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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND
THE COUNCIL**

**under Article 213 of Regulation (EU, Euratom) N° 966/2012 on the Accounting Officer
and Internal Auditor of the European External Action Service (EEAS)**

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A. INTRODUCTION

The European External Action Service (EEAS) has been established in 2010, by the Council decision 2010/427 pursuant article 27 (3) of the Treaty on the European Union. The 2010/427 decision provides in recital 15 that "unnecessary duplication of tasks, functions and resources with other structures should be avoided". Against this background, the accounting officer and the internal auditor of the Commission have acted, respectively, as accounting officer and internal auditor of the EEAS. The legal bases for this arrangement are Articles 68(1) and 98(2) of the Financial Regulation.

The Financial Regulation, in its Article 213, provides for a review of these two Articles in 2013, which shall take "*due account of the specificity of the EEAS and, in particular, that of the Union Delegations, and, where appropriate, an adequate financial management capacity of the EEAS.*"

The Commission has assessed the functioning of the system under which the accounting officer and the internal auditor of the Commission act, respectively, as accounting officer and internal auditor of the EEAS. The report at hand, on which the EEAS has been consulted, presents the results of this assessment with the conclusion of continuing the current arrangements.

The review referred to in Article 213 of the Financial Regulation is independent of the review of the decision establishing the EEAS¹: the latter review is foreseen in Article 13(3) of the decision establishing the EEAS and concerns the organisation and functioning of the EEAS; it is carried out under the authority of the High Representative/ Vice-President in 2013 and may, if necessary, be accompanied by appropriate proposals for the revision of the decision establishing the EEAS.

B. RESULT OF THE REVIEW UNDER ARTICLE 213 FR

I. Accounting officer

As foreseen in Article 68(1) FR, the accounting officer of the Commission has carried out a range of accounting services for the EEAS. These services include:

- Treasury (central treasury and payment run, central bank accounts reconciliation, administrative management of imprest accounts services, validation of 'Third Party Files' and bank accounts, management of the early warning system),
- The accounting framework and system,
- Accounting and legal reporting,
- Recovery of debts and management of the offsetting procedure,
- Quality checks on all local accounting systems.

The cooperation between the Commission and the EEAS is very good. Both the EEAS and the competent services in DG BUDG are very satisfied with the current arrangements.

¹ Council Decision of 26 July 2010 establishing the organisation and functioning of the European External Action Service.

Economies of scales are particularly significant in the area of treasury management, accounting and reporting. The services of the accounting officer of the Commission have a unique expertise covering all these aspects and in particular the treasury function. These include:

- The administrative management of imprest accounts;
- The comprehensive banking architecture needed to deal with the payment operations of the Institutions, and the related expertise that is also employed to support local banking and payment needs of the 140 EU delegations around the world; and
- Optimised cash and risk management, and robust business continuity procedures.

Thanks to the current arrangements the EEAS does not need to hire additional staff. In Commission's DG Budget currently 3 posts are directly dedicated to fulfilling the new accounting and treasury tasks linked to the EEAS, while a conservative estimate of the number of staff needed if the EEAS were to set up its own accounting and treasury function would be at least 15 persons.

Moreover, apart the direct treasury and accounting functions, other horizontal activities in the field of finance and budgetary support (such as the development and support of the Financial IT systems, recovery services, central financial service, etc...), whose resources have not been split at the creation of the EEAS, are currently provided by the Commission's services on the basis of a service Level Agreement signed with the EEAS.

This supplementary support is considered of high quality and permits supplementary economy of scale in resources in respect to the resources potentially needed in case of complete internalisation in the EEAS.

Furthermore, the accounting officer of the Commission establishes the annual accounts and deals with the Court of Auditors relating to several other institutions. The accounting services of Commission have established efficient procedures and good working relationships with the Court of Auditors that the EEAS benefits from.

In summary, to set-up a stand-alone accounting department in the EEAS would unnecessarily increase the number of staff employed in the two entities since each of the key tasks above would require multiple new posts in the EEAS, while they have been already absorbed with minimum extra resources by the Commission.

In the view of the Commission, the cooperation should therefore be continued. No changes to the current arrangements are deemed necessary.

II. Internal auditor

As foreseen in Article 98(2) FR, the internal auditor of the Commission has been acting as internal auditor of the EEAS.

The following arguments speak in favour of continuing such arrangement.

EU-delegations manage both administrative appropriations of the EEAS and operational appropriations from the Commission budget. In principle, EEAS personnel only manage administrative appropriations of the EEAS, whereas Commission personnel only manage the operational appropriations.

However, there are exceptions to this principle: the Head of Delegation, who belongs to the EEAS, is authorising officer by sub-delegation regarding the operational appropriations from the Commission budget (Article 65(6) FR). The Commission personnel support the EEAS in managing its administrative budget, mainly through acting as initiating agents. The consequence of these exceptions

is that the two financial circuits commonly used by Commission and EEAS staff are closely interrelated.

Because of this situation, there is a risk that separate audits of the two financial circuits and internal control systems, carried by different internal auditors could lead to overlapping findings or diverging recommendations. The latter could impair the credibility of the audit work and would also confront the responsible Authorising Officers and the Head of Delegations with the difficulty of having to choose between two opinions on the same subject, which would limit the value of the audit work.

Integrating internal audits would also allow for a deeper understanding of the problems encountered in both financial circuits. It would also help transferring knowledge gained from the audit of one circuit to the other and exploring and realising synergies between them.

There may be arguments pleading in favour of a separate internal auditor for the EEAS, such as the fact that if the internal auditor acts for both the Commission and the EEAS, situations may arise for the internal auditor in which the legitimate expectations of either institution as service recipient might not be met. Given the existing rules and safeguards, in particular the internal auditor's independence, this risk is, however, adequately mitigated.

In the view of the Commission, the cooperation should therefore be continued, with no changes to the current arrangements.

C. CONCLUSION

This report shows that the system under which the accounting officer and the internal auditor of the Commission have acted, respectively, as accounting officer and internal auditor of the EEAS, has functioned effectively while allowing significant economies of scale. It should therefore be maintained in the future.

The Commission will keep the European Parliament and the Council informed about any significant developments regarding the functioning of this system in the context of the synthesis report.