

**EUROPEAN COURT
OF AUDITORS**

Luxembourg, 9.11.2011

CH 97/11 APC FINAL

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NOTE

FROM: Mr Eoin O'Shea, Member of the Court

TO: Members of Chamber IV

N° previous document: CH 97/1/11 APC rev.1

Subject: Report on the annual accounts of the European GNSS Agency for the financial year 2010 together with the Agency's replies

PREVIOUS READING(S):

		CHAMBER			COURT		
		First reading	Second reading	Third reading	First reading	Second reading	Third reading
Before contradictory procedure	Date	7.6.2011					
	Ref.	CH 97/11					
After contradictory procedure	Date	27.9.2011	25.10.2011				
	Ref.	CH 97/11 APC	CH 97/1/11 APC rev.1				

READING REQUESTED: Document adopted by the Chamber IV at its meeting on 25 October 2011

- **Date:**
- **Room:**

Visa of Reporting Member (or his/her delegate):

Eoin O'Shea

Visa of Dean of Chamber (or his/her delegate)¹:

Igors Ludboržs

Visa of secretariat of the Court:

¹ Only for adopted CH FINAL documents.

ADDITIONAL INTRODUCTORY NOTE FOR USE WITH DRAFT REPORTS OR OPINIONS

1. OBJECTIVES

Rapport annuel spécifique

2. PRINCIPAL FINDINGS

cf Rapport ci-joint (Synthèse reprenant l'essentiel des constatations d'audit et des conclusions/recommandations de la Cour y relatives)

3. FINANCIAL IMPACT OF FINDINGS

Néant (par rapport à l'importance budgétaire, financière)

4. FOLLOW-UP OF PREVIOUS OBSERVATIONS

5. TIME AND RESOURCES USED FOR THE AUDIT AND REPORT PREPARATION

Annual work programme 2010 : Task 10ADBGSA

Annual work programme 2011 : Task 10ADBGSA

Audit Timetable and Resources used

Planned		Actual	
Start date:	29/11/10	Start date:	06/12/10
Completion date:	27/06/11	Completion date:	26/05/2011

Comments (variation between planned and actual):

Agent/weeks

NAMES (all agents, including A*15/A*14)	Grade	Planned time	Actual Time			
			Total	Office	Institutions	Member States/Third countries
P. HUGE	AD14	0,5	0,5	0,5	0,0	
M. MARDARE	AD9	6,0	6,5	4,5	2,0	
A.SAVIN	AD6	2,5	2,0	1,0	1,0	
K. HUBLE	AD5	2,5	2,0	1,0	1,0	
S. ENDNER	AD5	2,5	3,5	2,5	1,0	
TOTAL		14,0	14,5	9,5	5,0	

Comments (variation between planned and actual):

6. PRINCIPAL SUPPORTING DOCUMENTS

	Audit planning memorandum	Mission reports	Statements of preliminary findings	Replies to Statements of preliminary findings	Other (current files)
Dates, references, etc.	ADB008311EN03-10PP-CH185-10FIN-APM_2010-ADB-OR.doc+xls		PF 3972 of 08/02/11 PF 4258 of 15/06/11	23/03/11 27/07/11	

7. RESPECT OF QUALITY CONTROL PROCEDURES

In my capacity as Chamber Director, I hereby confirm that the work has been performed in accordance with the standards defined in the Court's Audit Manual.

Signed

Date

8. MARKED CHANGES COMPARED WITH DOCUMENT

CH 97/1/11 APC rev.1

9. LIAISON OFFICIAL

(Nominated by the audit division for communication with ADAR and the Translation Service)

M. MARDARE

ЕВРОПЕЙСКА СМЕТНА ПАЛАТА
TRIBUNAL DE CUENTAS EUROPEO
EVROPSKÝ ÚČETNÍ DVŮR
DEN EUROPÆISKE REVISIONSRET
EUROPÄISCHER RECHNUNGSHOF
EUROOPA KONTROLLIKODA
ΕΥΡΩΠΑΪΚΟ ΕΛΕΓΚΤΙΚΟ ΣΥΝΕΔΡΙΟ
EUROPEAN COURT OF AUDITORS
COUR DES COMPTES EUROPÉENNE
CÚIRT INIÚCHÓIRÍ NA HEORPA



CORTE DEI CONTI EUROPEA
EIROPAS REVĪZIJAS PALĀTA
EUROPOS AUDITO RŪMAI

EURÓPAI SZÁMVEVŐSZÉK
IL-QORTI EWROPEA TAL-AWDITURI
EUROPESE REKENKAMER
EUROPEJSKI TRYBUNAŁ OBRACHUNKOWY
TRIBUNAL DE CONTAS EUROPEU
CURTEA DE CONTURI EUROPEANĂ
EURÓPSKY DVOR AUDÍTOROV
EVROPSKO RAČUNSKO SODIŠČE
EUROOPAN TILINTARKASTUSTUOMIOISTUIN
EUROPEISKA REVISIONSRÄTTEN

Report on the annual accounts of
the European GNSS Agency
for the financial year 2010

together with the Agency' replies

INTRODUCTION

1. The European GNSS (Global Navigation Satellite System) Agency (hereinafter "the Agency"), which is located in Brussels, was set up by Council Regulation (EC) No 1321/2004 of 12 July 2004¹ to manage the public interests relating to the European GNSS programmes and to act as the regulatory agency for the programme during the deployment and operational phases of the Galileo Programme. Regulation (EC) No 683/2008 of the European Parliament and the Council of 9 July 2008² reduced the responsibilities of the Agency to the control of the security of Galileo systems and to the preparation of their commercialisation. The Agency was previously known, until 2010, as the European GNSS Supervisory Authority³.

2. The Agency's 2010 adopted budget amounted to 15,9 million euro, compared with 44,4 million euro the previous year. The number of staff employed by the Agency at the end of the year was 42, compared with 35 the previous year.

STATEMENT OF ASSURANCE

3. Pursuant to the provisions of Article 287(1), second subparagraph, of the Treaty on the Functioning of the European Union, the Court has audited the annual accounts⁴ of the Agency, which comprise the "financial statements"⁵

¹ OJ L 246, 20.7.2004, p. 1.

² OJ L 196, 24.7.2008, p. 1.

³ The ***Annex*** summarises the Agency's competences and activities. It is presented for information purposes.

⁴ These accounts are accompanied by a report on the budgetary and financial management during the year which gives *inter alia* an account of the rate of implementation of the appropriations, with summary information on the transfers of appropriations among the various budget items.

⁵ The financial statements include the balance sheet and the economic outturn account, the cash-flow table, the statement of changes in capital and the annex to the financial statements, which includes a description of the main accounting policies and other explanatory information.

and the “reports on the implementation of the budget”⁶ for the financial year ended 31 December 2010, and the legality and regularity of the transactions underlying those accounts.

4. This Statement of Assurance is addressed to the European Parliament and the Council in accordance with Article 185(2) of Council Regulation (EC, Euratom) No 1605/2002⁷.

The Director’s responsibility

5. As authorising officer, the Director implements the revenue and expenditure of the budget in accordance with the financial rules of the Agency, under his own responsibility and within the limits of the authorised appropriations⁸. The Director is responsible for putting in place⁹ the organisational structure and the internal management and control systems and procedures relevant for drawing up final accounts¹⁰ that are free from material misstatement, whether due to fraud or error, and for ensuring that the transactions underlying those accounts are legal and regular.

The Court’s responsibility

6. The Court’s responsibility is to provide, on the basis of its audit, a statement of assurance as to the reliability of the annual accounts of the Agency and the legality and regularity of the transactions underlying them.

⁶ The budget implementation reports comprise the budget outturn account and its annex.

⁷ OJ L 248, 16.9.2002, p. 1.

⁸ Article 33 of Commission Regulation (EC, Euratom) No 2343/2002 (OJ L 357, 31.12.2002, p. 80).

⁹ Article 38 of Regulation (EC, Euratom) No 2343/2002.

¹⁰ The rules concerning the presentation of the accounts and accounting by the Agencies are laid down in Chapter 1 of Title VII of Regulation (EC, Euratom) No 2343/2002 as last amended by Regulation (EC, Euratom) No 652/2008 (OJ L 181, 10.7.2008, p. 23) and are integrated as such in the Financial Regulation of the Agency.

7. The Court conducted its audit in accordance with the IFAC and ISSAI¹¹ International Auditing Standards and Codes of Ethics. Those standards require the Court to comply with ethical requirements and to plan and perform the audit so as to obtain reasonable assurance as to whether the accounts are free of material misstatement and whether the underlying transactions are legal and regular.

8. The Court's audit involves performing procedures to obtain audit evidence of the amounts and disclosures in the accounts and of the legality and regularity of the transactions underlying them. The procedures selected, including its assessment of the risks of material misstatement of the accounts or of illegal or irregular transactions, whether due to fraud or error, depend on its audit judgement. In making those risk assessments, internal controls relevant to the entity's preparation and presentation of accounts are considered in order to design audit procedures that are appropriate in the circumstances. The Court's audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the accounts.

9. The Court believes that the audit evidence obtained is sufficient and appropriate to provide a basis for its qualified opinion on the reliability of the accounts and its opinion on the legality and regularity of the transactions underlying the accounts.

Basis for a qualified opinion on the reliability of the accounts

10. During 2010 the Agency purchased tangible fixed assets¹² related to the Galileo programme¹³ in the amount of 4,4 million euro. These assets are due to

¹¹ International Federation of Accountants (IFAC) and International Standards of Supreme Audit Institutions (ISSAI).

¹² Satellite magnetotorquers, satellite propulsion thrusters, satellite fuel tanks (In Orbit Validation) and ground rubidium atomic clocks (Full Operational Capability).

be transferred by the Agency to the European Commission. These assets have been recorded as research expenditure but should have instead been classified as assets held for transfer. The result of this transaction is an understatement of assets in the amount of 4,4 million euro and an understatement of the economic outturn account by the same amount.

Qualified opinion on the reliability of the accounts

11. In the Court's opinion, except for the effect of the matter described in paragraph 10, the Agency's Annual Accounts¹⁴ fairly present, in all material respects, its financial position as of 31 December 2010 and the results of its operations and its cash flows for the year then ended, in accordance with the provisions of its Financial Regulation.

Opinion on the legality and the regularity of the transactions underlying the accounts

12. In the Court's opinion, the transactions underlying the annual accounts of the Agency for the financial year ended 31 December 2010 are, in all material respects, legal and regular.

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

BUDGETARY AND FINANCIAL MANAGEMENT

14. As regards the Seventh Framework Programme / Galileo / Second Call grant procedures with a budget of 26 million euro, the evaluation process did not clearly distinguish between selection and award criteria. Criteria for assessing the applicants' financial capacity were not defined. Although the

¹³ Regulation (EC) No 683/2008 on the further implementation of European satellite navigation programmes (EGNOS and Galileo)

¹⁴ The Final Annual Accounts were drawn up on 16 September 2011 and received by the Court on 3 October 2011. The Final Annual Accounts, consolidated with those of the Commission, are published in the Official Journal of the European Union by 15 November of the following year. These can be found on the following website <http://eca.europa.eu> or <http://www.gsa.europa.eu>.

status of the applicant determined the maximum reimbursement rate, such status was not verified by the Agency.

15. As regards the Sixth Framework Programme (FP6)/ Third Call, in two grant agreements audited, the cost claims submitted by the beneficiaries were based on standard rates, instead of actual costs. This was not in compliance with the non-profit principle for EU financial contributions.

16. Five audited grants, related mainly to the Sixth Framework Programme, showed delays of between one and three years for their implementation. Successive increases in the initial value of the contracts were noted.

17. Following the entry into force of Regulation (EC) No 683/2008, most of the activities and assets related to the EGNOS and Galileo programmes were transferred to the Commission in December 2009. At 31 December 2010, the status of 2 million euro held by the Agency in respect of technical support from the European Space Agency had still to be determined.

OTHER MATTERS

18. In the staff selection procedures audited, threshold scores were not determined for admission to written tests and interviews or for inclusion in the list of suitable candidates. These practices jeopardised the transparency of the recruitment procedures.

This Report was adopted by Chamber IV, headed by Mr Igors LUDBORŽS, Member of the Court of Auditors, in Luxembourg at its meeting of 25 October 2011.

For the Court of Auditors

Vítor Manuel da SILVA CALDEIRA

President

European GNSS Agency (Brussels)

Competences and activities

Areas of Union competence deriving from the Treaty	<ul style="list-style-type: none"> – Competitiveness for growth and employment.
Competences of the Agency <i>(Regulation (EU) No 912/2010 of the European Parliament and of the Council of 22 September 2010)</i>	<p><u>Objectives</u></p> <ul style="list-style-type: none"> – To manage the public interests relating to the European GNSS programmes. – To be the regulatory agency for the European GNSS programmes <p><u>Tasks</u></p> <p>The Agency shall:</p> <ol style="list-style-type: none"> a. ensure security accreditation and the operation of the Galileo security centre; b. contribute to the preparation of the commercialisation of the systems, including the necessary market analysis; c. accomplish other tasks that may be entrusted to it by the Commission.
Governance	<p><u>1 - Administrative Board</u></p> <p><i>Composition</i></p> <ul style="list-style-type: none"> – one representative per Member State; – one representative from the Commission. <p><i>Tasks</i></p> <ul style="list-style-type: none"> – appoints the Director; – adopts the annual work programme; – adopts the budget; – adopts the annual report on the activities and prospects of the Agency. <p><u>2 - Executive Director</u></p> <p>Appointed by the Administrative Board.</p> <p><u>3 - System Safety and Security Committee</u></p> <p>Composed of one representative per Member State and one representative from the Commission.</p> <p><u>4 - External audit</u></p> <p>Court of Auditors.</p> <p><u>5 - Discharge Authority</u></p> <p>Parliament, acting on a recommendation from the Council.</p>
Resources made available to the Agency in 2010 (2009)	<p>Final Budget:</p> <p>15,9 (44,4) million euro; this consists of the EU subsidy of 8,7 (7,4) million euro, which is the operating subsidy from the Commission, and 7,2 (37) million euro in operational funds from the Commission.</p> <p>Staff as at 31 December 2010 (2009):</p> <p>28 (23) provided for in the establishment plan, of which occupied: 26 (23). + 14 (12) other staff (contract staff, seconded national experts), of which occupied: 14 (12)</p> <p>Total staff foreseen: 42 (35)</p> <p>Total staff in employment as at 31 December 2010: 40 (35), undertaking the following tasks:</p> <p>operational: 18 (14) administrative: 14 (12) mixed: 8 (9)</p>

Products and services in 2010	Programmes <ul style="list-style-type: none">- Support to the European Commission in the implementation of the EGNOS and Galileo programmes. Systems Security <ul style="list-style-type: none">- Galileo and EGNOS Systems Security;- Public Regulated Service (PRS) preparation of the PRS User Segment;- Galileo Security Monitoring Centre;- GNSS Technology Control Regime. Market development <ul style="list-style-type: none">- EGNOS Market Entry;- International activities (Latin America, Israel, China, Africa);- Information and outreach (EGNOS Information Portal, 'Growing Galileo 2009' event). Research and development <ul style="list-style-type: none">- Management of projects under the 6th Framework Programme and the 7th Framework Programme (1st and 2nd calls) for research;- Implementation/update of a web-based knowledge management and dissemination tool.
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Source: Information supplied by the Agency.
