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#### 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 Bio-based Industries Joint Undertaking for the financial year 2016 together with the Joint Undertaking's reply

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Delegations will find attached the European Court of Auditors' report on the annual accounts of the Bio-based Industries Joint Undertaking for the financial year 2016.

This report is accompanied by the Joint Undertaking'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 Bio-based Industries Joint Undertaking for the financial year 2016 together with the Joint Undertaking'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  
Bio-based Industries Joint Undertaking  
for the financial year 2016

together with the Joint Undertaking's reply

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## **INTRODUCTION**

### ***Establishment of the BBI Joint Undertaking***

1. The Bio-based Industries (BBI) Joint Undertaking, located in Brussels, was set up in May 2014<sup>1</sup> for a period of ten years and started working autonomously on 26 October 2015.
2. The BBI Joint Undertaking is a public-private partnership in the bio-based industries sector. The founding members are the European Union (EU), represented by the Commission, and industrial partners represented by the Bio-based Industries Consortium (BIC).

### ***Governance***

3. The governance structure of the BBI Joint Undertaking includes the Governing Board, the Executive Director, the Scientific Committee and the States Representatives Group.
4. The Governing Board is composed of five representatives of the Commission, on behalf of the Union; and five representatives of members other than the Union, at least one of which should be a Small and Medium Enterprise (SME) representative. The Governing Board has overall responsibility for the strategic orientation and operations of the Joint Undertaking and supervises the implementation of its activities. The Executive Director is responsible for the day-to-day management of the Joint Undertaking.
5. The Scientific Committee and the States Representatives Group are advisory bodies. The Scientific Committee provides advice on the scientific priorities to be addressed in the Joint Undertaking's annual work plans. The States Representatives Group provides opinions on strategy and achievement of targets.

### ***Objectives***

6. The objective of the BBI Joint Undertaking is to implement a programme of research and innovation activities in Europe that will assess the availability of renewable biological

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<sup>1</sup> Council Regulation (EU) No 560/2014 of 6 May 2014 establishing the Bio-based Industries Joint Undertaking (OJ L 169, 7.6.2014, p. 130).

resources that can be used for the production of bio-based materials, and on that basis support the establishment of sustainable bio-based value chains. Those activities should be carried out through collaboration between stakeholders along the entire bio-based value chain, including primary production and processing industries, consumer brands, SMEs, research and technology centres, and universities.

### **Resources**

7. The maximum EU contribution to the activities of the BBI Joint Undertaking is 975 million euro, to be paid from Horizon 2020. The industry members of the Joint Undertaking are to contribute resources of at least 2 730 million euro over the period of the Joint Undertaking<sup>2</sup>, consisting of at least 975 million euro of in-kind and cash contributions to the Joint Undertaking's operational activities<sup>3</sup> and at least 1 755 million euro of in-kind contributions to the Joint Undertaking's additional activities<sup>4</sup>.
8. The administrative costs of the BBI Joint Undertaking are limited to 58,5 million euro, to be covered through financial contributions divided equally on an annual basis between the EU and the industry members<sup>5</sup>.
9. In 2016, the payments budget for the BBI Joint Undertaking was 66 million euro (2015: 21,1 million euro). At 31 December 2016, the Joint Undertaking employed 20 staff (2015: 13)<sup>6</sup>.

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<sup>2</sup> Article 4(1) of Regulation (EU) No 560/2014.

<sup>3</sup> According to Article 12(4) of the Statutes of the BBI Joint Undertaking (Annex I of Regulation (EU) No 560/2014), the cash contribution by the members other than the Union to the operational costs shall be at least 182,5 million euro.

<sup>4</sup> As provided for in Article 4(2)(b) of Regulation (EU) No 560/2014, additional activities are contributions in kind for activities outside the work plan and the budget of the Joint Undertaking but contributing to the objectives of the BBI Initiative. In line with Article 4(4) of the same regulation, the cost of additional activities must be certified by an independent external auditor and are not subject to audit by the Joint Undertaking, the ECA or by any other EU body.

<sup>5</sup> Article 12(2) of the Statutes of the BBI Joint Undertaking (Annex I of Regulation (EU) No 560/2014).

**OPINION**

10. We have audited:

- (a) the accounts of the Joint Undertaking which comprise the financial statements<sup>7</sup> and the reports on the implementation of the budget<sup>8</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).

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

11. In our opinion, the accounts of the Joint Undertaking for the year ended 31 December 2016 present fairly, in all material respects, the financial position of the Joint Undertaking 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.

***Opinion on the legality and regularity of revenue underlying the accounts***

12. 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> Further information about the BBI Joint Undertaking and its activities are available on its website: <https://www.bbi-europe.eu>.

<sup>7</sup> The financial statements comprise the balance sheet, the statement of financial performance, the cash flow statement, the statement of changes in net assets and a summary of significant accounting policies and other explanatory notes.

<sup>8</sup> The reports on the implementation of the budget comprise the reports which aggregate all budgetary operations and the explanatory notes.

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

13. 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***

14. In accordance with Articles 310 to 325 of the TFEU and the Joint Undertaking'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 control 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 Joint Undertaking's management bears the ultimate responsibility for the legality and regularity of the transactions underlying the accounts.

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

16. 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***

17. Our objectives are to obtain reasonable assurance about whether the accounts of the Joint Undertaking are free from material misstatement and the transactions underlying them are legal and regular and, on the basis of our audit, to provide 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.

18. 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 control relevant to the preparation and fair presentation of the accounts and legality and regularity of underlying transactions is 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 control. An audit also includes evaluating the appropriateness of accounting policies used, the reasonableness of accounting estimates made by the management and the overall presentation of the accounts.

19. For revenue, we verify the subsidy received from the Commission and assess the Joint Undertaking's procedures for collecting fees and other income.

20. For expenditure, we examine payment transactions when expenditure has been incurred, recorded and accepted. This examination covers all categories of payments (including those made for the purchase of assets) 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 Joint Undertaking accepts the justification by clearing the advance payment, whether in the same year or later.

21. In preparing this report and opinions, we considered the audit work of the independent external auditor performed on the Joint Undertaking's accounts as stipulated in Article 208(4) of the EU Financial Regulation<sup>9</sup>.

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<sup>9</sup> Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council (OJ L 298, 26.10.2012, p. 1).



22. The comments which follow do not call our opinions into question.

## **BUDGETARY AND FINANCIAL MANAGEMENT**

### ***Implementation of the 2016 budget***

23. Taking into account unused payment appropriations from previous years (1,2 million euro), the final 2016 budget available for Horizon 2020 programme implementation included commitment appropriations of 194,3 million euro and payment appropriations of 67,2 million euro. The utilisation rates for commitment and payment appropriations were 97,1 % and 95,8 %, respectively. The payment appropriations were mainly used for the pre-financing of grant agreements resulting from the 2014 and 2015 calls for proposals.

### ***Multiannual budget implementation under Horizon 2020***

24. Out of the 975 million euro of Horizon 2020 funds allocated to the BBI Joint Undertaking, by the end of 2016 the Joint Undertaking had made commitments of 414,3 million euro (42,5 %) and payments of 79,5 million euro (8 % of the allocated funds) for the implementation of its first wave of projects.

25. Out of the 975 million euro of contributions to be made by the industry members to the operational activities and administrative costs of the Joint Undertaking, by the end of 2016 industry members had reported in-kind contributions of 15,4 million euro for operational activities, and the Governing Board had validated cash contributions by the members to the Joint Undertaking's administrative costs of 3 million euro. The low level of in-kind contributions reflects the fact that most BBI projects were only in their preliminary stages in 2016.

26. Out of the 1 755 million euro of industry members' contributions to be made to additional activities, 294,8 million euro had been reported and certified<sup>10</sup> by the end of 2016.

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<sup>10</sup> A further estimated amount of 523,8 million euro were reported for 2016 but not certified.

27. Consequently, by the end of 2016, the total contributions from the industry members amounted to 313,2 million euro, compared to the EU's cash contribution of 65 million euro. The significant difference between the EU's and the industry members' contributions is explained by the fact that the industry members had already declared a significant amount of in-kind contributions to additional activities.

## **INTERNAL CONTROLS**

### ***Internal control framework***

28. In 2016, most payments by the BBI Joint Undertaking were pre-financing payments for Horizon 2020 projects, paid upon signature of the first grant agreements. Ex-post audits of project cost claims by independent external auditors are to be launched in 2017.

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*

Follow-up of previous years' comments

<b>Year</b>	<b>ECA's comment</b>	<b>Status of corrective action (Completed / Ongoing / Outstanding / N/A)</b>
<b>2015</b>	<b>Conflict of interest</b>  In July 2015, the Commission issued guidelines to the Joint Undertakings related to rules on conflicts of interest, including a common template for the declaration of absence of a conflict of interest, which should be incorporated by the Joint Undertaking into its procedures.	<b>Completed</b>

**THE JOINT UNDERTAKING'S REPLY**

The Joint Undertaking has taken note of the Court's report.

BBI reply