ADDENDUM TO THE NOTE

from: Europol

to: Article 36 Committee

Subject: Audit report and discharge for the period of 1 January 2007 - 31 December 2007
- Decision of the Europol Management Board
- Comments on the annual report of the Joint Audit Committee (JAC) for the financial year 2007
- Opinion of the Europol Financial Controller
- The draft conclusions of the 20th ordinary meeting of the Financial Committee on 10 November 2008

Delegations please find in annex the above-mentioned supporting documents regarding the discharge for 2007.
EUROPOL
Management Board

DECISION OF THE MANAGEMENT BOARD
of 3 December 2008
on a recommendation to the Council concerning discharge to be given to the Director in respect of the implementation of the 2007 budget

THE MANAGEMENT BOARD OF EUROPOL,

Having regard to Article 36(3) of the Convention on the establishment of a European Police Office, and Article 55(2) of the Financial Regulation applicable to the budget of Europol,
Having regard to the 2007 financial statements,
Having regard to the Joint Audit Committee’s report of 21 October 2008 on the 2007 accounts,
Having regard to the opinions of the Director and the Financial Controller on the audit report,
Having regard to the opinion of the Financial Committee,

HAS DECIDED AS FOLLOWS:

The Management Board recommends to the Council to give discharge to the Europol Director for the implementation of the 2007 budget.

Done in Paris (France), on 3 December 2008

Bernard Petit
Chairman

1 OJ C 316, 27.11.1995, p. 1
2 OJ C 312, 29.10.1999, p. 1
3 File no. 2270-103r2
4 File no. 2270-106r3
5 Opinion dated 23 October 2008
6 File no. 5151-20081110CO
EUROPOL

The Hague, 10 October 2008
File no: 2270-106r3

Comments on the Annual Report of the
Joint Audit Committee of Europol
for the financial year 2007

I. Budget implementation and treasury management

1. This way of reporting is both consistent compared to previous years and provides the main stakeholders, i.e. the Member States, with a clear view of what has lapsed and will be deducted from the contributions t+2.

2. See point 4 below.

3. See point 4 below.

4. As stated by the JAC, Europol is aiming for improvements by only calling-up part of the full budget (commencing in 2008) and carries out an extensive full-year forecasting exercise in the middle of the budget year upon which to base the rest amount to be called-up in order to reduce the amounts held on bank accounts.

The suggested ex-post assessment of the interest earned and the closely monitoring of the interest earnings is part of the treasury management as developed by Europol. These tasks are planned to commence in 2008 by a new staff member recruited for this purpose.
II. Gains from trade-ins

5. Europol agrees that procedures are put in place to ensure that the gains related to trade-ins are applied and accounted for systematically in the future and amended its accounts for 2007 accordingly. Europol appreciates the JAC’s recommendation on how to deal with these trade-ins within its financial system as detailed in the annex to the covering letter enclosing the preliminary report addressed to Europol’s Head of Finance, Mr Vermeulen, dated 16 September.

III. Procurement procedures

6. There is room for better planning in the field of Procurement. Therefore, in this respect, Europol recognises the JAC’s concerns. However the exemptions did not contradict Europol’s current rules. Indeed in a majority of cases there was only one possible supplier (Article 41.2(d)) of the Financial Regulation.

IV. Effectiveness of information systems

9. Europol provided the JAC with first quantitative performance indicators. As Europol is in the middle of the deployment phase it is too early to implement qualitative performance indicators. This can only be done when the full transformation is done and all users are fully converted towards the changes brought.

The quantitative indicators already showed an improvement which exceeded the expectations. As an example, with the upload of all available AWF information it became apparent that there is an increase in average of factor 5 of available information in the AWFs.
The process of structuring unstructured information in such a way that it can be used for analysis is reduced to 10% in time of what it used to be. This process represented the bulk of the workload in the previous situation. The time gain in the processing of the information is applicable on 76% of AWF information since 76% is unstructured. It is only 8% which is provided in structured format, the remaining information is multi-media files such as pictures, videos, etc. More results will become available when qualitative indicators are implemented.

V. The Establishment of Europol as a European Agency

15. As in the past, Europol has made an annual assessment of the Europol Unemployment Fund. The assessment 2008 has not taken into account the impact of the change over to the new Staff Regulations as the related details were not available yet. However, once these details are known, Europol will make a new assessment.

VI. Follow-up on observations made in 2006

16. The interim solution based on spreadsheets is now operational. As part of the implementation of accrual-based accounting (ABAC), Europol will look for the best approach regarding its future financial information system, included the contract database.

18. An agreement on the principles of the demarcation of costs was reached in the Management Board meeting of 11 and 12 July 2007. Further details will need to be worked out in the course of 2008-2009 as part of a separate agreement on the future housing of the organisation between Europol and the Host State.

20. Europol is maintaining its comments of the previous years.
To: The Members of the Management Board
    The Joint Audit Committee of Europol

From: The Financial Controller

Subject: Audit Report 2007 from the Joint Audit Committee

Dear Members of the Management Board,
Dear Members of the Joint Audit Committee,

In accordance with Article 55 of the Europol Financial Regulation I would like to comment as follows on the Audit Report of the Joint Audit Committee of Europol (JAC) for the financial year 2007, dated on 21 October 2008.

In general, I would like to note that the content of the Audit Report 2007 complies with my observations as Financial Controller.

In addition, I would like to make the following specific comments, for which I will follow the order of the content of the audit report.

1) Budget implementation and treasury management

   Paragraph 1:

   In order to further clarify, in particular the wording “may” in the last sentence of this paragraph; I would like to note that such improvement will depend on the extent to which the “unpaid” commitments automatically carried over to 2008, will result in actual payment in that year. This will be known per 31 December 2008.
Paragraph 3:

I share the observation of the JAC that Europol should continue striving for further improvements in budgetary planning and accuracy, in particular in view of Europol’s transition to its new Legal Framework, which will imply Community financing and consequently accrual based accounting.

Paragraph 4:

This paragraph refers to Europol’s proposal, presented to the Management Board at their meeting in July 2008, for a second call up of the contributions of the Member States as foreseen in the budget 2008, to a total amount of € 7,817,000. The Management Board unanimously agreed with Europol’s proposal. As a result, together with the first call up of € 41,332,167, the contributions of the Member States to the budget 2008 amount to € 49,149,167. Europol expects to achieve an implementation rate of the budget 2008 of just over 97%, by which there would be a reducing effect on Europol’s cash assets.

During the aforementioned meeting I expressed my doubts on a number of assumptions made by Europol on which it based its proposal for the second call up of € 7,817,000. In particular, I expressed the view that the forecast of expenditure on

Title 2 (salary and salary related expenditure) of the budget 2008 was based on an ambitious recruitment plan that would lead to 4 vacancies per 31 December 2008. I considered that such plan is not realistic and might lead to an under-spend.

III) Procurement procedures

Paragraph 6:

I share the view of the JAC that procurements need to be carefully monitored. Not only as they affect a substantial part of Europol’s budget, but also in view of the transition of Europol to its new Legal Framework as well as Europol’s move to its new Headquarters in 2010. Procurement is and will be affected by these major changes.
In addition, I would like to note that I also share the view that there is room for better planning in the field of Procurement. Such better planning, for instance by means of an appropriate contracts database, would avoid situations that occurred in 2007, where tender procedures could not be finalised in time by which, as a necessity, contracts in place had to be extended beyond their final expiry date. Exemptions, based on Article 41 (2d) of the Europol Financial Regulation, had to be granted in order not to endanger business continuity. However, it can be questioned whether the usage of this Article is in compliance with its meaning.

IV) Effectiveness of information systems

Paragraph 7

I fully agree with the text which regards the Europol Information System. In addition I would like to note that it would be a misunderstanding that only the volume of data would affect the effectiveness of this system. In my view the quality of such data is of at least equal importance.

Paragraph 9:

I fully share the recommendation of the JAC to develop performance indicators to assess and monitor the effectiveness of OASIS on an ongoing basis.

V) The establishment of Europol as a European Agency

Paragraph 15:

I share the view of the JAC that Europol should consider the possibility to increase the frequency of assessments of the Unemployment Fund, which are currently conducted on a yearly basis.
Europol’s transition to its new legal framework will, in particular, also make high demands on the extent to which the Unemployment Fund can fulfil its liabilities, in specific towards staff that will serve an “old” Europol contract after the Europol Council Decision will become applicable. To ensure that the Unemployment Fund continues fulfilling its liabilities, I would consider an assessment each semester as appropriate.

VI) Follow-up on observations made in 2006

Paragraph 16:

Indeed, the current contracts database is still based on a spreadsheet solution, which I also consider as very vulnerable and thus as a potential risk for the organisation. I therefore share the recommendation of the JAC to replace the current solution as soon as possible by a more sustainable one.

Aat van der Meer 23 October 2008
Draft Conclusions of the 20th ordinary meeting of the Financial Committee on 10 November 2008

2. Adoption of Draft Agenda
   The draft agenda was adopted without comments.

3. Draft Minutes of the 19th ordinary meeting of the Financial Committee on 26-27 February 2008
   The draft minutes from the 19th ordinary meeting of the Financial Committee held on 26-27 February 2008 were adopted without comments.

4. State of affairs concerning the action plan to improve the financial administration of Europol
   The main points of concern were:
   • The lack of Disaster Recovery and Business Continuity plans
   • The lack of a proper contract database (risks on information held on spreadsheets)
   Europol informed the Committee on measures taken so far and that the matters were all being looked into seriously.
5. **Discharge 2007**

The report of the Joint Audit Committee and Europol’s financial statements were presented and commented upon as follows:

- Europol should strive towards expenditure-based (rather than commitment based) budgeting as this would in any case be required once under the new legal framework of the European Commission.
- Regarding the current credit crisis, Europol informed the Committee about its action taken to safeguard as much as possible the capital held on its bank accounts.

The Committee provided its positive advice to the Management Board on the discharge 2007 to the Director of Europol.

6. **Implementation of the 2008 Budget**

The Financial Committee was informed that due to the late tabling of the retroactive salary increase at the European Council, there might be the possibility that Europol requests a non-automatic carry over of budget to ensure the 2009 budget does not fall short. The Financial Controller supported this. Europol was asked to ensure that before 14 November 2008, it provided the Management Board with a list of any such requests and any contracts to be concluded in 2008 above the € 150K threshold from which the Management Board was required to unanimously authorise.

The Committee took note of the implementation of the 2008 budget and provided its positive advice to the Management Board regarding the supplementary budgets.

7. **Mission Allowances 2009**

Europol presented its proposal to apply the same allowances as those used by the European Commission to better prepare for the transition.

Positive advice was given by the Financial Committee to the Management Board on the mission allowances 2009 as presented by Europol and supported by the Financial Controller.

a. **Planning process for the 2010 budget, work programme and staff policy plan**

Europol presented the planning of the Budget, Work Programme and Staff Policy Plan 2010 to the Committee who took note.

b. **Draft Europol Financial Regulation and list of deviations**

Following Europol’s presentation of its briefing note on this subject and subsequent questions from the delegations answered, the Financial Committee endorsed the proposed deviations to the Framework Regulation and gave its positive advice to the Management Board to adopt the Draft Financial Regulation including the deviations.

c. **Structure of the 2010 budget**

Europol highlighted the importance of the distinction between the administrative budget in title 2 and the operational budget of title 3 and that if it was not justified in a financing decision, no expenditure on the operational budget would be allowed. As the Financial Regulation considered the Work Programme as a financing decision, it made that element more crucial than ever for budget implementation and it should cover all operational activities of Europol.

The Committee took note of the new structure.

d. **Internal audit function**

The Financial Controller gave a general introduction to the new internal audit function as from 2010 and informed the Committee that the difference with the function within Europol and that within other agencies was that the staff employed for the function would be recruited by and directly responsible to the Management Board rather than the Director (one of deviations mentioned under point b. above). That did not mean however that the Director would not be consulted before reporting to the Management Board.
The Committee took note of the information provided and was invited to address any suggestions/pending issues to the next ad-hoc Management Board meeting.

e. **Dissolution of the JSB Appeals Fund**

Europol’s proposal, supported by the JSB, for the abolition of the JSB Appeals Fund was given positive advice by the Financial Committee to the Management Board. This would be done via a written procedure.

f. **Transitional measures for the Europol Unemployment Fund**

Europol explained the situation in relation to the Unemployment Fund and the possible risk that the fund would not be able to finance claims up to the expected year of 2016 due to the decrease in contributions and increase in claims. The proposal to place a specific budget line from 2010 in case the fund be insufficient was agreed by the Committee and the Financial Controller. This advice would be presented to the Management Board via a written procedure.

g. **Transitional measures for the Europol Pension Fund**

Due to the complexity of the matter, there were concerns in the Committee about the level of expertise required to deal with the matter both from the Financial and Personnel Expert side. Europol informed the Committee that the document presented (File no. DMS#339141-v10) had been discussed at length during the last meeting of Management Board of the Europol Pension Fund where it had been decided to hold an extraordinary meeting (2nd half of January 2009) to prepare for the Council decision and suggested to extend the meeting to the delegation of Personnel Experts and Financial Committee and also to invite the European Commission and other experts (eg actuary) in order that an informed decision could be made. The Committee agreed with this approach and therefore the document would be re-worded for the Management Board meeting in December 2008.
9. **Conclusions/Any Other Business**

No items were raised under this item.