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## COVER NOTE

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From:	Mr Vítor CALDEIRA, President of the European Court of Auditors
date of receipt:	13 October 2015
To:	Mr Jean ASSELBORN, 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 2014 together with the Agency's reply

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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 2014.

This report is accompanied by the Agency's reply 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 European Research Council Executive Agency for the financial year 2014 together with the Agency's reply.<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/>.



EUROPEAN  
COURT  
OF AUDITORS

Report on the annual accounts  
of the European Research Council Executive Agency  
for the financial year 2014

together with the Agency's reply

## **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/EC<sup>1</sup>. 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 Research<sup>2</sup>.

## **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 statements<sup>3</sup> and the reports on the implementation of the budget<sup>4</sup> for the financial year ended 31 December 2014, and
  - (b) the legality and regularity of the transactions underlying those accounts.

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<sup>1</sup> OJ L 9, 12.1.2008, p. 15.

<sup>2</sup> **Annex I** summarises the Agency’s competences and activities. It is presented for information purposes.

<sup>3</sup> These include the balance sheet and the statement of financial performance, the cash flow table, the statement of changes in net assets and a summary of the significant accounting policies and other explanatory notes.

<sup>4</sup> These comprise the budgetary outturn account and the annex to the budgetary outturn account.

***The management's responsibility***

4. 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<sup>5</sup>:
- (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 officer<sup>6</sup>; 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.
- (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 Council<sup>7</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

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<sup>5</sup> Articles 38 to 42 of the Financial Regulation of the Agency.

<sup>6</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.

<sup>7</sup> Articles 87 to 92 of the Financial Regulation of the Agency

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 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 2014 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 2014 are legal and regular in all material respects.

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

#### **COMMENTS ON INTERNAL CONTROLS**

11. Procedures with regard to tangible and intangible assets need to be further strengthened in order to ensure their proper safeguarding and the preparation of timely, accurate and complete information in this area. The Assets Register needs to be kept up-to-

date in respect of the location of its assets, inventory procedures need to be formalised and the Agency's guidelines on the capitalisation of internally developed intangible assets need to include sufficient detail to ensure it uses a consistent approach.

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 8 September 2015.

*For the Court of Auditors*

Vítor Manuel da SILVA CALDEIRA

*President*

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

<p><b>Areas of Union competence deriving from the Treaty</b></p> <p><i>(Article 182 of the Treaty on the Functioning of the European Union)</i></p>	<ol style="list-style-type: none"> <li>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: <ul style="list-style-type: none"> <li>– establish the scientific and technological objectives to be achieved by the activities provided for in Article 180 and fix the relevant priorities,</li> <li>– indicate the broad lines of such activities,</li> <li>– 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.</li> </ul> </li> <li>2. The framework programme shall be adapted or supplemented as the situation changes.</li> <li>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.</li> <li>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.</li> </ol>
<p><b>Competences of the Agency</b></p> <p><i>(Commission Implementing Decision 2013/779/EU)</i></p> <p><i>(Commission Decision C(2013)9428, as amended by Commission Decision C(2014)9437)</i></p>	<p><b>Objectives</b></p> <p>The Agency was set up in December 2013 by Commission Decision 2013/779/EU, for the management of the specific objective 'Strengthening frontier research through the activities of the European Research Council' of Part I 'Excellent Science' of the Specific Programme implementing Horizon 2020 (2014-2020). This specific objective 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.</p> <p>The Agency succeeds the Executive Agency established by Decision 2008/37/EC and operates in accordance with the general statute of Council Regulation (EC) No 58/2003.</p> <p>The Agency has also been entrusted with the implementation of the legacy of the Specific Programme "Ideas", which was managed by its predecessor within</p>

	<p>the Seventh Framework Programme (2007-2013).</p> <p><b>Tasks</b></p> <p>The tasks of the Agency are described in the Delegation Act (See Commission Decision C(2013)9428 as amended by Commission Decision C(2014)9437), namely in Article 4 and Annexes I to III thereof. Among these tasks, the Agency has been entrusted with tasks covering:</p> <ul style="list-style-type: none"> <li>– 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;</li> <li>– the financial and scientific management of the grants;</li> <li>– the necessary support to the Scientific Council in the conduct of its tasks.</li> </ul>
<p><b>Governance</b></p> <p><i>(Commission decision C(2014) 430 as amended by Commission decision(2014) 9447)</i></p> <p><i>(Regulation (EU) N° 1291/2013)</i></p> <p><i>(Council Decision 2013/743/EU)</i></p> <p><i>(Council Regulation (EC) No 58/2003)</i></p>	<p><b>Steering Committee</b></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(2014) 430 as amended by Commission Decision C(2014) 9447). It adopts the Agency's annual work programme (after approval by the Commission), administrative budget and annual reports. It is composed of five members.</p> <p><b>Scientific Council of the ERC</b></p> <p>The Scientific Council of the ERC is entrusted by virtue of Regulation (EU) N°1291/2013 with establishing the overall scientific strategy for the objective of the Specific Programme, deciding on the type of research to be funded in accordance with Section 1.2 of Part I of Annex I thereto. It operates autonomously. These are essential features of the ERC: guaranteeing the effectiveness of its scientific programme, the quality of its operations and peer-review process and its credibility in the scientific community. As set out in Article 7 of Council Decision 2013/743/EU, its tasks cover, in particular, the establishment of the annual work programme for the implementation of the ERC activities, and of the peer review process, as well as the monitoring and quality control of the implementation of the specific objective 'The European Research Council (ERC)', without prejudice to the responsibility of the Commission. It is composed of twenty-two members appointed by the Commission.</p> <p><b>Director of the Agency</b></p> <p>Appointed by the European Commission for four years.</p> <p><b>External audit</b></p> <p>European Court of Auditors.</p> <p><b>Discharge authority</b></p> <p>European Parliament, following a recommendation from the Council.</p>
<p><b>Resources made available to the Agency in 2014 (2013)</b></p>	<p><b>Budget</b></p> <p>36,3 (40,1) million euro (final budget adopted by the executive agency)</p> <p><b>Staff at 31 December 2014</b></p>



	<p>The 2014 operating budget provides for an establishment plan of 100 (100) temporary Staff (TS) and a budget for 289 (289) contract staff (CS) and seconded national experts (SNE), i.e. a total of 389 (389) staff. Of these posts, 388 (379) were occupied at year-end 2014:</p> <ul style="list-style-type: none"> <li>– 99 (99) temporary staff, out of which 15 (13) seconded TS and 84 (86) external TS;</li> <li>– 277 (270) contract staff;</li> <li>– 12 (10) SNEs.</li> </ul> <p><i>Allocated to:</i></p> <ul style="list-style-type: none"> <li>– operational activities (Scientific and Grant Management departments): 70 % (70 %);</li> <li>– administrative activities (other departments): 30 % (30 %).</li> </ul>
<p><b>Products and services in 2014 (2013)</b></p>	<ol style="list-style-type: none"> <li>1. Monitor the grant agreements awarded under the Horizon 2020 (H2020) Programme, calls for Starting Grants (StG), Consolidator Grants (CoG), Advanced Grants (AdG), and Proof-of-Concept Grants (PoC). The H2020 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.</li> <li>2. Execution of the 2014 calls for proposals for the H2020 work programme (Starting Grants, Consolidator Grants, Advanced Grants, and Proof-of-Concept Grants): 8 530 proposal applications were submitted in 2014, out of which 3 273 were for Starting Grants, 2 528 were for Consolidator Grants, 2 287 for Advanced Grants, and 442 for Proof-of-Concept Grants (total for the 2 deadlines). Of these a total of 8 374 were eligible and thus evaluated by the review panels. A total of 378 proposals were selected for the granting process for StG and PoC calls. The CoG 2014 call is not yet completed and the AdG 2014 call is still in the evaluation phase as the calls calendar was shifted by 5 months due to the late adoption of the H2020 programme by the Council and Parliament.</li> <li>3. Generation and dissemination of information on the H2020 Work Programme and the Agency's activities in 2014.</li> <li>4. The Scientific Council held regular meetings in 2014 both in Brussels and across Europe, usually at the invitation of national authorities. Meeting in different countries, 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 between 1 January and 31 December 2014: in January, March and December in Brussels (Belgium), in June in Oslo (Norway) and in October in Zagreb (Croatia).</li> </ol> <p>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 (CoIME) and the second dealing with</p>

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the selection of evaluation panellists. The Executive Agency supported the operational activities of the two committees, which met two and three times respectively in 2014.

The members of the Scientific Council also meet in working groups (WGs) addressing specific issues. In 2014, various meetings of the ERC working groups on innovation and relations with industry, open access, strengthening international participation, gender balance and key performance indicators 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 ensure that the ERC is at the forefront of best practice with regard to the gender balance in research; to explore suitable mechanisms to increase the participation of researchers in ERC calls from countries outside the EU; to develop a roadmap for monitoring and evaluating the ERC's accomplishment of its mission, beyond indicators and targets, to support the short-, medium- and long-term policies of the Scientific Council.

A new group started its activities in 2014, the WG on widening European participation. Its mission is to encourage Central and Eastern European countries to better nurture their scientific talent and invest more in research. It will raise awareness about the ERC schemes in these countries and better inform the research communities there about what ERC grants can offer to scientists from the region and strengthen the participation of yet undiscovered scientific talent from there.

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.

The main activities linked to the work of these WGs in 2014 included:

*Innovation and relations with industry:* In July 2014, nine ERC grantees holding Proof of Concept grants were first trained and then invited to present their ideas to investors in three-minute long "elevator pitches" to a network comprising leading innovators in industry and academia as well as some venture capitalists. This is the second event of this type organised by the ERC in collaboration with the media company ScienceBusiness. The first took place in February 2013.

*Open Access:* A session on open access and scientific excellence was organised within the framework of the ERC–DNRF Joint Workshop 'Fostering academic excellence in a changing world' which took place in June as a satellite event to ESOF 2014.

Later on, in September, a two-day workshop on research data management and sharing attracted more than 140 participants from across Europe. Other events included several seminars with representatives from specific open access infrastructures, such as the data repositories Dryad and figshare, from the OAPEN foundation that is running a platform for open access books, and from the Reproducibility Initiative. In cooperation with STM, the International Association of Scientific, Technical & Medical Publishers, two further seminars

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took place, one on the pricing of journals, the other on long-text format publishing in a digital environment.

*Gender balance:* In an attempt to continue tackling the low numbers of applications to ERC calls from female researchers, in June 2014 the ERC Scientific Council adopted the ERC Gender Equality Plan 2014-2020. The document, drafted by the working group on gender balance, is intended to take further the objectives of the 2007-2013 ERC Gender Equality Plan.

In addition, the working group on gender balance commissioned an independent study, the ERCAREER project, to look into the differences and similarities in the career paths and patterns of male and female ERC grantees and to provide recommendations.

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*Source:* Annex supplied by the Agency.

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