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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 European Research Council Executive Agency 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 European Research Council 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*.

Encl.: Report on the annual accounts of the European Research Council Executive Agency 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 European Research Council Executive Agency
for the financial year 2016

together with the Agency's reply

INTRODUCTION

1. The European Research Council Executive Agency (hereinafter “the Agency”, aka “ERCEA”), which is located in Brussels, was created by Commission Decision 2008/37/EC¹. The Agency was established for a period beginning on 1 January 2008 and ending on 31 December 2017 with the aim of managing the “Ideas” specific programme under the 7th Framework Programme for Research. As per Council Decision 2013/743/EU² the Agency became the dedicated implementation structure responsible for the administrative implementation and programme execution of the Horizon 2020 research programme and implements the actions under the programme’s part I ‘Excellent science’ which relate to the specific objective of strengthening frontier research, through the activities of the European Research Council (ERC).
2. **Table 1** presents key figures for the Agency³.

TABLE 1: KEY FIGURES FOR THE AGENCY

	2015	2016
Budget (million euro)	39,6	42,6
Total staff as at 31 December ⁴	417	461

Source: data provided by the Agency.

¹ OJ L 9, 12.1.2008, p. 15.

² OJ L 347, 20.12.2013, p. 965.

³ More information on the Agency's competences and activities is available on its website: www.erc.europa.eu.

⁴ Staff includes officials, temporary and contract staff and seconded national experts.

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.

OPINION

4. We have audited:

- (a) the accounts of the Agency which comprise the financial statements⁵ and the reports on the implementation of the budget⁶ 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.

⁵ 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.

⁶ The reports on implementation of the budget comprise the reports which aggregate all budgetary operations and the explanatory notes.

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.

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. Opening and evaluation committee reports prepared by the Agency's public procurement and recruitment committees do not present a full and accurate record of the actual followed procedures. The inadequate reports compromise the transparency of these procedures.

17. In its audit report dated September 2016, the Commission's Internal Audit Service (IAS) concluded that The Agency has taken a number of strategic and operational measures to enhance the process for the recruitment, retention and allocation of its staff. The IAS concluded in this context that the Agency has designed and implemented an adequate HR management process to deploy a competent and engaged workforce to ensure the achievement of its objectives. While no critical or very important issues were identified, the Agency and IAS agreed on an action plan to further improve this process in certain areas.

COMMENTS ON BUDGETARY MANAGEMENT

18. The level of committed appropriations carried over was still high for Title III (operational expenditure) at 1,3 million euro, i.e. 40 % (2015: 1,5 million euro, i.e. 43 %), mainly in relation to external audits and communication, going beyond the year end. The high level of carry-overs is in contradiction with the budgetary principle of annuality.

FOLLOW-UP OF PREVIOUS YEARS' COMMENTS

19. 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

AnnexFollow-up of previous years' comments

Year	Court's comments	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
2015	Carry-overs of committed appropriations for Title III (operational expenditure) were high at 1 457 920 euro, i.e. 43,14 % (2014: 1 126 275 euro, i.e. 38,50 %). They mainly relate to the multi-annual nature of IT contracts (504 473 euro) and the ex-post audits of grant schemes (687 522,50 euro) that were initiated in 2015 but had not been concluded by the year-end.	N/A

THE AGENCY'S REPLY

16. While considering paying attention in future to the clarity of its opening record (for public procurement) and recruitment reports' wording, the ERCEA still considers the Court's conclusion on the transparency of these procedures as disproportionate in the light of the reported facts' seriousness and of their occurrence observed.

17. The ERCEA action plan related to the IAS Audit on HR Management is currently being implemented.

18. The ERCEA takes note of the Court's comment and considers that it does not give rise to corrective actions, as the "carry-overs of committed appropriations for Title III" are justified based on the nature and timing of the underlying economic transactions. The ERCEA also observes that the carry-overs of committed appropriations has decreased in 2016 compared to 2015, from 43.1% to 40.1%.