



EUROPEAN  
COURT  
OF AUDITORS

# **Report on the annual accounts of the European GNSS (Global Navigation Satellite System) Agency (GSA) for the financial year 2019,**

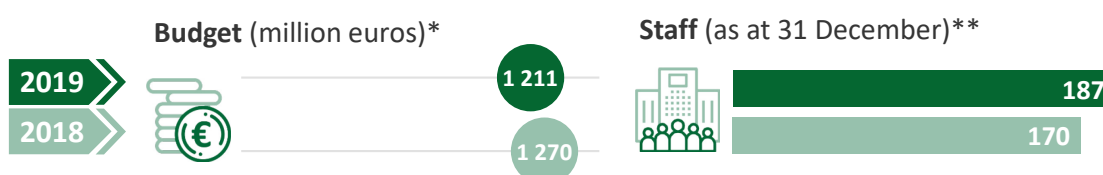
together with the Agency's reply

# Introduction

**01** The European GNSS (Global Navigation Satellite System) Agency (“the Agency”, or “the GSA”), whose headquarters are in Prague, took over all tasks previously assigned to the GALILEO Joint Undertaking on 1 January 2007. These activities are now managed by the GSA within the scope of Regulation (EU) No 912/2010 of the European Parliament and of the Council<sup>1</sup>, as amended. The Commission has also entrusted the management of the European Geostationary Navigation Overlay Service (EGNOS) to the GSA through a delegation agreement.

**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 276, 20.10.2010, p. 11.

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

## 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, the 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, 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.
- Considered the audit work of the independent external auditor performed on the Agency's accounts as stipulated in Article 70(6) of the EU Financial Regulation, where applicable.

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.

### Observations on internal control

**17** The GSA has signed working arrangements with the European Space Agency (ESA) on the implementation of the EGNOS and GALILEO programmes. The working arrangements are valid until the end of 2021. The working arrangements consist of specific individual contracts for the various stages and options of the programmes. These contracts have various amendments dealing with monetary value and deliverables. The progress payments due to the ESA are usually calculated on the basis of the costs reported by the ESA as incurred for the period concerned in its quarterly implementation reports. They also include a part of the short-term future financing needs based on the schedule of the Working Arrangements, minus the amount already paid for the specific contracts. We found that there is no comprehensive ex-ante or ex-post strategy in place to confirm the accuracy of these stated incurred costs. This means that there is a risk that the GSA's payments to the ESA may be calculated on the basis of inaccurate costs. This risk could have a potential impact on the GSA's accounts, and we consider that the GSA has not taken sufficient steps to mitigate it.

**18** In 2019, the GSA paid 55,5 million euros under the EGNOS working arrangement and 223,7 million euros under the GALILEO working arrangement.

**19** The GSA is experiencing delays in the implementation of its new internal control framework and in the approval of its business continuity plan. The internal control framework was due to be approved in 2019, and the business continuity plan, which has been the subject of follow-up enquiries by the Court of Auditors since 2015, has been approved only on 15 May 2020. The size, complexity and financial volume of the GSA's operations makes it necessary for an updated internal control system to be put

in place. Recent events such as the COVID-19 pandemic underline the importance of having a formalised, up-to-date business continuity plan in place. Both issues constitute major internal weaknesses in the GSA's procedures.

## 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)
2014	There is no insurance coverage for fixed tangible assets.	Ongoing
2015	There is no business continuity plan in place for the Agency's headquarters in Prague, or for the Agency in its entirety.	Completed (May 2020)
2017	The Agency publishes vacancy notices on its own website and on social media, but not on the website of the European Personnel Selection Office (EPSO).	Completed
2017	E-procurement: By the end of 2019, the Agency was not yet using any of the e-procurement IT tools developed by the Commission.	Outstanding
2018	Legal proceedings had been lodged against the Agency at the European Court of Justice, challenging the outcome of the procurement procedure for a framework contract on the implementation of the Galileo satellite system during the period from 2017 to 2027, amounting to 1,5 billion euros.	Completed <i>(Proceedings discontinued and case removed from the register of the General Court.)</i>

# The Agency's reply

**17.** The GSA-ESA Working Arrangements are a fundamental part of the EGNOS and Galileo governance established by the GNSS Regulation, reflecting the specificities of ESA and setting the controls the Agency can exercise. The GSA performs the following ex-ante controls: on each ESA progress payment request an analysis of the amounts requested against the respective payment plans and Payment Milestone Achievement Certificates (PMACs) is carried out.

It is further noted that:

- the amount of pre-financing has been agreed under the Working Arrangements and constitutes an obligation of the GSA, which does not depend on ex ante checks;

For the ex-post controls, the GSA plans to carry out ex-post audits examining the correctness of the ESA Working Arrangement cost claims. In particular the GSA intends to perform such controls once self-consistent packages of industrial activities and associated deliverables are available so that a full reconciliation of costs and activities performed can be undertaken. The GSA plans to do this per specific contract on EGNOS and Galileo, with the first phase expanding from 2020 until 2023.

**19.** The GSA intends to finalise its Internal Control Framework in 2020. The GSA notes that completing its ICF now is particularly timely since significant changes in the operational perimeter are foreseen for the GSA by the new EU Space Regulation which will define the GSA activities, its risk profile and subsequently its required control framework when it comes into force, planned on 1 January 2021.

The GSA would like to note that it has been able to fully implement what is needed to successfully confront the recent COVID-19 crisis. This has necessitated the development of ad-hoc procedures and work instructions, tailored to the specific conditions of this crisis. It should also be noted that during this unprecedented crisis situation the GSA ICT systems have performed very well and have provided a secure working environment for teleworking with full support for online collaboration without relying on external ad-hoc services.

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