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## COVER NOTE

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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 ECSEL Joint Undertaking for the period 27 June to 31 December 2014 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 ECSEL Joint Undertaking for the period 27 June to 31 December 2014.

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 ECSEL Joint Undertaking for the period 27 June to 31 December 2014 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/>.



EUROPEAN  
COURT  
OF AUDITORS

Report on the annual accounts of the ECSEL Joint Undertaking for the period  
27 June to 31 December 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 on Electronic Components and Systems for European Leadership (ECSEL Joint Undertaking), located in Brussels, was set up in May 2014<sup>1</sup> under the Horizon 2020 Framework programme for Research and Innovation<sup>2</sup> for the period up to 31 December 2024. The ECSEL Joint Undertaking replaces and succeeds the ENIAC and ARTEMIS Joint Undertakings, established by Regulations (EC) No 72/2008 and (EC) No 74/2008, the official closure of which took effect on 26 June 2014. The ECSEL Joint Undertaking started working autonomously on 27 June 2014.

2. The objective of the ECSEL Joint Undertaking is to contribute to the development of a strong and globally competitive electronics components and systems industry in the Union. It also aims to ensure the availability of electronic components and systems for key markets and for addressing societal challenges, and to maintain and grow semiconductor and smart system manufacturing capability in Europe. Finally, it aims to align strategies with Member States to attract private investment and contribute to the effectiveness of public support by avoiding unnecessary duplication and fragmentation of effort, and by facilitating the participation of actors involved in research and innovation<sup>3</sup>.

3. The founding members of the Joint Undertaking are the European Union, represented by the Commission, ECSEL Participating States (Belgium, Bulgaria, Czech Republic, Denmark, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Latvia, Lithuania, Luxembourg, Hungary, Malta, Netherlands, Austria, Poland, Portugal, Romania, Slovenia, Slovakia, Finland,

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<sup>1</sup> Council Regulation (EU) No 561/2014 of 6 May 2014 establishing the ECSEL Joint Undertaking (OJ L 169, 7.6.2014, p. 152).

<sup>2</sup> 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.

<sup>3</sup> The **Annex** summarises the Joint Undertaking's competences, activities and available resources. It is presented for information purposes.

Sweden and the United Kingdom) and private members represented by the AENEAS, ARTEMISIA and EPoSS Associations representing companies and other research organisations active in the field of embedded and cyber-physical systems, smart system integration and micro- and nano-electronics.

4. The maximum EU contribution under Horizon 2020 to the ECSEL Joint Undertaking will be up to 1 185 million euro. At least a similar amount will come from the ECSEL Participating States. The private contribution will be at least 2 340 million euro. Administrative costs will be covered entirely by financial contributions whereas operational costs will be covered by financial contributions from the EU and the ECSEL Participating States and by in-kind contributions from private members.

#### **INFORMATION IN SUPPORT OF THE STATEMENT OF ASSURANCE**

5. 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**

6. 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 ECSEL Joint Undertaking, which comprise the financial statements<sup>4</sup> and the reports on the implementation of the budget<sup>5</sup> for the period 27 June to 31 December 2014, and
- (b) the legality and regularity of the transactions underlying those accounts.

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<sup>4</sup> 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.

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

*The management's responsibility*

7. In accordance with Articles 16 and 22 of Commission Delegated Regulation (EU) No 110/2014<sup>6</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>7</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 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*

8. The Court's responsibility is, on the basis of its audit, to provide the European Parliament and the Council<sup>8</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

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<sup>6</sup> OJ L 38, 7.2.2014, p. 2.

<sup>7</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>8</sup> Article 47 of Regulation (EU) No 110/2014.

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.

9. 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.

10. 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***

11. In the Court's opinion, the Joint Undertaking's accounts for the period 27 June to 31 December 2014 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 period 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 underlying transactions***

12. ECSEL has taken over the projects of the ARTEMIS and ENIAC Joint Undertakings. The payments made under these projects by ECSEL Joint Undertaking from 27 June to 31 December 2014 against certificates of acceptance of costs issued by the national funding authorities (NFAs) of the Member States amounted to 12,6 million euro, which represents 48 % of the total payments made by the Joint Undertaking.

13. ARTEMIS and ENIAC Joint Undertakings had concluded administrative agreements with the NFAs of the Member States, which continue to apply after the merger of the ARTEMIS and ENIAC Joint

Undertakings into ECSEL Joint Undertaking. These arrangements provide that the *ex post* audits of these payments are delegated to the NFAs that will perform audits on behalf of the Joint Undertaking. The ARTEMIS and ENIAC Joint Undertakings' *ex post* audit strategy relied heavily on the NFAs to audit project cost claims<sup>9</sup>.

14. Although 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 audit reports received from the NFAs covered approximately 61 % (as of April 2015) of the costs related to completed projects. However the ECSEL Joint Undertaking did not assess the quality of these audits. The Court performed an assessment of the audit strategies, including audit reports, of three NFAs which indicated that the methodologies used by the NFAs do not allow the ECSEL Joint Undertaking to calculate a reliable weighted error rate nor a residual error rate on the projects launched under ARTEMIS and ENIAC Joint Undertakings. Therefore it is not possible to conclude whether *ex post* audits for ARTEMIS and ENIAC projects are functioning effectively and whether this key control provides sufficient assurance as to the legality and regularity of the underlying transactions.

***Qualified opinion on the legality and regularity of the transactions underlying the accounts***

16. In the Court's opinion, except for the possible effects of the matter described in the basis for a qualified opinion in paragraphs 12 to 15, the transactions underlying the annual accounts of the Joint Undertaking for the financial year ended 31 December 2014 are, in all material respects, legal and regular.

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

**COMMENTS ON BUDGETARY AND FINANCIAL MANAGEMENT**

***Implementation of the budget***

18. The initial 2014 operational budget included commitment appropriations amounting to 138,2 million euro and payment appropriations amounting to 71,3 million euro. At the end of the year the Governing Board adopted an amending budget increasing commitment

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<sup>9</sup> According to the *ex post* audit strategies adopted by ARTEMIS and ENIAC, the Joint Undertaking must assess at least once a year whether the information received from the Member States provides sufficient assurance as to the regularity and legality of the executed transactions.



appropriations to 158,2 million euro. The implementation rate for operational commitment appropriations was 99,7 %. However, commitment appropriations were committed at a global level, meaning that no corresponding grant agreements have yet been signed.

## **OTHER MATTERS**

### ***Legal framework***

19. The financial rules of the ECSEL Joint Undertaking were adopted on 3 July 2014 on the basis of the model financial regulation for public-private partnership bodies<sup>10</sup> and taking into account the requirements of Council Regulation (EU) 561/2014 establishing the ECSEL Joint Undertaking.

### ***Monitoring and reporting of project research results***

20. ECSEL will continue to publish information and documentation on the projects launched by its two predecessors. It uses its own monitoring tools in order to integrate its research results into the overall reporting system of the Commission. The latest Monitoring report from the Commission on FP7, published in March 2015<sup>11</sup>, includes quantitative data on ECSEL Joint Undertaking activities<sup>12</sup>. As regards reporting on qualitative data, ECSEL should increase the systematic dissemination of research results, in addition to the information provided in the JU's annual activity report, on its web site and in other specific reports<sup>13</sup>.

21. The Horizon 2020 legal framework requires specific monitoring of research results, based on quantitative and, where appropriate, qualitative evidence, including progress against

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<sup>10</sup> Regulation (EU) No 110/2014.

<sup>11</sup> [http://ec.europa.eu/research/evaluations/pdf/archive/fp7\\_monitoring\\_reports/7th\\_fp7\\_monitoring\\_report.pdf#view=fit&pagemode=none](http://ec.europa.eu/research/evaluations/pdf/archive/fp7_monitoring_reports/7th_fp7_monitoring_report.pdf#view=fit&pagemode=none)

<sup>12</sup> In the EC Monitoring Report this information is presented in aggregated values together with the information from the other Joint Technology initiatives. In the case of ECSEL, it mainly refers to the programmes launched by the former ARTEMIS and ENIAC JUs which merged to create ECSEL on 27 June 2014.

<sup>13</sup> In March 2015 ARTEMIS published a business impact and metrics report.

performance indicators<sup>14</sup>. In order to meet the requirements of Horizon 2020 and to better contribute to the dissemination of FP7 research results, cooperation between the Joint Undertaking and the Commission should be enhanced<sup>15</sup>.

***Follow-up of previous observations***<sup>16</sup>

22. Article 26 of the ECSEL Joint Undertaking Financial Rules states that ECSEL shall have an internal audit function which shall be performed by the Commission's internal auditor and establishes its appointment, powers and duties.

23. In addition, as foreseen in Article 28 of the Financial Rules of the ECSEL Joint Undertaking, the Governing Board has established an internal audit capability and has approved the relevant internal audit charter defining its mission, objectives, reporting and working arrangements.

24. The ECSEL Joint Undertaking adopted a comprehensive policy to prevent conflicts of interest.

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 20 October 2015.

*For the Court of Auditors*

Vítor Manuel da SILVA CALDEIRA

*President*

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<sup>14</sup> 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).

<sup>15</sup> 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).

<sup>16</sup> These observations were made in the Court's 2013 reports on ARTEMIS and ENIAC Joint Undertakings (OJ C 452, 16.12.2014, pp. 8 and 26).

**Annex****ECSEL Joint Undertaking (Brussels)****Competences and activities**

<p><b>Areas of Union competence deriving from the Treaty</b> <i>(Articles 187 and 188 of the Treaty on the Functioning of the European Union)</i></p>	<p>Council Regulation (EU) No 561/2014 of 06 May 2014 establishing the ECSEL Joint Undertaking.</p> <p>Regulation (EU) No 1291/2013 of the European Parliament and of the Council.</p>
<p><b>Competences of the Joint Undertaking</b> <i>(Council Regulation (EC) No 561/2014)</i></p>	<p><u>Objectives</u></p> <p>The ECSEL Joint Undertaking shall have the following objectives:</p> <p>(a) to contribute to the implementation of Regulation (EU) No 1291/2013, and in particular part II of Decision 2013/743/EU;</p> <p>(b) to contribute to the development of a strong and globally competitive electronics components and systems industry in the Union;</p> <p>(c) to ensure the availability of electronic components and systems for key markets and for addressing societal challenges, aiming at keeping Europe at the forefront of technology development, bridging the gap between research and exploitation, strengthening innovation capabilities and creating economic and employment growth in the Union;</p> <p>(d) to align strategies with Member States to attract private investment and contribute to the effectiveness of public support by avoiding an unnecessary duplication and fragmentation of efforts and by facilitating the participation of actors involved in research and innovation;</p> <p>(e) to maintain and grow semiconductor and smart system manufacturing capability in Europe, including leadership in manufacturing equipment and materials processing;</p> <p>(f) to secure and strengthen a commanding position in design and systems engineering including embedded technologies;</p> <p>(g) to provide access of all stakeholders to a world-class infrastructure for the design and manufacture of electronic components and embedded/cyber-physical and smart systems; and</p> <p>(h) to build a dynamic ecosystem involving Small and Medium-Sized Enterprises (SMEs), thereby strengthening existing clusters and nurturing the creation of new clusters in promising new areas.</p>
<p><b>Governance</b></p>	<p>The JU's governing body is the Governing Board. The Programme Office is led by an Executive Director. Industry is represented in the Private Members Board. The Commission, representing the Union, and the Participating States make up the Public Authorities Board.</p>

<b>Resources available to the Joint Undertaking in 2014</b>	<b>Budget</b> 160 114 500,00 euro for commitments 104 144 250,00 euro for payments <b>Staff at 31 December 2014</b> 28 posts provided for in the establishment plan (14 temporary staff, 13 contract staff) and 1 seconded expert, of which 26 posts were occupied; these were allocated to: operational activities (13); administrative tasks (10); mixed tasks (3).
<b>Activities and services provided in 2014</b>	See the ECSEL Joint Undertaking annual activity report for 2014 at <a href="http://www.ecsel.eu">www.ecsel.eu</a>
<i>Source:</i> Information supplied by the ECSEL Joint Undertaking.	