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COVER NOTE

From:	Mr Klaus-Heiner LEHNE, President of the European Court of Auditors
date of receipt:	28 November 2017
To:	Mr Märt KIVINE, President of the Council of the European Union
Subject:	Report on the annual accounts of the Executive Agency for Small and Medium sized Enterprises for the financial year 2016 together with the Agency's reply

Delegations will find attached the European Court of Auditors' report on the annual accounts of the Executive Agency for Small and Medium sized Enterprises for the financial year 2016.

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

Encl.: Report on the annual accounts of the Executive Agency for Small and Medium sized Enterprises for the financial year 2016 together with the Agency's reply.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 Executive Agency for Small and Medium sized Enterprises
for the financial year 2016

together with the Agency's reply

INTRODUCTION

1. The Executive Agency for Small and Medium-sized Enterprises (hereinafter “the Agency”, aka “EASME”), which is located in Brussels, was established for the period 1 January 2014 to 31 December 2024 by Commission Implementing Decision 2013/771/EU¹. Its main task is to manage, in close cooperation with seven Directorates General of the Commission, EU actions in the fields of research and innovation, competitiveness of SMEs, environment and climate action, maritime and fisheries.
2. **Table 1** presents key figures for the Agency².

TABLE 1: KEY FIGURES FOR THE AGENCY

	2015	2016
Budget (million euro)	36,4	35,8
Total staff as at 31 December ³	373	417

Source: data provided by the Agency.

INFORMATION IN SUPPORT OF THE STATEMENT OF ASSURANCE

3. 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.

¹ OJ L 341, 18.12.2013, p. 73.

² More information on the Agency’s competences and activities is available on its website: www.ec.europa.eu/easme/.

³ Staff includes officials, temporary and contract staff and seconded national experts.

OPINION

4. We have audited:

- (a) the accounts of the Agency which comprise the financial statements⁴ and the reports on the implementation of the budget⁵ for the financial year ended 31 December 2016, and
- (b) the legality and regularity of the transactions underlying those accounts,

as required by Article 287 of the Treaty on the Functioning of the European Union (TFEU).

Reliability of the accounts***Opinion on the reliability of the accounts***

5. In our opinion, the accounts of the Agency for the year ended 31 December 2016 present fairly, in all material respects, the financial position of the Agency at 31 December 2016, the results of its operations, its cash flows, and the changes in net assets for the year then ended, in accordance with its Financial Regulation and with accounting rules adopted by the Commission's accounting officer. These are based on internationally accepted accounting standards for the public sector.

Legality and regularity of the transactions underlying the accounts**Revenue*****Opinion on the legality and regularity of revenue underlying the accounts***

6. In our opinion, revenue underlying the accounts for the year ended 31 December 2016 is legal and regular in all material respects.

⁴ The financial statements comprise the balance sheet, the statement of financial performance, the cashflow statement, the statement of changes in net assets and a summary of significant accounting policies and other explanatory notes.

⁵ The reports on implementation of the budget comprise the reports which aggregate all budgetary operations and the explanatory notes.

Payments*Opinion on the legality and regularity of payments underlying the accounts*

7. In our opinion, payments underlying the accounts for the year ended 31 December 2016 are legal and regular in all material respects.

Responsibilities of management and those charged with governance

8. In accordance with Articles 310 to 325 of the TFEU and the Agency's Financial Regulation, management is responsible for the preparation and presentation of the accounts on the basis of internationally accepted accounting standards for the public sector and for the legality and regularity of the transactions underlying them. This responsibility includes the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them. The Agency's management bears the ultimate responsibility for the legality and regularity of the transactions underlying the accounts.

9. In preparing the accounts, management is responsible for assessing the Agency's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

10. Those charged with governance are responsible for overseeing the entity's financial reporting process.

Auditor's responsibilities for the audit of the accounts and underlying transactions

11. Our objectives are to obtain reasonable assurance about whether the accounts of the Agency are free from material misstatement and the transactions underlying them are legal and regular and to provide, on the basis of our audit, the European Parliament and the Council or other respective discharge authorities with a statement of assurance as to the reliability of the accounts and the legality and regularity of the transactions underlying them. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit will always detect a material misstatement or non-compliance when it exists. These can arise from fraud or error and are considered material if,

individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these accounts.

12. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts and the legality and the regularity of the transactions underlying them. The procedures selected depend on the auditor's judgment, including an assessment of the risks of material misstatement of the accounts and of material non-compliance of the underlying transactions with the requirements of the legal framework of the European Union, whether due to fraud or error. In making those risk assessments, internal controls relevant to the preparation and fair presentation of the accounts and legality and regularity of underlying transactions, are considered in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the accounts.

13. For revenue, we verify the subsidy received from the Commission and assess the Agency's procedures for collecting fees and other income, if any.

14. For expenditure, we examine payment transactions when expenditure has been incurred, recorded and accepted. This examination covers all categories of payments other than advances at the point they are made. Advance payments are examined when the recipient of funds provides justification for their proper use and the Agency accepts the justification by clearing the advance payment, whether in the same year or later.

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

COMMENTS ON BUDGETARY MANAGEMENT

16. Carry-overs of committed appropriations were high for Title II (administrative expenditure) at 1 250 000 euro, i.e. 33 % (2015: 998 324 euro, i.e. 14 %) and for Title III (support to agency operations) at 2 550 000 euro, i.e. 62 % (2015: 4 million euro, i.e. 65 %). For Title II, they mainly relate to rent (0,6 million euro) and the acquisition of hardware not yet delivered by the year end (0,5 million euro). Carry-overs for Title III relate to external experts' evaluations and monitoring of the Life Programme (1,5 million euro), ongoing ex-post verifications (0,5 million euro) and IT services (0,5 million euro) which were ordered in 2016 but only partly delivered and not invoiced by the year end. The Agency may consider

introducing differentiated budget appropriations to better reflect the multi annual nature of operations and unavoidable delays between the signature of contracts, deliveries and payments.

17. The cancellation of carry overs from previous year was high for Title I (staff expenditure) at 32 000 euro, i.e. 8,3 %, indicating an overestimation of budgetary needs.

FOLLOW-UP OF PREVIOUS YEARS' COMMENTS

18. An overview of the corrective action taken in response to the Court's comments from previous years is provided in the **Annex**.

This Report was adopted by Chamber IV, headed by Mr Baudilio TOMÉ MUGURUZA, Member of the Court of Auditors, in Luxembourg at its meeting of 12 September 2017.

For the Court of Auditors

Klaus-Heiner LEHNE

President

Follow-up of previous years' comments

Year	Court's comments	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
2014	Although the Agency's initial budget was amended and reduced in September 2014 by 3 million euro, only 91 % of the reduced budget appropriations were committed by the Agency. This low implementation rate is mainly explained by organisational and operational challenges linked to the extended mandate of the Agency for the implementation of additional programmes and tasks in close cooperation with the Commission. Nonetheless, the significant under-consumption of the budget shows the need to improve the Agency's budget planning.	Completed
2014	This is also reflected in the high and increased level of committed appropriations carried over to 2015, amounting to 3,8 million euro, i.e. 17 % (2013: 1,3 million euro, i.e. 8 %), mainly related to title III (Programme Support Expenditure) with 2,6 million euro, i.e. 72 % (2013: 0,6 million euro, i.e. 35 %) which is at odds with the budgetary principle of annuality.	N/A
2015	Committed appropriations carried over for Title III (Programme Support Expenditure) amount to 4 million euro, i.e. 65 % (2013: 2,6 million euro, i.e. 72 %). The carry overs mainly relate to specific contracts for experts (3 million euro) and external audits (0,6 million euro), of which 0,8 million euro were signed late in 2015. These carry-overs are mainly for services to be provided in 2016.	N/A

Year	Court's comments	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
2015	In December 2015 the Agency paid 2,2 million euro for the 2016 rent of its premises and associated expenses. These payments were made from the Agency's 2015 budget and therefore are in breach of the budgetary principle of annuality ¹ .	N/A

¹ Article 7 of Commission Regulation (EC) No 1653/2004 (OJ L 297, 22.9.2004, p.6)

THE EASME REPLY

17. The Agency will undertake several measures contributing to the reduction of the carry overs of committed appropriations : (i) increasing the amounts of advance payments for services provided by OIB and DG HR (rent, security costs,...) to the extent possible; (ii) a closer monitoring of the budget implementation with the new IT tool Bluebell and (iii) transferring the budget expenditure of the external experts for the LIFE programme from the administrative to the operational budget as of 2018, which will consequently be managed as differentiated budget appropriations.

18. The cancellation of carry overs of 32,000 Euro or 8,3% was limited to one particular budgetline within Title I (individual entitlements) and is impacted by the fluctuation in staff numbers. This variable is expected to be more stable in the future. The Agency will continue to keep the carry-overs as low as possible while maintaining a small reserve on all lines for which the final amounts to be paid are not accurately known when preparing the carry-over.