Two of those projects were impacted by the delays in the decision of the Council Presidency (after switch from the UK to EE) and in the long consultations with the Commission. Other projects started later than expected due to late deliveries of previous projects and studies on which the new projects were based, and because unsuccessful candidates challenged the award decision and new evaluations had to be carried out.

EIGE considers the fact that despite all the challenges caused by 'force majeure' factors, that impacted negatively on the implementation of EIGE's budget, EIGE managed to decrease the operational (C1) carry-overs down by more than 9% is a good achievement worth mentioning.

Regarding differentiated appropriations, it is important to note that in the past EIGE was discouraged from introducing this approach because of the annuality principle of the budget, despite that it will carry out a feasibility analysis to develop a solid basis for taking a future decision on introducing or not differentiated appropriations.

19. The Institute takes note of the Court's comment on the matter which was caused by an administrative error due to which the amount specified in the framework contract for each lot was not amended accordingly. The signed framework contracts have no budget implication, both lots have been awarded to the same contractor and the candidates were duly informed during the tendering phase.

EIGE preferred to proceed with the single FWC because of a very small market of specific competition limiting the number of qualified and strong contractors. The solution of a single FWC gave a stronger guarantee of quality and continuity, for this very specific project, which

could be at risk if a cascade approach or reopening of competition under a multiple FWC were chosen.

In order to conform to the principle of sound financial management, EIGE has amended the relevant templates of technical specifications. In the meantime, EIGE will mitigate the risk by putting a maximum number of working days in future requests for specific services.

20. The Institute takes note of the Court's comment. Due to the fact that the tenderer has exclusive rights to the software used by EIGE, an exceptional negotiated procedure with one invitee was chosen. During the negotiation procedure adjustments were made to the original request with additional services foreseen to meet EIGE's increased needs and budget availability and due to the fact that one of the three deliverables initially requested by EIGE could not have been implemented by the tenderer.

21. The Institute takes note of the Court's comment. Some early actions have already been implemented such as the Knowledge Management and Communications Strategy 2016-2018 as adopted by the Management Board on 18 May 2016, the Single Programming Document includes detailed actions on communication and increased uptake monitoring, baselines for measuring output indicators were established in 2016.