

ЕВРОПЕЙСКА СМЕТНА ПАЛАТА
TRIBUNAL DE CUENTAS EUROPEO
EVROPSKÝ ÚČETNÍ DVŮR
DEN EUROPÆISKE REVISIONSRET
EUROPÄISCHER RECHNUNGSHOF
EUROOPA KONTROLLIKODA
ΕΥΡΩΠΑΪΚΟ ΕΛΕΓΚΤΙΚΟ ΣΥΝΕΔΡΙΟ
EUROPEAN COURT OF AUDITORS
COUR DES COMPTES EUROPÉENNE
CÚIRT INIÚCHÓIRÍ NA HEORPA



EUROPSKI REVIZORSKI SUD
CORTE DEI CONTI EUROPEA
EIROPAS REVĪZIJAS PALĀTA
EUROPOS AUDITO RŪMAI

EURÓPAI SZÁMVEVŐSZÉK
IL-QORTI EWROPEA TAL-AWDITURI
EUROPESE REKENKAMER
EUROPEJSKI TRYBUNAŁ OBRACHUNKOWY
TRIBUNAL DE CONTAS EUROPEU
CURTEA DE CONTURI EUROPEANĂ
EURÓPSKY DVOR AUDÍTOROV
EVROPSKO RAČUNSKO SODIŠČE
EUROOPAN TILINTARKASTUSTUOMIOISTUIN
EUROPEISKA REVISIONSRÄTTEN

ANNEX II

of the President's Letter

Summary of results from the Court's 2012 annual audit of the European Research Joint Undertakings

INTRODUCTION

1. Pursuant to the provisions of Article 287 of the Treaty on the functioning of the European Union, the Court has audited the annual accounts for the financial year ended 31 December 2012 and the legality and regularity of the transactions underlying them for seven European Research Joint Undertakings (JUs):

- Fusion for Energy - F4E (ITER) – Development of Fusion Energy;
- Clean Sky – Clean Air Transport Technologies;
- ARTEMIS – Embedded Computing Systems;
- IMI – Innovative Medicines Initiative;
- ENIAC – Nanoelectronics;
- FCH – Fuel Cells and Hydrogen and
- SESAR - Single European Sky Air Traffic Management Research.

2. Apart from the European Union (represented by the Commission), members of the Joint Undertakings may include various public and private partners who make contributions to the funding of the activities performed by the Joint Undertakings. The Joint Undertakings either follow a bipartite model with the participation of the European Commission and the Industry, or a tripartite model with the participation also of the Member States¹. Joint Undertakings play an important role in implementing research policy in specific areas.

¹ Bipartite Joint Undertakings are Clean Sky, IMI, FCH and SESAR. Tripartite Joint Undertakings are ARTEMIS and ENIAC. As regards Fusion for Energy-F4E (ITER), the members are Euratom, represented by the European Commission, the Member States of Euratom and other countries which have concluded cooperation agreements with Euratom in the field of controlled nuclear fusion and have expressed their wish to become members (as at 31 December 2012: Switzerland).

3. This summary provides an overview on the results of the Court's annual audits of the Joint Undertakings for the financial year 2012. It aims at facilitating the analysis and comparison of the Court's specific reports on the 2012 annual accounts of the Joint Undertakings. The Court's opinions and comments as well as the Joint Undertakings' replies can be found in the published specific annual reports. This summary is not an audit report or opinion.

4. The Joint Undertakings' total 2012 forecasted budgeted income² amounted to some 2,5 billion euro (2011: 1,5 billion euro) or about 1,8 % of the 2012 EU general budget (2011: 1,2 %)³. Of the actual amounts received, approximately 618 million euro (2011: 462 million euro) came from the EU general budget (cash contribution from the European Commission) and approximately 134 million euro (2011: 58 million euro) came from the industrial partners and members of the Joint Undertakings.

5. The Joint Undertakings employ 409 (2011: 375) permanent and temporary officials or less than 1 % of total EU officials authorised under the EU general budget (staff establishment plan). Details on the audited Joint Undertakings, their budgets and staff are provided in **Annex I**.

6. Whereas the financial risk related to the Joint Undertakings is limited compared to the total EU budget, the reputational risk for the Union is high: they are a key tool for the implementation of the EU Research strategy and their public-private partnership nature makes them highly visible among the industries they are cooperating with.

² Forecasted income budget represent commitments appropriations (final budget).

³ The significant increase noted with respect to 2011 originates mostly from F4E, where the forecasted income budget increased from 687 million euro in 2011 to 1 524 million euro in 2012. This increase is due to the launching of a major phase of the ITER project.

INFORMATION IN SUPPORT OF THE COURT'S OPINIONS

7. The audit approach taken by the Court comprises analytical audit procedures, testing of transactions at the level of the Joint Undertaking and an assessment of key controls of the supervisory and control systems. This is supplemented by evidence provided by the work of other auditors and an analysis of management representations and of Annual Activity Reports. The 2012 audit placed special emphasis on ex-post audits.

AUDIT RESULTS

Opinions on the reliability of the accounts

8. The final accounts of all Joint Undertakings present fairly, in all material respects, their financial position as at 31 December 2012 and the results of their operations and their cash flows for the year then ended, in accordance with the provisions of the applicable Financial Regulations and the accounting rules adopted by the Commission's Accounting Officer.

9. As regards F4E, notes to the accounts on "ITER Procurement Arrangements with the ITER International Organization" (ITER IO) do not disclose the degree of advancement of the works in progress, whereas this information is essential to reflect the status of the activities carried out as regards the procurement arrangements signed with the ITER IO.

Opinions on the legality and regularity of the transactions underlying the accounts

10. In the Court's opinion, the transactions underlying the annual accounts for the year ended 31 December 2012 were legal and regular in all material respects for four (F4E, Clean Sky, FCH and SESAR) of the seven Joint Undertakings.

11. Under the administrative agreements, the audit of project cost claims has been delegated to the national funding authorities (NFAs). The ARTEMIS Joint

Undertaking received audit reports from the NFAs but did not assess the quality of these audits. Moreover, it had not received information on the audit strategies of all NFAs. It was therefore not in a position to assess whether *ex-post* audits provide sufficient assurance as to the legality and regularity of the underlying transactions. As a consequence, the Court concluded that the information available on the implementation of the Joint Undertaking's *ex-post* audit strategy is not sufficient to conclude whether this key control tool is functioning effectively. A qualified opinion was issued for ARTEMIS since there is insufficient appropriate audit evidence on which to base the opinion and the possible effects are considered material but not pervasive⁴.

12. The administrative agreements established between the ENIAC Joint Undertaking and the NFAs of the Member States provide in principle that the NFAs will perform audits on behalf of the Joint Undertaking. The Joint Undertaking's *ex-post* audit strategy relies heavily on the NFAs to audit project cost claims. However, in 2012 the European Commission's Internal Audit Service conducted a consultancy study on the adequacy of the Joint Undertaking's *ex-post* audit strategy and concluded that the design of the *ex-post* audit system is inadequate. In 2012, the Joint Undertaking carried out a limited review of cost claims but this exercise did not include any audits and did not provide assurance as to the regularity of the cost claims reviewed. The Court issued a qualified opinion for ENIAC because there is insufficient appropriate audit evidence on which to base the opinion and the possible effects are considered material but not pervasive.

13. In accordance with its *ex-post* audit strategy, IMI launched a first batch of 60 *ex-post* audits, of which 56 had been completed as of June 2013. The detected error rate resulting from these audits was 5,82 % (the errors had not been corrected at the time of closing the 2012 accounts). A qualified opinion was

⁴ Pervasive effects are those that, in the auditor's judgment, are not confined to specific elements, accounts or items or, if they are so confined, they represent or could represent a substantial proportion of the financial statements.

issued for IMI since there is sufficient appropriate audit evidence on which to base the opinion and the possible effects are considered material but not pervasive.

Comments not calling the Court's opinions into question

14. The Court made 45 comments affecting all Joint Undertakings highlighting matters of importance. An overview of the comments made is provided in **Annex II**. The most frequent comments are summarised below.

Budgetary and financial management

15. Comments under this heading focus on two areas:

- budgetary implementation rate: the budgetary implementation rate for commitment appropriations ranged between 84 % and 100 % and the budgetary implementation rate for payment appropriations ranged between 52 % and 100 %. For ARTEMIS and ENIAC, the latter amounts to 52 % and 62 % respectively, which is mostly explained by delays originating in the administrative arrangements entered into with Member States for the implementation of projects.
- calls for proposals and the implementation of projects: the average time for the launch of a call for proposal and the signing of grant agreements was up to 12 months for CLEAN SKY and ENIAC. As regards ARTEMIS, the current rate for the implementation of projects and the anticipated value of calls for proposals represented only 50,2 % of the total budget available to cover operational expenditure during the total duration of the Joint Undertaking.

Internal controls

16. For CLEAN SKY and SESAR, improvements are required in the implementation of ex-ante controls of costs claims, especially with regard to documentation of controls.

17. Ex-post audits are a key tool for Joint Undertakings to ensure the eligibility and accuracy of costs claimed by beneficiaries and / or partners. All but F4E have adopted an ex-post audit strategy, four of which have contracted out the performance of ex-post audits to independent external audit firms. In three cases (see paragraphs 11 to 13), the Court issued a qualified opinion on the basis of the inadequacy of the implementation of the ex-post audit strategy or of the error rate resulting from the performance of the ex-post audits.

18. The relationships between the Internal Audit Service of the Commission and the Joint Undertakings are laid down in mission charters adopted by the Governing Boards of the Joint Undertakings. However, in four cases (ARTEMIS, CLEAN SKY, ENIAC and IMI), the Joint Undertaking's financial rules have not been amended to include the provisions of the framework Regulation referring to the powers of the Commission's Internal Auditor.

19. As regards F4E, internal control systems are still being developed. In particular, procurement procedures are central to the implementation of the ITER project by F4E. The competitiveness of these procurement procedures needs to be increased. As regards grants, the average number of proposals received was only one per call.

20. The monitoring and reporting of research results is laid down in the Seventh Framework Programme (FP7), which establishes a monitoring and reporting system covering the protection, dissemination and transfer of research results. In the grant agreements signed with members and other beneficiaries, the Joint Undertakings have included specific provisions governing intellectual property rights and the dissemination of research activities and results. Although implementation of these provisions is monitored by the Joint Undertaking at different stages of the funded projects, most Joint Undertakings need to develop further the way the results of this monitoring are reported.

ITER costs

21. The EU contribution to ITER construction phase was valued by the Council in 2010 to a figure of 6,6 billion euro. Two reports issued in 2012, one by the internal auditor of the Joint Undertaking on pre-procurement activities for the ITER project, the other one by the Joint Undertaking's services, pointed to the risk of cost deviations and the lack of a tool to regularly monitor the validity of cost estimates. The risk of cost deviation is currently estimated to a maximum of 290 million euro.

CONCLUSIONS

22. All Joint Undertakings have produced reliable accounts but three have a qualified opinion on their 2012 accounts in respect of the legality and regularity of the transactions underlying them.

23. There is room to improve procedures, in particular the implementation of the ex-post audit strategy and, in the case of F4E, cost control mechanisms.

Joint Undertakings' Income (Forecasted income budgets, entitlements established and amounts received) and Staff establishments plans

JOINT UNDERTAKING	Parent DG	Policy Area	2012				2011			
			Forecasted Income budget (1)	Entitlements established (2)	Amounts received (3)	Staff establishment plan (4)	Forecasted Income budget (1)	Entitlements established (2)	Amounts received (3)	Staff establishment plan (4)
1 ARTEMIS	DG CONNECT	Research	57 446 787	52 183 934	22 479 013	15	36 355 294	28 535 700	11 850 453	15
2 CLEAN SKY	DG Research and Innovation	Research	205 364 690	173 113 201	97 339 799	24	175 025 012	164 523 511	117 000 000	23
3 ENIAC	DG CONNECT	Research	128 059 958	127 755 025	15 457 127	15	66 277 870	64 592 264	13 406 558	13
4 FUSION FOR ENERGY	DG Research and Innovation	Research	1 523 785 957	1 523 345 616	261 239 530	262	687 594 396	685 232 470	226 165 799	239
5 FUEL CELLS AND HYDROGEN - FCH	DG Research and Innovation	Research	83 311 640	82 843 794	53 615 206	17	117 218 257	116 952 317	57 283 213	18
6 INNOVATIVE MEDICINES INITIATIVE - IMI	DG Research and Innovation	Research	373 763 361	357 898 596	97 783 960	35	285 379 570	222 538 046	18 465 322	32
7 SESAR	DG MOVE	Research	156 564 786	148 733 577	69 713 000	41	148 039 777	147 180 812	18 000 000	35
Total			2 528 297 179	2 465 873 743	617 627 635	409	1 515 870 176	1 429 555 120	462 171 345	375

(1) Forecasted income budget represent commitments appropriations (final budget)

(2) Entitlements established represent commitments authorised

(3) Amounts received represent cash contribution during the year from the European Commission

(4) Final budget

Comments made by the Court in 2012

JOINT UNDERTAKING	Budgetary and financial management				Key controls of the JU's supervisory and control systems				Other matters					
	Implement ation of the budget	Presen tation of the accoun ts	Calls for propo sals	Multilateral Framework Agreement	Internal Control Systems and Accounting systems	Operational procuremen t and grants	Implementation of ex-post audit strategy	Assessment of in-kind contributions	Internal audit function and the Commission's Internal Audit Service	Monitoring and reporting of research results	Late payment of membership contributions	Intellectual property rights and industrial policy	EU contribution to ITER construction phase	Annual Activity Report and other
1	x		x		x		x ⁽¹⁾		x	x				x
2	x				x				x	x				
3	x		x		x		x ⁽¹⁾		x	x	x			
4	x	x			x	x	x		x		x	x	x	x
5	x		x		x				x	x				
6	x		x		x		x ⁽¹⁾		x	x				
7	x			x	x			x	x	x				
Subtotals	7	1	4	1	7	1	4	1	7	6	2	1	1	2
Total	13				13				19					

(1) These comments are set out in the opinion section of the report