



Council of the
European Union

Brussels, 17 November 2016
(OR. en)

14058/16

FIN 763

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 Electronic Components and Systems for European Leadership 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 Electronic Components and Systems for European Leadership 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 Electronic Components and Systems for European Leadership 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
Electronic Components and Systems for European Leadership Joint Undertaking
for the financial year 2015
together with the Joint Undertaking's reply

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INTRODUCTION

1. The Joint Undertaking for the implementation of the Joint Technology Initiative on Electronic Components and Systems for European Leadership (ECSEL Joint Undertaking), located in Brussels, was set up in May 2014² under the Horizon 2020 Framework programme for Research and Innovation³ for the period up to 31 December 2024. The ECSEL Joint Undertaking replaced and succeeded the ENIAC and ARTEMIS Joint Undertakings, established by Regulations (EC) No 72/2008 and (EC) No 74/2008, the official closure of which took effect on 26 June 2014. The ECSEL Joint Undertaking started working autonomously on 27 June 2014.

2. The objective of the ECSEL Joint Undertaking is to contribute to the development of a strong and globally competitive electronics components and systems industry in the European Union (EU). It also aims to ensure the availability of electronic components and systems for key markets and for addressing societal challenges, and to maintain and grow semiconductor and smart system manufacturing capability in Europe. Finally, it aims to align strategies with Member States to attract private investment and contribute to the effectiveness of public support by avoiding unnecessary duplication and fragmentation of effort, and by facilitating the participation of actors involved in research and innovation⁴.

3. The founding members of the Joint Undertaking are the EU, represented by the Commission, the ECSEL Participating States (Austria, Belgium, Bulgaria, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Israel, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom) and private members represented by the

² Council Regulation (EU) No 561/2014 of 6 May 2014 establishing the ECSEL Joint Undertaking (OJ L 169, 7.6.2014, p. 152).

³ 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).

⁴ The ***Annex*** summarises the Joint Undertaking's competences, activities and available resources. It is presented for information purposes.

AENEAS, ARTEMISIA and EPoSS Associations of companies and other research organisations active in the field of embedded and cyber-physical systems, smart system integration and micro- and nano-electronics.

4. The maximum EU contribution from Horizon 2020 to the ECSEL Joint Undertaking is 1 185 million euro. A similar amount should come from the ECSEL Participating States, and the private contribution should be at least 1 657,5 million euro. Administrative costs are to be covered entirely by financial contributions⁵, whereas operational costs are covered by financial contributions from the EU and the ECSEL Participating States and by in-kind contributions from the private members.

5. The ECSEL Joint Undertaking is responsible for the payment of commitments still open on ENIAC and ARTEMIS projects funded under the Seventh Research Framework Programme (FP7) at the time those two Joint Undertakings were officially wound up on 26 June 2014 (see paragraph 23 below).

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 in 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.

⁵ The following contributions to the administrative costs of the ECSEL Joint Undertaking are to be paid over the period 2014-2017 to complete the actions launched under Regulations (EC) No 72/2008 setting up the ENIAC Joint Undertaking (OJ L 30, 4.2.2008, p. 21) and (EC) No 74/2008 on the establishment of the ARTEMIS Joint Undertaking (OJ L 30, 4.2.2008, p. 52): (a) 2 050 000 euro by the EU; (b) 1 430 000 euro by the AENEAS Association; (c) 975 000 euro by the ARTEMISIA Association.

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 ECSEL 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 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

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.

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.

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 measures to prevent irregularities and fraud and, if necessary, initiating 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.

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

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

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.

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.

Basis for a qualified opinion on the legality and regularity of the underlying transactions

13. The ECSEL Joint Undertaking has taken over the FP7 projects of the ARTEMIS and ENIAC Joint Undertakings. The payments made for these projects by the ECSEL Joint Undertaking in 2015, against certificates of acceptance of costs issued by the national funding authorities (NFAs) of the ECSEL Participating States, amounted to 94,2 million euro, which represents 65 % of the total payments made by the Joint Undertaking in 2015.

14. Administrative agreements concluded by the ARTEMIS and ENIAC Joint Undertakings with the NFAs have continued to apply since those Joint Undertakings were merged to form the ECSEL Joint Undertaking. Under these agreements, the NFAs perform ex-post audits of FP7 project payments on behalf of the Joint Undertaking. The ARTEMIS and ENIAC Joint

Undertakings' ex-post audit strategies relied heavily on the NFAs to audit project cost claims¹¹.

15. The ECSEL Joint Undertaking has taken steps to assess the implementation of ex-post audits by the NFAs and has obtained written statements from the NFAs declaring that the implementation of their national procedures provides reasonable assurance on the legality and regularity of transactions. However, the significant variation in the methodologies and procedures used by the NFAs does not allow the ECSEL Joint Undertaking to calculate a single reliable weighted error rate or a residual error rate. Therefore the Court is not in a position to conclude whether ex-post audits are functioning effectively and whether this key control provides sufficient assurance as to the legality and regularity of the underlying transactions for FP7 projects¹².

16. This issue concerning the variation in the methodologies and procedures used by the NFAs is not relevant anymore for the implementation of Horizon 2020 projects, as the ex-post audits will be undertaken either by the ECSEL Joint Undertaking or by the Commission¹³.

Qualified opinion on the legality and regularity of the transactions underlying the accounts

17. In the Court's opinion, except for the possible effects of the matter described in paragraphs 13 to 15, the transactions underlying the annual accounts of the ECSEL Joint Undertaking for the financial year ended 31 December 2015 are, in all material respects, legal and regular.

18. The following comments do not call the Court's opinions into question.

¹¹ According to the ex-post audit strategies adopted by ARTEMIS and ENIAC, the Joint Undertaking must assess at least once a year whether the information received from the Member States provides sufficient assurance as to the regularity and legality of the executed transactions.

¹² See also Chapter 9 of the ECSEL Joint Undertaking 2015 Annual Activity Report.

¹³ Article 13 of Council Regulation (EU) No 561/2014.

COMMENTS ON BUDGETARY AND FINANCIAL MANAGEMENT

Presentation of the accounts

19. By 31 January each year, the members of the Joint Undertaking other than the EU (and Associated Partners) are required to report to the Governing Board on the value of their in-kind contributions made in each of the previous financial years¹⁴. On the basis of this information, and according to the guidance provided by the European Commission to the Joint Undertaking, the members' in-kind contributions should be entered in the Joint Undertaking's accounts.

20. At the time the final accounts were being prepared, the private members of the Joint Undertaking were not in a position to report on the amount of costs actually incurred in implementing Horizon 2020 projects¹⁵. Consequently, the amount of 2015 in-kind contributions for the Horizon 2020 programme entered in the accounts is based on estimates made by the Joint Undertaking of the costs incurred by members up to the end of 2015¹⁶.

Implementation of the 2015 budget

21. The final 2015 budget available for implementation included commitment appropriations of 108,5 million euro and payment appropriations of 168 million euro. The

¹⁴ Articles 4(3) and 4(4) of Regulation (EU) No 561/2014.

¹⁵ Article 16(3) of the Statutes of the Joint Undertaking defines the in-kind contribution as the costs incurred by the private members less the financial contributions of the ECSEL Joint Undertaking, the Participating States and any other EU contribution to those costs. However, as recognised by European Commission guidance issued in July 2016, in the specific case of the ECSEL Joint Undertaking "the financial contribution to the projects can only be determined at the end of the project when the private members are in a position to calculate their respective in-kind contributions (i.e. many Participating States recognise costs only at the end of the project)".

¹⁶ The amount of 2015 in-kind contributions for Horizon 2020 is estimated as 58,7 million euro. While the Joint Undertaking used the most accurate information available to calculate the estimated in-kind contributions, this amount has not been certified by independent external auditors (Article 4(5) of Regulation (EU) No 561/2014), nor validated by the Governing Board of the Joint Undertaking.

utilisation rates for commitment and payment appropriations were 99 % and 91 % respectively¹⁷.

22. All of the operational commitments made in 2015 (102,5 million euro) were global commitments for which grant agreements were yet to be signed. The level of global commitments reflects the time required for the negotiation procedure for the 2015 calls for Horizon 2020 projects.

ECSEL Joint Undertaking multiannual budget implementation under FP7

23. By their closure on 26 June 2014, the ARTEMIS and ENIAC Joint Undertakings had made commitments of 623 million euro¹⁸ for operational activities to be funded from FP7. Payments in the ECSEL Joint Undertaking accounts amounted to 293 million euro¹⁹ (47 % of the operational commitments²⁰) by the end of 2015.

ECSEL Joint Undertaking multiannual budget implementation under Horizon 2020

24. For the activities launched by the ECSEL Joint Undertaking under Horizon 2020, out of the EU contribution of up to 1 185 million euro to cover operational and administrative costs²¹, the Joint Undertaking had made commitments of 257,5 million euro (22 %) and payments of 56 million euro (22 % of the commitments) by the end of 2015. The EU's cash contribution to the administrative costs of the Joint Undertaking was 1,4 million euro.

25. The 28 ECSEL Participating States are required to make a financial contribution to the operational costs of the ECSEL Joint Undertaking that is commensurate with the EU's

¹⁷ The implemented payment appropriations of 152,4 million euro (91 %) comprised 64,7 million euro for ENIAC FP7 projects, 27,5 million euro for ARTEMIS FP7 projects, 55,7 million euro for ECSEL 2014 calls for Horizon 2020 projects and 4,5 million euro in administrative expenditure.

¹⁸ 181 million euro for ARTEMIS and 442 million euro for ENIAC.

¹⁹ 114,5 million euro for ARTEMIS, 178,5 million euro for ENIAC.

²⁰ 63 % for ARTEMIS, 40 % for ENIAC.

²¹ Article 3(1) of Regulation (EU) No 561/2014.

financial contribution and of at least 1 170 million euro²². As at April 2016, of the 20 Participating States which took part in the 2014 calls for proposals, nine declared no payments made during the period, eleven declared payments (mainly pre-financings) worth a total of 15,8 million euro.

26. The other members are expected to make in-kind contributions of at least 1 657,5 million euro²³. The amount of private members' in-kind contributions for 2015 has been estimated at 58,7 million euro. The private members' contributions in cash to the administrative costs of the Joint Undertaking, at 31 December 2015, amounted to 3,6 million euro²⁴.

OTHER MATTERS

Key controls and supervisory systems

27. The ECSEL Joint Undertaking has set up ex-ante control procedures based on financial and operational desk reviews, and is developing ex-post audits at beneficiaries of Horizon 2020 grants. For FP7 projects, the ex-post audits at beneficiaries have been delegated to the NFAs²⁵. These checks are key tools 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.

²² Article 4(1) of Regulation (EU) No 561/2014.

²³ Article 4(2) of Regulation (EU) No 561/2014.

²⁴ At year's end a cash contribution of 188 000 euro from one of the industry associations had not yet been received; the amount has been fully paid in 2016.

²⁵ See also paragraph 14 above.

Anti-Fraud Strategy

28. 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 irregularities²⁶.

29. 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 March 2015 to take account of changes introduced by Horizon 2020²⁷. The Research Anti-Fraud Strategy includes an action plan to be implemented by the research Joint Undertakings.

30. Internal control procedures are already in place at the ECSEL 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). However, the Joint Undertaking has not yet made a comprehensive analysis of the new measures introduced by the updated Research Anti-Fraud Strategy.

FOLLOW-UP OF PREVIOUS OBSERVATIONS

Monitoring and reporting of project research results

31. As required by Horizon 2020 rules²⁸, the ECSEL Joint Undertaking disclosed specific indicators on research results in its Annual Activity Report (performance indicators and indicators for monitoring cross-cutting issues)²⁹.

²⁶ Article 12 of the ECSEL Joint Undertaking Financial Rules.

²⁷ For example, the setting-up of a Common Support Centre, with a centralised audit service and harmonised business processes for EU research bodies.

²⁸ Article 31 of Regulation (EU) No 1291/2013.

²⁹ ECSEL Joint Undertaking 2015 Annual Activity Report, Annexes 5, 6 and 7, p. 71 to 77.

Conflicts of interest

32. 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

ECSEL 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>Council Regulation (EU) No 561/2014 of 6 May 2014 establishing the ECSEL Joint Undertaking.</p> <p>Regulation (EU) No 1291/2013 of the European Parliament and of the Council.</p>
<p>Competences of the Joint Undertaking</p> <p><i>(Council Regulation (EU) No 561/2014)</i></p>	<p>Objectives</p> <p>The ECSEL Joint Undertaking shall have the following objectives:</p> <ul style="list-style-type: none">(a) to contribute to the implementation of Regulation (EU) No 1291/2013, and in particular Part II of Decision 2013/743/EU;(b) to contribute to the development of a strong and globally competitive electronics components and systems industry in the Union;(c) to ensure the availability of electronic components and systems for key markets and for addressing societal challenges, aiming at keeping Europe at the forefront of technology development, bridging the gap between research and exploitation, strengthening innovation capabilities and creating economic and employment growth in the Union;(d) to align strategies with Member States to attract private investment and contribute to the effectiveness of public support by avoiding unnecessary duplication and fragmentation of efforts and by facilitating the participation of actors involved in research and innovation;(e) to maintain and grow semiconductor and smart system manufacturing capability in Europe, including leadership in manufacturing equipment and materials processing;(f) to secure and strengthen a commanding position in design and systems engineering, including embedded technologies;(g) to provide access for all stakeholders to a world-class infrastructure for the design and manufacture of electronic components and embedded/cyber-physical and smart systems; and(h) to build a dynamic ecosystem involving small and medium-sized

	enterprises (SMEs), thereby strengthening existing clusters and nurturing the creation of new clusters in promising new areas.
Governance	The JU's governing body is the Governing Board. The Programme Office is led by an Executive Director. Industry is represented on the Private Members Board. The Commission (representing the EU) and the Participating States make up the Public Authorities Board.
Resources available to the Joint Undertaking in 2015	<p>Budget</p> <p>107 654 814,00 euro for commitments</p> <p>161 500 000,00 euro for payments</p> <p>Staff at 31 December 2015</p> <p>30 posts provided for in the establishment plan (14 temporary staff, 15 contract staff and 1 seconded expert), of which 28 posts were occupied; these were allocated to: operational activities (13); administrative tasks (12); mixed tasks (3).</p>
Activities and services provided in 2015	See the ECSEL Joint Undertaking Annual Activity Report for 2015 at www.ecsel.eu

Source: Information supplied by the ECSEL Joint Undertaking.

THE JU'S REPLY

20. The in-kind contributions for year 2015 have been entered in the final accounts for the financial year 2015, as adopted by the Governing Board, and in accordance with the provisions of the relevant methodology which has been as well validated by the Governing Board in June 2016.

30. The Common Research Anti-Fraud Strategy of the research family has been endorsed by the JU's Governing Board on 13 May 2015 (Decision GB-2015-34). From the autumn 2015, all staff members of the ECSEL JU involved in the grant management processes participated in the training sessions organized by the European Commission. New sessions are planned.

In 2016, the ECSEL JU will continue undertaking a number of actions towards improving the internal control environment with regard to the internal policy on fraud prevention.