



EUROPEAN
COURT
OF AUDITORS

Report on the annual accounts of the Bio-based Industries Joint Undertaking
for the financial year 2017

Together with the Joint Undertaking's reply

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INTRODUCTION

Establishment of the BBI Joint Undertaking

1. The Bio-based Industries (BBI) Joint Undertaking, located in Brussels, was set up in May 2014¹ for a period of ten years and started working autonomously on 26 October 2015.
2. The BBI Joint Undertaking is a public-private partnership in the bio-based industries sector. The founding members are the European Union (EU), represented by the Commission, and industrial partners represented by the Bio-based Industries Consortium (BIC).

Governance

3. The governance structure of the BBI Joint Undertaking includes the Governing Board, the Executive Director, the Scientific Committee and the States Representatives Group.
4. The Governing Board is composed of five representatives of the Commission, on behalf of the Union; and five representatives of members other than the Union, at least one of which should be a Small and Medium Enterprise (SME) representative. The Governing Board has overall responsibility for the strategic orientation and operations of the Joint Undertaking and supervises the implementation of its activities. The Executive Director is responsible for the day-to-day management of the Joint Undertaking.
5. The Scientific Committee and the States Representatives Group are advisory bodies. The Scientific Committee provides advice on the scientific priorities to be addressed in the Joint Undertaking's annual work plans. The States Representatives Group provides opinions on strategy and achievement of targets.

¹ Council Regulation (EU) No 560/2014 of 6 May 2014 establishing the Bio-based Industries Joint Undertaking (OJ L 169, 7.6.2014, p. 130).

Objectives

6. The objective of the BBI Joint Undertaking is to implement a programme of research and innovation activities in Europe that will assess the availability of renewable biological resources that can be used for the production of bio-based materials, and on that basis support the establishment of sustainable bio-based value chains. Those activities should be carried out through collaboration between stakeholders along the entire bio-based value chain, including primary production and processing industries, consumer brands, SMEs, research and technology centres, and universities.

Resources

7. The maximum EU contribution to the activities of the BBI Joint Undertaking is 975 million euro, to be funded from Horizon 2020². The industry members of the Joint Undertaking are expected to contribute resources of at least 2 730 million euro over the life span of the Joint Undertaking³. Of this amount, industry members have to make a minimum of 182,5 million euro of cash contributions to the Joint Undertaking's operational activities, and to incur costs of a minimum of 1 755 million euro in implementing additional activities outside the work plan of the BBI Joint Undertaking⁴.

8. The administrative costs of the BBI Joint Undertaking are limited to 58,5 million euro, to be covered through financial contributions divided equally on an annual basis between the EU and the industry members⁵.

² Article 3(1) of Regulation (EU) No 560/2014.

³ Article 4(1) of Regulation (EU) No 560/2014.

⁴ As provided for in Article 4(2)(b) of Regulation (EU) No 560/2014, additional activities are contributions in kind for activities outside the work plan and the budget of the Joint Undertaking but contributing to the objectives of the BBI Initiative. In line with Article 4(4) of the same regulation, the cost of additional activities must be certified by an independent external auditor and are not subject to audit by the Joint Undertaking, the ECA or by any other EU body.

⁵ Article 12(2) of the Statutes of the BBI Joint Undertaking (Annex I of Regulation (EU) No 560/2014).

9. In 2017, the final budget for the BBI Joint Undertaking was 91,6 million euro (2016: 66 million euro). At 31 December 2017, the Joint Undertaking employed 20 staff (2016: 20)⁶.

The Commission's evaluation

10. The Commission completed the interim evaluation of the Joint Undertaking's activities in June 2017, which was followed by an action plan prepared by the Joint Undertaking to address the recommendations raised in the evaluation. On this occasion, we include a section related to the Joint Undertaking's Action Plan in response to the interim evaluation, which is intended only for information purposes and does not form part of our audit opinion or observations.

OPINIONS

11. We have audited:

- (a) the accounts of the Joint Undertaking which comprise the financial statements⁷ and the reports on the implementation of the budget⁸ for the financial year ended 31 December 2017, 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).

Opinion on the reliability of the accounts

12. In our opinion, the accounts of the Joint Undertaking for the year ended 31 December 2017 present fairly, in all material respects, the financial position of the Joint Undertaking at 31 December 2017, the results of its operations, its cash flows, and the changes in net assets for

⁶ Further information about the BBI Joint Undertaking and its activities are available on its website: <https://www.bbi-europe.eu>.

⁷ 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.

⁸ The reports on the implementation of the budget comprise the reports which aggregate all budgetary operations and the explanatory notes.

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.

Opinion on the legality and regularity of revenue underlying the accounts

13. In our opinion, revenue underlying the accounts for the year ended 31 December 2017 is legal and regular in all material respects.

Opinion on the legality and regularity of payments underlying the accounts

14. In our opinion, payments underlying the accounts for the year ended 31 December 2017 are legal and regular in all material respects.

Responsibilities of management and those charged with governance

15. In accordance with Articles 310 to 325 of the TFEU and the Joint Undertaking's Financial Regulation, management is responsible for the preparation and presentation of the 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 responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them. The Joint Undertaking's management bears the ultimate responsibility for the legality and regularity of the transactions underlying the accounts.

16. In preparing the accounts, management is responsible for assessing the Joint Undertaking's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

17. Those in charge with governance are responsible for overseeing the entity's financial reporting process.

Auditor's responsibilities for the audit of the accounts and underlying transactions

18. Our objectives are to obtain reasonable assurance about whether the accounts of the Joint Undertaking are free from material misstatement and the transactions underlying them are legal

and regular and, on the basis of our audit, to provide the European Parliament and the Council or other respective discharge authorities with a statement of assurance as to the reliability of the 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.

19. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts and the legality and the regularity of the transactions underlying them. The procedures selected depend on the auditor's judgment, including an assessment of 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. In making those risk assessments, internal control relevant to the preparation and fair presentation of the accounts and legality and regularity of underlying transactions is considered 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 internal control. An audit also includes evaluating the appropriateness of accounting policies used, the reasonableness of accounting estimates made by the management and the overall presentation of the accounts.

20. For revenue, we verify the subsidy received from the Commission and assess the Joint Undertaking's procedures for collecting fees and other income.

21. 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.

22. In preparing this report and opinions, we considered the audit work of the independent external auditor performed on the Joint Undertaking's accounts as stipulated in Article 208(4) of the EU Financial Regulation⁹.

23. The comments which follow do not call the ECA's opinions into question.

⁹ Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council (OJ L 298, 26.10.2012, p. 1).

BUDGETARY AND FINANCIAL MANAGEMENT

Implementation of the 2017 budget

24. The final 2017 budget included commitment appropriations of 92,9 million euro and payment appropriations of 91,6 million euro. The implementation rates for commitment and payment appropriations were 97 % and 95 %, respectively. Most of the payment appropriations made by the Joint Undertaking were pre-financing of grant agreements resulting from the 2016 call for proposals.

Multiannual budget implementation under Horizon 2020

25. Out of the maximum of 975 million euro of EU cash contribution to be allocated to the BBI Joint Undertaking over its life span, by the end of 2017, the EU contributed in cash a total amount of 150,7 million euro.

26. The industry members are not obliged to make a minimum amount of in-kind contributions to the BBI activities. At the end of 2017, industry members had reported in-kind contributions of 26 million euro for operational activities of which none had been validated yet by the BBI Executive Director. In addition, the Governing Board had validated cash contributions by the industry members to the administrative cost of 5,8 million euro.

27. Out of the minimum of 182,5 million euro of cash contributions to be made by the industry members to the Joint Undertaking's operational cost over the Joint Undertaking's life span, only 0,8 million euro have been paid to the Joint Undertaking at the end of 2017. Consequently, the Commission (DG RTD) suspended 50 million euro of its cash contributions to the Joint Undertaking. Although the Commission initiated in February 2017 an amendment of the BBI founding regulation¹⁰ in view to enable industry members also to provide their cash contributions at project level, there is a high risk that the

¹⁰ Council Regulation (EU) 2018/121 of 23 January 2018 amending Regulation (EU) No 560/2014 establishing the Bio-based Industries Joint Undertaking. (OJ L 22, 26.1.2018, p. 1)

industry members will not achieve the minimum amount of operational cash contributions by the end of the BBI programme.

28. Out of the at least 1 755 million euro of industry members' contributions to be made to additional activities outside the work programme of the Joint Undertaking, 663,6 million euro had been reported and certified by the end of 2017 (39 %). However, as we have no right to audit the members' in-kind contributions to additional activities, we cannot provide an opinion on their nature, quality and quantity.

29. Consequently, by the end of 2017, the total contributions from the industry members amounted to 670,2 million euro (of which almost 100 % are contributions to additional activities), compared to the EU cash contribution of 150,7 million euro (see also paragraph 36).

30. Out of the maximum operational and administrative budget for the Joint Undertaking of 1 186,75 million euro¹¹, by the end of 2017, the Joint Undertaking made commitments of 509,8 million euro and payments of 172,2 million euro.

INTERNAL CONTROLS

Internal control framework

31. The Joint Undertaking has set up reliable ex-ante control procedures based on financial and operational desk reviews. The situation at end of 2017 showed that the most important Internal Control Standards (ICS) were mostly implemented with some standards remaining to be fully implemented in 2018 such as ICS 8 (Processes and procedures), ICS 10 (Business continuity) and ICS 11 (Document management).

32. The Common Audit Service of the Commission (CAS) is responsible for the ex-post audit of Horizon 2020 project cost claims. In 2017, the Joint Undertaking - together with

¹¹ This amount includes the maximum EU cash contribution to the Joint Undertaking's operational and administrative costs (975 million euro) and the industry members' cash contribution to the Joint Undertakings' administrative (29,25 million euro) and operational costs (182,5 million euro). These amounts do not include the industry members' cash contributions to the Joint Undertaking's operational costs at project level.

the Common Audit Service (CAS) of DG RTD - launched the first ex-post audit of a random sample of Horizon 2020 interim cost claims of which the results, however, will only be reported in the Joint Undertaking's annual activity report 2018.

33. Based on an assessment of the Joint Undertaking's internal control system and substantive testing of revenue, payment, grant and procurement operations, the audit results provided us with reasonable assurance that the overall residual error rate for the Joint Undertaking is below materiality.

34. At the end of 2017, the Commission's common Horizon 2020 grant management and monitoring tools had not finished the specific developments needed for the processing of the Joint Undertaking's in-kind contributions.

2016 call for proposals

35. The 2016 call for grant proposals resulted in a relatively low coverage of research and innovation actions (RIA) topics. RIA had a total budget of 50 million euro and contained 12 topics each of which was designed to target the specific challenges arising from the value chain demonstration and realisation activities. All eligible proposals had been evaluated against the Horizon 2020 evaluation criteria and ranked for co-financing under the limits of the common budget line. Most of the grant budget, however, was focused on three topics out of the six being financed whilst the Joint Undertaking could not finance six RIA topics even though for four of them it had proposals that were eligible for co-financing. To ensure an optimal coverage of the most important topics, the Joint Undertaking should consider limiting the number of proposals per topic by defining an indicative budget at topic level in the call.

OTHER ISSUES

Leverage of contributions from industry members

36. One of the main objectives of the Joint Undertaking is to leverage contributions from industry members in the area of its activities¹². The minimum leverage factor for both, operational and additional activities amounts to 2,8¹³. However, BBI's founding regulation does not oblige industry members to make a minimum amount of in-kind contributions to the operational activities of the Joint Undertaking¹⁴. Consequently, a minimum leverage factor for the in-kind contributions to the operational activities cannot be determined. As we have no right to audit in-kind contributions to additional activities we cannot provide an opinion on the nature, quality or reality of such contributions¹⁵.

INFORMATION ON THE COMMISSION'S EVALUATION

37. The Commission's Interim Evaluation¹⁶ on BBI Joint Undertaking's activities covered the period 2014-2016, and was carried out with the assistance of independent experts as foreseen in the BBI Joint Undertaking Council Regulation¹⁷. The evaluation covered the

¹² Recital 3 of Regulation (EU) No 560/2014 states that this partnership should be based on a balance contribution from all partners.

¹³ Total of minimum contributions of the industry members to the Joint Undertaking's operational and additional activities (2 730 million euro) divided by the maximum EU cash contribution to the Joint Undertaking (975 million euro).

¹⁴ Article 4(1) and 4(2) of Regulation (EU) No 560/2014 specify that industry and research members should make total contributions of at least 2 730 million euro over the life span of the Joint Undertaking, out of which at least 1 755 million euro should consist of costs incurred by them in implementing additional activities outside the work plan of the Joint Undertaking. In addition, Article 12(4) of the Joint Undertaking's Statutes annexed to the same regulation states that out of the total amount industry members have to make financial (cash) contributions to the operational costs of the Joint Undertaking of at least 182,5 million euro.

¹⁵ In accordance with article 4 (4) of Regulation (EU) No 560/2014 the cost of additional activities are certified by an independent external auditor appointed by the Joint Undertaking. The cost for such activities shall however, not be audited by the Joint Undertaking or any Union body.

¹⁶ Interim evaluation of the BBI Joint Undertaking (2014-2016) operating under Horizon 2020. <https://ec.europa.eu/research/evaluations/pdf/bbi.pdf>

¹⁷ Article 11 of BBI Joint Undertaking Council Regulation (EU) No 560/2014.

performance of the Joint Undertaking in terms of relevance, efficiency, effectiveness, coherence, and EU added value, with additional consideration of openness and transparency. The results of the evaluation were taken into account in the report that the Commission sent to the European Parliament and Council in October 2017¹⁸.

38. In response to the recommendations raised by the evaluators¹⁹, the Joint Undertaking prepared an Action Plan that was endorsed by the BBI Governing Board in March 2018²⁰. While broadly accepting the recommendations, the Joint Undertaking has already launched the implementation of a certain number of actions²¹ aiming to address the main issues raised in the Interim Evaluation. According to the action plan, most of the actions to be taken in response to the recommendations should be implemented in 2018 and 2019.

¹⁸ Commission Staff Working Document. Interim Evaluation of the Joint Undertakings operating under Horizon 2020 {SWD(2017) 339 final}.

¹⁹ Specific recommendations arising from the Interim Evaluation include: to increase the participation of EU-13 Member States; to increase the involvement of educational and research institutions; to improve coordination among all EU initiatives boosting the bio economy; to invest in topics able to create wider and long-lasting benefits; to increase and intensify private sector commitment, and to deliver reports that provide a comprehensive description of the actual private and public contributions to the BBI Joint Undertaking delivered so far; to monitor progress by an annual comparison between BBI-specific KPIs projected and achieved; to further promote coordination of bio based initiatives by promoting more Coordination and Support Actions (CSA projects).

²⁰ The Action plan was prepared in close cooperation with the Bio Based Industries Consortium (BIC) and the European Commission.

²¹ Specific actions to be implemented by the Joint Undertaking as presented in the Action Plan include: the promotion of new value chains with the involvement of new actors; to encourage further development of national and regional bio economy strategies among the EU Member States; to monitor and analyse project results to promote their use in future projects; to increase to the maximum possible extent the industry's financial and in-kind contributions and to ensure that the Annual Activity Report reflects in detail the effectiveness of the reporting and certification of the in-kind operational activities and the additional activities from the private sector; to coordinate with the EC to promote complementarities and avoid overlaps between EU programmes.

This Report was adopted by Chamber IV, headed by Mr Neven MATES, Member of the Court of Auditors, in Luxembourg at its meeting of 2 October 2018.

For the Court of Auditors

Klaus-Heiner LEHNE

President

THE JU'S REPLY

With reference to the specific paragraph numbers of the Court's observations:

27. The issue relating to financial contributions being provided only at programme level is well known since the beginning of the initiative due to the concern expressed by the industry partners (with respect to making financial contributions at programme level to be distributed in open calls for proposals). To address this the BBI JU's Governing Board set up a task force in May 2016 which involved members of BIC, the European Commission and the BBI JU Programme Office. As a result, the European Commission initiated an amendment of the BBI's founding regulation to allow the private partners to provide financial contributions also at project level. However, as the amendment entered into force only in February 2018, after the closure of four out of the seven calls for proposals planned until 2020 (inclusive), the risk of not achieving the minimum amount of financial (in- cash) contributions by the end of the BBI programme persists. Therefore in 2018 the Governing Board of BBI JU renewed the financial task force mandate to propose different scenarios to achieve the highest amount feasible.

35. BBI JU clarifies that the possibility to rank eligible proposals and co-finance them within the limits of a common budget line is in conformity with Horizon 2020 rules and extensively applied across the framework programme. BBI JU takes note of the recommendation expressed by the Court to consider limiting the number of proposals per topic by defining an indicative budget at topic level in the calls for proposals. BBI JU will continue to consider such a possibility in the design of future calls for proposals that shall ensure the optimal implementation of the Strategic Research Agenda of the BBI initiative.