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COVER NOTE

From:	Mr Klaus-Heiner LEHNE, President of the European Court of Auditors
date of receipt:	4 November 2016
To:	Mr Peter KAZIMIR, President of the Council of the European Union
Subject:	Report on the annual accounts of the European Research Council Executive Agency for the financial year 2015 together with the Agency's reply

Delegations will find attached the European Court of Auditors' report on the annual accounts of the European Research Council Executive Agency for the financial year 2015.

This report is accompanied by the Agency's reply and will shortly be published in the *Official Journal of the European Union*.

Encl.: Report on the annual accounts of the European Research Council Executive Agency for the financial year 2015 together with the Agency's reply.¹

¹ In English only. The other languages of this report are available on the European Court of Auditors' website: <http://eca.europa.eu/>.



EUROPEAN
COURT
OF AUDITORS

Report on the annual accounts
of the European Research Council Executive Agency
for the financial year 2015

together with the Agency's reply

INTRODUCTION

1. The European Research Council Executive Agency (hereinafter “the Agency”, aka “ERCEA”), which is located in Brussels, was created by Commission Decision 2008/37/EC². The Agency was established for a period beginning on 1 January 2008 and ending on 31 December 2017 with the aim of managing the “Ideas” specific programme under the 7th Framework Programme for Research.

2. **Table 1** presents key figures for the Agency³

TABLE 1: KEY FIGURES FOR THE AGENCY

	2014	2015
Budget (million euro)	36,3	39,6
Total staff as at 31 December ⁴	388	417

Source: data provided by the Agency.

INFORMATION IN SUPPORT OF THE STATEMENT OF ASSURANCE

3. 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

4. Pursuant to the provisions of Article 287 of the Treaty on the Functioning of the European Union (TFEU), the Court has audited:

² OJ L 9, 12.1.2008, p. 15.

³ More information on the Agency's competences and activities is available on its website: www.erc.europa.eu.

⁴ Staff includes officials, temporary and contract staff and seconded national experts.

- (a) the annual accounts of the Agency, which comprise the financial statements⁵ and the reports on the implementation of the budget⁶ for the financial year ended 31 December 2015, and
- (b) the legality and regularity of the transactions underlying those accounts.

The management's responsibility

5. 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 transactions⁷:
- (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 officer⁸; making accounting estimates that are reasonable in the circumstances. The Steering Committee 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.

⁵ 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.

⁶ These comprise the budgetary outturn account and the annex to the budgetary outturn account.

⁷ Articles 38 to 42 of the Financial Regulation of the Agency.

⁸ 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.

The auditor's responsibility

6. The Court's responsibility is, on the basis of its audit, to provide the European Parliament and the Council⁹ 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 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.

7. 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.

8. 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

9. In the Court's opinion, the Agency's annual accounts present fairly, in all material respects, its financial position as at 31 December 2015 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.

⁹ Articles 87 to 92 of the Financial Regulation of the Agency

Opinion 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 2015 are legal and regular in all material respects.

11. The comments which follow do not call the Court's opinions into question.

COMMENTS ON BUDGETARY MANAGEMENT

12. Carry-overs of committed appropriations for Title III (operational expenditure) were high at 1 457 920 euro, i.e. 43,14 % (2014: 1 126 275 euro, i.e. 38,50 %). They mainly relate to the multi-annual nature of IT contracts (504 473 euro) and the ex-post audits of grant schemes (687 522,50 euro) that were initiated in 2015 but had not been concluded by the year-end.

FOLLOW-UP OF PREVIOUS YEARS' COMMENTS

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

This Report was adopted by Chamber IV, headed by Mr Baudilio TOMÉ MUGURUZA, Member of the Court of Auditors, in Luxembourg at its meeting of 13 September 2016.

For the Court of Auditors

(s) Vítor Manuel da SILVA CALDEIRA
President

Follow-up of previous years' comments

Year	Court's comment	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
2014	Procedures with regard to tangible and intangible assets need to be further strengthened in order to ensure their proper safeguarding and the preparation of timely, accurate and complete information in this area. The Assets Register needs to be kept up-to-date in respect of the location of its assets, inventory procedures need to be formalised and the Agency's guidelines on the capitalisation of internally developed intangible assets need to include sufficient detail to ensure it uses a consistent approach.	Completed

THE AGENCY'S REPLY

12. “The Agency’s has taken note of the Court’s report and considers that the comment regarding the “carry-overs of committed appropriations for Title III” does not give rise to corrective actions, as they are justified based on their nature.”