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From:	Mr Vítor CALDEIRA, President of the European Court of Auditors
date of receipt:	25 November 2013
To:	Mr Linas LINKEVICIUS, President of the Council of the European Union
Subject:	Report on the annual accounts of the Artemis Joint Undertaking for the financial year 2012 together with the Joint Undertaking's replies

Delegations will find attached the European Court of Auditors' report on the annual accounts of the ArtemisJoint Undertaking for the financial year 2012.

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

Encl.: Report on the annual accounts of the Artemis Joint Undertaking for the financial year 2012 together with the Joint Undertaking'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/>.

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Report on the annual accounts of the
Artemis Joint Undertaking
for the financial year 2012

together with the Joint Undertaking's replies

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INTRODUCTION

1. The Artemis Joint Undertaking, located in Brussels, was set up in December 2007¹ for a period of ten years.
2. The main objective of the Joint Undertaking is to define and implement a “research agenda” for the development of key technologies for embedded computing systems across different application areas in order to strengthen European competitiveness and sustainability, and allow the emergence of new markets and societal applications².
3. The founding members of the Artemis Joint Undertaking are the European Union, represented by the Commission, certain EU Member States (Belgium, Denmark, Germany, Estonia, Ireland, Greece, France, Italy, Hungary, the Netherlands, Austria, Portugal, Romania, Slovenia, Spain, Finland, Sweden and the United Kingdom) and Artemis-IA, an association representing companies and other research organisations active in the field of embedded computing systems in Europe. In 2009, the Czech Republic, Cyprus, Latvia and Norway also became members of the Joint Undertaking.
4. The maximum EU contribution to the Joint Undertaking, to cover running costs and research activities, is 420 million euro to be paid from the budget of the Seventh Framework Programme³. Artemis-IA is to make a maximum contribution of 30 million euro to the running costs. The Artemis Member States

¹ Council Regulation (EC) No 74/2008 of 20 December 2007 on the establishment of the “Artemis Joint Undertaking” to implement a Joint Technology Initiative in Embedded Computing Systems (OJ L 30, 4.2.2008, p. 52).

² The ***Annex*** summarises the Joint Undertaking’s competences and activities. It is presented for information purposes.

³ 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), brings all the research-related EU initiatives together under one roof and plays a crucial role in achieving the goals of growth, competitiveness and employment. It is also a key pillar for the European Research Area.

are to make in-kind contributions to the running costs (by facilitating the implementation of projects) and provide financial contributions of at least 1,8 times the EU contribution. In-kind contributions are also to be provided by the research organisations participating in projects.

5. The Joint Undertaking started to work autonomously on 26 October 2009.

INFORMATION IN SUPPORT OF THE STATEMENT OF ASSURANCE

6. The audit approach taken by the Court comprises analytical audit procedures, testing of transactions at the level of the Joint Undertaking and an assessment of key controls of the supervisory and control systems. This is supplemented by evidence provided by the work of other auditors (where relevant) and an analysis of management representations.

STATEMENT OF ASSURANCE

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

- (a) the annual accounts of the ARTEMIS Joint Undertaking, which comprise the financial statements⁴ and the reports on the implementation of the budget⁵ for the financial year ended 31 December 2012, and
- (b) the legality and regularity of the transactions underlying those accounts.

The management's responsibility

8. In accordance with Articles 33 and 43 of Commission Regulation (EC, Euratom) No 2343/2002⁶, the management is responsible for the preparation

⁴ These include the balance sheet and the economic outturn account, the cash-flow table, the statement of changes in net assets, a summary of the significant accounting policies and other explanatory notes.

⁵ These comprise the reports on implementation of the budget, a summary of budgetary principles and other explanatory notes.

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 officer⁷, and making accounting estimates that are reasonable in the circumstances. The Director approves the annual accounts of the Joint Undertaking after its accounting officer has prepared them on the basis of all available information and established a note to accompany the accounts in which he declares, *inter alia*, that he has reasonable assurance that they present a true and fair view of the financial position of the Joint Undertaking in all material respects.
- (b) The management's responsibilities in respect of the legality and regularity of the underlying transactions and compliance with the principle of sound financial management consist of designing, implementing and maintaining an effective and efficient internal control system comprising adequate supervision and appropriate measures to prevent irregularities and fraud and, if necessary, legal proceedings to recover funds wrongly paid or used.

⁶ OJ L 357, 31.12.2002, p. 72.

⁷ 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

9. The Court's responsibility is, on the basis of its audit, to provide the European Parliament and the Council⁸ 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 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.

⁸ Article 185(2) of Council Regulation (EC, Euratom) No 1605/2002 (OJ L 248, 16.9.2002, p. 1).

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 2012 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 transactions underlying the accounts

13. The Joint Undertaking's *ex-post* audit strategy⁹ was adopted by a Governing Board decision on 25 November 2010 and is a key tool¹⁰ for assessing the legality and regularity of the underlying transactions. The payments made in 2012 relating to certificates of acceptance of costs issued by the national funding authorities of the Member States (NFAs) amounted to 7,3 million euro, which represents 43 % of the total operational payments.

⁹ The general financing agreement between the European Commission and the Joint Undertaking states that "the Joint Undertaking, in its competent board, adopts its *ex-post* audit strategy with the aim of providing reasonable assurance on the legality and regularity of the underlying transactions" and "the *ex-post* audit strategy shall be based on examination of procedures and of a sample of transactions for all or a sample of beneficiaries and shall, in particular, adequately reflect the risks involved".

¹⁰ Article 12 of Regulation (EC) No 74/2008 states that "The Artemis Joint Undertaking shall ensure that the financial interests of its members are adequately protected by carrying out or commissioning appropriate internal and external controls" and "The Artemis Joint Undertaking shall carry out on-the-spot checks and financial audits among the recipients of the ARTEMIS Joint Undertaking's public funding. These checks and audits shall be performed either directly by the Artemis Joint Undertaking or by Artemis Member States on its behalf. Artemis Member States may carry out any other checks and audits among the recipients of their national funding as they deem necessary and shall communicate the results to the Artemis Joint Undertaking."

14. The audit of project cost claims has been delegated to the NFAs. The administrative agreements signed with the NFAs do not include practical arrangements for *ex-post* audits.

15. The Artemis Joint Undertaking received audit reports from the NFAs covering approximately 45 % of the costs related to completed projects. However, the Joint Undertaking did not assess the quality of these audits. Moreover, by the end of April 2013, the Joint Undertaking had not received information on the audit strategies of all NFAs¹¹. It was therefore not in a position to assess whether *ex-post* audits provide sufficient assurance as to the legality and regularity of the underlying transactions¹².

16. The information available on the implementation of the Joint Undertaking's *ex-post* audit strategy is not sufficient for the Court to conclude whether this key control tool is functioning effectively.

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 the basis for a qualified opinion in paragraphs 13 to 16, the transactions underlying the annual accounts for the year ended 31 December 2012 are, in all material respects, legal and regular.

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

¹¹ The documentation received so far is in most cases insufficient to allow the Joint Undertaking to assess these strategies or the way they are implemented, as no details are provided of audit arrangements (audit approach and methodology, size of the sample, the type of financial checks to be performed by the NFAs, etc.).

¹² According to the *ex-post* audit strategy adopted by the Artemis Governing Board, the Joint Undertaking must assess at least once a year whether the information received from the Artemis Member States provides sufficient assurance as to the regularity and legality of the executed transactions.

COMMENTS ON BUDGETARY AND FINANCIAL MANAGEMENT

Implementation of the budget

19. Contrary to the Joint Undertakings' financial rules¹³, its published 2012 budget did not show differentiated payment appropriations for operational expenditure.

20. The Joint Undertaking's 2012 budget included operational commitment appropriations amounting to 55,1 million euro. At the end of the year, the Governing Board decided to reduce the operational appropriations to 39,5 million euro but failed to follow the procedure established in Article 28 of the Joint Undertaking's financial rules¹⁴.

21. The utilisation rates for (A) operational commitment appropriations (after the reduction of operational appropriations), (B) operational payment appropriations and (C) payment appropriations for administrative expenditure were as follows:

Operational commitment appropriations	Operational payment appropriations	Payment appropriations for administrative expenditure
100 %	62 %	76 %

22. The programme manager's budget implementation estimates for the end of 2012 and the actual payments under the different calls were as follows:

¹³ Article 8.1 of the financial rules states "The budget shall contain non-differentiated appropriations and differentiated appropriations. The latter shall consist of commitment appropriations and payment appropriations."

¹⁴ Article 28 of the financial rules states "Any amendment to the Annual Budget Plan, including the establishment plan, shall be the subject of an amending Annual Budget Plan adopted by the same procedure as the initial budget, in accordance with the provisions of the Statutes and Article 27".

	Yearly calls for proposals				
	2008	2009	2010	2011	2012
JU estimates for budget implementation at the end of 2012	100 %	82,5 %	49,6 %	14,6 %	nil
Actual payments made at the end of 2012	69 %	46 %	25 %	3 %	nil

The above figures are evidence of a low budget implementation rate mainly due to a complex financial process for the closure of the projects.

Calls for proposals

23. The Council Regulation setting up the Joint Undertaking envisaged a maximum total budget of 410 million euro to cover operational expenditure. The actual implementation rate and the anticipated value of calls for proposals together represent 206 million euro¹⁵, or only 50,2 % of the total budget.

COMMENTS ON KEY CONTROLS OF THE JOINT UNDERTAKING'S SUPERVISORY AND CONTROL SYSTEMS

24. During 2012, the Joint Undertaking intensified its efforts to establish and implement effective financial, accounting and management control procedures. However, as reported in the Court's report for 2011, further work is needed, in

¹⁵ Artemis Joint Undertaking estimate of 15 May 2013.

particular regarding the internal control standards¹⁶ and the financial verification of cost claims¹⁷.

OTHER MATTERS

Internal audit function and the Commission's Internal Audit Service

25. Article 6(2) of the Regulation setting up the Joint Undertaking stipulates that it must have an internal audit capability. However, as at the end of 2012, this important element of the internal control system had not yet been set up.

26. The mission charter of the Commission's Internal Audit Service was adopted by the Governing Board on 25 November 2010. However, the Joint Undertaking's financial rules have not yet been amended to include the provisions of the framework Regulation referring to the powers of the Commission's Internal Auditor.

Monitoring and reporting of research results

27. The Seventh Framework Programme (FP7) establishes a monitoring and reporting system covering the protection, dissemination and transfer of research results.

28. In the grant agreements signed with beneficiaries, the Joint Undertaking has included specific provisions governing intellectual property rights and the dissemination of research results. Implementation of these provisions is monitored by the Joint Undertaking at different stages of the funded projects.

¹⁶ On 22 September 2010, the Governing Board approved the Joint Undertaking's internal control framework, which comprises 16 internal control standards. Although significant progress has been made, some of these standards are still not fully implemented.

¹⁷ Regarding the financial verification of costs, full reliance is placed on the certificates provided by national authorities. Apart from checks of the staff assigned to projects (used only as an indicator of the staff costs for implementing activities), the Joint Undertaking performs no other financial checks.

29. Nevertheless, the way the results of this monitoring are reported needs to evolve further to fully meet the provisions of Article 7 of Decision No 1982/2006/EC¹⁸ and Article 27 of Regulation (EC) No 1906/2006¹⁹

Annual activity report

30. The Executive Director's declaration of assurance included in the 2012 annual activity report expresses a reservation concerning the ex-post audit strategy. However, the information included in the reservation is not sufficient as regards the implementation of the ex-post audit strategy. The main concern is that the Joint Undertaking has not analysed the audit strategies of the NFAs and the audit reports received from them (see paragraphs 13-17).

Follow-up of previous observations

31. During 2012, the Joint Undertaking continued to make progress on the formalisation of security policies. However, further work is needed to finalize the Disaster Recovery Plan²⁰.

¹⁸ Article 7 of Decision No 1982/2006/EC of the European Parliament and of the Council of 18 December 2006 concerning the Seventh Framework Programme of the European Community for research, technological development and demonstration activities (2007-2013) requires the Commission to continually and systematically monitor the implementation of the Seventh Framework Programme and its specific programmes and regularly report and disseminate the results of this monitoring.

¹⁹ Article 27 of Regulation (EC) No 1906/2006 of the European Parliament and of the Council of 18 December 2006 laying down the rules for the participation of undertakings, research centres and universities in actions under the Seventh Framework Programme and for the dissemination of research results (OJ L 391, 30.12.2006, p. 1) requires the Commission to monitor the implementation of indirect actions on the basis of the periodic progress reports submitted. In particular, the Commission must monitor implementation of the plan for the use and dissemination of foreground. It must also set up and maintain an information system allowing for this monitoring to take place in an efficient and coherent manner across the Seventh Framework Programme.

²⁰ (a) financial circuits in case of disaster; (b) backup procedure for securing the databases by regular and frequent backup and off-site storage; (c) initial agreement to use Commission installations to access the financial systems (ABAC, SAP) and the Internet.

This Report was adopted by Chamber IV, headed by Dr Louis GALEA, Member of the Court of Auditors, in Luxembourg at its meeting of 22 October 2013.

For the Court of Auditors

Vítor Manuel da SILVA CALDEIRA
President

ARTEMIS 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>Decision No 1982/2006/EC of the European Parliament and of the Council of 18 December 2006 concerning the Seventh Framework Programme provides for a Community contribution to the establishment of long-term public-private partnerships in the form of Joint Technology Initiatives which could be implemented through Joint Undertakings within the meaning of Article 187 of the Treaty.</p> <p>Council Regulation (EC) No 74/2008 of 20 December 2007 on the establishment of the 'Artemis Joint Undertaking' to implement a Joint Technology Initiative.</p>
<p>Competences of the Joint Undertaking</p> <p><i>(Council Regulation (EC) No 74/2008)</i></p>	<p><u>Objectives</u></p> <ul style="list-style-type: none"> – The Artemis Joint Undertaking shall contribute to the implementation of the Seventh Framework Programme by defining and implementing significant parts of the Artemis Strategic Research Agenda for the development of key technologies in the field of embedded computing systems, by creating a sustainable public-private partnership and leveraging and increasing private and public investment in the sector of embedded systems in Europe. – The Artemis JU aims to achieve effective coordination and synergy of resources and funding from the industry, the Framework Programme, national R & D programmes and intergovernmental R & D schemes, thus contributing to strengthening Europe's future growth, competitiveness and sustainable development. – Artemis seeks to foster collaboration between all stakeholders such as industry, including small and medium-sized enterprises (SMEs), national or regional authorities, academic and research centres, pulling together and focusing the research effort. – The JU adopts a commonly agreed research agenda closely following the recommendations of the Strategic Research Agenda developed by the Artemis Technology Platform. This Research Agenda identifies and regularly reviews research priorities for the development and adoption of key technologies for embedded computing systems across different application areas in order to strengthen European competitiveness and allow the emergence of new markets and applications important to society. – The JU will support R & D activities through open and competitive calls for proposals published on a yearly basis, to attract the best European research ideas and capacities in the field of embedded computing systems. Proposals submitted to Artemis JU calls undergo a technical evaluation and selection process carried out with the assistance of independent experts. This process ensures that allocation of the Artemis Joint Undertaking's public funding follows the principles of equal treatment, excellence and competition.
<p>Governance</p>	<p>The JU's governing body is the Governing Board. The executive team is led by an Executive Director, while industry (which includes large and small enterprises, as well as academia and research institutes) is represented by the Artemis Industry Association (Artemis-IA). Artemis-IA provides the chairperson of the Governing Board and the members of the Industry and Research Committee (IRC), which is responsible for the technical work programme. The public sector (participating Artemis Member States and the European Commission) are individually represented on the Governing Board and the Public Authorities Board (PAB), which is responsible for financial matters.</p>
<p>Resources available to the Joint Undertaking in 2012</p>	<p>Budget</p> <p>57 446 787 euro for commitments.</p>

	27 217 532 euro for payments (operational). Staff at 31 December 2012 15 posts provided for in the establishment plan (8 temporary staff and 7 contract staff) of which 13 posts were occupied; these were assigned to: operational activities (8); administrative tasks (5); mixed tasks (0).
Activities and services provided in 2012	See the Artemis Joint Undertaking annual activity report for 2012 at http://www.artemis-ju.eu/reference_documents

Source: Information supplied by the Artemis Joint Undertaking.
