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## COVER NOTE

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| From:            | Mr Vítor CALDEIRA, President of the European Court of Auditors   |
| date of receipt: | 19 November 2014   |
| To:              | Mr Linas LINKEVICIUS, President of the Council of the European Union   |
| Subject:         | Report on the annual accounts of the SESAR Joint Undertaking for the financial year 2013 together with the Joint Undertaking's replies |

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Delegations will find attached the European Court of Auditors' report on the annual accounts of the SESAR Joint Undertaking for the financial year 2013.

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

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Encl.: Report on the annual accounts of the SESAR Joint Undertaking for the financial year 2013 together with the Joint Undertaking's replies.<sup>1</sup>

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<sup>1</sup> 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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ΕΥΡΩΠΑΪΚΟ ΕΛΕΓΚΤΙΚΟ ΣΥΝΕΔΡΙΟ  
EUROPEAN COURT OF AUDITORS  
COUR DES COMPTES EUROPÉENNE  
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EUROPEISKA REVISIONSRÄTTEN

Report on the annual accounts of the  
SESAR Joint Undertaking  
for the financial year 2013

together with the Joint Undertaking's replies

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## **INTRODUCTION**

1. The SESAR Joint Undertaking (SJU), located in Brussels, was set up in February 2007<sup>1</sup> in order to manage the technological component of the SESAR (Single European Sky Air Traffic Management Research) project.
2. The SESAR project aims to modernise air traffic management (ATM) in Europe and is divided into three phases:
  - (a) A "definition phase" (2004-2007) led by the European Organisation for the Safety of Air Navigation (Eurocontrol), with co-financing from the European Union budget through the Trans-European Networks – Transport programme. The outcome was the European ATM Master Plan, which defines the content and describes the development and deployment of the next generation of ATM systems.
  - (b) A two-term "development phase" (term1: 2008-2016 funded by the 2008-2013 programming period; term 2: 2017-2024 funded by the 2014-2020 programming period) managed by the SJU and leading to the production of new technological systems, components and operational procedures as defined in the European ATM Master Plan.
  - (c) A "deployment phase" (2014-2024) to be led by industry and stakeholders for the large-scale production and implementation of the new ATM infrastructure.
3. The SJU was designed as a public-private partnership. The founding members are the European Union represented by the Commission, and Eurocontrol, represented by its Agency. Following a call for expressions of interest, fifteen public and private enterprises from the air navigation industry

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<sup>1</sup> Council Regulation (EC) No 219/2007 of 27 February 2007 on the establishment of a Joint Undertaking to develop the new generation European air traffic management system (SESAR) (OJ L 64, 2.3.2007, p. 1), amended by Council Regulation (EC) No 1361/2008 (OJ L 352, 31.12.2008, p. 12).

became members of the Joint Undertaking. They comprise aircraft manufacturers, ground and airborne equipment manufacturers, air navigation service providers and airport authorities.

4. The budget for the development phase of the SESAR project is 2,1 billion euro, to be provided in equal parts by the EU, Eurocontrol and the participating public and private partners. The EU contribution is funded from the Seventh Research Framework Programme and the Trans-European Networks – Transport programme. Around 90 % of the funding from Eurocontrol and the other stakeholders is in the form of in-kind contributions.

5. The SESAR JU started to work autonomously on 10 August 2007.

#### **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 SESAR Joint Undertaking, which comprise the financial statements<sup>2</sup> and the reports on the implementation of the budget<sup>3</sup> for the financial year ended 31 December 2013, and

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<sup>2</sup> These include the balance sheet, the economic outturn account, the cash-flow statement, the statement of changes in net assets, a summary of the significant accounting policies and other explanatory notes.

<sup>3</sup> These comprise the reports on implementation of the budget and a summary of budgetary principles and other explanatory notes.

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

*The management's responsibility*

8. In accordance with Articles 39 and 50 of Commission Delegated Regulation (EU) No 1271/2013<sup>4</sup>, 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 officer<sup>5</sup>, 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

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<sup>4</sup> OJ L 328, 7.12.2013, p. 42.

<sup>5</sup> 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.

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*

9. The Court's responsibility is, on the basis of its audit, to provide the European Parliament and the Council<sup>6</sup> 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.

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<sup>6</sup> Article 107 of Commission Delegated Regulation (EU) No 1271/2013 (OJ L 328, 7.12.2013, p. 42).

11. The Court considers that the audit evidence obtained is sufficient and appropriate to provide a basis for the opinions set out below.

***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 2013 and the results of its operations and 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***

13. In the Court's opinion, the transactions underlying the annual accounts for the year ended 31 December 2013 are, in all material respects, legal and regular.

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

**COMMENTS ON BUDGETARY AND FINANCIAL MANAGEMENT**

***Implementation of the budget***

15. The final 2013 budget adopted by the Administrative Board included commitment appropriations of 64,3 million euro and payment appropriations of 105,4 million euro. The utilisation rates for commitment and payment appropriations were 99,6 % and 94,7 % respectively.

***Multilateral Framework Agreement (MFA)***

16. At 31 December 2013, the SJU development phase consisted of project work by 16 members (including Eurocontrol) on programme activities involving more than 100 private and public entities and subcontractors. Of the 358 SESAR programme projects under the 3rd MFA, 333 (93 %) were being implemented or had been completed.



17. Of the 595 million euro in co-financing contributions payable by the European Union and Eurocontrol to the other 15 members under the 3rd MFA, 100 % had been committed and 55 % (316 million euro) had been paid out at 31 December 2013, while the remaining 45 % (279 million euro) is expected to be paid by 31 December 2016.

18. In 2013 the Joint Undertaking concluded its 4th MFA, which came into force on 1 January 2014 for the remaining three years of the Joint Undertaking's operating life<sup>7</sup>.

## **OTHER MATTERS**

### ***Legal framework***

19. On 13 December 2013 the SJU's Administrative Board, in agreement with the Commission, adopted on a provisional basis the SJU Financial Rules for the 2014-2020 programming period, pursuant to Commission Delegated Regulation (EU) No 1271/2013 of 30 September 2013 on the framework financial regulation for the bodies referred to in Article 208 of Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council, with effect from 1 January 2014.

20. The SJU's Financial Rules are subject to the forthcoming opinions and decision of the Commission, particularly in relation to the continuation of derogations of funding that were in place in the previous programming period.

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<sup>7</sup> The 4th MFA provides for the (i) reduction in the number of projects to 250, primarily through mergers in order to improve project management efficiency and (ii) the allocation of 38 million euro in funding for new operational activities, initiatives primarily from the release of funding from existing operational activities due to achieved cost savings.

***Internal audit function and the Commission's Internal Audit Service***

21. In accordance with the IAS/IAC coordinated strategic audit plan for the SJU for 2012-2014, the IAS carried out a limited review of the closing procedure applicable to grant management projects<sup>8</sup> and a risk assessment of information technology (IT), and the IAC carried out a compliance audit of procurement and contract management<sup>9</sup> and a review of the ABAC Workflow authorisations in 2013.

***Monitoring and reporting of research results***

22. In 2013 the SJU continued to implement its policy on the monitoring and reporting of research results through the publication on 31 May 2013 of its Annual Report on the Joint Undertaking's monitoring of the implementation of the Intellectual Property provisions in all financial years prior to 2013, and through its Administrative Board's adoption on 30 October 2013 of the foreground list compiled and the related ownership status for all financial years prior to 2013.

23. In addition, the SJU disseminated research foreground by making available detailed information on deliverables and their processes to the relevant stakeholders on its extranet, and by publishing general summary details of 2013 deliverables in its 2013 annual activity report.

***Conflicts of interest***

24. The SJU has put in place specific measures to prevent conflicts of interest with respect to its three key stakeholders: Administrative Board members,

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<sup>8</sup> The Final Report dated 21 October 2013 noted the need for evidence of comprehensive technical reviews encompassing all sources of assurance and the need for a consistent document-management system.

<sup>9</sup> The Final Report dated 7 August 2013 noted the need for enhanced guidance on roles, responsibilities and authority limits, and the need to adopt a 'Deliverable identification and storage procedure'.

employees and experts. These are adequately documented in a comprehensive written procedure, which was updated in 2012.

### ***The Commission's Second Interim Evaluation<sup>10</sup>***

25. The Commission's Second Interim Evaluation was carried out from October 2013 to March 2014 and assessed the Joint Undertaking in terms of implementation of the regulation, working methods, results obtained and general financial situation.

26. The report contains two main recommendations, the first one on the need to better address the specific information and communication needs of Member States which are different from the more technical needs of the Joint Undertaking members<sup>11</sup> ; the second one on the need to continue efforts to improve the rate of completion of the Joint Undertaking's annual goals (as stated in its Annual Work Programme) which increased from approximately 60 % in 2010 to 82 % by the end of 2012.

### ***Follow-up of previous observations***

27. The improvements as regards the ex-ante control area have been implemented.

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<sup>10</sup> Second Mid-Term Evaluation of the SESAR Joint Undertaking (June 2014).

<sup>11</sup> Based on a survey of Member States representatives sitting on the Single Sky Committee (SSC) established to support the European Commission (DG MOVE) in the implementation of the Single European Sky.

This Report was adopted by Chamber IV, headed by Mr Milan Martin CVIKL, Member of the Court of Auditors, in Luxembourg at its meeting of 21 October 2014.

*For the Court of Auditors*

Vitor Manuel da SILVA CALDEIRA

*President*

## SESAR Joint Undertaking (Brussels)

### Competences and activities

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| <p><b>Areas of Union competence deriving from the Treaty</b></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 219/2007 setting up the SESAR Joint Undertaking, as last amended by Regulation (EC) No 1361/2008 (OJ L 352, 31.12.2008)</p>   |
| <p><b>Competences of the Joint Undertaking</b></p> <p><i>(Council Regulation (EC) No 219/2007, as last amended by Regulation (EC) No 1361/2008)</i></p>      | <p><b>Objectives</b></p> <p>The aim of the Joint Undertaking is to ensure the modernisation of the European air traffic management system by coordinating and concentrating all relevant research and development efforts in the Union. It shall be responsible for execution of the ATM Master Plan and, in particular, for carrying out the following tasks:</p> <ul style="list-style-type: none"> <li>• organising and coordinating the activities of the SESAR development phase in accordance with the ATM Master Plan, which resulted from the definition phase of the project headed by Eurocontrol, by combining and managing public and private-sector funding under a single structure;</li> <li>• ensuring the necessary funding for the activities of the SESAR development phase in accordance with the ATM Master Plan;</li> <li>• ensuring the involvement of stakeholders in the air traffic management sector in Europe, in particular air navigation service providers, airspace users, professional staff associations, airports and manufacturers; as well as the relevant scientific institutions or the relevant scientific community;</li> <li>• organising the technical work of research and development, validation and study, to be carried out under its authority, while avoiding fragmentation of such activities;</li> <li>• ensuring the supervision of activities related to the development of common products duly identified in the ATM Master Plan and, if necessary, organising specific invitations to tender.</li> </ul> |
| <p><b>Governance</b></p> <p><i>(Council Regulation (EC) No 219/2007, as last amended by Regulation (EC) No 1361/2008)</i></p>                                | <p><b>Administrative Board</b></p> <p>The Administrative Board is responsible for:</p> <ol style="list-style-type: none"> <li>(a) adopting the ATM Master Plan endorsed by the Council as referred to in Article 1(2) of the Regulation and approving any proposal to modify it;</li> <li>(b) giving guidelines and taking the decisions necessary for the implementation of the development phase of the SESAR project, and exercising overall control over its implementation;</li> <li>(c) approving the Joint Undertaking's work programme and annual work programmes referred to in Article 16(1), as well as the annual budget, including the staff establishment plan;</li> <li>(d) authorising negotiations and deciding on the accession of new members and on the related agreements as referred to in Article 1(3);</li> <li>(e) supervising the execution of agreements between members and the Joint Undertaking;</li> <li>(f) appointing and dismissing the Executive Director and approving the organisation chart and monitoring the Executive Director's performance;</li> <li>(g) deciding on the amounts and procedures for the payment of members' financial contributions and the assessment of contributions in kind;</li> <li>(h) adopting the financial rules of the Joint Undertaking;</li> <li>(i) approving the annual accounts and balance sheet;</li> <li>(j) adopting the annual report on the progress of the development phase of the SESAR project and its financial situation referred to in Article 16(2);</li> </ol>          |

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|  | <p>(k) deciding on proposals to the Commission on the extension or dissolution of the Joint Undertaking;</p> <p>(l) establishing procedures for granting rights of access to tangible and intangible assets which are the property of the Joint Undertaking, and the transfer of such assets;</p> <p>(m) laying down rules and procedures for awarding the contracts necessary to implement the ATM Master Plan, including specific procedures in the event of conflicts of interest;</p> <p>(n) deciding on proposals to the Commission to amend the Statutes in accordance with Article 24;</p> <p>(o) exercising such other powers and performing such other functions, including the establishment of subsidiary bodies, as may be necessary for the purposes of the SESAR development phase;</p> <p>(p) adopting the arrangements for implementing Article 8.</p> <p><b>Executive Director</b></p> <p>The Executive Director shall perform his duties with complete independence within the powers assigned to him.</p> <p><b>Internal audit</b></p> <p>Internal Auditor of the European Commission</p> <p><b>External audit</b></p> <p>European Court of Auditors</p> <p><b>Discharge authority</b></p> <p>European Parliament, European Council and the Administrative Board of the JU</p> |
| <p><b>Resources available to the Joint Undertaking in 2013</b></p> <p><i>SESAR Joint Undertaking 2013 final accounts</i></p> | <p><b>Budget</b></p> <p>84 141 537 euro for commitments</p> <p>105 486 020 euro for payments</p> <p><b>Staff at 31 December 2013</b></p> <p>The 2013 operating budget provides for an establishment plan of 39 temporary agents and three seconded national experts (SNEs). This gives a total of 42 posts, of which 41 were occupied at year end 2013, as in 2012:</p> <ul style="list-style-type: none"> <li>- 30 temporary staff, recruited externally,</li> <li>- 6 staff seconded by the SJU Members in accordance with Article 8 of Regulation (EC) No 219/2007,</li> <li>- 3 contractual staff,</li> <li>- 2 SNEs.</li> </ul> <p><b>Assigned to</b></p> <p>Operational tasks: 26</p> <p>Administrative and support tasks: 14</p> <p>Mixed tasks: 1</p>   |
| <p><b>Activities and services provided in 2013</b></p>   | <p>See the Joint Undertaking's annual activity report for 2013 at <a href="http://www.sesarju.eu/">http://www.sesarju.eu/</a></p>   |

*Source:* Information supplied by the SESAR Joint Undertaking