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COVER NOTE

From:	Mr Vítor CALDEIRA, President of the European Court of Auditors
date of receipt:	7 November 2013
To:	Mr Linas LINKEVICIUS, President of the Council of the European Union
Subject:	Report on the annual accounts of the European Research Council Executive Agency for the financial year 2012 together with the Agency's replies

Delegations will find attached the European Court of Auditors' report on the annual accounts of the European Research Council Executive Agency for the financial year 2012.

This report is accompanied by the Agency's replies and will shortly be published in the *Official Journal of the European Union*.

Encl.: Report on the annual accounts of the European Research Council Executive Agency for the financial year 2012 together with the Agency's replies.¹

¹ In English only. The other languages of this report are available on the European Court of Auditors' website: <http://eca.europa.eu/>.

ЕВРОПЕЙСКА СМЕТНА ПАЛАТА
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EVROPSKÝ ÚČETNÍ DVŮR
DEN EUROPÆISKE REVISIONSRET
EUROPÄISCHER RECHNUNGSHOF
EUROOPA KONTROLLIKODA
ΕΥΡΩΠΑΪΚΟ ΕΛΕΓΚΤΙΚΟ ΣΥΝΕΔΡΙΟ
EUROPEAN COURT OF AUDITORS
COUR DES COMPTES EUROPÉENNE
CÚIRT INIÚCHÓIRÍ NA HEORPA



EUROPSKI REVIZORSKI SUD
CORTE DEI CONTI EUROPEA
EIROPAS REVĪZIJAS PALĀTA
EUROPOS AUDITO RŪMAI

EURÓPAI SZÁMVEVŐSZÉK
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EUROPEISKA REVISIONSRÄTTEN

Report on the annual accounts
of the European Research Council Executive Agency
for the financial year 2012

together with the Agency's replies

INTRODUCTION

1. The European Research Council Executive Agency (hereinafter “the Agency”, aka “ERCEA”), which is located in Brussels, was created by Commission Decision 2008/37/EC¹. The Agency was established for a period beginning on 1 January 2008 and ending on 31 December 2017 with the aim of managing the “Ideas” specific programme under the 7th Framework Programme for Research².

INFORMATION IN SUPPORT OF THE STATEMENT OF ASSURANCE

2. The audit approach taken by the Court comprises analytical audit procedures, direct testing of transactions and an assessment of key controls of the Agency’s supervisory and control systems. This is supplemented by evidence provided by the work of other auditors (where relevant) and an analysis of management representations.

STATEMENT OF ASSURANCE

3. Pursuant to the provisions of Article 287 of the Treaty on the Functioning of the European Union (TFEU), the Court has audited:

(a) the annual accounts of the Agency, which comprise the financial statements³ and the reports on the implementation of the budget⁴ for the financial year ended 31 December 2012, and

¹ OJ L 9, 12.1.2008, p. 15.

² ***Annex II*** summarises the Agency's competences and activities. It is presented for information purposes.

³ These include the balance sheet and the economic outturn account, the cash flow table, the statement of changes in net assets and 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

4. In accordance with Articles 33 and 43 of Commission Regulation (EC, Euratom) No 2343/2002⁵, the management is responsible for the preparation and fair presentation of the annual accounts of the Agency and the legality and regularity of the underlying transactions:

(a) The management's responsibilities in respect of the Agency's annual accounts include designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies on the basis of the accounting rules adopted by the Commission's accounting officer⁶; making accounting estimates that are reasonable in the circumstances. The Steering Committee approves the annual accounts of the Agency after its accounting officer has prepared them on the basis of all available information and established a note to accompany the accounts in which he declares, *inter alia*, that he has reasonable assurance that they present a true and fair view of the financial position of the Agency in all material respects.

⁴ These comprise the budgetary outturn account and the annex to the budgetary outturn account.

⁵ OJ L 357, 31.12.2002, p. 72.

⁶ 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.

- (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

5. The Court's responsibility is, on the basis of its audit, to provide the European Parliament and the Council⁷ with a statement of assurance as to the reliability of the annual accounts and the legality and regularity of the underlying transactions. The Court conducts its audit in accordance with the IFAC International Standards on Auditing and Codes of Ethics and the INTOSAI International Standards of Supreme Audit Institutions. These standards require the Court to plan and perform the audit to obtain reasonable assurance as to whether the annual accounts of the Agency are free from material misstatement and the transactions underlying them are legal and regular.

6. 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

⁷ Article 185(2) of Council Regulation (EC, Euratom) No 1605/2002 (OJ L 248, 16.9.2002, p. 1).

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.

7. 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

8. In the Court's opinion, the Agency's annual accounts present fairly, in all material respects, its financial position as at 31 December 2012 and the results of its operations and its cash flows for the year then ended, in accordance with the provisions of its Financial Regulation and the accounting rules adopted by the Commission's accounting officer.

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

9. In the Court's opinion, the transactions underlying the annual accounts for the year ended 31 December 2012 are legal and regular in all material respects.

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

FOLLOW-UP OF PREVIOUS YEAR'S COMMENTS

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

This Report was adopted by Chamber IV, headed by Dr Louis GALEA, Member of the Court of Auditors, in Luxembourg at its meeting of 17 September 2013.

For the Court of Auditors

Vítor Manuel da SILVA CALDEIRA
President

Follow-up of previous year's comments

Year	Court's comment	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
2011	<p>The Agency did not exercise sufficient control during the development of an internal IT asset called e-Stream, whose purpose was to automate the workflow approval processes of the Scientific Management department. The business case for this project was not adequately defined, risks were not adequately identified and addressed and management failed to monitor the project's progress. These weaknesses contributed to the failure of the IT project, resulting in an impairment charge of 258 967 euro.</p>	<p>Completed</p>
2011	<p>The Director ad interim of the Agency was appointed on 1 January 2011 by a Commission decision. In February 2012, at the time of the audit, the duration of this posting exceeded the one year maximum foreseen in the Staff Regulation by one month. Since the Director's original function as Head of Department was taken over temporarily by a Head of Unit, the same non-compliance with Staff Regulations also applies here. Another Head of Unit was acting Head of Department between June 2009 and February 2011 and the duration of the posting was irregular also in this case.</p>	<p>Completed</p>

European Research Council Executive Agency (Brussels)**Competences and activities**

<p>Areas of Union competence deriving from the Treaty</p> <p><i>(Article 182 of the Treaty on the Functioning of the European Union)</i></p>	<p>1. A multiannual framework programme, setting out all the activities of the Union, shall be adopted by the European Parliament and the Council, after consulting the Economic and Social Committee. The framework programme shall:</p> <ul style="list-style-type: none"> – establish the scientific and technological objectives to be achieved by the activities provided for in Article 180 and fix the relevant priorities, – indicate the broad lines of such activities, – fix the maximum overall amount and the detailed rules for Union financial participation in the framework programme and the respective shares in each of the activities provided for. <p>2. The framework programme shall be adapted or supplemented as the situation changes.</p> <p>3. The framework programme shall be implemented through specific programmes developed within each activity. Each specific programme shall define the detailed rules for implementing it, fix its duration and provide for the means deemed necessary. The sum of the amounts deemed necessary, fixed in the specific programmes, may not exceed the overall maximum amount fixed for the framework programme and each activity.</p> <p>4. The Council, acting in accordance with a special legislative procedure and after consulting the European Parliament and the Economic and Social Committee, shall adopt the specific programmes.</p>
<p>Competences of the Agency</p> <p><i>(Commission Decision 2008/37/EC)</i></p>	<p>Objectives</p> <p>The Agency was set up in December 2007 by Commission Decision 2008/37/EC, for the management of the specific Community Programme "Ideas" in the field of frontier research in the application of Council Regulation (EC) No 58/2003. "Ideas" is implemented by the European Research Council (ERC), comprising an independent Scientific Council which establishes the ERC's scientific strategy and monitors its implementation by the Agency that handles the operational management. The Agency became autonomous from the Directorate General for Research and Innovation on 15 July 2009.</p> <p>Tasks</p> <p>The tasks of the Agency are described in the Delegation Act (See Commission Decision C(2008) 5694), namely in Articles 5-7 thereof. Among these tasks, the Agency has been entrusted with tasks covering:</p> <ul style="list-style-type: none"> – all aspects of administrative implementation and programme execution and in particular, the evaluation procedures, peer review and selection process according to the principles established by the Scientific Council; – the financial and scientific management of the grants.
<p>Governance</p> <p><i>(Commission decisions C(2008) 5132 and C(2011) 4877)</i></p> <p><i>(Commission decisions 2007/134/EC and 2011/12/EU)</i></p> <p><i>(Council decision 2006/972/EC)</i></p> <p><i>(Council Regulation (EC) No 58/2003)</i></p>	<p>Steering Committee</p> <p>The Steering Committee is the body that supervises the operations of the Agency and is appointed by the Commission (See Commission Decision C(2008) 5132). It adopts the Agency's annual work programme (after approval by the Commission), administrative budget and annual reports. It is composed of five members and one observer.</p> <p>Scientific Council of the ERC</p> <p>The Scientific Council of the ERC is entrusted by virtue of Commission Decision 2007/134/EC with establishing a scientific strategy for the Ideas Specific Programme, deciding on the type of research to be funded in accordance with Article 5(3) of Council Decision 2006/972/EC and acting as a guarantor of the quality of the activity from a scientific perspective. Its tasks cover, in particular, the establishment of the annual work programme for the Ideas Specific Programme, and of the peer review process, as well as the monitoring and quality control of the implementation of the Specific Programme "Ideas", without prejudice to the responsibility of the Commission. It is composed of twenty-two members appointed by the Commission.</p> <p>Director of the Agency</p>

	<p>Appointed by the European Commission for four years.</p> <p>External audit European Court of Auditors.</p> <p>Discharge authority European Parliament, following a recommendation from the Council.</p>
<p>Resources made available to the Agency in 2012 (2011)</p>	<p>Budget 37,8 (35,6) million euro</p> <p>Staff at 31 December 2012</p> <p>The 2012 operating budget provides for an establishment plan of 100 (100) temporary Staff (TS) and a budget for 289 (260) contract Staff (CS) and seconded national experts (SNE), i.e. a total of 389 (360) staff. Of these posts, 380 (350) were occupied at year-end 2012:</p> <ul style="list-style-type: none"> – 96 (97) temporary staff, out of which 11 (13) TS seconded and 85 (84) TS external; – 275 (245) contract staff; – 9 (8) SNEs. <p><i>Allocated to:</i></p> <ul style="list-style-type: none"> – operational activities (Scientific and Grant Management departments): 71 % (68 %) – administrative activities (other departments): 29 % (32 %)
<p>Products and services in 2012 (2011)</p>	<ol style="list-style-type: none"> 1. Monitor the grant agreements awarded under the Ideas Work Programme, calls for Starting Grants, Advanced Grants, Synergy Grants and Proof-of-Concept Grants. The Ideas work programme is implemented via the publication of the annual calls for proposals, which is followed by an evaluation (by external experts), the preparation and signing of grant agreements and finally the monitoring of project implementation. Each call for proposals results in a series of Grant Agreements, with an expected project cycle of about five years. 2. Execution of the 2012 Calls for proposals for the Ideas work programme. (Starting Grants, Advanced Grants, Synergy Grants and Proof-of-Concept Grants): 7 899 proposal applications were submitted in 2012, out of which 4 741 were for Starting Grants, 2 304 for Advanced Grants, 710 for Synergy Grants and 144 for Proof-of-Concept Grants. Of these a total of 7 740 were eligible and thus evaluated by the review panels. A total of 960 proposals were selected for the granting process (883 on the main lists, 77 on the reserve lists). 3. Generation and dissemination of information on the Ideas Specific Programme and the Agency's activities in 2012. 4. The Scientific Council held regular meetings in 2012 across Europe, usually at the invitation of national authorities. Meeting in different countries which are either EU Member States or associated countries is a way of making the ERC more visible. The meetings are also considered important events both by the national authorities as well as the local scientific and research community. Five Scientific Council plenary sessions were organised during the period between 1 January and 31 December 2012: in February, June and December in Brussels (Belgium), in April in Sofia (Bulgaria) and in October in Limassol (Cyprus). Following the recommendations of the panel on the review of the ERC's structures and mechanisms in 2009, the Scientific Council established two standing committees: the first providing guidance on conflicts of interest, scientific misconduct and ethical issues and the second dealing with the selection of evaluation panellists. The executive agency supported the operational activities of the two committees, which met once and twice respectively in 2012. The members of the Scientific Council also meet in WGs addressing specific issues. In 2012, various meetings of the ERC working groups on innovation and relations with industry, open access, internationalisation and gender balance were organised by the executive agency. The WGs carry out analyses and contribute to the ERC's scientific strategy through proposals to be adopted by the Scientific Council in plenary in the areas covered by their mandates: to examine the ERC's relationship with the industrial/business sector and the impact of ERC-funded research on innovation; to develop an ERC position on open access; to explore suitable mechanisms to boost the participation of non-European researchers, particularly Brazil, Russia, India and China (the BRIC countries), in the ERC schemes; and to ensure that the ERC is at the forefront of best practice with regard to the gender balance in research. A series of working documents containing analyses and key messages on the specific issues dealt with by the WGs and by the standing committees were prepared by the executive agency, in collaboration with members of the groups.

Source: Information supplied by the Agency.
