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From:	Mr Vítor CALDEIRA, President of the European Court of Auditors
date of receipt:	18 November 2015
To:	Mr Jean ASSELBORN, President of the Council of the European Union
Subject:	Report on the annual accounts of the Clean Sky 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 Clean Sky 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 Clean Sky 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 Clean Sky Joint Undertaking for the financial year 2014

together with the Joint Undertaking's replies

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INTRODUCTION

1. The Joint Undertaking for the implementation of the Joint Technology Initiative in aeronautics (Clean Sky Joint Undertaking), located in Brussels, was set up in December 2007¹ for a period of ten years and started working autonomously on 16 November 2009. On 6 May 2014², the Council adopted a new founding Regulation which repealed the original Regulation and entrusted the Joint Undertaking, referred to as “Clean Sky 2 Joint Undertaking”³, with new tasks under the Horizon 2020 Framework Programme for Research and Innovation⁴ and extended the lifetime of the Joint Undertaking for the period up to 31 December 2024.

2. The objective of the Clean Sky 2 Joint Undertaking is to contribute to the finalisation of research activities of the Seventh Framework Programme⁵ and to improving the environmental impact of aeronautical technologies, as well as to developing a strong and globally competitive aeronautical industry and supply chain in Europe. The objectives of the

¹ Council Regulation (EC) No 71/2008 of 20 December 2007 setting up the Clean Sky Joint Undertaking (OJ L 30, 4.2.2008, p. 1).

² Council Regulation (EU) No 558/2014 of 6 May 2014 establishing the Clean Sky 2 Joint Undertaking (OJ L 169, 7.6.2014, p. 77).

³ This report refers to the “Clean Sky Joint Undertaking” unless it is necessary to distinguish between the two programmes.

⁴ 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.

⁵ 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.

Clean Sky 2 Joint Undertaking fall under the societal challenge pillar in Horizon 2020, namely Smart, Green and Integrated Transport⁶.

3. The research activities coordinated by the Joint Undertaking comprise (a) six continued technological and demonstration-focused areas or 'Integrated Technology Demonstrators' (ITDs) implementing Seventh Framework Programme projects and (b) nine new technological and demonstration-focused areas implementing Horizon 2020 projects:

- Three Integrated Technology Demonstrators (ITDs)
- Three Innovative Aircraft Demonstrator Platforms (IADPs)
- Three Transverse Areas, including the Technology Evaluator (TAs)

4. The Members of the Joint Undertaking under the new Regulation are the European Union, represented by the Commission, the industrial Leaders of the ITDs /IADPs /TAs and the other Members of the newly established Joint Undertaking which will be selected via open and competitive calls and will assume the status of Core Partners. The Associates of the Clean Sky Joint Undertaking under the Seventh Framework Programme will keep such a Membership status until completion of their research activities and actions initiated under Regulation (EC) No 71/2008.

5. The maximum EU contribution to the Clean Sky Joint Undertaking under the Seventh Framework Programme, to cover running costs and research activities, was 800 million euro. The EU financial contribution to the Clean Sky 2 Joint Undertaking under Horizon 2020 will be up to 1 755 million euro. The Leaders and Core Partners of the Joint Undertaking are to bring a minimum level of private contribution to the Programme of 2 193,7 million euro over the period of duration of the Joint Undertaking⁷ including contributions for Additional Activities⁸ of at least 965,2 million euro over the same period⁹. Administrative costs should

⁶ The **Annex** summarises the Joint Undertaking's competences, activities and available resources. It is presented for information purposes.

⁷ Article 4.1 of Regulation (EU) No 558/2014.

⁸ Costs incurred by Leaders and Core Partners outside of the work plan of Clean Sky 2 Joint Undertaking and contributing to the objectives of the Clean Sky Joint Initiative.

not exceed 78 million euro and should be split equally between the EU and the private members of the Joint Undertaking.

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 Clean Sky Joint Undertaking, which comprise the financial statements¹⁰ and the reports on the implementation of the budget¹¹ 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 16 and 22 of Commission Delegated Regulation (EU) No 110/2014¹², 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:

⁹ Article 15(3) of the Annex to Regulation (EU) No 558/2014 stipulates that the “operational costs of the Clean Sky 2 Joint Undertaking shall be covered through (a) a financial contribution by the Union (b) in-kind contributions by Leaders and Core Partners and their affiliated entities consisting of the costs incurred by them in implementing indirect actions less the contribution of the Clean Sky 2 Joint Undertaking and any other Union contribution to those costs”.

¹⁰ 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.

¹¹ These comprise the reports on implementation of the budget, a summary of budgetary principles and other explanatory notes.

¹² OJ L 38, 7.2.2014, p. 2.

- (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 officer¹³, 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.

The auditor's responsibility

9. The Court's responsibility is, on the basis of its audit, to provide the European Parliament and the Council¹⁴ 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

¹³ 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.

¹⁴ Article 47 of Regulation (EU) No 110/2014.

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.

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 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 comments which follow do not call the Court's opinion into question.

COMMENTS ON BUDGETARY AND FINANCIAL MANAGEMENT

Implementation of the budget

15. The 2014 final budget included commitment appropriations of 201,6 million euro and payment appropriations of 153,6 million euro. The utilisation rate for commitment appropriations was 93,9 % (90,6 % for 2013), while the rate for payment appropriations was 90,2 % (87,7 % for 2013). These improved implementation rates are explained by the quicker granting process.

Multi annual funding

16. Since 2007 and up to the time of the audit (April 2015), out of the operational envelope of 790 million euro under the Clean Sky initial programme, the European Union committed contribution amounted to 703 million euro (i.e. 88,9 %), out of which 631 million euro had been paid (i.e. 79,9 %). The other members' contribution for the operational activities at 31 December 2014 amounted to 486 million euro¹⁵, i.e. 82,4 % of the other members' total operational budget of 590 million euro.

OTHER MATTERS

Key controls and supervisory systems

17. Payment time limits are not always respected, which leads to penalties (41 000 euro in 2014).

Legal framework

18. The financial rules of the Clean Sky 2 Joint Undertaking were adopted on 3 July 2014 on the basis of the model financial regulation for public-private partnership bodies¹⁶ and taking into account the requirements of Council Regulation (EU) 558/2014 establishing the Clean Sky 2 Joint Undertaking.

Internal audit function and the Commission's Internal Audit Service

19. In 2014 the Commission's Internal Audit Service (IAS) finalised an audit on the financial aspects of grant management. The IAS made two very important recommendations on the ex-ante validation guidelines and checklists for the approval of financial statements of Members and Partners and on the approval process of project deliverables for Partners. The agreed actions have been implemented for both recommendations.

¹⁵ The total other members' contribution amounts to 498 million euro and includes members' contribution already validated (448 million euro), received but not yet validated (38 million euro), and the contribution in cash to cover running costs (12 million euro).

¹⁶ Regulation (EU) No 110/2014.

FOLLOW-UP OF PREVIOUS OBSERVATIONS

Monitoring and reporting of project research results

20. As regards the monitoring and reporting of project research results¹⁷, Clean Sky uses the European Commission's tools and its own tools to integrate its research results into the overall reporting system of the Commission. For the first time, the latest Monitoring report from the Commission on FP7 published in March 2015¹⁸ includes quantitative data on Clean Sky Joint Undertaking activities¹⁹. As regards qualitative data, the results of Clean Sky research activities are on its web site, in its activity report, in the Grant Agreements with Members (GAM) annual report summaries and in other publications.

21. The Horizon 2020 legal framework requires specific monitoring on research results, based on quantitative and, where appropriate, qualitative evidence, including progress against performance indicators²⁰. In order to meet the requirements of Horizon 2020 and to better contribute to the dissemination of FP7 research results (especially as funded projects are reaching the end phase), cooperation between the Joint Undertaking and the Commission shall be enhanced to improve the reporting and dissemination of research results²¹.

¹⁷ Paragraph 27 of the Court's 2013 report (OJ C 452, 16.12.2014, p. 17).

¹⁸ http://ec.europa.eu/research/evaluations/pdf/archive/fp7_monitoring_reports/7th_fp7_monitoring_report.pdf#view=fit&pagemode=none.

¹⁹ In the EC Monitoring Report this information is presented in aggregated values together with the information from the other Joint Technology Initiatives.

²⁰ Article 31 of Regulation (EU) No 1291/2013, establishing Horizon 2020 and Annex II (Performance indicators) of Council Decision 2013/743/EU (OJ L 347, 20.12.2013, p. 965) of 3 December 2013 establishing the specific programme implementing Horizon 2020 - the Framework Programme for Research and Innovation (2014-2020).

²¹ See the Annual Progress Report from the European Commission to the European Parliament and Council on the activities of the JTI JUs (COM(2013) 935).

Conflicts of interest

22. The Commission is developing a common template for the Joint Undertakings. Meanwhile, Clean Sky's procedure remains in force.

The Commission's Second Interim Evaluation

23. As a result of the Commission's Second Interim Evaluation²², an action plan on the recommendations was discussed by the Governing Board on 20 March 2014. Most recommendations relate to the Clean Sky 2 Programme and are being implemented.

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

²² Paragraph 30 of the Court's 2013 report (OJ C 452, 16.12.2014, p. 17).

Clean Sky 2 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>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). Horizon 2020 aims to achieve a greater impact with respect to research and innovation by combining Horizon 2020 and private sector funds in public-private partnerships in key areas where research and innovation can contribute to the Union’s wider competitiveness goals, leverage private investment and help tackle societal challenges.</p> <p>Council Regulation (EU) No 558/2014 of 6 May 2014 setting up the Clean Sky 2 Joint Undertaking (OJ L 169/77, 7.6.2014).</p>
<p>Competences of the Joint Undertaking <i>(Council Regulation (EU) No 558/2014)</i></p>	<p><u>Objectives</u></p> <p>The Clean Sky 2 Joint Undertaking has the following objectives:</p> <ul style="list-style-type: none"> (a) to contribute to the finalisation of research activities initiated under Regulation (EC) No 71/2008 and to the implementation of Regulation (EU) No 1291/2013, and in particular the Smart, Green and Integrated Transport Challenge under Part III — Societal Challenges of Decision 2013/743/EU; (b) to contribute to improving the environmental impact of aeronautical technologies, including those relating to small aviation, as well as to developing a strong and globally competitive aeronautical industry and supply chain in Europe. This can be realised through speeding up the development of cleaner air transport technologies for earliest possible deployment, and in particular the integration, demonstration and validation of technologies capable of: <ul style="list-style-type: none"> (i) increasing aircraft fuel efficiency, thus reducing CO emissions by 20 to 30 % compared to ‘state-of-the-art’ aircraft entering into service as from 2014; (ii) reducing aircraft NO_x and noise emissions by 20 to 30 % compared to ‘state-of-the-art’ aircraft entering into service as from 2014.
<p>Governance</p>	<p>The JU’s governing body is the Governing Board composed of:</p> <ul style="list-style-type: none"> (a) one representative of the Commission on behalf of the Union; (b) one representative of each Leader; (c) one representative of Core Partners per ITD; (d) one representative of Associates per ITD; (e) one representative of Core Partners per IADP. <p>The competences/tasks of the Board are set out in Article 8 of the Statutes (Annex I to the JU Regulation)</p> <p>The Union holds 50 % of the voting rights. The voting rights of the Union are indivisible. Each other representative holds an equal number of</p>

	<p>votes.</p> <p>The Executive Team is led by an Executive Director who is also an official body of the JU and whose competences/tasks are set out in Article 10 of the Statutes.</p> <p>The industry is directly represented on the Board and through the other bodies of the JU which are the ITD and IADP Steering Committees and whose competences/tasks are set out in Article 11 of the Statutes. The States Representatives Group and the Scientific Committee are also bodies of the JU but only with an advisory role.</p>
<p>Resources available to the Joint Undertaking in 2014</p>	<p>Budget 229 241 764 euro</p> <p>Staff at 31 December 2014 37 posts provided for in the establishment plan (31 temporary staff and 6 contract staff), of which 31 posts were occupied; these were assigned to operational activities (24) and mixed tasks (6).</p>
<p>Activities and services provided in 2014</p>	<p>See the Clean Sky 2 Joint Undertaking's annual activity report 2014 at www.cleansky.eu</p>

Source: Information supplied by the Clean Sky 2 Joint Undertaking