2016 discharge: ECSEL Joint Undertaking

2017/2187(DEC) - 03/10/2017 - Court of Auditors: opinion, report

PURPOSE: presentation of the EU Court of Auditors' report on the annual accounts of the ECSEL Joint Undertaking for the financial year 2016, together with the Joint Undertaking's replies.

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 focused on the annual accounts of the **ECSEL Joint Undertaking** (electronic components and systems). To recall, the objective of the ECSEL Joint Undertaking is to contribute to the development of a strong and globally competitive electronics components and systems industry in the European Union.

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 ENIAC Joint Undertaking, which comprise the financial statements and the reports on the implementation of the budget for the financial year ended 31 December 2016;
- 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 2016 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.

Basis for a qualified opinion on the legality and regularity of payments underlying the accounts: the Court noted that the ECSEL Joint Undertaking has taken over the FP7 projects of the ARTEMIS and ENIAC Joint Undertakings. The payments made for these projects by the ECSEL Joint Undertaking in 2016, against certificates of acceptance of costs issued by the national funding authorities (NFAs) of the ECSEL Participating States, amounted to EUR 118 million, which represents 54 % of the total operational payments made by the Joint Undertaking in 2016.

Administrative agreements concluded by the ARTEMIS and ENIAC Joint Undertakings with the NFAs have continued to apply since those Joint Undertakings were merged to form the ECSEL Joint Undertaking. Under these agreements, the NFAs perform ex-post audits of FP7 project payments on behalf of the Joint Undertaking. The ARTEMIS and ENIAC Joint Undertakings' ex-post audit strategies relied heavily on the NFAs to audit project cost claims.

The ECSEL Joint Undertaking has taken steps to assess the implementation of ex-post audits by the NFAs and has obtained written statements from the NFAs declaring that the implementation of their national procedures provides reasonable assurance on the legality and regularity of transactions. However, the significant variation in the methodologies and procedures used by the NFAs does not allow the ECSEL Joint Undertaking to calculate a single reliable weighted error rate or a residual error rate.

Therefore, once again, **the Court is not in a position to conclude whether ex-post audits are functioning effectively** and whether this key control provides sufficient assurance as to the legality and regularity of the underlying transactions for FP7 projects.

This issue concerning the variation in the methodologies and procedures used by the NFAs is no longer relevant for the implementation of Horizon 2020 projects, as the ex-post audits will be undertaken by the ECSEL Joint Undertaking and the Commission.

The audit also revealed the following points:

- **budgetary and financial management**: the Court noted that the final 2016 budget available for implementation included commitment appropriations of EUR 169.3 million and payment appropriations of EUR 245.6 million. The utilisation rates for commitment and payment appropriations were 99 % and 91 % respectively;
- **internal controls**: in 2012, the Joint Undertaking was informed of insolvency proceedings concerning two beneficiaries, but did not attempt to recover the pre-financing payments made to those beneficiaries until 2016. By then, the proceedings were closed and the outstanding pre-financing of EUR 230 000 had to be waived;
- **conflicts of interest**: although the JU adopted rules on the prevention and management of conflicts of interest to mitigate the risks related to its governance structure, the Court noted that in 2016 it failed to apply those rules consistently.

Joint Undertaking's reply: the Joint Undertaking made it clear that the bankruptcy of the two beneficiaries is a legacy of the ENIAC JU and happened before its incorporation into the ECSEL JU. Improvements shall be made regarding the issue on conflicts of interest.