



EUROPEAN
COURT
OF AUDITORS

Report on the annual accounts
of the European Environment Agency
for the financial year 2014

together with the Agency's reply

INTRODUCTION

1. The European Environment Agency (hereinafter “the Agency”, aka “EEA”), which is located in Copenhagen, was established by Council Regulation (EEC) No 1210/90¹. It is responsible for setting up an observation network to provide the Commission, the Parliament, the Member States and, more generally, the public with reliable information on the state of the environment. This information should, in particular, enable the European Union and the Member States to take action to safeguard the environment and assess the effectiveness of such action².

INFORMATION IN SUPPORT OF THE STATEMENT OF ASSURANCE

2. 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.

STATEMENT OF ASSURANCE

3. Pursuant to the provisions of Article 287 of the Treaty on the Functioning of the European Union (TFEU), the Court has audited:
- (a) the annual accounts of the Agency, which comprise the financial statements³ and the reports on the implementation of the budget⁴ for the financial year ended 31 December 2014, and
 - (b) the legality and regularity of the transactions underlying those accounts.

¹ OJ L 120, 11.5.1990, p. 1.

² ***Annex II*** summarises the Agency's competences and activities. It is presented for information purposes.

³ These include the balance sheet and the statement of financial performance, the cash flow table, the statement of changes in net assets and a summary of the significant accounting policies and other explanatory notes.

⁴ These comprise the budgetary outturn account and the annex to the budgetary outturn account.

The management's responsibility

4. The management is responsible for the preparation and fair presentation of the annual accounts of the Agency and the legality and regularity of the underlying transactions⁵:
- (a) The management's responsibilities in respect of the Agency's annual accounts include designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies on the basis of the accounting rules adopted by the Commission's accounting officer⁶; making accounting estimates that are reasonable in the circumstances. The Executive Director approves the annual accounts of the Agency after its accounting officer has prepared them on the basis of all available information and established a note to accompany the accounts in which he declares, inter alia, that he has reasonable assurance that they present a true and fair view of the financial position of the Agency in all material respects.
- (b) The management's responsibilities in respect of the legality and regularity of the underlying transactions and compliance with the principle of sound financial management consist of designing, implementing and maintaining an effective and efficient internal control system comprising adequate supervision and appropriate measures to prevent irregularities and fraud and, if necessary, legal proceedings to recover funds wrongly paid or used.

The auditor's responsibility

5. The Court's responsibility is, on the basis of its audit, to provide the European Parliament and the Council⁷ with a statement of assurance as to the reliability of the annual accounts and the legality and regularity of the underlying transactions. The Court conducts its audit in accordance with the IFAC International Standards on Auditing and Codes of Ethics and the INTOSAI International

⁵ Articles 39 and 50 of Commission Delegated Regulation (EU) No 1271/2013 (OJ L 328, 7.12.2013, p. 42).

⁶ The accounting rules adopted by the Commission's accounting officer are derived from the International Public Sector Accounting Standards (IPSAS) issued by the International Federation of Accountants or, where relevant, the International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

⁷ Article 107 of Regulation (EU) No 1271/2013.

Standards of Supreme Audit Institutions. These standards require the Court to plan and perform the audit to obtain reasonable assurance as to whether the annual accounts of the Agency are free from material misstatement and the transactions underlying them are legal and regular.

6. The audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts and the legality and regularity of the underlying transactions. The procedures selected depend on the auditor's judgement, which is based on an assessment of the risks of material misstatement of the accounts and material non-compliance by the underlying transactions with the requirements in the legal framework of the European Union, whether due to fraud or error. In assessing these risks, the auditor considers any internal controls relevant to the preparation and fair presentation of the accounts, as well as the supervisory and control systems that are implemented to ensure the legality and regularity of underlying transactions, and designs audit procedures that are appropriate in the circumstances. The audit also entails evaluating the appropriateness of accounting policies, the reasonableness of accounting estimates and the overall presentation of the accounts. In preparing this report and Statement of Assurance, the Court 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 Regulation⁸.

7. The Court considers that the audit evidence obtained is sufficient and appropriate to provide a basis for its statement of assurance.

Opinion on the reliability of the accounts

8. In the Court's opinion, the Agency's annual accounts present fairly, in all material respects, its financial position as at 31 December 2014 and the results of its operations and its cash flows for the year then ended, in accordance with the provisions of its Financial Regulation and the accounting rules adopted by the Commission's accounting officer.

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

9. In the Court's opinion, the transactions underlying the annual accounts for the year ended 31 December 2014 are legal and regular in all material respects.

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

⁸ Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council (OJ L 298, 26.10.2012, p. 1).

COMMENTS ON THE LEGALITY AND REGULARITY OF TRANSACTIONS

11. In 2014 the Agency launched a call to procure services to provide IT and Geographic Information Systems (GIS) consultancy services for the implementation of Reference Data Access (RDA) component and for supporting EEA in other Copernicus related activities to the value of 1,7 million euro. An important aspect of the tender referred to as “known shortcomings” was not defined anywhere in the technical specifications. Clearer tender specifications would have contributed to a more effective and competitive procurement procedure.

COMMENTS ON INTERNAL CONTROLS

12. Although the EEA has started to implement a new ex-ante and ex-post control policy for grants, the verification procedures have not yet been documented. However, guidelines have been issued to beneficiaries (European Topic Centres or ETC) on the preparation of cost statements.

13. Weaknesses were nevertheless noted for the grant transactions audited. For one of the ETCs, the verifying officer had identified the inclusion of ineligible expenditure within the cost claim but the authorising officer approved the full amount claimed. In a second case, the full cost claim was paid even though most of the partners selected for ex ante verification had not provided the EEA with the requested documents. Furthermore, the internal auditor was involved in both ex ante and ex post verifications: these are incompatible tasks. It should be noted that the system of ex ante controls has been the subject of discussion between the Court and the Agency since 2012.

OTHER COMMENTS

14. The Agency has contracted backup services, including email services, with a cloud services provider using an interinstitutional contract procured by DIGIT. The conditions of the contract do not adequately define the location of the Agency’s data. The contractor has reserved the right to transfer the Agency’s data outside the geographic area of the European Union without notice, e.g. to address latency issues, routing data may need to be copied to different data centres in different regions. Consequently the Agency has not ensured that

the privileges and immunities of the European Communities, to which it is subject, are guaranteed and that the service provider fully respects the privacy guarantees granted by Article 7 of the EU Charter of Fundamental Rights.

FOLLOW-UP OF PREVIOUS YEARS' COMMENTS

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

This Report was adopted by Chamber IV, headed by Mr Milan Martin CVIKL, Member of the Court of Auditors, in Luxembourg at its meeting of 15 September 2015.

For the Court of Auditors



Vítor Manuel da SILVA CALDEIRA

President

Annex IFollow-up of previous years' comments

Year	Court's comment	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
2012	<p>In 2012 the Agency awarded grants under three major grant programmes¹ to consortia consisting of environmental institutions and bodies in Europe, UN organisations and national environment organisations. Total grant expenditure in 2012 was 11,9 million euro, representing 27 % of the total operating expenditure. The Agency's ex ante verifications before reimbursement of costs claimed by beneficiaries consist of a desk analysis of cost claims. It does not usually obtain from beneficiaries any document to substantiate the eligibility and accuracy of the staff costs claimed, which represent the main part of costs². Ex ante on-the-spot verifications of costs at beneficiary level are rare³.</p>	Ongoing

Year	Court's comment	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
2013	<p>In 2013 the Agency awarded grants under five grant programmes⁴ to consortia consisting of environmental institutions and bodies in Europe, UN organisations and national environment organisations. Total grant expenditure in 2013 was 13,9 million euro, representing 31 % of total operating expenditure. The Agency's ex ante verifications consist of a desk analysis of cost claims. Following the Court's comment of last year, the EEA intensified its checks on the eligibility and accuracy of staff costs claimed under the grant programmes, as these represent the major part of costs. In particular, for a sample of beneficiaries, time sheets were obtained to check the salary costs claimed, but payslips have not been obtained. On-the-spot verifications of costs at beneficiary level are rare.</p> <p>Existing controls therefore provide only limited assurance on the eligibility and accuracy of the costs claimed by beneficiaries. For the transactions audited by the Court supporting documentation was obtained which provided reasonable assurance as to their legality and regularity.</p>	Ongoing
<ol style="list-style-type: none"> 1 European Topic Centers (ETC), European Neighbourhood Partnership Instrument (ENPI) and Global Monitoring for Environment and Security Initial Operations (GIO). 2 For other types of costs (i.e. sub-contracting, acquisition of equipment), supporting documents are requested and analysed. 3 In 2012 and in 2011 one ex ante verification was carried out to check one beneficiary's control systems. In 2010 one ex ante verification had been carried out to check the eligibility of expenditure declared by one beneficiary. 4 European Topic Centres (ETCs), European Neighbourhood Partnership Instrument (ENPI) Global Monitoring for Environment and Security Initial Operations (GIO and GIO2), GMES in-situ coordination (GISC) and Instrument for Pre-Accession Assistance (IPA2). 		

European Environment Agency**(Copenhagen)****Competences and Activities**

<p>Areas of Union competence deriving from the Treaty</p> <p><i>(Article 191 of the Treaty on the Functioning of the European Union)</i></p>	<p>Environment policy</p> <p>Union policy on the environment shall contribute to pursuit of [...] the objectives of preserving, protecting and improving the quality of the environment, protecting human health, prudent and rational utilisation of natural resources, promoting measures at international level to deal with regional or worldwide environmental problems, and in particular combating climate change.</p> <p>Union policy on the environment shall aim at a high level of protection taking into account the diversity of situations in the various regions of the Union. It shall be based on the precautionary principle and on the principles that preventive action should be taken, that environmental damage should as a priority be rectified at source and that the polluter should pay. [...] In preparing its policy [...], the Union shall take account of available scientific and technical data, environmental conditions in the various regions of the Union, the potential benefits and costs of action or lack of action, the economic and social development of the Union as a whole and the balanced development of its regions [...].</p>
<p>Competences of the Agency</p> <p><i>(Council Regulation (EEC) No 1210/1990)</i></p>	<p>Objectives</p> <p>To set up a European environment information and observation network to provide the Union and the Member States with:</p> <ol style="list-style-type: none"> 1. Objective, reliable and comparable information at European level enabling them to: <ol style="list-style-type: none"> (a) take the requisite measures to protect the environment, (b) assess the results of such measures, (c) ensure that the public is properly informed about the state of the environment. 2. The necessary technical and scientific support. <p>Tasks</p> <ul style="list-style-type: none"> – to establish, in cooperation with the Member States, and coordinate the European Environment Information and Observation Network; – to provide the Union and the Member States with the objective information necessary for framing and implementing sound and effective environmental policies; – to assist the monitoring of environmental measures through appropriate support for reporting requirements;

	<ul style="list-style-type: none"> – to advise individual Member States on the development, establishment and expansion of their systems for the monitoring of environmental measures; – to record, collate and assess data on the state of the environment, to report on the quality of and pressures on the environment within the territory of the Union, to provide uniform assessment criteria for environmental data to be applied in all Member States and to develop further and maintain a reference centre of information on the environment; – to help ensure that environmental data at European level are comparable and, if necessary, to encourage by appropriate means improved harmonisation of methods of measurement; – to promote the incorporation of European environmental data into international environment monitoring programmes; – to publish a report on the state of, trends in and prospects for the environment every five years, supplemented by indicator reports focussing upon specific issues; – to stimulate the development of environmental forecasting techniques, exchanges of information on technologies for preventing or reducing damage to the environment, methods of assessing the costs of damage to the environment and the costs of environmental preventive, protection and restoration policies; – to ensure the broad dissemination of reliable and comparable environmental information, in particular on the state of the environment, to the general public and, to this end, to promote use of new telematics technology for this purpose; – to cooperate actively with other Union bodies and programmes and other international bodies and in areas of common interest with those institutions in countries which are not members of the Union, taking account of the need to avoid duplication of effort; – to support the Commission in the process of exchange of information on the development of environmental assessment methodologies and best practice and in the diffusion of information on the results of relevant environmental research and in a form which can best assist policy development.
Governance	<p>Management Board</p> <p><i>Composition</i></p> <p>One representative of each Member State, one of each EEA member country, two representatives of the Commission, and two scientists appointed by the European Parliament.</p> <p><i>Tasks</i></p> <p>To adopt the multiannual and annual work programmes and to ensure their implementation and to adopt the annual report on the Agency's activities.</p> <p>Executive Director</p> <p>Appointed by the Management Board on a proposal from the Commission.</p>

	<p>Scientific Committee</p> <p>Consisting of qualified persons in the field of the environment, designated by the Management Board.</p> <p>External audit</p> <p>European Court of Auditors.</p> <p>Discharge authority</p> <p>European Parliament, acting on a recommendation from the Council.</p>																								
<p>Resources made available to the Agency in 2014 (2013)</p>	<p>Final Budget</p> <p>52,6 (41,7) million euro</p> <p>Union subsidy: 80 % (100 %)</p> <p>Staff as of 31 December 2014</p> <p>Number of posts in the establishment plan: 135 (138)</p> <p>Posts occupied: 130 (132) plus 74 (78) other posts (contract staff and seconded national experts)</p> <p>Total staff numbers: 204 (210)</p> <p>Establishment plan posts assigned to the following tasks:</p> <ul style="list-style-type: none"> - operational 97 (98) - administrative 38 (40) 																								
<p>Products and services in 2014 (2013)</p>	<table border="0"> <tr> <td>Articles</td> <td>14 (48)</td> </tr> <tr> <td>Highlights</td> <td>46 (53)</td> </tr> <tr> <td>Press releases</td> <td>7 (11)</td> </tr> <tr> <td>Data sets</td> <td>54 (29)</td> </tr> <tr> <td>Indicators</td> <td>34 (46)</td> </tr> <tr> <td>Maps, graphs</td> <td>48 (217)</td> </tr> <tr> <td>Brochures, flyers etc.</td> <td>1 (5)</td> </tr> <tr> <td>Corporate docs</td> <td>2 (5)</td> </tr> <tr> <td>Reports</td> <td>10 (13)</td> </tr> <tr> <td>Technical reports</td> <td>17 (21)</td> </tr> <tr> <td>EEA Signals</td> <td>1 (1)</td> </tr> <tr> <td>SOER</td> <td>1 (0)</td> </tr> </table>	Articles	14 (48)	Highlights	46 (53)	Press releases	7 (11)	Data sets	54 (29)	Indicators	34 (46)	Maps, graphs	48 (217)	Brochures, flyers etc.	1 (5)	Corporate docs	2 (5)	Reports	10 (13)	Technical reports	17 (21)	EEA Signals	1 (1)	SOER	1 (0)
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Source: Annex supplied by the Agency.

THE AGENCY'S REPLY

11. According to EEA's understanding the principle of transparency has been respected. The 'known shortcomings' were adequately described in section 6.3.2 of the tender specifications with use of words such as: improvement, correction, adjustment and ensuring consistency. The full tender specifications can be seen on the EEA's website (<http://www.eea.europa.eu/about-us/tenders/eea-mdi-14-005-it>).

12. When implementing the new ex-ante and ex-post verification policy for grants as from May 2014, the EEA prioritized guidelines for beneficiaries on the preparation of cost statements. 'EEA verification guidelines' have been elaborated since and distributed to the resource officers performing the ex-ante verifications on grants and are applicable from the financial year 2016.

13. Following the observation from the ECA, the EEA has initiated the recovery from the beneficiary concerned.

The EEA will ensure a rigorous implementation of ICS No 18 to document any instances of overriding of controls or deviations from established policies and procedure that may occur in the future.

Concerning the second part of this observation, the Agency did not deem it effective to pursue the requested documents given that strong evidence had been obtained from the same partners from past sampling. In addition, the Agency was in dialogue with the Court's auditors at this time on formulating the most appropriate verification policy aimed at ensuring coverage and eligibility.

EEA takes note of the third remark in this observation and will take it into consideration when revising the current ETC verification policy. A formal ex-post verification strategy will be developed ensuring compatibility with the tasks of EEA Internal Audit Capability. The internal auditor will carry out exclusively ex-post controls thus covering both on-the-spot verifications and effectiveness of the EEA ex-ante verification process.

14. Prior to the implementation of a cloud based e-mail service, the EEA carried out a test study and then a risk assessment of the changes entailed involving EEA IT and quality management experts as well as the

European Environment Agency

data protection officer. Following this assessment process, further clarifications and guarantees were requested from the provider in order to ensure compliance with the European Regulation on the protection of personal data. In this respect the provider confirmed that:

- Data centers are guaranteed to be in Europe (Dublin as the primary site and Amsterdam as mirror and back up) and the communication between the EEA and the data centers is encrypted;
- it adheres to the EU data protection Regulation and the EU Safe Harbour framework;
- it will strive to redirect legal enquiries or promptly notify the EEA of any such enquiries, allowing the AIPN to take an informed decision on the required transfer of data, where possible;
- their cloud services are certified under the new ISO 27018/2014 certification and subject to regular audits;
- the security measures in place allow constant and immediate application of updates and greater possibilities to discover, track and resolve potential intrusion.

Consequently, the EEA considers the residual risks identified as acceptable and adequately addressed by the agreed contractual clauses. The EEA will however undertake periodic reviews of the contract implementation with a view to re-assess the risks and adopt appropriate measures and remedial actions if deemed necessary.

Furthermore, the EEA considers that the immunities and privileges protecting its data are not affected by the use of cloud services.

As regards the respect of the right of privacy life and family life as provided for in the Charter of Fundamental Rights of the European Union, the EEA has since updated its policy for e-mail usage with the inclusion of a disclaimer towards staff members concerning the limited personal use of the e-mail system.

EEA reply