

## IV

(Notices)

## NOTICES FROM EUROPEAN UNION INSTITUTIONS, BODIES, OFFICES AND AGENCIES

## COURT OF AUDITORS

## REPORT

**on the annual accounts of the Artemis Joint Undertaking for the financial year 2010, together with the replies of the Joint Undertaking**

(2011/C 368/01)

## INTRODUCTION

1. The Artemis Joint Undertaking, located in Brussels, was set up in December 2007 <sup>(1)</sup> for a period of 10 years.

2. The main objective of the Joint Undertaking is to define and implement a 'Research Agenda' for the development of key technologies for Embedded Computing Systems across different application areas in order to strengthen European competitiveness and sustainability, and allow the emergence of new markets and societal applications <sup>(2)</sup>.

3. The Founding Members of the Artemis Joint Undertaking are the European Union, represented by the Commission, the Member States Austria, Belgium, Denmark, Estonia, France, Finland, Germany, Greece, Hungary, Ireland, Italy, the Netherlands, Portugal, Romania, Slovenia, Spain, Sweden and the United Kingdom, and Artemisia, an association representing companies and other research organisations active in the field of Embedded Computing Systems in Europe. In 2009, Cyprus, the Czech Republic, Latvia and Norway also became members of the Joint Undertaking.

4. The maximum EU contribution to the Artemis Joint Undertaking to cover running costs and research activities is 420 million euro to be paid from the budget of the Seventh

Research Framework Programme <sup>(3)</sup>. The Artemisia association is to make a maximum contribution of 30 million euro to the running costs. Artemis Member States are to make in-kind contributions to the running costs (by facilitating the implementation of projects), and to provide financial contributions of at least 1,8 times the EU contribution. In-kind contributions are also to be provided by research organisations participating in projects.

5. The Joint Undertaking started to work autonomously on 26 October 2009.

## STATEMENT OF ASSURANCE

6. Pursuant to the provisions of Article 287(1) of the Treaty on the Functioning of the European Union, the Court has audited the annual accounts <sup>(4)</sup> of the Artemis Joint Undertaking, which comprise the 'financial statements' <sup>(5)</sup> and the 'reports on the implementation of the budget' <sup>(6)</sup> for the financial year ended 31 December 2010 and the legality and regularity of the transactions underlying those accounts.

<sup>(1)</sup> Council Regulation (EC) No 74/2008 of 20 December 2007 on the establishment of the 'Artemis Joint Undertaking' to implement a Joint Technology initiative on Embedded Computing Systems (OJ L 30, 4.2.2008, p. 52).

<sup>(2)</sup> The *Annex* summarises the Joint Undertaking's competences, activities and available resources. It is presented for information purposes.

<sup>(3)</sup> The Seventh Framework Programme, adopted by Decision No 1982/2006/EC of the European Parliament and of the Council, brings all the research-related EU initiatives together under one roof and plays a crucial role in achieving the goals of growth, competitiveness and employment. It is also a key pillar for the European Research Area.

<sup>(4)</sup> These accounts are accompanied by a report on the budgetary and financial management during the year which gives inter alia an account of the rate of implementation of the appropriations with summary information on the transfers of appropriations among the various budget items.

<sup>(5)</sup> The financial statements include the balance sheet and the economic outturn account, the cash flow table, the statement of changes in net assets and the annex to the financial statements, which includes a description of the main accounting policies and other explanatory information.

<sup>(6)</sup> The budget implementation reports comprise the budget outturn account and its annex.

7. This Statement of Assurance is addressed to the European Parliament and the Council in accordance with Article 185(2) of Council Regulation (EC, Euratom) No 1605/2002 (7).

#### **The Director's responsibility**

8. As authorising officer, the Director implements the revenue and expenditure of the budget in accordance with the Joint Undertaking's financial rules under his own responsibility and within the limits of the authorised appropriations (8). The Director is responsible for putting in place (9) the organisational structure and the internal management and control systems and procedures relevant for drawing up final accounts (10) that are free from material misstatement, whether due to fraud or error and for ensuring that the transactions underlying those accounts are legal and regular.

#### **The Court's responsibility**

9. The Court's responsibility is to provide, on the basis of its audit, a statement of assurance as to the reliability of the annual accounts of the Joint Undertaking and the legality and regularity of the transactions underlying them.

10. The Court conducted its audit in accordance with the IFAC and ISSAI (11) International Auditing Standards and Codes of Ethics. Those standards require the Court to comply with ethical requirements and to plan and perform the audit so as to obtain reasonable assurance as to whether the accounts are free of material misstatement and whether the underlying transactions are legal and regular.

11. The Court's audit involves performing procedures to obtain audit evidence of the amounts and disclosures in the accounts and of the legality and the regularity of the transactions underlying them. The procedures selected, including its assessment of the risks of material misstatement of the

accounts or of illegal or irregular transactions, whether due to fraud or error, depend on its audit judgement. In making those risk assessments, internal controls relevant to the entity's preparation and presentation of accounts are considered in order to design audit procedures that are appropriate in the circumstances. The Court's audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the accounts.

12. The Court considers that the audit evidence obtained is sufficient and appropriate to provide a basis for the opinions set out below.

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

13. In the Court's opinion, the Annual Accounts of the Artemis Joint Undertaking fairly present, in all material respects, its financial position as of 31 December 2010 and the results of its operations and its cash flows for the year then ended, in accordance with the provisions of its financial rules.

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

14. In the Court's opinion, the transactions underlying the annual accounts of the Joint Undertaking for the financial year ended 31 December 2010 are, in all material respects, legal and regular.

15. The comments which follow in paragraphs 16 to 26 do not call the Court's opinions into question.

## **COMMENTS ON THE BUDGETARY AND FINANCIAL MANAGEMENT**

### **Implementation of the budget**

16. Contrary to Articles 29 to 31 of the financial rules of the Joint Undertaking, the 2010 budget was not adopted by the end of the previous year (adopted on 28 January 2010). Its structure and presentation were not in line with the provisions of the financial rules.

(7) OJ L 248, 16.9.2002, p. 1.

(8) Article 33 of Commission Regulation (EC, Euratom) No 2343/2002 (OJ L 357, 31.12.2002, p. 72).

(9) Article 38 of Regulation (EC, Euratom) No 2343/2002.

(10) The rules concerning the presentation of the accounts and accounting by EU bodies are laid down in Chapter 1 of Title VII of Regulation (EC, Euratom) No 2343/2002, as last amended by Regulation (EC, Euratom) No 652/2008 (OJ L 181, 10.7.2008, p. 23), and are integrated as such in the financial rules of the Joint Undertaking.

(11) International Federation of Accountants (IFAC) and International Standards of Supreme Audit Institutions (ISSAI).

17. The final budget included payment appropriations of 27 million euro. The utilisation rate was 37,7 %. Deposits in bank accounts at the end of the year totalled 16,6 million euro (60 % of the available payment appropriations in 2010). According to the Joint Undertaking, the relatively low implementation rate for payment appropriations reflects the delays at Member State level in signing the national grant agreements <sup>(12)</sup>.

### **Internal control systems**

18. The Joint Undertaking has not fully implemented its internal controls and financial information systems during 2010. In particular, further work is needed on the operational verification of cost claims, on the assurance provided by the national authorities' certificates and the *ex post* audit strategy. These are important elements of the Joint Undertaking's system of internal control.

19. In the area of *ex ante* verification, reliance is placed entirely upon the certificates provided by the national authorities and no other checks were performed to ensure the legality and regularity of the expenses declared by the beneficiaries.

20. The *ex post* audit of cost claims related to the projects has been fully delegated to the Member States, without any control being exercised by the Joint Undertaking <sup>(13)</sup>. This will make it difficult for the Joint Undertaking to ensure: (i) that the financial interests of its Members are adequately protected, as required by its Council Regulation <sup>(14)</sup>; and (ii) the legality and regularity of the underlying transactions.

21. The limited review of the IT controls showed that the Joint Undertaking has an adequate level of IT governance and

<sup>(12)</sup> The Joint Undertaking makes prefinancing payments for projects only once the national grant agreements have been signed by the national authorities. At the end of year, there were still national grant agreements for the 2008 and 2009 calls that had not been signed.

<sup>(13)</sup> The administrative agreements signed with the National Funding Authorities (NFAs) do not explicitly detail the practical arrangements for the *ex post* audits (i.e. audit methodology, procedures to be applied) to be performed by the NFAs. The NFAs are legally bound only to communicate the results of these audits to the Joint Undertaking.

<sup>(14)</sup> Article 12 of the Council Regulation setting up the Joint Undertaking states that the Joint Undertaking 'shall ensure that the financial interests of its members are adequately protected by carrying out or commissioning appropriate internal and external controls' and that it 'shall carry out on-the-spot checks and financial audits among the recipients of the Artemis Joint Undertaking's public funding. These checks and audits shall be performed either directly by the Artemis Joint Undertaking or by Artemis Member States on its behalf.

practice for its size and mission, but the formalisation of policies and procedures, however is lagging behind in some areas <sup>(15)</sup>.

22. The Accounting Officer of the Joint Undertaking has validated the financial and accounting systems (ABAC and SAP), but has not yet validated the underlying business processes which provide financial information, in particular the one providing financial information about the validation and payment of the cost claims received from the national authorities.

23. Contrary to Article 103 of its financial rules, the Joint Undertaking has not yet implemented an internal procedure to deduct the interest generated by the prefinancings from the payment of the balance of amounts due to the beneficiaries.

### **OTHER MATTERS**

#### ***Internal audit function and the Commission's Internal Audit Service***

24. Article 6.2 of the Council Regulation setting up Artemis stipulates that the Joint Undertaking shall have its own internal audit capability. However, at the end of 2010, this important element of the internal control system had not yet been set up.

25. In its previous report, the Court pointed out the need to clarify the provision in the Statutes of the Joint Undertaking on the role of the Commission's internal auditor. Although, the financial rules of the Joint Undertaking have not yet been amended to include the provision referring to the powers of the Commission's internal auditor, the Commission and the Joint Undertaking have taken action to ensure that the respective operational roles of the Commission's Internal Audit Service and the Joint Undertaking's internal auditing function are clearly defined.

#### ***Lack of host agreement***

26. As previously reported by the Court, according to the Council Regulation setting up the Joint Undertaking, a host agreement should be concluded between the Joint Undertaking and Belgium concerning office accommodation, privileges and immunities and other support to be provided by Belgium. However, as at the end of 2010, no such agreement had been signed.

<sup>(15)</sup> (a) incomplete strategic IT planning and monitoring cycle; (b) lack of complete formal security policies and rules; (c) incomplete IT Risk management; and (d) lack of formal Business Continuity Plan (BCP) and complete and tested Disaster Recovery Plan (DRP).

This Report was adopted by Chamber IV, headed by Mr Igors LUDBORŽS, Member of the Court of Auditors, in Luxembourg at its meeting of 25 October 2011.

*For the Court of Auditors*  
Vitor Manuel da SILVA CALDEIRA  
*President*

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## ANNEX

**Artemis Joint Undertaking (Brussels)****Competences and activities**

<p><b>Areas of Union competence deriving from the Treaty</b></p> <p><i>(Extracts from Article 187 of the Treaty on the Functioning of the European Union)</i></p>	<p>The Union may set up joint undertakings or any other structure necessary for the efficient execution of Union research, technological development and demonstration programmes.</p>
<p><b>Competences of the Joint Undertaking</b></p> <p><i>(Council Regulation (EC) No 74/2008)</i></p>	<p><b>Objectives</b></p> <p>The Artemis Joint Undertaking shall contribute to the implementation of the Seventh Framework Programme and the theme 'information and communication technologies' of the specific programme 'cooperation'.</p> <p><b>Tasks</b></p> <ul style="list-style-type: none"> <li>— define and implement a 'Research Agenda' for the development of key technologies for Embedded Computing Systems;</li> <li>— support the implementation of the R &amp; D Activities by awarding funding to participants in selected projects following competitive calls for proposals;</li> <li>— promote a public-private partnership aimed at mobilising and pooling Union, national and private efforts and increasing overall R &amp; D investments in the field of Embedded Computing Systems;</li> <li>— achieve synergy and coordination of European R &amp; D efforts in the field of Embedded Computing Systems;</li> <li>— promote the involvement of SMEs.</li> </ul>
<p><b>Governance</b></p>	<p><b>1 — The Governing Board (GB)</b></p> <p>has overall responsibility for the operations of the Joint Undertaking and oversees the implementation of its activities.</p> <p><b>2 — The Director</b></p> <p>is the chief executive responsible for the day-to-day management of the Joint Undertaking in accordance with the decisions of the Governing Board.</p> <p><b>3 — The Public Authorities Board</b></p> <p>is responsible for the decisions on the scope and budget of the calls for proposals, selection of proposals and allocation of public funds for selected proposals.</p> <p><b>4 — The Industry and Research Committee</b></p> <p>elaborates the multiannual strategic plan as well as the research agenda and the annual work programme.</p> <p><b>5 — External audit</b></p> <p>Court of Auditors.</p> <p><b>6 — Discharge authority</b></p> <p>European Parliament, acting on a recommendation from the Council.</p>

<p><b>Resources available to the Joint Undertaking in 2010</b></p>	<p><b>Budget</b></p> <p>the budget contains commitment appropriations for 38,5 million euro and payment appropriations for 27 million euro</p> <p><b>Staff at 31 December 2010</b></p> <p>8 posts provided for in the establishment plan, of which 7 posts were occupied</p> <p>Other staff:</p> <ul style="list-style-type: none"> <li>— Seconded National Experts: 0</li> <li>— Contract staff: 4</li> <li>— Local staff: 0</li> </ul> <p>Total staff employed: 11</p> <p>Allocated to:</p> <ul style="list-style-type: none"> <li>— Operational activities: 5</li> <li>— Administrative tasks: 4</li> <li>— Mixed tasks: 2</li> </ul>
<p><b>Activities and services provided in 2010</b></p>	<p>A Call for Proposals was organised in 2010 with an overall budget of 93 million euro.</p>

Source: Information supplied by the Joint Undertaking.

## REPLIES OF THE ARTEMIS JOINT UNDERTAKING

### Paragraph 16

Because the operational part of the budget depends on the commitment of the Member States, and for most of them that is only possible after adoption of their national budget, the budget was adopted by the Governing Board in its meeting of January 2011.

The structure and presentation of the budget have been adapted in the 2011 budget, according to the remarks and recommendations made previously by the Court of Auditors.

### Paragraph 17

We agree with the Court of Auditors' comments. Artemis is making efforts to speed-up the process.

### Paragraph 20

*Ex post* audits are primarily delegated to Artemis Member States. Exceptions are foreseen in the adopted *ex post* audit strategy. Artemis is currently collecting the various national strategies from Member States and their *ex post* audit results. Then we'll analyse with the IAS (Artemis internal auditor) the way to improve and review our strategy.

### Paragraph 21

The formalisation of policies and procedures is ongoing and indeed not yet completed due to the interim situation in the provisional premises of Artemis JU during 2010.

### Paragraph 22

For the other underlying business processes Artemis relies on the information provided with by the National Authorities and is taking actions to improve the system (see 20).

### Paragraph 23

Artemis has in ABAC, as IT tool to manage invoices and payments, a procedure to deduct the interest on prefinancings as foreseen and documented in ABAC by the European Commission. However until now the National Authorities have not declared any interest on prefinancings. Artemis will ask the National Authorities about their rules concerning the obligation for the beneficiaries to declare interest generated by the prefinancing.

### Paragraph 24

This point is being addressed with the Commission's Internal Audit Service.

### Paragraph 25

The Charter of the Commission's Internal Audit Service was adopted by the Governing Board on 25 November 2010. The financial rules of Artemis will be amended accordingly at the appropriate occasion.

### Paragraph 26

Artemis Joint Undertaking continues to cooperate for the implementation of the provisions of a Host State agreement and awaits the outcome of the next steps of the procedure to have an agreement signed.

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