2013 discharge: European Joint Undertaking for ITER and the Development of Fusion Energy (Fusion for Energy)

2014/2129(DEC) - 21/10/2014 - Court of Auditors: opinion, report

PURPOSE: presentation of the EU Court of Auditors' report on the annual accounts of the European Joint Undertaking for ITER and the Development of Fusion Energy for the financial year 2013, together with the replies of the Joint Undertaking.

CONTENT: in accordance with the tasks conferred on the Court of Auditors by the Treaty on the Functioning of the European Union, the Court presents to the European Parliament and to the Council, in the context of the discharge procedure, a Statement of Assurance as to the reliability of the annual accounts of each institution, body or agency of the EU, and the legality and regularity of the transactions underlying them, on the basis of an independent external audit.

This audit concerned, amongst others, the annual accounts of the European Joint Undertaking for ITER and the Development of Fusion Energy (F4E).

Statement of assurance: pursuant to the provisions of Article 287 of the Treaty on the Functioning of the European Union (TFEU), the Court has audited:

- the annual accounts of the Joint Undertaking for ITER and the Development of Fusion Energy, which comprise the financial statements and the reports on the implementation of the budget for the financial year ended 31 December 2013;
- the legality and regularity of the transactions underlying those accounts.

Opinion on the reliability of the accounts: in the Court's opinion, the Joint Undertaking's annual accounts present fairly, in all material respects, its financial position as at 31 December 2013 and the results of its operations and its cash flows for the year then ended, in accordance with the provisions of its financial rules and the accounting rules adopted by the Commission's accounting officer.

Opinion on the legality and regularity of the transactions underlying the accounts: in the Court's opinion, the transactions underlying the annual accounts of the Joint Undertaking for the year ended 31 December 2013 are, in all material respects, legal and regular.

The Court drew attention to the fact that in its conclusions adopted on 7 July 2010, the Council approved EUR 6.6 billion (in 2008 values) for the Joint Undertaking contribution to the ITER construction phase of the project. **This figure, which doubled the initial budgeted costs for this phase of the project**, did not include an amount of EUR 663 million proposed by the European Commission in 2010 to cover potential contingencies.

According to the Court, the amount of the Joint Undertaking contribution to the construction phase of the ITER project is exposed to significant risks of increase, mainly resulting from changes in the scope of the project deliverables and due to the current schedule which is considered unrealistic. In November 2013, the Joint Undertaking estimated the shortfall ('negative contingency') until the finalisation of the construction phase of the project to be EUR 290 million. The slippage for the construction phase of the project was estimated by the Joint Undertaking at the time of the audit (April 2014) to be **at least 30 months**.

In relation to these risks, the Court noted that the Joint Undertaking has not yet implemented a system at contract level to regularly monitor the cost deviations, and has not updated the valuation of the Joint Undertaking contribution to the ITER project beyond the finalisation of the construction phase.

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 and an analysis of management representations and of annual activity reports.

The 2013 audit placed special emphasis on ex post audits.

At the end of this audit, the Court concluded the following:

- **presentation of the accounts**: in the notes to the financial statements, 'ITER Procurement Arrangement (ITER IO)', reflect the Procurement Arrangements signed and the Procurement Arrangements credited so far. However, the table does not show the degree of advancement of the works in progress and it only contains a limited estimate of the advancement of the work in progress;
- **internal controls**: the Court of Auditors has previously reported that the Joint Undertaking's internal control systems had not been fully established. Although significant progress was achieved during 2013, a number of actions still need to be implemented. The Joint Undertaking needs to increase the competitiveness of procurement procedures and reduce the use of negotiated procedures. Regarding grants, the average number of proposals received was only one per call.

Cross-cutting remarks for all the Joint undertakings: the prevention of conflicts of interest is addressed by most Joint Undertakings by the adoption of specific rules and by the development of tools to document all related information. An Interim Evaluation was performed over 2013 assessing all Joint Undertakings in terms of relevance, efficiency, effectiveness and research quality. The reports, while positive, also highlighted areas for further improvement. In general, all Joint Undertakings have produced reliable accounts but there is room for improvement, in particular the implementation of the ex post audit strategy and, in the case of F4E, **cost control mechanisms**.

Joint Undertaking's replies: the Joint Undertaking replied point by point to all of the technical elements highlighted by the Court of Auditors. Significant progress has been made during 2013 in the internal control system and further actions are being taken in order to strengthen the F4E Control environment.

As regards the **activities of the Joint Undertaking in 2013**, the report refers to the Annual Activity Report 2013 which can be found at http://www.fusionforenergy.europa.eu/

It should be noted that the budget for the Joint Undertaking for 2013 amounted to EUR 431.6 million in payment appropriations of which 69% funded by Community contribution.