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#### COVER NOTE

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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 Executive Agency for Small and Medium-sized Enterprises for the financial year 2015 together with the Agency's reply

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Delegations will find attached the European Court of Auditors' report on the annual accounts of the Executive Agency for Small and Medium-sized Enterprises 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*.

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Encl.: Report on the annual accounts of the Executive Agency for Small and Medium-sized Enterprises for the financial year 2015 together with the Agency's reply.<sup>1</sup>

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<sup>1</sup> 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 Executive Agency for Small and Medium-sized Enterprises  
for the financial year 2015

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>2</sup>, repealing Commission Decision 2007/372/EC<sup>3</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, as in the past, parts of the Competitiveness and Innovation Programme 2007-2013.
2. **Table 1** presents key figures for the Agency<sup>4</sup>.

**TABLE 1: KEY FIGURES FOR THE AGENCY**

	<b>2014</b>	<b>2015</b>
Budget (million euro)	24,5	36,4
Total staff as at 31 December <sup>5</sup>	283	373

*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

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<sup>2</sup> OJ L 341, 18.12.2013, p. 73.

<sup>3</sup> OJ L 140, 1.6.2007, p. 52.

<sup>4</sup> More information on the Agency’s competences and activities is available on its website: [www.ec.europa.eu/easme/](http://www.ec.europa.eu/easme/).

<sup>5</sup> Staff includes officials, temporary and contract staff and seconded national experts.

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:

- (a) the annual accounts of the Agency, which comprise the financial statements<sup>6</sup> and the reports on the implementation of the budget<sup>7</sup> 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 transactions<sup>8</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>9</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,

<sup>6</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>7</sup> These comprise the budgetary outturn account and the annex to the budgetary outturn account.

<sup>8</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>9</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.

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***

6. The Court's responsibility is, on the basis of its audit, to provide the European Parliament and the Council<sup>10</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 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.

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<sup>10</sup> Article 162 of Regulation (EU, Euratom) No 966/2012.

### **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.

### **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. Committed appropriations carried over for Title III (Programme Support Expenditure) amount to 4 million euro, i.e. 65 % (2013: 2,6 million euro, i.e. 72 %). The carry overs mainly relate to specific contracts for experts (3 million euro) and external audits (0,6 million euro), of which 0,8 million euro were signed late in 2015. These carry-overs are mainly for services to be provided in 2016.

13. In December 2015 the Agency paid 2,2 million euro for the 2016 rent of its premises and associated expenses. These payments were made from the Agency's 2015 budget and therefore are in breach of the budgetary principle of annuality<sup>11</sup>.

### **FOLLOW-UP OF PREVIOUS YEARS' COMMENTS**

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

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<sup>11</sup> Article 7 of Commission Regulation (EC) No 1653/2004 (OJ L 297, 22.9.2004, p 6).

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)
<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>Completed</b>
<b>2014</b>	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.	<b>Completed</b>
<b>2014</b>	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.	<b>Ongoing</b> <sup>1</sup>
<b>2014</b>	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.	<b>Ongoing</b>

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<sup>1</sup> In 2015, excluding the payments referred to in paragraph 14, budget implementation was low at 93 %.



**THE EASME REPLY**

12. During 2015 the Agency took the necessary measures to reduce the carry-over to 2016. The carry-over of the committed appropriations for audit contracts does not give rise to corrective actions, as they are justified based on their nature.

13. The Agency made the initial budgetary planning based on the possible move to new premises. OIB unexpectedly cancelled this move thus a large budget was at the Agency's disposal. Moreover, the Agency improved its methodology of calculation of salaries and revised the average salary rates for all grades which had an impact on the overall budget. Several actions were undertaken to reduce the surplus, however, after consulting the members of the EASME Steering Committee and according to the principles of economy and efficiency, the Agency decided to use the surplus exceptionally for the rent and services of the current building for the next financial year.