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COVER NOTE

From:	Mr Klaus-Heiner LEHNE, President of the European Court of Auditors
date of receipt:	18 November 2016
To:	Mr Peter KAZIMIR, President of the Council of the European Union
Subject:	Report on the annual accounts of the Bio-based Industries 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 Bio-based Industries 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 Bio-based Industries 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
Bio-based Industries Joint Undertaking
for the financial year 2015

together with the Joint Undertaking's reply

CONTENTS

	Paragraph
Introduction	1 - 4
Information in support of the statement of assurance	5
Statement of assurance	6 - 13
Opinion on the reliability of the accounts	11
Opinion on the legality and regularity of the transactions underlying the accounts	12
Comments on budgetary and financial management	14 - 20
Presentation of the accounts	14 - 16
Implementation of the 2015 budget	17 - 18
BBI Joint Undertaking multiannual budget implementation under Horizon 2020	19 - 20
Other matters	21 - 26
Key controls and supervisory systems	21
Anti-Fraud Strategy	22 – 24
Follow-up of previous observations	25 - 26
Monitoring and reporting of project research results	25
Conflicts of interest	26
Annex	

INTRODUCTION

1. The Bio-based Industries (BBI) Joint Undertaking, located in Brussels, was set up in May 2014² for a period of ten years and started working autonomously on 26 October 2015.
2. The objective of the BBI Joint Undertaking is to implement a programme of research and innovation activities in Europe that will assess the availability of renewable biological resources that can be used for the production of bio-based materials, and on that basis support the establishment of sustainable bio-based value chains³. Those activities should be carried out through collaboration between stakeholders along the entire bio-based value chain, including primary production and processing industries, consumer brands, SMEs, research and technology centres, and universities.
3. The founding members of the Joint Undertaking are the European Union (EU), represented by the European Commission, and industrial partners represented by the Bio-based Industries Consortium (BIC).
4. The maximum EU contribution to the BBI Joint Undertaking, for research activities and administrative costs⁴, is 975 million euro to be paid from the budget of the Horizon 2020 Framework Programme for Research and Innovation (2014-2020)⁵. Other members of the Joint Undertaking are to contribute resources amounting to at least 2 730 million euro over the period of the Joint Undertaking⁶, including cash contributions of at least 182,5 million

² Council Regulation (EU) No 560/2014 of 6 May 2014 establishing the Bio-based Industries Joint Undertaking (OJ L 169, 7.6.2014, p. 130).

³ The **Annex** summarises the Joint Undertaking's competences, activities and available resources. It is presented for information purposes.

⁴ The administrative costs of the BBI Joint Undertaking shall not exceed 58,5 million euro and shall be covered by financial contributions divided equally on an annual basis between the Union and members other than the Union.

⁵ 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 Article 4(1) of Regulation (EU) No 560/2014.

euro, in-kind contributions to additional activities⁷ of at least 1 755 million euro and in-kind contributions to the Joint Undertaking's activities⁸.

INFORMATION IN SUPPORT OF THE STATEMENT OF ASSURANCE

5. 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. This is supplemented by evidence provided by relevant work of other auditors and an analysis of management representations.

STATEMENT OF ASSURANCE

6. 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 Bio-based Industries Joint Undertaking, which comprise the financial statements⁹ and the reports on the implementation of the budget¹⁰ for the financial year ended 31 December 2015; and
- (b) the legality and regularity of the transactions underlying those accounts.

⁷ As provided for in Article 4(2)(b) of Regulation (EU) No 560/2014, additional activities are contributions in kind for activities outside the work plan and the budget of the Joint Undertaking but contributing to the objectives of the BBI Initiative. In line with Article 4(4) of the same 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.

⁸ The amount of in-kind contributions to the Joint Undertaking's activities is dependent on the amounts of other contributions received.

⁹ 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 significant accounting policies and other explanatory notes.

¹⁰ These comprise the reports on implementation of the budget, a summary of budgetary principles and other explanatory notes.

The management's responsibility

7. In accordance with Articles 16 and 22 of Commission Delegated Regulation (EU) No 110/2014¹¹, 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 officer¹², 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 measures to prevent irregularities and fraud and, if necessary, legal proceedings to recover funds wrongly paid or used.

¹¹ OJ L 38, 7.2.2014, p. 2.

¹² The accounting rules adopted by the Commission's accounting officer are derived from the International Public Sector Accounting Standards (IPSAS) issued by the International Federation of Accountants or, where relevant, the International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

The auditor's responsibility

8. The Court's responsibility is, on the basis of its audit, to provide the European Parliament and the Council¹³ 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 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.

10. 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

11. 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

¹³ Article 47 of Regulation (EU) No 110/2014.

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

12. 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.

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

COMMENTS ON BUDGETARY AND FINANCIAL MANAGEMENT

Presentation of the accounts

14. By 31 January each year, the members of the BBI Joint Undertaking other than the Union 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.

15. At the time the final accounts were being prepared, the Joint Undertaking had not received the required reports from its members. Consequently, the total amount of in-kind contributions for 2015 entered in the accounts is based on estimates made by the Joint Undertaking of the costs incurred by members up to the end of 2015¹⁵.

16. The accounts issued by the BBI Joint Undertaking do not include the Budget Outturn Account, nor the reconciliation table with the Economic Outturn Account. The Budget Outturn Account is published in the Joint Undertaking's report on budgetary and financial

¹⁴ Articles 4(3) and 4(4) of Regulation (EU) No 560/2014.

¹⁵ The amount of in-kind contributions which is based on estimates is 3,5 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(4) of Regulation (EU) No 560/2014), nor validated by the Executive Director of the Joint Undertaking.

management for 2015¹⁶, although the level of information provided differs from that given by most other Joint Undertakings, which demonstrates the need for clear Commission guidelines for the Joint Undertakings' budgetary reporting.

Implementation of the 2015 budget

17. The final 2015 budget available for implementation included commitment appropriations of 209,4 million euro and payment appropriations of 21,1 million euro. The utilisation rates for commitment and payment appropriations were 87 % and 89 %, respectively¹⁷.

18. Total operational commitments in 2015 (180,4 million euro) were made at a global level and related to two 2015 calls for proposals, for which the award procedures were ongoing at 31 December 2015.

BBI Joint Undertaking multiannual budget implementation under Horizon 2020

19. Out of a total envelope of 975 million euro for the operational and administrative activities to be funded by the EU, the Joint Undertaking made operational commitments at 31 December 2015 amounting to 230 million euro (23,6 %). This amount includes 17,7 million euro in pre-financing payments made by the Commission before the Joint Undertaking obtained financial autonomy in October 2015. The EU cash contribution to the Joint Undertaking's administrative costs amounted to 0,8 million euro.

20. Out of a total envelope of 975 million euro¹⁸ for other members' in-kind and cash contributions to cover operational activities, no amounts were reported by the members to the Joint Undertaking at 31 December 2015. The BBI Joint Undertaking entered in the 2015

¹⁶ Report on Budgetary and Financial Management 2015, p. 17.

¹⁷ In the 2015 annual accounts, the implementation rate shown for payments is only 2 %, considered from the date the Joint Undertaking became financially autonomous. However, for the full 2015 financial year, the implementation rate for payments is 89 %. Chapter 3 of the BBI Joint Undertaking 2015 Report on Budgetary and Financial Management provides a detailed overview of budget implementation.

¹⁸ 792,5 million euro in kind and 182,5 million euro cash.

accounts an estimated amount of 3,5 million euro of in-kind and 0,3 million euro of cash¹⁹ contributions for the operational activities. Other members' contributions to the Joint Undertaking's administrative costs amounted to 0,8 million euro.

OTHER MATTERS

Key controls and supervisory systems

21. The BBI Joint Undertaking has set up ex-ante control procedures based on financial and operational desk reviews, and is developing a programme of ex-post audits of grant beneficiaries to be implemented from 2017²⁰. 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.

Anti-Fraud Strategy

22. According to Article 12 of the BBI Joint Undertaking's 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 irregularities.

23. Following the adoption of an Anti-Fraud Strategy by the 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 2020²¹. The Research Anti-Fraud Strategy includes an action plan to be implemented by the research Joint Undertakings.

24. Internal control procedures are already in place at the BBI Joint Undertaking to provide reasonable assurance on the prevention and detection of fraud and irregularities, (ex-ante

¹⁹ Financial contribution to operational costs by members other than the Union according to Article 12(3)(a) and (4) of the Annex of Council Regulation (EU) No 560/2014.

²⁰ See BBI 2015 Annual Activity Report, p. 40. The audit approach for Horizon 2020 projects is set out in the Research common ex-post audit strategy for Horizon 2020. Ex-post audits for projects funded by the Joint Undertaking under Horizon 2020 will start in 2017.

²¹ For example, the setting-up of a Common Support Centre, with a centralised audit service and harmonised business processes for EU research bodies.

checks on payments, conflict of interest policy and planned ex-post audits at final 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 funding²², in accordance with the agreed timetable.

FOLLOW-UP OF PREVIOUS OBSERVATIONS

Monitoring and reporting of project research results

25. As required by Horizon 2020 rules²³, the BBI Joint Undertaking disclosed information on specific indicators on research results in its Annual Activity Report (performance indicators and indicators for monitoring cross-cutting issues)²⁴. However, for 2015, few details were given as the first BBI projects were in their initial phase.

Conflicts of interest

26. 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.

²² This action also includes assessment of the use of non-EU funding sources to prevent double funding.

²³ 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).

²⁴ BBI Joint Undertaking Annual Activity Report, Section 1.3.1, p. 8 to p.16 and Annexe 12, p. 47 to 58.

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

Bio-based Industries 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 in particular Part III of Decision 2013/743/EU. 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 560/2014 of 6 May 2014 setting up the Bio-based Industries Joint Undertaking (BBI JU).</p>
<p>Competences of the Joint Undertaking</p> <p><i>(Council Regulation (EU) No 560/2014)</i></p>	<p>Mission: implement, under Horizon 2020 rules, the Strategic Innovation and Research Agenda (SIRA) developed by the industry</p> <p>BBI JU organises calls for proposals to support research, demonstration and deployment activities enabling collaboration between stakeholders along the entire value chain covering primary production of biomass, processing industry and final use.</p> <p>Specifically in charge of:</p> <ul style="list-style-type: none">✓ Annual Work Plan building coordination✓ Contribution to SIRA and KPI review✓ Call management✓ Project evaluation✓ Grant Agreement Process✓ Whole project management life cycle✓ Communication, dissemination & stakeholder management✓ Support policy development

	<p>Objectives: develop sustainable and competitive bio-based industries in Europe, based on advanced biorefineries that source their biomass sustainably by:</p> <ol style="list-style-type: none"> 1. Demonstrating new technologies using European biomasses: new chemical building blocks, new materials, and new consumer products from European biomass 2. Developing business models integrating economic actors along the value chain 3. Setting up flagship biorefinery plants deploying technologies & business models
<p>Governance</p>	<p>The BBI JU's governance bodies are (i) the Governing Board, (ii) the Executive Director, (iii) the Scientific Committee, (iv) the States Representatives Group:</p> <p>(i) The Governing Board shall be composed of five representatives of the Commission, on behalf of the Union; and five representatives of members other than the Union, at least one of which should be a Small and Medium Enterprise (SME) representative. The Governing Board has overall responsibility for the strategic orientation and operations of the BBI JU and supervises the implementation of its activities.</p> <p>(ii) The Executive Director is the chief executive responsible for the day-to-day management of the BBI JU in accordance with the decisions of the Governing Board. The Executive Director is the legal representative of the BBI Joint Undertaking and is accountable to the Governing Board. The Executive Director is supported by a Programme Office composed of BBI JU staff.</p> <p>(iii) and (iv) The Scientific Committee and the States Representatives Group shall be advisory bodies of the BBI Joint Undertaking.</p>
<p>Resources available to the Joint Undertaking in 2015</p>	<p>Budget</p> <p>209 422 797 euro for commitments</p> <p>21 075 192 euro for payments</p> <p>Staff at 31 December 2015</p> <p>22 posts provided for in the establishment plan (temporary staff and contract staff), of which 13 posts were occupied; these were allocated to: operational activities (7); administrative tasks (2); mixed tasks (4).</p>

Activities and services provided in 2015	See the BBI JU Annual Activity Report at www.bbi-europe.eu
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Source: Information supplied by the Bio-based Industries Joint Undertaking.

THE JU'S REPLY

The Joint Undertaking has taken note of the Court's report.