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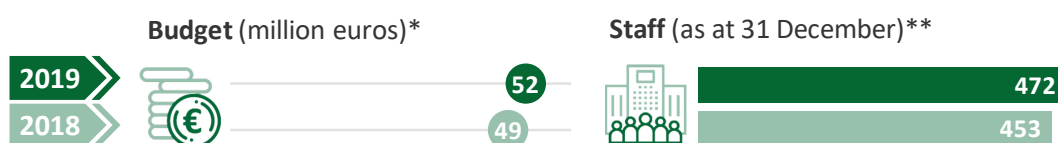
**Report on the annual accounts of the  
Executive Agency  
for Small and Medium-sized Enterprises  
(EASME)  
for the financial year 2019,  
together with the Agency's reply**

# Introduction

**01** The Executive Agency for Small and Medium-sized Enterprises (“the Agency”, or “EASME”) is located in Brussels. The Agency was established for the period 1 January 2014 to 31 December 2024 by Commission Implementing Decision 2013/771/EU<sup>1</sup>. It works closely with seven Commission Directorates-General to coordinate EU action relating to SMEs in the fields of research and innovation, competitiveness, environment and climate action, and maritime affairs and fisheries.

**02** *Graph 1* presents key figures for the Agency<sup>2</sup>.

## Graph 1: Key figures for the Agency



\* Budget figures are based on the total payment appropriations available during the financial year.

\*\* “Staff” includes EU officials, EU temporary agents, EU contract staff and seconded national experts, but excludes interim workers and consultants.

Source: Consolidated annual accounts of the European Union for the financial year 2018 and Provisional consolidated annual accounts of the European Union Financial year 2019; Staff figures provided by the Agency.

## Information in support of the statement of assurance

**03** 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 information provided by the Agency’s management.

<sup>1</sup> OJ L 341, 18.12.2013, p. 73.

<sup>2</sup> More information on the Agency’s competences and activities is available on its website: [www.ec.europa.eu/easme/](http://www.ec.europa.eu/easme/).

## The Court's statement of assurance provided to the European Parliament and the Council – Independent auditor's report

### Opinion

**04** We have audited:

- (a) the accounts of the Agency 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 2019 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

**05** In our opinion, the accounts of the Agency for the year ended 31 December 2019 present fairly, in all material respects, the financial position of the Agency at 31 December 2019, 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.

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<sup>3</sup> The financial statements comprise the balance sheet, the statement of financial performance, the cash flow statement, the statement of changes in net assets and a summary of significant accounting policies and other explanatory notes.

<sup>4</sup> The reports on implementation of the budget comprise the reports which aggregate all budgetary operations and the explanatory notes.

## Legality and regularity of the transactions underlying the accounts

### Revenue

#### Opinion on the legality and regularity of revenue underlying the accounts

**06** In our opinion, revenue underlying the accounts for the year ended 31 December 2019 is legal and regular in all material respects.

### Payments

#### Opinion on the legality and regularity of payments underlying the accounts

**07** In our opinion, payments underlying the accounts for the year ended 31 December 2019 are legal and regular in all material respects.

## Basis for opinions

**08** We conducted our audit in accordance with the IFAC International Standards on Auditing (ISAs) and Codes of Ethics and the INTOSAI International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the 'Auditor's responsibilities' section of our report. We are independent, in accordance with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA Code) and with the ethical requirements that are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Responsibilities of management and those charged with governance

**09** In accordance with Articles 310 to 325 of the TFEU and the Agency's Financial Regulation, the Agency's management is responsible for preparing and presenting the Agency's 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 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. The Agency's management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements comply with the official requirements which govern those statements. The Agency's management bears the ultimate responsibility for the legality and regularity of the transactions underlying the Agency's accounts.

**10** In preparing the accounts, the Agency's management is responsible for assessing the Agency's ability to continue as a going concern. It must disclose, as applicable, any matters affecting the Agency's status as a going concern and use the going concern basis of accounting, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

**11** Those charged with governance are responsible for overseeing the Agency's financial reporting process.

### **The auditor's responsibilities for the audit of the accounts and underlying transactions**

**12** 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 the other respective discharge authorities with statements of assurance as to the reliability of the Agency's 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.

**13** For revenue, we verify subsidies received from the Commission or cooperating countries 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 (including those made for the purchase of assets) 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 accordance with the ISAs and ISSAIs, we exercise our professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess 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, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement or non-compliance resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the overriding of internal controls.
- Obtain an understanding of internal controls relevant to the audit 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 the internal controls.
- Evaluate the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Agency's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause an entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the accounts, including the disclosures, and whether the accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Agency to express an opinion on the accounts and transactions underlying them. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit. From the matters on which we communicated with the Agency, we determine those

matters that were of most significance in the audit of the accounts of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**16** The observations which follow do not call the Court's opinion into question.

### **Observation on the legality and regularity transactions**

**17** EASME had signed a contract for the provision of logistics support services for a fixed price of 40 000 euros. The contract's validity began on the date the contract was signed. But the contract was not dated. The corresponding budgetary commitment was not authorised until three and a half months after the legal commitment had been registered in ARES, the EU's document management system. This contravenes the Financial Regulation. The payment made under this contract in 2019, to the value of 10 435 euros, is therefore irregular. Furthermore, this instance of non-compliance was not recorded in the register of exceptions, and it was not followed up by EASME.

Four further such cases also occurred, under similar circumstances. Descriptions of these further errors had indeed been recorded in the register of exceptions. This raises specific concerns about the risk of irregularities in the management of EASME's commitments.

**18** In one recruitment procedure, a member of the selection board had recused themselves because of a conflict of interest with one candidate. Another member was nominated to take their place. But that new member was not formally appointed to the panel until after the recruitment procedure had ended. This means that the selection procedure was run by a panel which was not properly constituted according to the rules in force – a serious formal error. Furthermore, the new member had not signed any declaration of confidentiality and absence of conflict of interest, even though they were required to do so under the Staff Regulations. This opened the Agency to the risk that potential conflicts of interest may have remained undetected.

## Observations on budgetary management

**19** The Agency carried over 4,5 million euros of commitment appropriations from 2019 to 2020 across all budget titles (3,5 million euros from 2018 to 2019). The rate of carry-over was especially high for Title III (programme support expenditure): it reached 57 % or 1,6 million euros, compared to 60 % in 2018 or 1,6 million euros). This increases the risk of a high cancellation rate, as in previous years.

We found the following issues in the carry-overs:

- The Agency carried over 145 533 euros for training activities under Title I without having any signed legal commitment making this necessary.
- In December 2019, the Agency signed a contract for organising its staff away day, planned for March 2020. This contract, to the value of 105 355 euros, was made using budget appropriations for 2019. The Agency should properly have used appropriations for 2020 for this purpose.
- Under Title II, the Agency purchased new laptops for 64 772 euros and other IT hardware for 129 304 euros. The order form was signed late in December 2019. At that time of the year, the anticipated budget of 2020 was available in order to cover such needs under Title I and Title II. The use of the 2019 budget was therefore not justified.

These examples suggest that the Agency is making an effort to report a budgetary implementation rate of as close as possible to 100 %. This could also be indicative of the Agency front-loading commitments which in fact relate to activities from the following year. The high cancellation rate of previous years also implies that budgetary needs for the current year were overestimated. This contradicts the budgetary principal of annuality. To resolve it, the Agency should further improve its budget planning and its implementation cycles.

## Follow-up of previous years' observations

**20** An overview of the action taken in response to the Court's observations from previous years is provided in the **Annex**.



This Report was adopted by Chamber IV, headed by Mr Alex Brenninkmeijer, Member of the Court of Auditors, in Luxembourg on 22 September 2020.

*For the Court of Auditors*

A handwritten signature in black ink, appearing to read 'K-H Le', written in a cursive style.

Klaus-Heiner Lehne

*President*

## Annex - Follow-up of previous years' observations

Year	Court's observations	Action taken to respond to Court's observations (Completed / Ongoing / Outstanding / N/A)
2018	The cancellation rate of budget appropriations was high. The Agency should carry over budget appropriations only when this is duly justified.	N/A
2018	The Agency does not have a sensitive post policy to identify sensitive functions, keep them up to date and define appropriate measures to mitigate the risk of vested interests. The Agency should adopt and implement such a policy.	Completed

## The Agency's reply

**17.** The Agency agrees that the budgetary commitment was authorised after the legal commitment, which should have been included in the exceptions and non-compliance register.

Although checklists and instructions are existing, the Agency will strengthen the awareness and communication for the involved services about the applicable procedure, the verifications steps and the obligation to sign the budgetary commitment before the legal commitment. Further awareness will be raised and additional trainings will be organised to ensure that exceptions and non-compliance events will be systematically registered.

**18.** The replacement of a selection panel member by another member, for one particular interview with one candidate, was agreed by the other panel selection members and by senior HR management. The other member was selected in such a manner to avoid a potential conflict of interest. Although this was handled and communicated in a transparent manner within the selection panel, the Agency agrees that these steps should have been formally documented.

In this respect, the Agency has implemented in the summer of 2019 a checklist to ensure all steps of the recruitment procedures are followed and documented in a uniform manner by each HR representative.

**19.** The absolute amount carried-over from 2019 to 2020 has indeed increased compared to the previous year (from 3,5 million euros to 4,5 million euros). However, the percentage of the budget carried-over from one year to the other remained relatively stable (from 8% in 2019 to 9% in 2020) while the total budget amount of 2019 increased by 11% compared to 2018.

As regards the contract for the staff Away Day and the purchase of IT material, the related offers were already agreed before the 2020 anticipated budget was available and were therefore foreseen to be committed on the 2019 budget.

The Agency will further reinforce the budget monitoring to ensure that the provisional commitments are fully de-committed at the end of the year and will continue to raise awareness to improve the budgetary principle of annuality.

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