

ΕΒΡΟΠΕΪΣΚΑ ΣΜΕΤΗΑ ΠΑΛΑΤΑ
TRIBUNAL DE CUENTAS EUROPEO
EVROPSKÝ ÚČETNÍ DVŮR
DEN EUROPÆISKE REVISIONSRET
EUROPÄISCHER RECHNUNGSHOF
EUROOPA KONTROLLIKODA
ΕΥΡΩΠΑΪΚΟ ΕΛΕΓΚΤΙΚΟ ΣΥΝΕΔΡΙΟ
EUROPEAN COURT OF AUDITORS
COUR DES COMPTES EUROPÉENNE
CÚIRT INIÚCHÓIRÍ NA HEORPA



EUROPSKI REVIZORSKI SUD
CORTE DEI CONTI EUROPEA
EIROPAS REVĪZIJAS PALĀTA
EUROPOS AUDITO RŪMAI

EURÓPAI SZÁMVEVŐSZÉK
IL-QORTI EWROPEA TAL-AWDITURI
EUROPESE REKENKAMER
EUROPEJSKI TRYBUNAŁ OBRACHUNKOWY
TRIBUNAL DE CONTAS EUROPEU
CURTEA DE CONTURI EUROPEANĂ
EURÓPSKY DVOR AUDÍTOROV
EVROPSKO RAČUNSKO SODIŠČE
EUROOPAN TILINTARKASTUSTUOMIOISTUIN
EUROPEISKA REVISIONSRÄTTEN

Report on the annual accounts
of the Research Executive Agency
for the financial year 2012

together with the Agency's replies

INTRODUCTION

1. The Research Executive Agency (hereinafter “the Agency”, aka “REA”), which is located in Brussels, was set up by Commission Decision 2008/46/EC¹. 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 research². On 15 June 2009 the Agency was officially granted its administrative and operational autonomy by the European Commission.

INFORMATION IN SUPPORT OF THE STATEMENT OF ASSURANCE

2. 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.

STATEMENT OF ASSURANCE

3. Pursuant to the provisions of Article 287 of the Treaty on the Functioning of the European Union (TFEU), the Court has audited:

(a) the annual accounts of the Agency, which comprise the financial statements³ and the reports on the implementation of the budget⁴ for the financial year ended 31 December 2012, and

¹ OJ L 11, 15.1.2008, p. 9.

² ***Annex II*** summarises the Agency's competences and activities. It is presented for information purposes.

³ These include the balance sheet and the economic outturn account, the cash flow table, the statement of changes in net assets and a summary of the significant accounting policies and other explanatory notes.

(b) the legality and regularity of the transactions underlying those accounts.

The management's responsibility

4. In accordance with Articles 33 and 43 of Commission Regulation (EC, Euratom) No 2343/2002⁵, the management is responsible for the preparation and fair presentation of the annual accounts of the Agency and the legality and regularity of the underlying transactions:

(a) The management's responsibilities in respect of the Agency's annual accounts include designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies on the basis of the accounting rules adopted by the Commission's accounting officer⁶; making accounting estimates that are reasonable in the circumstances. The Director approves the annual accounts of the Agency after its accounting officer has prepared them on the basis of all available information and established a note to accompany the accounts in which he declares, *inter alia*, that he has reasonable assurance that they present a true and fair view of the financial position of the Agency in all material respects.

⁴ These comprise the budgetary outturn account and the annex to the budgetary outturn account.

⁵ OJ L 357, 31.12.2002, p. 72.

⁶ The accounting rules adopted by the Commission's accounting officer are derived from the International Public Sector Accounting Standards (IPSAS) issued by the International Federation of Accountants or, where relevant, the International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

- (b) The management's responsibilities in respect of the legality and regularity of the underlying transactions and compliance with the principle of sound financial management consist of designing, implementing and maintaining an effective and efficient internal control system comprising adequate supervision and appropriate measures to prevent irregularities and fraud and, if necessary, legal proceedings to recover funds wrongly paid or used.

The auditor's responsibility

5. The Court's responsibility is, on the basis of its audit, to provide the European Parliament and the Council⁷ with a statement of assurance as to the reliability of the annual accounts and the legality and regularity of the underlying transactions. The Court conducts its audit in accordance with the IFAC International Standards on Auditing and Codes of Ethics and the INTOSAI International Standards of Supreme Audit Institutions. These standards require the Court to plan and perform the audit to obtain reasonable assurance as to whether the annual accounts of the Agency are free from material misstatement and the transactions underlying them are legal and regular.

6. The audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts and the legality and regularity of the underlying transactions. The procedures selected depend on the auditor's judgement, which is based on an assessment of the risks of material misstatement of the accounts and material non-compliance by the underlying transactions with the requirements in the legal framework of the European Union, whether due to fraud or error. In assessing these risks, the auditor considers any internal controls relevant to the preparation and fair presentation of the accounts, as well as the supervisory and control systems that are implemented to ensure the legality and regularity of underlying transactions,

⁷ Article 185(2) of Council Regulation (EC, Euratom) No 1605/2002 (OJ L 248, 16.9.2002, p. 1).

and designs audit procedures that are appropriate in the circumstances. The audit also entails evaluating the appropriateness of accounting policies, the reasonableness of accounting estimates and the overall presentation of the accounts.

7. The Court considers that the audit evidence obtained is sufficient and appropriate to provide a basis for its statement of assurance.

Opinion on the reliability of the accounts

8. In the Court's opinion, the Agency's annual accounts present fairly, in all material respects, its financial position as at 31 December 2012 and the results of its operations and its cash flows for the year then ended, in accordance with the provisions of its Financial Regulation and the accounting rules adopted by the Commission's accounting officer.

Opinion on the legality and regularity of the transactions underlying the accounts

9. In the Court's opinion, the transactions underlying the annual accounts for the year ended 31 December 2012 are legal and regular in all material respects.

10. The comment which follows does not call the Court's opinions into question.

COMMENT ON INTERNAL CONTROLS

11. In 2012 a REA officer signed payment orders amounting to 8,86 million euro (19 % of the 2012 REA budget) as authorising officer when deputising for his head of unit. The officer did not receive a formal subdelegation nor was he officially nominated by the authorising officer as his deputy. This is not in

compliance with the subdelegation system laid down in the Financial Regulation.

FOLLOW-UP OF PREVIOUS YEAR'S COMMENTS

12. An overview of the corrective actions taken in response to the Court's previous year's comments is provided in **Annex I**.

This Report was adopted by Chamber IV, headed by Dr Louis GALEA, Member of the Court of Auditors, in Luxembourg at its meeting of 17 September 2013.

For the Court of Auditors

Vítor Manuel da SILVA CALDEIRA
President

Follow-up of previous year's comments

Year	Court's comment	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
2011	Carry-overs amounting to 1,2 million euro (representing 35 % of all appropriations carried over to 2011) were cancelled in 2011. This concerned in particular title I (Staff expenditure) where 0,3 million euro (52 % of appropriations) and title II (Infrastructure and operating expenditure), where 0,7 million euro (41 % of appropriations) were cancelled. This situation is at odds with the budgetary principle of annuality.	Completed
2011	Many budget transfers were made towards the year end. Appropriations concerning IT and operational expenditure increased significantly ¹ . This situation indicates weaknesses in budget planning and programming and is at odds with the principle of specification.	Completed
2011	There is room for improving the transparency of recruitment procedures. Questions for written tests and interviews were set after the applications had been examined by the selection board; threshold scores for being included in the reserve list were not set in advance; the selection board did not fully document all its meetings and decisions.	Ongoing

¹ Appropriations concerning IT expenses (budget line 2103) increased by 80 % from 1,9 million euro to 3,4 million euro. Appropriations for the common FP7 evaluation platform (budget line 3303) increased by 194 % from 0,7 million euro to 2,1 million euro.

Research Executive Agency (Brussels)**Competences and activities**

<p>Areas of Union competence deriving from the Treaty</p> <p><i>(Articles 179 and 180 of the TFEU)</i></p>	<p>Collection of information</p> <p>The Union shall have the objective of strengthening its scientific and technological bases by achieving a European research area in which researchers, scientific knowledge and technology circulate freely, and encouraging it to become more competitive, including in its industry.</p> <p>For this purpose the Union shall encourage undertakings, including SMEs, research centers and universities in their research and technological development activities of high quality; it shall support their efforts to cooperate with one another, aiming, notably, at permitting researchers to cooperate freely across borders and at enabling undertakings to exploit the internal market potential to the full, in particular through [...] the definition of common standards and the removal of legal and fiscal obstacles to that cooperation. [...]</p> <p>In pursuing these objectives, the Union shall carry out the following activities, complementing the activities carried out in the Member States:</p> <ul style="list-style-type: none"> (a) implementation of research, technological development and demonstration programmes, by promoting cooperation with and between undertakings, research centers and universities, (b) promotion of cooperation in the field of Union research, technological development and demonstration with third countries and international organizations, (c) dissemination and optimization of the results of activities in Union research, technological development and demonstration, (d) stimulation of the training and mobility of researchers in the Union.
<p>Competences of the Agency</p> <p><i>(Commission Decision 2008/46/EC)</i></p>	<p>Objectives</p> <p>The objective of the Agency is to manage the Programmes entrusted to it under the Seventh Framework Programme of the Union for Research, Technological Development and Demonstration Activities (2007-2013) (hereafter FP7) (the People Programme, the SME actions of the Capacities Programme, and the Space and Security themes of the Cooperation Programme) efficiently and effectively, to deliver efficient and effective services to the research community and to provide centralised FP7 support services to the respective Commission services for all areas of the Cooperation, Capacities and People Specific Programmes.</p> <p>With regard to efficient and effective Programme implementation, the Agency – as promoter of the European Research Area – aims at improving project management, establishing close contact with final beneficiaries and providing high visibility for the European Union.</p> <p>Tasks</p> <p>With regard to the management of projects, the Agency concludes and manages grant agreements, involving the following operations:</p> <ul style="list-style-type: none"> – preparation and publication of calls for proposals, – evaluation of proposals, – preparation and signature of grant agreements, – monitoring the implementation of projects including acceptance of reports and other deliverables, – payments, recoveries, and application of sanctions within the meaning of Article 114(4) of the general Financial Regulation, notably when errors in declared costs have been identified following ex post audits at the level of the final beneficiaries, – ex post publicity and dissemination of results. <p>With regard to FP7 Support Services, the Agency performs the following tasks:</p> <ul style="list-style-type: none"> – administrative support for call publication, – management of the electronic reception of proposals, – support for remote and on-site evaluations, – support for the preparation of appointment letters and payments for experts,

	<ul style="list-style-type: none"> – management of the Central FP7 participants database (Unique Registration Facility – URF), including support for financial capacity checks on selected beneficiaries, – management of the Research Enquiry Service.
Governance	<p>Steering Committee</p> <p>Comprises five members appointed by the European Commission. It adopts the Agency's organisation chart and its Annual Work Programme after approval by the Commission. In addition, it adopts the administrative budget of the Agency and its Annual Activity Report.</p> <p>Director</p> <p>Appointed by the Commission, manages the Agency together with the Steering Committee, implements the administrative budget, sets up management and internal control systems adapted to the tasks entrusted to the Agency and prepares the reports to be presented to the Commission.</p> <p>External audit</p> <p>European Court of Auditors.</p> <p>Discharge authority</p> <p>European Parliament acting on a recommendation from the European Council. With respect to the Agency's implementation of its administrative budget, the discharge decision is addressed to the Director. For the implementation of the operational budget delegated by the Commission to the Agency, the Commission remains accountable.</p>
Resources made available to the Agency in 2012 (2011)	<p>Operational Budget 2012 (2011)</p> <p>1 479,9 (1 340,6) million euro of commitment appropriations and 1 459,6 (1 059) million euro of payment appropriations. The Agency implements the Commission's operational budget under a delegation decision of the Commission.</p> <p>Administrative Budget 2012 (2011)</p> <p>46,4 (39,2) million euro. The Agency implements the administrative budget autonomously.</p> <p>Staff at 31 December 2012 (2011)</p> <p>Temporary staff posts: 128 (117) listed in the establishment plan of which 122 (103) occupied</p> <p>Contract staff: 385 (349) staff planned of which 374 (351) were in place as of 31 December 2012</p> <p>Total staff in place: 496 (454) undertaking the following tasks:</p> <ul style="list-style-type: none"> – programme implementation: 330 (287) – FP7 support services: 90 (88) – management and administrative functions: 76 (79)
Products and services 2012 (2011)	<p>For the People Programme, 10 (9) calls were closed in 2012 and 10 (9) evaluations completed. 1 899 (1 615) new grant agreements were signed and 3 599 (2 676) payments made (excluding payments for expert evaluators). The Agency now manages a total of 5 492 (5 159) projects under this programme.</p> <p>For the SME actions of the Capacities Programme, 1 (1) call was closed and 1 (1) evaluation completed. 201 (162) new grant agreements were signed and 508 (385) payments made (excluding payments for expert evaluators). The Agency now manages a total of 625 (522) projects under this scheme.</p> <p>For the Space and Security themes of the Cooperation Programme, 2 (2) calls were closed in 2012 and 2 (2) evaluations completed. 80 (118) new grant agreements were signed and 258 (183) payments made (excluding payments to expert evaluators). The Agency now manages a total of 317 (271) projects under these themes.</p> <p>As regards the FP7 support services, the results obtained for 2012 are as follows:</p> <ul style="list-style-type: none"> – 89 (64) call publications supported; – 32 286 (26 838) proposals received through the electronic proposal submission tool; – 6 462 (3 897) expert evaluators contracted and 4 217(3 620) expert payments made (for programmes managed by the Agency only); – 6 616 (6 252) validations of participants completed; – 5 871 (7 123) replies sent following questions to the Research Enquiry Service.

Source: Information supplied by the Agency.

THE AGENCY'S REPLY

11: The deputising arrangements for authorising payments during the absence of the delegated authorising officer are provided in the decision of the Director on rules for deputising (last updated on 23.1.2013).

Nevertheless, following the Court's comment, the REA has meanwhile explored the possibility to delegate powers for the authorisation of payments to an additional staff member within the Finance Unit and has recently appointed a second AOD for payments and low value contracts charged to its administrative budget.