



EUROPEAN  
COURT  
OF AUDITORS

Report on the annual accounts  
of the Executive Agency for Small and Medium-sized Enterprises  
for the financial year 2014  
together with the Agency's reply

## **INTRODUCTION**

1. The Executive Agency for Small and Medium-sized Enterprises (hereinafter “the Agency”, aka “EASME”), which is located in Brussels, replaced and succeeded the Executive Agency for Competitiveness and Innovation (EACI) and was established for the period 1 January 2014 to 31 December 2024 by Commission Implementing Decision 2013/771/EU<sup>1</sup>, repealing Commission Decision 2007/372/EC<sup>2</sup>. Its considerably extended mandate is to manage, in close cooperation with seven Directorates General of the Commission, EU actions in the fields of research and innovation, competitiveness of SMEs, environment and climate action, maritime and fisheries and also as in the past parts of the Competitiveness and Innovation Programme 2007-2013.

## **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 Agency’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 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 2014, and

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

<sup>2</sup> OJ L 140, 1.6.2007, p. 52.

<sup>3</sup> These include the balance sheet and the statement of financial performance, 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.

- (b) the legality and regularity of the transactions underlying those accounts.

***The management's responsibility***

4. The management is responsible for the preparation and fair presentation of the annual accounts of the Agency and the legality and regularity of the underlying transactions<sup>5</sup>:
- (a) The management's responsibilities in respect of the Agency'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 Agency 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 Agency 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

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<sup>5</sup> Articles 62 and 68 in conjunction with Articles 53 and 58 of Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council (OJ L 298, 26.10.2012, p. 1).

<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 162 of Regulation (EU, Euratom) No 966/2012.

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 assurance as to whether the annual accounts of the Agency 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 Agency's annual accounts present fairly, in all material respects, its financial position as at 31 December 2014 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 2014 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. The extent to which budget appropriations carried over from 2013 were cancelled in 2014 (260 209 euro, i.e. 20 % of carry-overs (19 % in 2013)) demonstrates an overestimation of budgetary needs at the end of 2013, as was the case in the previous year.

12. Although the Agency's initial budget was amended and reduced in September 2014 by 3 million euro, only 91 % of the reduced budget appropriations were committed by the Agency. This low implementation rate is mainly explained by organisational and operational challenges linked to the extended mandate of the Agency for the implementation of additional programmes and tasks in close cooperation with the Commission. Nonetheless, the significant under-consumption of the budget shows the need to improve the Agency's budget planning.

13. This is also reflected in the high and increased level of committed appropriations carried over to 2015, amounting to 3,8 million euro, i.e. 17 % (2013: 1,3 million euro, i.e. 8 %), mainly related to title III (Programme Support Expenditure) with 2,6 million euro, i.e. 72 % (2013: 0,6 million euro, i.e. 35 %) which is at odds with the budgetary principle of annuality.

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

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

This Report was adopted by Chamber IV, headed by Mr Milan Martin CVIKL, Member of the Court of Auditors, in Luxembourg at its meeting of 8 September 2015.

*For the Court of Auditors*

Vítor Manuel da SILVA CALDEIRA

*President*

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

<b>Year</b>	<b>Court's comment</b>	<b>Status of corrective action (Completed / Ongoing / Outstanding / N/A)</b>
<b>2013</b>	Although budget implementation rates for 2013 were satisfactory, the extent to which appropriations carried over from 2012 were cancelled in 2013 (215 000 euro, or 19 % of carry-overs) indicates weaknesses in the Agency's budget planning and is at odds with the budgetary principle of annuality. These cancellations are mainly related to provisional commitments made for routine administrative expenditure.	<b>Outstanding</b>

**Executive Agency for Small and Medium-sized Enterprises****(Brussels)****Competences and activities**

<b>Areas of Union competence deriving from the Treaty on the Functioning of the European Union (TFEU)</b>	<p>1. The Union policy on the environment shall contribute to preserving, protecting and improving the quality of the environment; protecting human health; prudent and rational utilisation of natural resources; promoting measures at international level to deal with regional or worldwide environmental problems, and in particular combating climate change.</p> <p>(Article 191 TFEU)</p> <p>2. The Union policy on industry shall ensure that the conditions necessary for the competitiveness of the Union's industry exist by speeding up the adjustment of industry to structural changes, encouraging an environment favourable to initiative and to the development of and cooperation between undertakings, fostering better exploitation of the industrial potential of policies of innovation, research and technological development. The Member States shall consult each other in liaison with the Commission and, where necessary, shall coordinate their action. The Commission may take any useful initiative to promote such coordination, in particular initiatives aiming at the establishment of guidelines and indicators, the organisation of exchange of best practice, and the preparation of the necessary elements for periodic monitoring and evaluation. The European Parliament shall be kept fully informed.</p> <p>(Article 173 TFEU)</p> <p>3. Union policy on energy shall aim to ensure the functioning of the energy market; ensure security of energy supply in the Union; promote energy efficiency and energy saving and the development of new and renewable forms of energy; promote the interconnection of energy networks.</p> <p>(Article 194(1) TFEU)</p> <p>4. The Union shall have the objective of strengthening its scientific and technological bases by achieving a European research area in which researchers, scientific knowledge and technology circulate freely, and encouraging it to become more competitive, including in its industry. [...]. For this purpose the Union shall [...] encourage undertakings, including small and medium-sized undertakings, research centres and universities in their research and technological development activities of high quality; it shall support their efforts to cooperate with one another, aiming, notably, at permitting researchers to cooperate freely across borders and at enabling undertakings to exploit the internal market potential to the full, in particular through [...] the definition of common standards and the removal of legal and</p>
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	<p>fiscal obstacles to that cooperation. [...]</p> <p>In pursuing these objectives, the Union shall carry out the following activities, complementing the activities carried out in the Member States: (a) implementation of research, technological development and demonstration programmes, by promoting cooperation with and between undertakings, research centres and universities, (b) promotion of cooperation in the field of Union research, technological development and demonstration with third countries and international organisations, (c) dissemination and optimisation of the results of activities in Union research, technological development and demonstration, (d) stimulation of the training and mobility of researchers in the Union.</p> <p>(Article 179 and 180 TFEU)</p> <p>5. The European Parliament and the Council, acting in accordance with the ordinary legislative procedure and after consulting the Economic and Social Committee, shall establish [...] the other provisions necessary for the pursuit of the objectives of the [...] the common fisheries policy. (Article 43(2) TFEU).</p>
<p><b>Competences of the Agency</b></p> <p><i>(as defined in Commission Implementing Decision (2013/771/EU)</i></p>	<p><b>Objectives</b></p> <p>The Agency is responsible for the management of Union actions in the fields of SME support, energy, environment, maritime and fisheries, entrepreneurship and innovation (including eco-innovation). It is entrusted with the implementation of parts of the following Union programmes:</p> <ul style="list-style-type: none"> <li>(a) Programme for the Competitiveness of Enterprises and small and medium-sized enterprises (COSME) 2014-2020</li> <li>(b) Programme for the Environment and Climate Action (LIFE) 2014-2020</li> <li>(c) European Maritime and Fisheries Fund (EMFF) including the Integrated Maritime Policy (IMP), Control and Scientific Advice and Knowledge;</li> <li>(d) The Framework Programme for Research and Innovation 2014-2020 (Horizon 2020) - parts of 'Part II – Industrial Leadership' and 'Part III Societal challenges'.</li> </ul> <p>In addition, the Agency is entrusted with the implementation of the legacy of the following actions under the CIP: (a) the Intelligent Energy Europe (IEE II), (b) the 'Eco-innovation initiative', (c) the 'Enterprise Europe Network', (d) the 'Your Europe Business Portal', (e) the 'European IPR Helpdesk', (f) the 'IPorta Project'.</p> <p><b>The Agency strives to provide <i>'high quality support to our beneficiaries, turning EU policy into action. As an executive agency of the European Commission, we manage significant parts of COSME, LIFE, Horizon 2020 and EMFF. We ensure that actions funded by these programmes deliver results and provide the Commission with valuable input for its policy tasks'</i>.</b></p> <p><b>Tasks</b></p> <p>The Agency shall be responsible for the following tasks related to the implementation of the parts of the Union programmes referred to above:</p> <ul style="list-style-type: none"> <li>(a) managing some or all stages of programme implementation and some or all phases in the lifetime of specific projects on the basis of the relevant work programmes adopted by the Commission, where the</li> </ul>



	<p>Commission has empowered it to do so in the instrument of delegation;</p> <p>(b) adopting the instruments of budget execution for revenue and expenditure and carrying out all the operations necessary for the management of the programme, where the Commission has empowered it to do so in the instrument of delegation;</p> <p>(c) providing support in programme implementation where the Commission has empowered it to do so in the instrument of delegation.</p>
<p><b>Governance</b></p>	<p><b>Steering Committee</b></p> <p>Comprises five members and three observers appointed by the European Commission. It adopts the Agency's annual work programme after approval by the European Commission. In addition, it adopts the administrative budget of the Agency and its annual activity report.</p> <p><b>Director</b></p> <p>Appointed by the European Commission.</p> <p><b>External audit</b></p> <p>European Court of Auditors.</p> <p><b>Discharge authority</b></p> <p>European Parliament, acting on a recommendation by the Council.</p>
<p><b>Resources made available to the Agency in 2014 (2013)</b></p>	<p><b>Budget</b></p> <p><i>Operational budget</i></p> <p>The 1 056,5<sup>1</sup> (242,9) million euro planned (of which 100 % came from the general budget of the EU) were committed and 123,11<sup>2</sup> (213,9) million euro was paid of the appropriations (98,98 %) voted by the Budget Authority. The EASME implements the operational budget under the responsibility of the Commission:</p> <ul style="list-style-type: none"> <li>- for COSME 95,0 million euro,</li> <li>- for H2020 695,7 million euro,</li> <li>- for EMFF 34,6 million euro,</li> <li>- for LIFE 229,9 million euro,</li> <li>- for IEE 1,3 (91,9) million euro,</li> <li>- for EIP-Eco-innovation 0 (33,1) million euro,</li> <li>- for EIP-Networks 0 (51,2) million euro,</li> <li>- for MP 0 (66,8) million euro.</li> </ul> <p><i>Administrative budget</i></p> <p>24,5 (16,4) million euro (100 % EU subsidy) for the administrative budget, for which the EASME is independently responsible.</p> <p><b>Staff at 31 December 2014</b></p> <ul style="list-style-type: none"> <li>- Total staff: 308 posts planned, of which 283 occupied (163 posts planned,</li> </ul>

	<p><i>161 occupied),</i></p> <ul style="list-style-type: none"> <li>- TA posts: 77 planned, of which 61 occupied (<i>37 planned, 35 occupied</i>),</li> <li>- Contract staff: 231 posts planned, of which 222 occupied (<i>126 planned, 126 occupied</i>).</li> </ul>
<p><b>Products and services 2014</b></p>	<p>The year 2014 was the first year of the new mandate for the Agency which differs considerable from the previous mandates. The new portfolio includes the legacy programmes EIP and IEE and also the new programmes H2020, COSME, LIFE and EMFF. EASME is responsible for the management of Union actions in the fields of SME support, energy, environment, maritime and fisheries, entrepreneurship and innovation (including eco-innovation), under the following Union programmes.</p> <p>New programmes</p> <ul style="list-style-type: none"> <li>• Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME)</li> <li>• Programme for Research and Innovation (Horizon 2020) in the following fields: energy, environment and resources</li> <li>• Programme for the Environment and Climate Action (LIFE)</li> <li>• European Maritime and Fisheries Fund (EMFF)</li> </ul> <p>Legacy programmes</p> <ul style="list-style-type: none"> <li>• The following parts of the Competitiveness and Innovation Framework programme: Intelligent Energy Europe (IEE) and Eco-innovation programmes.</li> </ul> <p><b>COSME</b> – the Programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (SMEs) is associated with strengthening the competitiveness and sustainability of the Union’s enterprises and targeted towards encouraging an entrepreneurial culture to promote the creation and growth of SMEs.</p> <p><i>Key activities</i></p> <ul style="list-style-type: none"> <li>• COSME was one of the new programmes delegated to the EASME in 2014.</li> <li>• Communication and dissemination activities are at the core of the COSME activities. As an example, EASME organised in collaboration with the Turin Chamber of Commerce (partner of the network) an annual conference which attracted more than 700 participants and, as a result of the 2 000 informal and formal business meetings, 192 potential business opportunities were identified.</li> </ul> <p><b>Horizon 2020</b> - the EU’s funding programme for research and innovation aims to stimulate the economy and secure the science and technology base and industrial competitiveness for the future, contributing towards a smarter, more sustainable and more inclusive society. It promises more breakthroughs, discoveries and world-firsts by taking great ideas from the lab to the market.</p> <p><b>Innovation in SMEs</b></p> <p><i>Key activities</i></p>

- In 2014 EASME published four calls for proposals under H2020 Innovation "Innovation in SMEs" and two other calls "Capitalising the full potential of on-line collaboration" and "Cluster facilitated projects for new industrial chains" with deadlines in March and April in 2015.

### **SME instrument**

#### *Key activities*

- Launch of the new SME instrument, which is a continuously open call, was a great success as the Agency received more than 8 000 applications for four cut-off dates. The selected business ideas aim to introduce new products, processes and services.
- The programme provides for coaching for the beneficiaries. The coaching mission was defined and the methodology starter kits were produced. The Key Account Managers help SME instrument beneficiaries to define their coaching priorities and propose one or more coaches for them. By the end of the year, 39 SMEs had defined their needs and chosen their coaches and the Agency had contracted 21 coaches.

The Agency contributes to the specific objective of "Making the transition to a reliable, affordable, publicly accepted, sustainable and competitive energy system, aiming at reducing fossil fuel dependency in the face of increasingly scarce resources, increasing energy needs and climate change" in **Societal Challenge 3 "Secure, clean and efficient energy"**.

#### *Key activities*

- Two out of three topics related to the contractual Public Private Partnership (PPP) on Energy Efficient Buildings. The third related to PPP on Process Industry (SPIRE). The Agency received 63 proposals, of which 19 were recommended for funding.
- 15 topics were opened in the area of Research and Innovation Actions as well as in Coordination and Support Actions. The Agency received 393 proposals, of which 45 were selected.
- The results of the first Energy Efficiency call showed that the support for innovation, from research to retail, in the energy efficiency area is promising.
- In October, the Agency presented its Public Private Partnership funding topics at an Information Day on PPPs organised by DG RTD.
- In December, EASME organised a large Info Day in Brussels to present the 2015 H2020 Energy Efficiency call, which was attended by more than 550 participants.
- The Agency staff also participated in the meetings between the European Commission and the industrial stakeholders regarding the future priorities of the Energy Efficiency Building and SPIRE contractual PPPs.

The Agency contributes to DG RTD's and DG GROW's common specific objectives: to achieve a resource - and water - efficient and climate change resilient economy and society, the protection and sustainable management of

natural resources and ecosystems, and a sustainable supply and use of raw materials, in order to meet the needs of a growing global population within the sustainable limits of the planet's natural resources and eco-systems in **Societal Challenge 5 "Climate action, environment and resource efficiency and raw materials.**

*Key activities*

- In 2014 the Agency was responsible for the implementation of the H2020 calls under Societal Challenge 5 except those that have high policy relevance or which are implemented by other bodies.
- The Agency managed and participated in several calls, such as the call on Energy Efficiency, Disaster Resilience and Blue Growth.
- In November the Agency organised an Information Day on 2015 calls for Horizon 2020 Climate Action, Environment, Resource Efficiency and Raw Materials. The purpose of this event was to present the 2015 calls to potential applicants and to provide guidance on the preparation and submission of proposals.

The Agency manages the programme for the **Environment and Climate Action (LIFE)** which provides support for reaching specific objectives related to environment policy and climate action at Union and international level.

*Key activities*

- The Agency managed the following calls for proposals launched by DG ENV/CLIMA: the call for LIFE NGO operating grants, with a total budget of 9 million euro, for which the Agency received 66 proposals.
- The call for Capacity Building projects is an open call that will close in September 2015, for which 15 Member States are eligible.
- The Agency evaluated more than 250 proposals under different strands, such as Climate Action (190 applications) and NGO operating grant (66 proposals)
- The Agency participated actively in the LIFE Info Day for National Contact Points and organised two Info Days for NGO operating grants.

The Agency implemented parts of the **European Maritime and Fisheries Fund (EMFF)**, which aimed to contribute to promoting competitive, environmentally sustainable, economically viable and socially responsible fisheries and aquaculture and to enhancing the development and implementation of the EU Integrated Maritime Policy (IMP).

*Key activities*

- The implementation of parts of the European Maritime and Fisheries Fund (EMFF) was delegated to the Agency in October 2014. DG MARE decided to delegate 19 EMFF actions.
- The first EMFF action was effectively transferred to the Agency in December. In cooperation with DG MARE, the Agency prepared the evaluation of four calls for tender and one call for proposals.

**Intelligent Energy Europe (IEE)**

*Key activities*

The Intelligent Energy – Europe Programme (IEE) supports the European Union’s energy policy and its ambitious "20-20-20" commitment, i.e. reducing greenhouse gas emissions by 20 %, increasing the share of renewables in energy consumption to 20 %, and reducing energy use by 20 %, all by 2020.

- In 2014 the IEE budget implemented by the Agency was fully executed (67 million euro). In addition, the average time required to assess IEE project reports and to pay beneficiaries was less than the contractual obligations.
- The Intelligent Energy Europe programme delivered tangible benefits for the EU’s energy policy. The analysis of the IEE programme's impact showed that since 2007 the IEE projects had reached out through the media to more than 40 million people across the EU, had delivered an amount of renewable energy which was equivalent to more than the annual electricity consumption of 7 million citizens, had saved an amount of primary energy which was equivalent to the annual electricity use of more than 2 million households, and were expected to trigger more than 3 billion euro of sustainable energy investments.
- The Agency communicated the programme results at various events. For example in June 2014, the Agency, in collaboration with DG ENER, organised another edition of EUSEW, the EU's premier event for public authorities, energy agencies, private companies, NGOs and industry associations engaged in helping to meet the EU's energy and climate goals. The week included an award ceremony, a high level political conference and 600 events with around 100 000 participants across the EU and in many countries worldwide.
- Several events organised under the *Managenergy* initiative took place, in particular during the Open Days. In addition, Agency staff attended more than 100 project meetings .

### **Eco-innovation**

#### *Key activities*

One of the key objectives of the Entrepreneurship and Innovation Programme (EIP) is to support eco-innovation. Eco-innovation projects focus on cleaner production, environmental management and new products and services to make sustainable development become a business reality.

In 2014 efforts were concentrated on:

- Completion of the Eco-Innovation call of 2013 which resulted in 461 submitted proposals. Following the evaluations, 59 proposals were selected for funding. Based on the available budget, 42 grant agreements were signed.
- Communication with the parent DGs and other stakeholders was ongoing throughout the year. In addition, some meetings took place where the Agency was actively participating in the presentation of the results of the programme. There was a financial meeting in the UK with Eco-Innovation partners and the NCP, the FICOB and EcoProFabrics projects were presented during the Green Week, and "Eco-innovation in EU funds" was

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presented in Spain.

- Projects co-financed by the Agency won international recognition and awards. The coordinator of the PHOBIOR project won the Energy Globe Award, the LASERMARK and EcoBionet projects were selected as the "Best European Environmental project of 2013" by the Generalitat of Valencia, while the GEnLuS project coordinator (SME "Directa Plus") was selected to be listed in the "Italy Cleantech 10" among the top 10 Italian clean technology SMEs.
- All things considered, the legacy of the CIP Eco-Innovation programme is still running full-speed with great success. Projects from the 2013 call have all been contracted and most of them have started. Assessment of ongoing projects has been performed according to the objectives set and 2014 closed with 100 % budget consumption.

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<sup>1</sup> Figure includes all credit lines.

<sup>2</sup> Idem.

*Source:* Annex supplied by the Agency.

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**THE AGENCY'S REPLY**

11. The Agency reviews all the commitments at the end of each year. The year 2014 was an exceptional one as it was the first year of EASME's new mandate. This transitional year included many changes such as a new operational structure, many organisational changes, new programmes and a significant increase in the number of staff employed by the Agency. A variety of new tasks were delegated to the Agency and this increase in tasks reflected also on the budget. A part of these budget appropriations were cancelled because the payments due were lower than expected. The main reasons were: variable costs in rent and maintenance of the building (due to the increase of office needs to accommodate the newly recruited staff), unknown cost of additional services provided by OIB and DG HR.

To rectify the situation, EASME is putting in place a more precise budget planning and monitoring.