

## REPORT

**on the annual accounts of the European Training Foundation for the financial year 2012, together with the Foundation's reply**

(2013/C 365/29)

## INTRODUCTION

1. The European Training Foundation (hereinafter 'the Foundation', aka 'ETF'), which is located in Turin, was established by Council Regulation (EEC) No 1360/90 <sup>(1)</sup> (recast No 1339/2008). The Foundation's task is to support the reform of vocational training in the European Union's partner countries. As such, it assists the Commission in the implementation of various programmes (Phare, Tacis, CARDS and MEDA) <sup>(2)</sup>.

## 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 Foundation's supervisory and control systems. This is supplemented by evidence provided by the work of other auditors (where relevant) 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 Foundation, which comprise the financial statements <sup>(3)</sup> and the reports on the implementation of the budget <sup>(4)</sup> for the financial year ended 31 December 2012, and
- (b) the legality and regularity of the transactions underlying those accounts.

## The management's responsibility

4. In accordance with Articles 33 and 43 of Commission Regulation (EC, Euratom) No 2343/2002 <sup>(5)</sup>, the management is responsible for the preparation and fair

presentation of the annual accounts of the Foundation and the legality and regularity of the underlying transactions:

- (a) The management's responsibilities in respect of the Foundation'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 officer <sup>(6)</sup>; making accounting estimates that are reasonable in the circumstances. The Director approves the annual accounts of the Foundation 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 Foundation 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 Council <sup>(7)</sup> 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 Standards of Supreme Audit Institutions. These standards require the Court to plan and perform the audit to obtain reasonable

<sup>(1)</sup> OJ L 131, 23.5.1990, p. 1.

<sup>(2)</sup> *Annex II* summarises the Foundation's competences and activities. It is presented for information purposes.

<sup>(3)</sup> These include the balance sheet and the economic outturn account, the cash flow table, the statement of changes in net assets and a summary of the significant accounting policies and other explanatory notes.

<sup>(4)</sup> These comprise the budgetary outturn account and the annex to the budgetary outturn account.

<sup>(5)</sup> OJ L 357, 31.12.2002, p. 72.

<sup>(6)</sup> 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.

<sup>(7)</sup> Article 185(2) of Council Regulation (EC, Euratom) No 1605/2002 (OJ L 248, 16.9.2002, p. 1).

assurance as to whether the annual accounts of the Foundation 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.

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 Foundation's annual accounts present fairly, in all material respects, its financial position as at 31 December 2012 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 2012 are legal and regular in all material respects.

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

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

11. In 2012 the overall level of committed appropriations was 99,9 %, indicating that commitments were made in a timely manner. The level of committed appropriations carried over to 2013 however was high for title II (administrative expenditure) at 0,6 million euro (36,8 %). The main reasons were the late receipt of invoices for building-related services delivered in 2012 (0,3 million euro) and a number of IT hardware and software purchases ordered as planned during the last months of 2012 (0,3 million euro) but not delivered until 2013.

#### **FOLLOW-UP OF PREVIOUS YEAR'S COMMENTS**

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

This Report was adopted by Chamber IV, headed by Dr Louis GALEA, Member of the Court of Auditors, in Luxembourg at its meeting of 9 July 2013.

*For the Court of Auditors*

Vitor Manuel da SILVA CALDEIRA

*President*

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## ANNEX I

**Follow-up of previous year's comments**

Year	Court's comment	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
2011	The Foundation has not yet adopted and implemented a treasury policy to minimise and spread financial risk while aiming at adequate returns. The account is kept in a bank which no longer has the minimum rating as indicated by the Commission.	Completed
2011	The Court identified 64 contracts with a total value of 2 million euro which were not countersigned by the Foundation's contractor, creating legal uncertainty.	Completed
2011	Maintenance and essential services such as heating, water and electricity are not ensured for the Foundation's premises since the Consortium responsible for facility management went into liquidation in November 2011. The situation regarding the Foundation's premises is unsatisfactory and puts its activities at risk of disruption.	Completed
2011	The Foundation needs to further improve the transparency of its recruitment procedures. The threshold scores for admission to interviews and written tests were not set in advance and questions for oral and written tests were not set before the applications were examined by the selection boards.	Completed

## ANNEX II

**European Training Foundation (Turin)****Competences and activities**

<p><b>Areas of Union competence deriving from the Treaty</b></p> <p><i>(Article 166(3) of the Treaty on the Functioning of the European Union)</i></p>	<p>The Union and the Member States shall foster cooperation with third countries and the competent international organisations in the sphere of vocational training.</p>
<p><b>Competences of the Foundation</b></p> <p><i>(Council Regulation (EEC) No 1360/90)</i></p>	<p><b>Objective</b></p> <ul style="list-style-type: none"> <li>— To contribute, in the context of EU external relations policies, to improving human capital development in the following countries: the countries eligible for support under Council Regulation (EC) No 1085/2006 and Regulation No 1638/2006 of the European Parliament and of the Council and subsequent related legal acts; other countries designated by decision of the Governing Board on the basis of a proposal supported by two-thirds of its members and a Commission opinion, and covered by a Union instrument or international agreement that includes an element of human capital development, and as far as available resources allow.</li> <li>— For the purpose of this Regulation, ‘human capital development’ shall be defined as work which contributes to the lifelong development of individuals’ skills and competences through the improvement of vocational education and training systems.</li> </ul> <p><b>Tasks</b></p> <p>For the purpose of achieving the objective, the Foundation, within the limits of the powers conferred on the Governing Board and following the general guidelines established at Union level, shall have the following functions:</p> <ul style="list-style-type: none"> <li>— to provide information, policy analyses and advice on human capital development issues in the partner countries;</li> <li>— to promote knowledge and analysis of skills needs in national and local labour markets;</li> <li>— to support relevant stakeholders in partner countries in building capacity in human capital development;</li> <li>— to facilitate the exchange of information and experience among donors engaged in human capital development reform in partner countries;</li> <li>— to support the delivery of Union assistance to partner countries in the field of human capital development;</li> <li>— to disseminate information and encourage networking and the exchange of experience and good practice between the EU and partner countries and amongst partner countries in human capital development issues;</li> <li>— to contribute, at the Commission’s request, to the analysis of the overall effectiveness of training assistance to the partner countries;</li> <li>— to undertake such other tasks as may be agreed between the Governing Board and the Commission, within the general framework of this Regulation.</li> </ul>
<p><b>Governance</b></p>	<p><b>Governing Board</b></p> <p>One representative of each Member State.</p> <p>Three representatives of the Commission.</p>

	<p>Three non-voting experts appointed by the European Parliament.</p> <p>In addition, three representatives of the partner countries may attend meetings of the Governing Board as observers.</p> <p><b>Director</b></p> <p>Appointed by the Governing Board on a proposal from the Commission.</p> <p><b>External audit</b></p> <p>European Court of Auditors.</p> <p><b>Internal audit</b></p> <p>European Commission's Internal Audit Service (IAS).</p> <p><b>Discharge authority</b></p> <p>European Parliament acting on a recommendation from the Council.</p>
<p><b>Resources made available to the Foundation in 2012 (2011)</b></p>	<p><b>Budget</b></p> <p>20,1 (20,3) million euro for commitments and 20,1 (19,8) million euro for payments, of which 19,3 million euro funded by a Commission subsidy.</p> <p><b>Staff at 31 December 2012</b></p> <p>96 (96) temporary posts in the establishment plan, of which 93 (90) posts occupied.</p> <p>37 (35) other staff (local staff, contract staff, seconded national experts)</p> <p>Total staff: 130 (125), assigned to the following duties:</p> <ul style="list-style-type: none"> <li>— operational tasks: 73 (70)</li> <li>— administrative tasks: 28 (28)</li> <li>— corporate coordination and communication tasks: 29 (27)</li> </ul>
<p><b>Products and services supplied during the financial year 2012 (2011)</b></p>	<p><b>Activities</b></p> <p>The Foundation contributes, in the context of the EU external relations policies, to improving human capital development (HCD) in 30 Partner Countries designated by its regulation and the Governing Board. The main activities are supporting EU policies and projects, providing policy analyses, disseminating and exchanging information and experience and supporting partner-country capacity building.</p> <p>The Foundation's added value comes from its neutral, non-commercial and unique established knowledge base consisting of expertise in human capital development and its links to employment. This includes expertise in adapting the approaches to human capital development in the EU and its Member States to the context of the partner countries.</p> <p>The Torino Process, implemented in 2012 in 27 ETF partner countries, is a participatory, evidence-based analysis of vocational education and training (VET) policies and systems. It was carried out for the first time in 2010. A crucial feature of the second edition of the Torino Process in 2012 has been the inclusion of the issue of governance in the analytical framework and the organisation of the regional policy-learning conferences that enabled stakeholders to share cross- countries experience on policy developments. Two Corporate conferences were organised in 2012 – one in May on the topic of Multi-level Governance in the field of Vocational Education and Training and another one in November on the topic of Entrepreneurship.</p>

It also worked on its main functions, as defined in the Council Regulation, as follows:

	Outputs completed in	
	2012	2011
Supporting the EU policies and project cycle of external relations instruments for the partner countries	36	30
Capacity building of partner countries	66	72
Policy analysis	31	22
Dissemination and networking	28	24
<b>Total</b>	<b>161</b>	<b>148</b>

Outputs measure the accomplishment of the results of a project, and put the budget in relation to the Foundation's functions and results.

In addition to these functions carried out in the context of its work programme, the Foundation also responded to direct requests from the European Commission throughout the year.

	2012	2011
Ongoing Commission requests	107	100
Requests addressed to Western Balkan countries and Turkey	42 %	44 %
Requests addressed to Southern Eastern Mediterranean countries	32 %	45 %
Requests addressed to Eastern European countries	12 %	
Requests addressed to Central Asian countries	14 %	10 %

Source: Information supplied by the Foundation.

**THE FOUNDATION'S REPLY**

11. Of the 0,59 million euros in commitments carried forward under title II, some 0,3 million euros related to activities completed in 2012 but paid only in 2013 owing to invoicing and payment processing times. The amount of carry-forward relating to activities to be implemented and paid in 2013 was limited to 0,29 million euros or 18 % of the total committed under title II. ETF will continue to pay great attention to the principle of annuality of the budget while ensuring sound management of the financial resources entrusted to it.

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