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From:	Mr Vítor CALDEIRA, President of the European Court of Auditors
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To:	Mr Jean ASSELBORN, President of the Council of the European Union
Subject:	Report on the annual accounts of the SESAR Joint Undertaking for the financial year 2014 together with the Joint Undertaking's replies

Delegations will find attached the European Court of Auditors' report on the annual accounts of the SESAR Joint Undertaking for the financial year 2014.

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 SESAR Joint Undertaking for the financial year 2014 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/>.



EUROPEAN
COURT
OF AUDITORS

Report on the annual accounts of the
SESAR Joint Undertaking
for the financial year 2014

together with the Joint Undertaking's replies

CONTENTS

	Paragraph
Introduction	1 - 5
Information in support of the statement of assurance	6
Statement of assurance	7 - 14
Opinion on the reliability of the accounts	12
Opinion on the legality and regularity of the transactions underlying the accounts	13
Comments on budgetary and financial management	15 - 18
Implementation of the 2014 budget	15 - 16
Multilateral Framework Agreement (MFA)	17 - 18
Other matters	19 - 21
Legal framework	19
Internal audit function and the Commission's Internal Audit Service	20 - 21
Follow-up of previous observations	22 - 26
Monitoring and reporting of project research results	22 - 24
Conflicts of interest	25
The Commission's Second Interim Evaluation	26

INTRODUCTION

1. The SESAR Joint Undertaking (SJU), located in Brussels, was set up in February 2007¹ in order to manage the technological component of the SESAR (Single European Sky Air Traffic Management Research) project and started to work autonomously on 10 August 2007. In June 2014², the Council amended the original Regulation and extended the lifetime of the Joint Undertaking for the period up to 31 December 2024.

2. The SESAR project aims to modernise air traffic management (ATM) in Europe and is divided into three phases:

- 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.
- A two-term "development phase" (term 1: 2008-2016 funded by the 2008-2013 programming period; term 2: extended to 2024 and with a maximum programme 2020 duration of 2016-2024) 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.
- A "deployment phase" (2014-2024) to be led by industry and stakeholders for the large-scale production and implementation of the new ATM infrastructure.

¹ 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 Regulation (EC) No 1361/2008 (OJ L 352, 31.12.2008, p. 12).

² Council Regulation (EU) No 721/2014 of 16 June 2014 amending Regulation (EC) No 219/2007 on the establishment of a Joint Undertaking to develop the new generation European air traffic management system (SESAR) as regards the extension of the Joint Undertaking until 2024 (OJ L 192, 1.7.2014, p. 1).

3. Under the Horizon 2020 Framework programme for Research and Innovation³, the Council entrusted the SJU with continuing research and innovation relating to air traffic management and in particular to the coordinated approach, in the context of the Single European Sky, in order to achieve the performance targets defined. The SESAR II Programme under Horizon 2020 will be launched in the second half of 2015 and will be called SESAR 2020.

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

5. The budget for the development phase of the SESAR I Programme is 2 100 million 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 and, for SESAR 2020, from the Horizon 2020 programme. Around 90 % of the funding from Eurocontrol and the other stakeholders is in the form of in-kind contributions.

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.

³ The Horizon 2020 Framework programme for Research and Innovation, adopted by 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), is the research and innovation programme for 2014-2020 and brings together all existing EU research and innovation funding.

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 statements⁴ and the reports on the implementation of the budget⁵ for the financial year ended 31 December 2014, and
- (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 1271/2013⁶, 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 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,

⁴ 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 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.

⁶ OJ L 328, 7.12.2013, p. 42.

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.

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.

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 107 of Regulation (EU) No 1271/2013.

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 2014 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.

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 2014 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 2014 budget***

15. The initial and final 2014 budgets included commitment appropriations of 12,4 and 13,1 million euro and payment appropriations of 116,4 and 121,9 million euro respectively.

16. The utilisation rate for commitment appropriations was 99,4 % (99,6 % in 2013). The utilisation rate for payment appropriations was 79,8 % (94,4 % in 2013), reflecting the deferral from late 2014 to early 2015 of payment of 3 of 15 annual member cost claims.

Multilateral Framework Agreement (MFA)

17. At 31 December 2014, 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 369 SESAR programme projects under the fourth amendment to the MFA, 348 (94 %) were being implemented or had been completed.

18. Of the 556 million euro in co-financing contributions payable by the European Union and Eurocontrol to the other 15 members under the fourth amendment to the MFA (since 1st January 2014), 100 % had been committed and 66 % (369 million euro) had been paid out at

31 December 2014, while the remaining 34 % (187 million euro) are expected to be paid by 31 December 2017.

OTHER MATTERS

Legal framework

19. The Financial Rules of the SJU for the 2014-2020 programming period were adopted on 25 June 2015 by the Administrative Board⁹.

Internal audit function and the Commission's Internal Audit Service

20. The SJU Internal Audit Capability (IAC) carried out audits of human resources / recruitment and on the validation of ABAC Workflow authorisations and performed other assurance and consultancy services.

21. The IAS carried out an audit of risk management followed by a risk assessment. Three recommendations were raised as a result of the audit¹⁰ and were accepted. An action plan is being implemented.

FOLLOW-UP OF PREVIOUS OBSERVATIONS

Monitoring and reporting of project research results

22. As regards the monitoring and reporting of project research results¹¹, the SJU uses its own system and tools to collect the data and disseminate the results of the operational and

⁹ The adoption by the SJU Administrative Board followed the adoption on 4 June 2015 by the Commission of a Commission Implementing Decision authorising derogations in respect of the Financial Rules of the SJU from 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.

¹⁰ The three recommendations were (i) design (linkage of risks to objectives), (ii) efficient operation, and (iii) management oversight and reporting.

¹¹ Paragraph 21 of the Court's 2013 report (OJ C 452, 16.12.2014, p. 58).

technological improvements developed by SESAR members and partners¹². The results are reported on its web site¹³, in the annual release reports and in the annual activity reports.

23. On 5 December 2014, the Commission set up the SESAR Deployment Manager (SDM)¹⁴, to ensure that new technologies and solutions already tested and validated through the SESAR Joint Undertaking's research and development phases are deployed into everyday operations. The SDM is responsible for reporting and monitoring on the deployment of the solutions.

24. The JU is currently preparing a comprehensive report on the social and economic benefits of the completed projects, as well as information on the contribution of all the SESAR members to the programme. This report is expected to be available in the second half of 2015.

Conflicts of interest

25. The Commission is developing a common template for the Joint Undertakings. Meanwhile SESAR's procedure remains in force.

The Commission's Second Interim Evaluation

26. As a result of the Commission's Second Interim Evaluation¹⁵, specific actions¹⁶ to address the two recommendations were discussed and adopted by the Governing Board in

¹² SESAR's research and innovation project results are called SESAR Solutions. Solutions are operational and technological improvements developed by SESAR members and partners. These aim to contribute to the modernisation of the European and global ATM system, for the purpose of demonstrating clear business benefits for the ATM sector when translated into their effective implementation.

¹³ <http://www.sesarju.eu/solutions>

¹⁴ SESAR Deployment Manager is the entity that synchronises and coordinates the modernisation of Europe's air traffic management system under the oversight of the European Commission. The SDM is set up under a Framework Partnership agreement with the EC and is, as such, a separate entity from the SESAR Joint Undertaking. The SESAR Joint Undertaking (SJU) and the SESAR Deployment Manager (SDM) are formally two pillars of the same SESAR project under the Single European Sky initiative.

¹⁵ Paragraph 26 of the Court's 2013 report (OJ C 452, 16.12.2014, p. 58).

October and December 2014¹⁷. These actions are ongoing and their status of implementation is being followed up.

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 6 October 2015.

For the Court of Auditors

Vítor Manuel da SILVA CALDEIRA

President

¹⁶ In particular a new Communications Strategy and a Programme Closure Management Plan (PCM Plan).

¹⁷ The preparation and ongoing management of the PCM plan was agreed during the three Programme Closure Group meetings and the three Programme Closure meetings held between October 2014 and March 2015.

SESAR Joint Undertaking (Brussels)**Competences and activities**

<p>Areas of Union competence deriving from the Treaty <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>Council Regulation (EU) No 721/2014 of 16 June 2014 amending Regulation (EC) No 219/2007 on the establishment of a Joint Undertaking to develop the new generation European air traffic management system (SESAR) as regards the extension of the Joint Undertaking until 2024</p>
<p>Competences of the Joint Undertaking <i>(Council Regulation (EC) No 219/2007, as last amended by Regulation (EC) No 1361/2008)</i></p>	<p>Objectives</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"> • 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; • ensuring the necessary funding for the activities of the SESAR development phase in accordance with the ATM Master Plan; • 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; • organising the technical work of research and development, validation and study, to be carried out under its authority, while avoiding fragmentation of such activities; • 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.
<p>Governance <i>(Council Regulation (EC) No 219/2007, as last amended by Regulation (EC) No 1361/2008)</i></p>	<p>Administrative Board</p> <p>The Administrative Board is responsible for:</p> <ol style="list-style-type: none"> (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; (b) giving guidelines and taking the decisions necessary for the implementation of the development phase of the SESAR project, and

	<p>exercising overall control over its implementation;</p> <p>(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;</p> <p>(d) authorising negotiations and deciding on the accession of new members and on the related agreements as referred to in Article 1(3);</p> <p>(e) supervising the execution of agreements between members and the Joint Undertaking;</p> <p>(f) appointing and dismissing the Executive Director and approving the organisation chart and monitoring the Executive Director's performance;</p> <p>(g) deciding on the amounts and procedures for the payment of members' financial contributions and the assessment of contributions in kind;</p> <p>(h) adopting the financial rules of the Joint Undertaking;</p> <p>(i) approving the annual accounts and balance sheet;</p> <p>(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);</p> <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>Executive Director The Executive Director shall perform his duties with complete independence within the powers assigned to him.</p> <p>Internal audit Internal Auditor of the European Commission</p> <p>External audit European Court of Auditors</p> <p>Discharge authority European Parliament, European Council and the Administrative Board of the JU</p>
<p>Resources available to the Joint Undertaking</p>	<p>Budget</p> <p>13 119 600 euro for commitments</p> <p>121 942 760 euro for payments</p>

<p>in 2014</p> <p><i>SESAR Joint Undertaking 2014 final accounts</i></p>	<p>Staff at 31 December 2014</p> <p>The 2014 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 37 were occupied at year end 2014:</p> <ul style="list-style-type: none"> - 31 temporary staff, recruited externally, - 1 staff member seconded by the SJU Members in accordance with Article 8 of Regulation (EC) No 219/2007, - 3 contractual staff, - 2 SNEs. <p>Assigned to</p> <p>Operational tasks: 20 Administrative and support tasks: 16 Mixed tasks: 1</p>
<p>Activities and services provided in 2014</p>	<p>See the Joint Undertaking's annual activity report for 2014 at http://www.sesarju.eu/</p>

Source: Information supplied by the SESAR Joint Undertaking.