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| From: | Mr Klaus-Heiner LEHNE, President of the European Court of Auditors |
| date of receipt: | 17 November 2016 |
| To: | Mr Peter KAZIMIR, President of the Council of the European Union |
| Subject: | Report on the annual accounts of the Single European Sky Air Traffic Management Research Joint Undertaking for the financial year 2015 together with the Joint Undertaking's reply |

Delegations will find attached the European Court of Auditors' report on the annual accounts of the Single European Sky Air Traffic Management Research Joint Undertaking 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 Report on the annual accounts of the Single European Sky Air Traffic Management Research Joint Undertaking for the financial year 2015 together with the Joint Undertaking's reply¹

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
Single European Sky Air Traffic Management Research Joint Undertaking
for the financial year 2015

together with the Joint Undertaking's reply

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INTRODUCTION

1. The Single European Sky Air Traffic Management Research (SESAR) Joint Undertaking, located in Brussels, was set up in February 2007² in order to manage the technological component of the SESAR project and started to work autonomously on 10 August 2007. In June 2014³, the Council amended the original Regulation and extended the lifetime of the Joint Undertaking for the period up to 31 December 2024.

2. The SESAR project aims to modernise air traffic management (ATM) in Europe and is divided into three phases:

- A "definition phase" (2004-2007) led by the European Organisation for the Safety of Air Navigation (Eurocontrol), with co-financing from the European Union budget through the Trans-European Networks – Transport (TEN-T) programme. The outcome was the European ATM Master Plan, which defines the content and describes the development and deployment of the next generation of ATM systems.
- A two-term "development phase" (2008–2013, extended to 2015) managed by the SJU and leading to the production of new technological systems, components and operational procedures as defined in the European ATM Master Plan.
- A "deployment phase" (2014-2024) to be led by industry and stakeholders for the large-scale production and implementation of the new ATM infrastructure.

² Council Regulation (EC) No 219/2007 of 27 February 2007 on the establishment of a Joint Undertaking to develop the new generation European air traffic management system (SESAR) (OJ L 64, 2.3.2007, p. 1), amended by Regulation (EC) No 1361/2008 (OJ L 352, 31.12.2008, p. 12).

³ Council Regulation (EU) No 721/2014 of 16 June 2014 amending Regulation (EC) No 219/2007 on the establishment of a Joint Undertaking to develop the new generation European air traffic management system (SESAR) as regards the extension of the Joint Undertaking until 2024 (OJ L 192, 1.7.2014, p. 1).

3. Under the Horizon 2020 Framework programme for Research and Innovation⁴, the Council entrusted the SJU with continuing research and innovation relating to air traffic management and in particular to the coordinated approach, in the context of the Single European Sky, in order to achieve the performance targets defined. The SESAR II Programme under Horizon 2020 ('SESAR 2020') was launched in 2015.

4. The SESAR Joint Undertaking was designed as a public-private partnership. The founding members are the European Union (EU), represented by the Commission, and Eurocontrol, represented by its Agency. Following a call for expressions of interest, fifteen public and private enterprises from the air navigation industry became members of the Joint Undertaking. They comprise aircraft manufacturers, ground and airborne equipment manufacturers, air navigation service providers and airport authorities.

5. The budget for the development phase of the SESAR I Programme 2008–2015 is 2 100 million euro, to be provided in equal parts by the EU, Eurocontrol and the participating public and private partners from the aviation industry⁵. The EU contribution is funded from the Seventh Research Framework Programme (FP7) and TEN-T. The EU budget for the deployment phase of the SESAR II Programme 2014–2024 funded from Horizon 2020 is 585 million euro. Under the new Horizon 2020 Membership Agreements, the contribution by Eurocontrol is expected to be around 500 million euro, and the contribution of the other partners from the aviation industry is expected to be around 720,7 million euro. Around 90 % of the funding from Eurocontrol and the other stakeholders is in the form of in-kind contributions.

⁴ The Horizon 2020 Framework programme for Research and Innovation, adopted by Regulation (EU) No 1291/2013 of the European Parliament and of the Council of 11 December 2013 establishing Horizon 2020 — the Framework Programme for Research and Innovation (2014-2020) and repealing Decision No 1982/2006/EC (OJ L 347, 20.12.2013, p. 104).

⁵ As regards the financial contributions to the Joint Undertaking's administrative costs, the Administrative Board shall decide on the amounts which must be released by each member in proportion to the contributions which it has agreed to pay and shall establish the deadline by which the members must pay their contributions.

INFORMATION IN SUPPORT OF THE STATEMENT OF ASSURANCE

6. 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, including a quality control review of the ex-post audits carried out by the Joint Undertaking (or by private audit firms on its behalf) at beneficiaries. This is supplemented by evidence provided by relevant work of other auditors and an analysis of management representations.

STATEMENT OF ASSURANCE

7. 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 SESAR Joint Undertaking, which comprise the financial statements⁶ and the reports on the implementation of the budget⁷ for the financial year ended 31 December 2015; and
- (b) the legality and regularity of the transactions underlying those accounts.

The management's responsibility

8. In accordance with Articles 16 and 22 of Commission Delegated Regulation (EU) No 110/2014⁸, the management is responsible for the preparation and fair presentation of the annual accounts of the Joint Undertaking and the legality and regularity of the underlying transactions.

- (a) The management's responsibilities in respect of the Joint Undertaking's annual accounts include designing, implementing and maintaining an internal control system relevant to

⁶ These include the balance sheet and the statement of financial performance, the cash-flow table, the statement of changes in net assets, a summary of the significant accounting policies and other explanatory notes.

⁷ These comprise the reports on implementation of the budget, a summary of budgetary principles and other explanatory notes.

⁸ OJ L 38, 7.2.2014, p. 2.

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 officer⁹, and making accounting estimates that are reasonable in the circumstances. The Director approves the annual accounts of the Joint Undertaking 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 Joint Undertaking 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

9. The Court's responsibility is, on the basis of its audit, to provide the European Parliament and the Council¹⁰ 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 Joint Undertaking are free from material misstatement and the underlying transactions are legal and regular.

⁹ 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.

¹⁰ Article 47 of Regulation (EU) No 110/2014.

10. 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. In preparing this report and statement of assurance, the Court considered the audit work performed by the independent external auditor on the Joint Undertaking's accounts, as stipulated in Article 208(4) of the EU Financial Regulation¹¹.

11. 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

12. In the Court's opinion, the Joint Undertaking'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 rules and the accounting rules adopted by the Commission's accounting officer.

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

13. In the Court's opinion, the transactions underlying the annual accounts for the year ended 31 December 2015 are, in all material respects, legal and regular.

14. The comments which follow do not call the Court's opinion into question.

¹¹ Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council (OJ L 298, 26.10.2012, p. 1).

COMMENTS ON BUDGETARY AND FINANCIAL MANAGEMENT

Implementation of the 2015 budget

15. The final 2015 budget available for implementation included commitment appropriations of 81,7 million euro and payment appropriations of 136,9 million euro. The utilisation rates for commitment and payment appropriations were 100 % and 82,3 %, respectively. The lower-than-expected implementation rate for payment appropriations was due to the fact that the launch of the first Horizon 2020 calls was delayed and the related grant agreements could only be signed in early 2016.

16. Of the total operational commitments made in 2015 (74,5 million euro), 29 % were individual commitments based on completed award procedures for grants and contracts. The remaining 71 % were global commitments for which the award procedure was not completed. The high level of global commitments in 2015 is due to the fact that the first Horizon 2020 calls for proposals for 51,5 million euro in grants were launched in the second half of 2015, and the related agreements will be signed in 2016.

SESAR Joint Undertaking multiannual budget implementation under FP7 and TEN-T

17. Out of the total operational and administrative budget under the FP7 and TEN-T programmes of 892,8 million euro¹², the SESAR Joint Undertaking made commitments amounting to 827,4 million euro and payments amounting to 651,1 million euro (78,7 % of commitments). The outstanding commitments of 176,3 million euro (27,1 %) will be used to cover future payments for the ongoing FP7 and TEN-T grant agreements, which are expected to be closed by the end of 2016¹³.

18. Out of a total envelope of 1 254,5 million euro for the other members' in-kind and cash contributions to operational and administrative activities (670,2 million euro from

¹² The total SESAR Joint Undertaking budget for the FP7 and TEN-T programmes of 892,8 million euro is composed of a 700 million euro EU cash contribution funded by the FP7 and TEN-T programmes, a 165 million euro cash contribution from Eurocontrol and a 27,8 million euro cash contribution from aviation industry members.

¹³ See 2015 AAR, p. 20.

Eurocontrol and 584,3 million euro from the aviation industry), 986 million euro had been reported to the Joint Undertaking by 31 December 2015 (500,9 million euro by Eurocontrol and 485,1 million euro by the aviation industry). Of the reported contributions, 742,7 million euro or 75,3 % have been validated by the Governing Board (348,5 million euro for Eurocontrol and 394,2 million euro for the aviation industry). The relatively high amount of accumulated in-kind contributions from Eurocontrol which have not been validated (152,4 million euro) reflects delays in presenting 2014 financial statements to the Joint Undertaking.

19. At the end of 2015, the administrative costs of the Joint Undertaking amounting to 64,5 million euro were shared as follows: 21,9 million euro or 33,9 % were covered by the EU, 21,4 million euro or 33,9 % by Eurocontrol, and 21,2 million euro or 32,9 % by the aviation industry.

SESAR Joint Undertaking multiannual budget implementation under Horizon 2020

20. As indicated above (paragraphs 5 and 16), Horizon 2020 grant agreements and the bilateral agreements with Eurocontrol and the aviation industry were not concluded at the end of 2015.

OTHER MATTERS

Key controls and supervisory systems

21. The SJU has set up ex ante control procedures based on financial and operational desk reviews, and performs ex post audits of grant beneficiaries. These checks are key tools for assessing the legality and regularity of the underlying transactions, including the cash and in-kind contributions to the Joint Undertaking by its members other than the EU. The residual error rate for the ex-post audits reported in the SJU 2015 annual activity report was 0,7 %¹⁴.

¹⁴ See SJU 2015 Annual Activity Report, p. 68.

Anti-Fraud Strategy

22. According to the SJU Financial Rules, the budget should be implemented in compliance with effective and efficient internal control, including prevention, detection, correction and follow-up of fraud and irregularities¹⁵.

23. Following the adoption of an Anti-Fraud Strategy by the European Commission in June 2011, the first common Research Anti-Fraud Strategy was adopted in July 2012 and updated in March 2015 to take account of changes introduced by Horizon 2020¹⁶. In 2015 the SJU has set up its own anti-fraud strategy in line with the methodology provided by the European Commission as well as an action plan taking into account the results of the specific anti-fraud risk assessment performed by the SJU in 2015.

24. Internal control procedures are already in place at the SJU to provide reasonable assurance on the prevention and detection of fraud and irregularities, (ex-ante checks on payments, conflict of interest policy and ex-post audits of grant beneficiaries). The Joint Undertaking is implementing the measures in the action plan, such as making use of Commission databases to identify excluded organisations or potential double funding¹⁷, in accordance with the agreed timetable.

The Commission's Internal Audit Service (IAS)

25. In 2015, the IAS performed an audit on operational governance and the Master Plan (MP) update at the SJU. The IAS recommended that the SJU reinforce the MP update and annual reporting, improve coordination with the SESAR deployment manager with regard to monitoring and reporting, and appoint the new SESAR working groups. The SJU has set up a detailed action plan to implement the recommendations.

¹⁵ Article 25^a.

¹⁶ For example, the setting-up of the Common Support Service, with a centralised audit service and harmonised business processes for EU research bodies.

¹⁷ This action also includes assessment of the use of non-EU funding sources to prevent double funding.

FOLLOW-UP OF PREVIOUS OBSERVATIONS

Monitoring and reporting of project research results

26. As required by Horizon 2020 rules¹⁸, the SJU disclosed specific indicators on research results in its Annual Activity Report (performance indicators and indicators for monitoring cross-cutting issues)¹⁹.

Conflicts of interest

27. In July 2015, the Commission issued guidelines to the Joint Undertakings related to rules on conflicts of interest, including a common template for the declaration of absence of a conflict of interest, which should be incorporated by the Joint Undertaking into its procedures.

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 18 October 2016.

For the Court of Auditors

Klaus-Heiner LEHNE

President

¹⁸ Article 31 of Regulation (EU) No 1291/2013.

¹⁹ See 21 April 2016, draft AAR: Annexes 8 to 10, p. 112 to 116.

SESAR Joint Undertaking (Brussels)**Competences and activities**

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| Areas of Union competence deriving from the Treaty <i>(Articles 187 and 188 of the Treaty on the Functioning of the European Union)</i> | <p>Decision No 1982/2006/EC of the European Parliament and of the Council of 18 December 2006 concerning the Seventh Framework Programme provides for a Community contribution to the establishment of long-term public-private partnerships in the form of Joint Technology Initiatives which could be implemented through Joint Undertakings within the meaning of Article 187 of the Treaty.</p> <p>Council Regulation (EC) No 219/2007 setting up the SESAR Joint Undertaking, as last amended by Regulation (EC) No 1361/2008 (OJ L 352, 31.12.2008).</p> <p>Council Regulation (EU) No 721/2014 of 16 June 2014 amending Regulation (EC) No 219/2007 on the establishment of a Joint Undertaking to develop the new generation European air traffic management system (SESAR) as regards the extension of the Joint Undertaking until 2024.</p> |
| Competences of the Joint Undertaking <i>(Council Regulation (EC) No 219/2007, as last amended by Regulation (EC) No 721/2014)</i> | <p>Objectives</p> <p>The aim of the Joint Undertaking is to ensure the modernisation of the European air traffic management system by coordinating and concentrating all relevant research and development efforts in the Union. It shall be responsible for execution of the ATM Master Plan and, in particular, for carrying out the following tasks:</p> <ul style="list-style-type: none">• organising and coordinating the activities of the SESAR development phase in accordance with the ATM Master Plan, which resulted from the definition phase of the project headed by Eurocontrol, by combining and managing public and private-sector funding under a single structure;• ensuring the necessary funding for the activities of the SESAR development phase in accordance with the ATM Master Plan;• ensuring the involvement of stakeholders in the air traffic management sector in Europe, in particular air navigation service providers, airspace users, professional staff associations, airports and manufacturers; as well as the relevant scientific institutions or the relevant scientific community;• organising the technical work of research and development, validation and study, to be carried out under its authority, while avoiding fragmentation of such activities;• ensuring the supervision of activities related to the development of common products duly identified in the ATM Master Plan and, if |

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| | necessary, organising specific invitations to tender. |
| Governance <i>(Council Regulation (EC) No 219/2007, as last amended by Regulation (EC) No 721/2014)</i> | Administrative Board The Administrative Board is responsible for: <ul style="list-style-type: none"> (a) adopting the ATM Master Plan endorsed by the Council as referred to in Article 1(2) of the Regulation and approving any proposal to modify it; (b) giving guidelines and taking the decisions necessary for the implementation of the development phase of the SESAR project, and exercising overall control over its implementation; (c) approving the Joint Undertaking's work programme and annual work programmes referred to in Article 16(1), as well as the annual budget, including the staff establishment plan; (d) authorising negotiations and deciding on the accession of new members and on the related agreements as referred to in Article 1(3); (e) supervising the execution of agreements between members and the Joint Undertaking; (f) appointing and dismissing the Executive Director and approving the organisation chart and monitoring the Executive Director's performance; (g) deciding on the amounts and procedures for the payment of members' financial contributions and the assessment of contributions in kind; (h) adopting the financial rules of the Joint Undertaking; (i) approving the annual accounts and balance sheet; (j) adopting the annual report on the progress of the development phase of the SESAR project and its financial situation referred to in Article 16(2); (k) deciding on proposals to the Commission on the extension or dissolution of the Joint Undertaking; (l) establishing procedures for granting rights of access to tangible and intangible assets which are the property of the Joint Undertaking, and the transfer of such assets; (m) laying down rules and procedures for awarding the contracts necessary to implement the ATM Master Plan, including specific procedures in the event of conflicts of interest; (n) deciding on proposals to the Commission to amend the Statutes in accordance with Article 24; (o) exercising such other powers and performing such other functions, including the establishment of subsidiary bodies, as may be necessary for the purposes of the SESAR development phase; |

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| | <p>(p) adopting the arrangements for implementing Article 8.</p> <p>Executive Director</p> <p>The Executive Director shall perform his duties with complete independence within the powers assigned to him.</p> <p>Internal audit</p> <p>Internal Auditor of the European Commission</p> <p>External audit</p> <p>European Court of Auditors and Independent External Auditor for the audit of the Annual Accounts (in accordance with Article 106 of the SJU Financial Rules)</p> <p>Discharge authority</p> <p>European Parliament and European Council</p> |
| <p>Resources available to the Joint Undertaking in 2015</p> <p><i>SESAR Joint Undertaking 2015 provisional accounts</i></p> | <p>Budget</p> <p>30 229 774 euro for commitments ("SESAR 1" FP7/TEN-T)</p> <p>126 733 842 euro for payments ("SESAR 1" FP7/TEN-T)</p> <p>and</p> <p>51 470 000 euro for commitments ("SESAR2020" Horizon 2020)</p> <p>10 300 000 euro for payments ("SESAR2020" Horizon 2020)</p> <p>Staff at 31 December 2015</p> <p>The 2015 operating budget provides for an establishment plan of 39 temporary staff and three seconded national experts (SNEs). This gives a total of 42 posts, of which 41 were occupied at year-end 2015:</p> <ul style="list-style-type: none"> - 35 temporary staff, recruited externally; - 1 staff member seconded by the SJU Members in accordance with Article 8 of Regulation (EC) No 219/2007; - 2 contract staff; - 3 SNEs. <p>Assigned to</p> |

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| | <p>Operational tasks: 22</p> <p>Support for operations: 6</p> <p>Administration tasks: 12</p> <p>ED: 1</p> |
| Activities and services provided in 2015 | <p>See the Joint Undertaking's Annual Activity Report for 2015 at http://www.sesarju.eu/ (<i>publication of the final AAR 2015 expected early July; draft available if required</i>)</p> |

Source: Information supplied by the SESAR Joint Undertaking.

THE JU'S REPLY

15. The SJU would like to highlight that the delay of two months for the first Horizon 2020 calls was out of the SJU control. The main reason was significant changes to the IT tool for grant preparation and evaluation. Therefore, when strictly following the Horizon 2020 grant procedures, the first grant agreements could only be signed in January 2016. The related unused 2015 payment appropriations were fully reintroduced into the 2016 budget.

16. The SJU would like to highlight that the rate of individual commitments is 92% as regards the SJU budget for the Seventh Framework Programme and TENT-T.

18. The SJU would like to emphasise that Eurocontrol did present the financial statements regarding the financial year 2014 in 2015. However, as some key elements were missing, the SJU was not able to validate the Eurocontrol Financial Statements as a whole. The missing parts have been received in the meanwhile and the assessment is in its final stage.