



Council of the
European Union

Brussels, 17 November 2016
(OR. en)

14055/16

FIN 760

COVER NOTE

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 Clean Sky 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 Clean Sky 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 Clean Sky Joint Undertaking for the financial year 2015 together with the Joint Undertaking'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
Clean Sky Joint Undertaking
for the financial year 2015

together with the Joint Undertaking's reply

CONTENTS

	Paragraph
Introduction	1 - 6
Information in support of the statement of assurance	7
Statement of assurance	8 - 15
Opinion on the reliability of the accounts	13
Opinion on the legality and regularity of the transactions underlying the accounts	14
Comments on budgetary and financial management	16 - 22
Presentation of the Accounts	16
Implementation of the 2015 budget	17 - 18
Clean Sky Joint Undertaking multiannual budget implementation under FP 7	19 - 20
Clean Sky Joint Undertaking multiannual budget implementation under Horizon 2020	21 - 22
Other matters	23 - 27
Key controls and supervisory systems	23
Anti-Fraud Strategy	24 - 26
Commission's Internal Audit Service (IAS) audits	27
Follow-up of previous observations	28-29
Monitoring and reporting of project research results	28
Conflicts of interest	29
Annex	

INTRODUCTION

1. The Joint Undertaking for the implementation of the Joint Technology Initiative in aeronautics (Clean Sky Joint Undertaking), located in Brussels, was set up in December 2007² for a period of ten years and started working autonomously on 16 November 2009. On 6 May 2014³, the Council adopted a new founding Regulation which repealed the original Regulation and entrusted the Joint Undertaking, referred to as “Clean Sky 2 Joint Undertaking”⁴, with new tasks under the Horizon 2020 Framework Programme for Research and Innovation⁵ and extended the lifetime of the Joint Undertaking for the period up to 31 December 2024.
2. The objective of the Clean Sky Joint Undertaking is to contribute to the finalisation of research activities of the Seventh Research Framework Programme (FP7)⁶ and to improving the environmental impact of aeronautical technologies, as well as to developing a strong and globally competitive aeronautical industry and supply chain in Europe. The objectives of the Clean Sky 2 Joint Undertaking fall under the societal challenge pillar in Horizon 2020 for Smart, Green and Integrated Transport⁷.
3. The research activities coordinated by the Joint Undertaking are organised into (a) six ongoing technological and demonstration-focused areas or ‘Integrated Technology

² Council Regulation (EC) No 71/2008 of 20 December 2007 setting up the Clean Sky Joint Undertaking (OJ L 30, 4.2.2008, p. 1).

³ Council Regulation (EU) No 558/2014 of 6 May 2014 establishing the Clean Sky 2 Joint Undertaking (OJ L 169, 7.6.2014, p. 77).

⁴ This report refers to the “Clean Sky 2 Joint Undertaking” unless it is necessary to distinguish between the two programmes.

⁵ 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).

⁶ The Seventh Framework Programme, adopted by Decision No 1982/2006/EC of the European Parliament and of the Council (OJ L 412, 30.12.2006, p. 1).

⁷ The **Annex** summarises the Joint Undertaking’s competences, activities and available resources. It is presented for information purposes.

Demonstrators' (ITDs) implementing FP7 projects and (b) nine new technological and demonstration-focused areas implementing Horizon 2020 projects:

- three Integrated Technology Demonstrators (ITDs)
- three Innovative Aircraft Demonstrator Platforms (IADPs)
- three transverse areas (TAs), including the Technology Evaluator

4. The members of the Joint Undertaking under the new Regulation are the European Union (EU), represented by the Commission, the industrial leaders of the ITDs/IADPs/TAs and 'core partners' selected via open and competitive calls⁸. The Associate members of the Clean Sky Joint Undertaking under FP7 will retain that status until completion of their research activities and actions initiated under Regulation (EC) No 71/2008.

5. The maximum EU contribution to the Clean Sky Joint Undertaking under FP7, to cover research activities and administrative costs⁹, was 800 million euro. Other members of the Joint Undertaking were to contribute resources at least equal to the EU contribution excluding the amount allocated through calls for proposals¹⁰.

6. The EU financial contribution to the Clean Sky 2 Joint Undertaking under Horizon 2020 will be up to 1 755 million euro. The leaders and core partners must bring to the programme a minimum of 2 193,7 million euro in private contributions over the period of the Joint

⁸ As a result of the first call for core partners, 76 new partners joined the programme in 2015, already making the membership of the Clean Sky 2 programme larger than that of Clean Sky (66 Associates). In 2015, the Joint Undertaking launched a second call for core partners.

⁹ The administrative costs of the Clean Sky Joint Undertaking were shared equally between, on the one hand, the EU and, on the other hand, the other members, which contributed the remaining 50 % in cash. The administrative costs of the Joint Undertaking could not exceed 3 % of the total cash contribution and the contributions in kind by the members and partners.

¹⁰ The EU contribution is distributed as follows: (a) an amount of up to 400 million euro is allocated to the ITD leaders and an amount of up to 200 million euro to the Associates. The ITD leaders and Associates are to contribute resources at least matching the EU contribution; (b) an amount of at least 200 million euro is to be allocated to the partners selected by way of competitive calls for proposals.

Undertaking¹¹, including, over the same period, contributions of at least 965,2 million euro for additional activities^{12 13}. Administrative costs should not exceed 78 million euro and should be split equally between the EU and the private members of the Joint Undertaking.

INFORMATION IN SUPPORT OF THE STATEMENT OF ASSURANCE

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, including a quality control review of the ex-post audits carried out by the Joint Undertaking at beneficiaries. This is supplemented by evidence provided by the relevant work of other auditors and an analysis of management representations.

STATEMENT OF ASSURANCE

8. 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 Clean Sky 2 Joint Undertaking, which comprise the financial statements¹⁴ and the reports on the implementation of the budget¹⁵ for the financial year ended 31 December 2015; and

¹¹ Article 4(1) of Regulation (EU) No 558/2014.

¹² As provided in Article 4(2)(b) of Regulation (EU) No 558/2014, additional activities are activities outside the work plan of the Joint Undertaking but contributing to the objectives of the Clean Sky Joint Technology Initiative. Under Article 4(4) of the Regulation, the cost of additional activities must be certified by an independent external auditor and are not subject to audit by the Joint Undertaking or by any EU body.

¹³ Article 15(3) of the Annex to Regulation (EU) No 558/2014 stipulates that the “operational costs of the Clean Sky 2 Joint Undertaking shall be covered through (a) a financial contribution by the Union (b) in-kind contributions by Leaders and Core Partners and their affiliated entities consisting of the costs incurred by them in implementing indirect actions less the contribution of the Clean Sky 2 Joint Undertaking and any other Union contribution to those costs”.

¹⁴ 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.

- (b) the legality and regularity of the transactions underlying those accounts.

The management's responsibility

9. In accordance with Articles 16 and 22 of the model financial regulation applicable to the Clean Sky 2 Joint Undertaking¹⁶, 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 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 officer¹⁷, and making accounting estimates that are reasonable in the circumstances. The Executive 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

¹⁵ These comprise the reports on implementation of the budget, a summary of budgetary principles and other explanatory notes.

¹⁶ Commission Delegated Regulation (EU) No 110/2014 of 30 September 2013 on the model financial regulation for public-private partnership bodies referred to in Article 209 of Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council, (OJ L 38, 7.2.2014, p. 2).

¹⁷ 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.

measures to prevent irregularities and fraud and, if necessary, legal proceedings to recover funds wrongly paid or used.

The auditor's responsibility

10. The Court's responsibility is, on the basis of its audit, to provide the European Parliament and the Council¹⁸ 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.

11. 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.

12. The Court considers that the audit evidence obtained is sufficient and appropriate to provide a basis for its statement of assurance.

¹⁸ Article 47 of Regulation (EU) No 110/2014.

Opinion on the reliability of the accounts

13. 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

14. In the Court's opinion, the transactions underlying the annual accounts of the Clean Sky Joint Undertaking for the year ended 31 December 2015 are, in all material respects, legal and regular.

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

COMMENTS ON BUDGETARY AND FINANCIAL MANAGEMENT

Presentation of the accounts

16. The amount of in-kind contributions entered in the final accounts is based on the information received from the members of the Joint Undertaking other than the EU¹⁹. From the reported 47 million euro of in-kind contributions related to H2020 operational expenses, 19 million euro have been certified in accordance with the Council Regulation, but not yet validated by the Governing Board, and 28 million euro remained to be certified and validated²⁰.

Implementation of the 2015 budget

17. The final 2015 budget available for implementation included commitment appropriations of 440,7 million euro and payment appropriations of 245,9 million euro. The utilisation rates for commitment and payment appropriations were 99,5 % and 81 %

¹⁹ Article 4(3) of Regulation (EU) No 558/2014.

²⁰ Final Accounts of the Joint Undertaking, p. 30.

respectively²¹. The lower implementation rate for payment appropriations relates to delays in the implementation of the Clean Sky 2 programme (due to delayed signature of one significant grant agreement with a member of the Joint Undertaking, and delays in the start of projects selected by call for proposals).

18. Of the 430,6 million euro in total operational commitments made in 2015, 226 million euro (52,7 %) was for individual commitments based on completed award procedures for grants. The remaining 203,5 million euro (47,3 %) was for Horizon 2020 global commitments for two calls for core partners and two calls for proposals for which the award procedures were ongoing at 31 December 2015.

Clean Sky Joint Undertaking multiannual budget implementation under FP7

19. Out of the envelope of 800 million euro for the operational and administrative activities to be funded by the EU under FP7, the Joint Undertaking had made commitments amounting to 756,96 million euro (94,6 %) and payments amounting to 740,3 million euro (92,5 % of the operational envelope) by the end of 2015. As the Joint Undertaking is no longer entitled to launch calls for proposals under FP7, the remaining commitments will be used as appropriate for grant agreements with members (according to the funding list agreed by the Governing Board and the overall state of implementation of each ITD)²². The EU cash contribution to the administrative costs of the Joint Undertaking was 12,6 million euro.

20. The other members' contributions for operational activities at 31 December 2015 totalled 550,9 million euro, of which 501,6 million euro, or 91 %, had been validated by the Governing Board. The remaining amounts, pending validation, included 37,9 million euro from earlier years (2008-2014), and 12,6 million euro in in-kind contributions by the

²¹ The execution rate for payment appropriations is calculated without including 17,4 million euro of unused payment appropriations not required in 2015. With the inclusion of this amount in the total payments budget, the execution rate is 75 %. See Final Accounts of the Joint Undertaking, p. 58.

²² See Clean Sky Report on Budgetary and Financial Management 2015, p. 22.

members in 2015. The other members' cash contributions to the administrative costs of the Joint Undertaking came to 13,5 million euro.

Clean Sky Joint Undertaking multiannual budget implementation under Horizon 2020

21. Out of a total envelope of 1 755 million euro for the operational and administrative activities to be funded by the EU under Horizon 2020, the Joint Undertaking made operational commitments of 436,7 million euro and payments of 89,8 million euro (20,5 % of the operational commitments). The low level of payments is mainly attributable to delays in negotiating the Horizon 2020 grant agreements. The EU cash contribution to the administrative costs of the Joint Undertaking was 3,3 million euro.

22. Out of a minimum envelope of 1 229 million euro for the other members' in-kind and cash contributions for operational and administrative costs (other than additional activities), 47 million euro of in-kind contributions to operational activities had been reported to the Joint Undertaking by 31 December 2015. The other members' cash contributions to the Joint Undertaking's administrative costs came to 3,5 million euro.

OTHER MATTERS

Key controls and supervisory systems

23. The Clean Sky 2 Joint Undertaking has set up ex-ante control procedures based on financial and operational desk reviews, and ex-post audits at beneficiaries of grants. These checks are a key tool to assess the legality and regularity of the underlying transactions, including the cash and in-kind contributions made to the Joint Undertaking by its members other than the EU. The residual error rate for the ex-post audits reported in the Clean Sky Joint Undertaking 2015 Annual Activity Report was 1,52 %²³.

²³ Clean Sky Joint Undertaking Annual Activity Report, p. 90. The ex-post audits performed during 2015 covered projects funded by the Joint Undertaking under FP7. The audit approach for Horizon 2020 projects is set out in the Research common ex post audit strategy for Horizon 2020. The ex-post audits for projects funded by the Joint Undertaking under Horizon 2020 will start in 2016.

Anti-Fraud Strategy

24. The Joint Undertaking Financial Rules state that the Joint Undertaking's budget should be implemented in compliance with effective and efficient internal control standards, including prevention, detection, correction and follow-up of fraud and irregularities²⁴.

25. Following the Commission's adoption of an Anti-Fraud Strategy in June 2011, the first common Research Anti-Fraud Strategy was adopted in July 2012, and updated in 2015 to take account of changes introduced by Horizon 2020²⁵. The Research Anti-Fraud Strategy includes an action plan to be implemented by the research Joint Undertakings.

26. Internal control procedures are already in place at the Clean Sky 2 Joint Undertaking to provide reasonable assurance on the prevention and detection of fraud and irregularities (ex-ante checks on payments, conflict of interest policy, ex-post audits at beneficiaries of grants). 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 funding²⁶, in accordance with the agreed timetable.

Commission's Internal Audit Service (IAS) audits

27. In 2015, the IAS carried out an audit on the dissemination of the results of EU-funded research by the Clean Sky Joint Undertaking, focusing on the Joint Undertaking's processes for monitoring FP7 projects. The IAS recommended improvements in a number of areas: planning and reporting on the use and dissemination of members' research results under the grant agreements with members; assessment of the core partners' reporting on the dissemination and exploitation of research results; performance monitoring and reporting; and the Clean Sky 2 Joint Undertaking's central dissemination of research results and quality control of beneficiaries' publications. The IAS also recommended the establishment of a

²⁴ Article 12 of the Financial Rules of the Clean Sky 2 Joint Undertaking.

²⁵ For example, the setting-up of a Common Support Centre, with a centralised audit department and harmonised business processes for the EU Research bodies and related IT systems.

²⁶ This action also includes assessment of the use of non-EU funding sources to prevent double funding.

central repository of outputs of dissemination and exploitation plans and reported activities. The Joint Undertaking has set up an action plan to address these recommendations.

FOLLOW-UP OF PREVIOUS OBSERVATIONS

Monitoring and reporting of project research results

28. As required by Horizon 2020 rules²⁷, the Clean Sky Joint Undertaking disclosed specific indicators on research results in its Annual Activity Report (performance indicators and indicators for monitoring cross-cutting issues)²⁸.

Conflicts of interest

29. 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

²⁷ Article 31 of Regulation (EU) No 1291/2013 and Annex II of Council Decision 2013/743/EU (OJ L 347, 20.12.2013, p. 965).

²⁸ Clean Sky Joint Undertaking Annual Activity Report, Annex 5, p. 134 to 137.

Clean Sky 2 Joint Undertaking (Brussels)

Competences and activities

<p>Areas of Union competence deriving from the Treaty</p> <p><i>(Articles 187 and 188 of the Treaty on the Functioning of the European Union)</i></p>	<p>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). Horizon 2020 aims to achieve a greater impact with respect to research and innovation by combining Horizon 2020 and private sector funds in public-private partnerships in key areas where research and innovation can contribute to the Union's wider competitiveness goals, leverage private investment and help tackle societal challenges.</p> <p>Council Regulation (EU) No 558/2014 of 6 May 2014 setting up the Clean Sky 2 Joint Undertaking (OJ L 169/77, 7.6.2014).</p>
<p>Competences of the Joint Undertaking</p> <p><i>(Council Regulation (EU) No 558/2014)</i></p>	<p>Objectives</p> <p>The Clean Sky 2 Joint Undertaking has the following objectives:</p> <ul style="list-style-type: none">(a) to contribute to the finalisation of research activities initiated under Regulation (EC) No 71/2008 and to the implementation of Regulation (EU) No 1291/2013, and in particular the Smart, Green and Integrated Transport Challenge under Part III — Societal Challenges of Decision 2013/743/EU;(b) to contribute to improving the environmental impact of aeronautical technologies, including those relating to small aviation, as well as to developing a strong and globally competitive aeronautical industry and supply chain in Europe. This can be realised through speeding up the development of cleaner air transport technologies for earliest possible deployment, and in particular the integration, demonstration and validation of technologies capable of:<ul style="list-style-type: none">(i) increasing aircraft fuel efficiency, thus reducing CO emissions by 20 to 30 % compared to 'state-of-the-art' aircraft entering into service as from 2014;(ii) reducing aircraft NO_x and noise emissions by 20 to 30 % compared to 'state-of-the-art' aircraft entering into service as from 2014.
<p>Governance</p>	<p>The JU's governing body is the Governing Board composed of:</p> <ul style="list-style-type: none">(a) one representative of the Commission on behalf of the Union;(b) one representative of each leader;

	<p>(c) one representative of the core partner per ITD;</p> <p>(d) one representative of the Associates per ITD;</p> <p>(e) one representative of the core partners per IADP.</p> <p>The Board's competences/tasks are set out in Article 8 of the Statutes (Annex I to the JU Regulation)</p> <p>The EU holds 50 % of the voting rights. These voting rights are indivisible. Each other representative holds an equal number of votes.</p> <p>The Programme Office is led by an Executive Director whose competences/tasks are set out in Article 10 of the Statutes.</p> <p>The industry is directly represented on the Board and through the other bodies of the JU, which are the ITD and IADP Steering Committees and whose competences/tasks are set out in Article 11 of the Statutes. The States Representatives Group and the Scientific Committee are also bodies of the JU but have an advisory role only.</p>
<p>Resources available to the Joint Undertaking in 2015</p>	<p>Budget</p> <p>440 705 606 euro (commitment appropriations)</p> <p>245 990 262 euro (payment appropriations)</p> <p>Staff at 31 December 2015</p> <p>42 posts provided for in the establishment plan (36 temporary staff and 6 contract staff), of which 36 posts were occupied; these 36 were assigned to operational activities (21) and mixed tasks (15) including management, finance, audit, communication and HR tasks.</p>
<p>Activities and services provided in 2015</p>	<p>See the Clean Sky 2 Joint Undertaking's Annual Activity Report 2015 at www.cleansky.eu</p>

Source: Information supplied by the Clean Sky 2 Joint Undertaking.

THE JU'S REPLY

16. While the members provided their estimates by 31 January 2016, the actual declarations were received later, as many members find it difficult to present their actual figures in such a short deadline, due to longer internal processes.

By 30 September 2016, the JU has received and assessed most of the members' financial reports which have already increased the validated in-kind contribution by 17,4 million euro compared to the amount reported in the final accounts. All additional validated in-kind contributions related to H2020 operational expenses will be presented for opinion of the Governing Board before the end of 2016 and shall reflect the validated private members' contribution in the net assets of the 2016 provisional accounts.

27. The JU has received the audit report on the findings and recommendations of the Internal Audit Service of the Commission in January 2016. Until August, the JU has agreed with the IAS the partial closure of the issue concerning the planning and reporting on the use and dissemination of beneficiaries' research results and has scheduled the deadlines for the complete implementation during the year 2017. The action concerning performance monitoring and reporting has been fully implemented and the issue has been closed by the IAS. The central dissemination of research results will be achieved by November 2016.