



Brussels, 1 December 2017  
(OR. en)

15036/17

FIN 794

#### COVER NOTE

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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 Research Executive Agency for the financial year 2016 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 Research Executive Agency 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*.

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Encl.: Report on the annual accounts of the Research Executive Agency for the financial year 2016 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 Research Executive Agency  
for the financial year 2016  
together with the Agency's reply

## **INTRODUCTION**

1. The Research Executive Agency (hereinafter “the Agency”, aka “REA”), which is located in Brussels, was set up by Commission Decision 2008/46/EC<sup>1</sup>. The Agency was established for a limited period beginning on 1 January 2008 and ending on 31 December 2017 with the aim of managing specific Union activities in the field of research. On 15 June 2009 the Agency was officially granted its administrative and operational autonomy by the European Commission. On 13 December 2013, the Commission, by its Implementing Decision 2013/778/EU<sup>2</sup>, extended the lifetime of the REA to 2024 and delegated to it also parts of Horizon 2020, the new Framework Programme for Research and Innovation.

2. The **Table** below presents key figures for the Agency<sup>3</sup>.

**TABLE: KEY FIGURES FOR THE AGENCY**

	<b>2015</b>	<b>2016</b>
Budget (million euro) <sup>4</sup>	54,6	62,9
Total staff as at 31 December <sup>5</sup>	618	628

*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

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<sup>1</sup> OJ L 11, 15.1.2008, p. 9.

<sup>2</sup> OJ L 346, 20.12.2013, p. 54

<sup>3</sup> More information on the Agency’s competences and activities is available on its website: [www.ec.europa.eu/rea](http://www.ec.europa.eu/rea).

<sup>4</sup> Budget figures are based on payment appropriations.

<sup>5</sup> Staff includes officials, temporary and contract staff and seconded national experts.

control systems. This is supplemented by evidence provided by the work of other auditors (where relevant) and an analysis of management representations.

## **OPINION**

4. We have audited:

- (a) the accounts of the Agency which comprise the financial statements<sup>6</sup> and the reports on the implementation of the budget<sup>7</sup> 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.

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<sup>6</sup> 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.

<sup>7</sup> 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. 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 INTERNAL CONTROLS**

16. In its audit report dated December 2016, the Commission's Internal Audit Service (IAS) concluded that overall the Agency had implemented an adequate HR management process. The Agency and IAS agreed on a plan to take corrective action for the one finding reported.

17. In another audit report dated May 2016, the IAS concluded that the Agency together with the Commission has set up an efficient internal control system for the management of grants within the HORIZON 2020 programme. The Agency and IAS agreed, together with the Commission on a plan to take corrective action for the one finding considered very important.

## **COMMENTS ON SOUND FINANCIAL MANAGEMENT AND ON PERFORMANCE**

18. An external evaluation of the Agency's performance in the period 2012 to 2015 was prepared on behalf of the Commission and the final report was delivered in May 2016. It concluded that the Agency performed in an effective, efficient and cost-effective way in implementing its tasks during the reference period and that its mandate remains highly relevant to the Commission and the Agency's beneficiaries and that the delegation of operational tasks from the Commission has been successful. However, the evaluators also identified scope to further increase the effectiveness and efficiency of operations and the Agency and the Commission were invited to improve their internal dialogue and cooperation, external communication as well as specific issues in the area of IT and HR management. The Agency and the Commission agreed on a plan to take corrective action.

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 19 September 2017.

*For the Court of Auditors*

Klaus-Heiner LEHNE

*President*

**THE AGENCY'S REPLY**

The Agency has taken note of the Court's report.