

**DECISION**  
ADB(D) 15-2010

**Adoption of the SESAR Joint Undertaking's Ex-Post Project Audit Strategy**

THE ADMINISTRATIVE BOARD OF THE SESAR JOINT UNDERTAKING (SJU),

Having regard to Article 4a.1 of Council Regulation (EC) 219/2007 of 27 February 2007 as last modified by Council Regulation (EC) 1361/2008 of 16 December 2008, here after the "SJU Regulation",

Having regard to Article 5.1.(b) of the SJU Statutes (here after the "SJU Statutes") annexed to the Council Regulation (EC) 219/2007 of 27 February 2007 as last modified by Council Regulation (EC) 1361/2008 of 16 December 2008, here after the "SJU Regulation",

Having regard to Article 10 of the General Agreement between the European Commission and the SESAR Joint Undertaking,

Having regard to Articles 38(4) and 39(4) of the SJU Financial Rules;

**Whereas**

The SJU shall adopt its Ex-Post Audit Strategy with the aim of providing reasonable assurance on the legality and regularity of the underlying transactions.

The Authorising officer shall put in place the organisational structure and the internal management and control systems and procedures suited to the performance of his/her duties, including where appropriate ex post verifications;

After having taken into account the requests for amendments of the Board members, and the positive outcome of the written procedure launched on 17 December 2010 and concluded on 31 December 2010;

has adopted the following decision:

**Article 1**

The SESAR Joint Undertaking Ex-Post Project Audit Strategy, annexed to this decision with the reference SJU-AB-016-10-DOC-06-rev1 is approved.

This decision shall enter into force on the date of its adoption.

Done in Brussels, 31 December 2010.

For the Administrative Board



Daniel Calleja Crespo  
The Chairperson



## SJU Ex-Post Project Audit Strategy

### 1. Definitions

SJU auditee:	<p>SJU direct or indirect recipients of funds in any form, entities in any legal form which contribute to the SJU activities without receiving any funds, or entities in any legal form of which the transactions result in accounting records for the SJU.</p> <p>The SJU auditees include entities such as the SJU Members, including their consortium participants, affiliates, subsidiaries, associates and subcontractors, contractors of the SJU in any legal form, etc.</p>
Eurocontrol	With regard to Eurocontrol, the provisions of section "Audit" of Schedule 13 <sup>1</sup> of the MFA apply and this Ex-Post Project Audit Strategy shall be implemented respecting Schedule 13.
Audit:	the set of procedures to be carried out in order to control that any financial or technical operations have been properly recorded, legally and regularly executed, and managed so as to ensure economy, efficiency and effectiveness.
Selected Members:	the Members selected by the SJU in accordance with its Statutes. This excludes Founding Members, i.e. the European Union, represented by the European Commission, and Eurocontrol.
Members:	this includes the Selected Members and Eurocontrol.
SJU Regulation:	Council Regulation (EC) No 219/2007 on the establishment of a Joint Undertaking to develop the new generation European air traffic management system, as last modified by Council Regulation (EC) No 1361/2008.
SJU Rules:	refers, <i>inter alia</i> , to the SJU Financial Rules adopted by the Administrative Board on 28 July 2009 (ADB(D)-16-2009) the Rules of Procedure of the Administrative Board (ADB(D)-01-2007 and ADB(D)-01-2009) and any other decision adopted by the Administrative Board and published on the SJU website, including but not limited to the "Decision on confidentiality, independence and the management of the conflicts of interest of the bodies of the SJU" of 1 December 2008 (ADB(D)-10-2008) and the "Decision concerning the terms and conditions for internal investigations in relation to the prevention of fraud, corruption and any illegal activity detrimental to the Communities' interest" of 1 December 2008 (ADB(D)-11-2008).

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<sup>1</sup> MFA Schedule 13 – Article "Audit" - *With regard to Article 13 Audit and schedule 5 to the MFA due to its status as an Intergovernmental Organisation, EUROCONTROL has specific Audit Requirements which are the following: EUROCONTROL and the SESAR JOINT UNDERTAKING shall observe the single audit principle recognising that pursuant to Article 26 of the Amended Convention, the EUROCONTROL Audit Board has the exclusive right to audit the accounts and statements of the EUROCONTROL Agency. Notwithstanding the above, EUROCONTROL undertakes to make available the necessary audit reports and supporting documentation requested by the SESAR JOINT UNDERTAKING to check that the action and the provisions of this Agreement are being properly implemented. EUROCONTROL and its officials, servants and contract staff undertake to take every appropriate measure to facilitate checks and Audits necessitated by the MFA. Recognising that EUROCONTROL is not receiving funding from the SESAR JOINT UNDERTAKING EUROCONTROL shall not be subject to anti-fraud audits, on the spot checks and inspections except by the competent anti-fraud authorities of EUROCONTROL.*



## 2. Legal Framework

The SJU Auditees can be subject to an audit carried out by the SJU, or any outside body appointed by it, as well as by the European Court of Auditors or the European Commission in accordance with the SJU Regulation and Financial Rules.

The specific Legal Basis for project audits is contained in the following basic acts:

the SJU Regulation, Article 17.3 of the Statutes:

*"All decisions adopted and contracts concluded by the Joint Undertaking, shall provide explicitly that OLAF and the Court of Auditors may carry out on-the-spot inspections of the documents of all contractors and sub-contractors which have received Community funds, including inspections at the premises of the final beneficiaries."*

the SJU Regulation, Article 20.3 of the Statutes:

*"The Court of Auditors and OLAF may, if necessary, carry out on-the-spot checks among the recipients of the Joint Undertaking's funding and the agents responsible for allocating it".*

the General Agreement between the EU, represented by the EC, and the SJU of 7 December 2009, Article 10:

*"Ex-post audit of beneficiaries*

1. *The Joint Undertaking shall adopt its Ex-Post Audit Strategy with the aim of providing reasonable assurance on the legality and regularity of the underlying transactions and shall forward the adopted Ex-Post Audit Strategy to the Commission.*

.....

4. *The Commission shall communicate to the Joint Undertaking its own Ex-Post Audit Strategies on the implementation of FP7 and TEN-T which the Joint Undertaking shall take into account in order to achieve an appropriate level of harmonisation. The Commission may also, at the Joint Undertaking's request, provide assistance and support in the establishment and implementation of the Ex-Post Strategy of the Joint Undertaking..."*

the SJU Financial Rules:

*Article 38(4)*

*"The authorising officer shall put in place, in compliance with the minimum standards adopted by the Administrative Board on the basis of equivalent standards laid down by the Commission for its own departments, and having due regard to the risks associated with the management environment and the nature of the action financed, the organisational structure and the internal management and control systems and procedures suited to the performance of his/her duties, including where appropriate ex post verifications."*

*Article 39(4)*

*"The purpose of ex post verifications of documents and, where appropriate, on-the-spot verifications shall be to verify that operations financed by the budget have been correctly implemented and in particular that the criteria referred to in paragraph 3 have been complied with. These verifications may be organised on a sample basis using risk analysis."*



the MFA,  
Article 13

13.1: *"The SJU may, at its own costs and at any time during the implementation of a Project and up to five (5) years after the last financial transaction between the SJU and the Selected Member, perform Audits, in relation to the Member, its Affiliates participating in the Project, its Subcontractors or any other Third Party who has contributed to the Project.*

....

13.3 *Having regard to Articles 17 and 20 of the Statutes of the SJU, the Commission, the European Court of Auditors and the European Anti-Fraud Office (Office de Lutte Anti-Fraude or "OLAF") may, if necessary, carry out controls and on-the-spot checks of the recipients of the SJU's funding, their Subcontractors and/or Third Parties and the agents responsible for allocating said funding.*

*In addition, the Commission may carry out on-the-spot checks and inspections in accordance with (i) Council Regulation (Euratom, EC) No 2185/96 of 11 November 1996 concerning on-the-spot checks and inspections carried out by the Commission in order to protect the European Communities' financial interests against fraud and other Irregularities, (ii) Regulation (EC) No 1073/1999 of the European Parliament and of the Council of 25 May 1999 concerning investigations conducted by OLAF and (iii) Council Regulation (Euratom) No 1074/1999 of 25 May 1999 concerning investigations conducted by OLAF."*

Schedule 5

*"Any financial transactions made by the Selected Member under the Multilateral Agreement and/or the Membership Agreement shall be subject to the internal and external auditing procedures laid down in the Selected Member's internal rules. Nevertheless, checks and Audits may be conducted in order to gather assurance that any financial operations carried out under the Multilateral Agreement and the Membership Agreement have been properly recorded, legally and regularly executed and managed so as to ensure economy, efficiency and effectiveness.*

*In particular, the SJU may conduct Audits for the following purposes:*

- (i) to verify the accuracy of the Eligible Costs declared by the Selected Member;*
- (ii) to review the Selected Member's compliance with its obligations set out in this Agreement and/or in the Membership Agreement;*
- (iii) to review any Record created during the implementation of this Agreement; and*
- (iv) to review any books of account kept by the Selected Member in connection with the Programme.*

*The Audits, including on-the-spot checks and any other control which may be deemed necessary, can be conducted by the SJU's staff (or by any other independent expert duly appointed or authorised by the SJU), Independent Auditors, or any other Community body as provided for in the Council Regulation establishing the SJU....."*

the specific financial and audit provisions contained in any SJU contract or agreement.

the terms and conditions of the individual MAs.

Furthermore, where applicable, the FP7 Guide to Financial Issues relating to FP7 Indirect Actions, and other practices applied by the EC services may be considered as guidelines.



### 3. Mission and Objectives

The mission of the Project Audit Sector of the SJU is to provide assurance to the Authorizing Officer on the regularity and legality and the sound financial management of the organisation's operating expenditure, also in view of the Authorizing Officer signature of the yearly statement of assurance.

Taking into account the particular nature of the private-public partnership of the SJU, the mission of the Project Audit Sector will be achieved if the SJU Members will benefit of its results to ensure the compliance and sound financial management of their expenditure so that to maximize the benefit of the resources available for the Programme. As a consequence, the Project Audit Sector should be perceived as an SJU instrument to further support the partnership to achieve its overarching results by raising awareness of best practice, supporting the Members in the better implementation of the SJU Rules, MA and MFA and contributing to the proper, economic, efficient and effective use of resources (including value for money).

The objectives of the project audits are:

- to assess the regularity and legality of the transactions, including the direct financial contribution;
- to determine the sound financial management of the transactions, with the support of the internal or external technical experts, with the overall objective to assess the value for money of the SJU operations;
- to identify systemic errors through the analysis and synthesis of the results obtained and to formulate recommendations to address the issues;
- to provide the SJU auditees with recommendations in order to improve the financial management, processes, procedures and practices applied to the activities related to the SJU contracts;
- and, where necessary, to provide a sound basis for the recovery of funds.

In the performance of its activities, the Project Audit Sector shall raise awareness amongst the SJU auditees of the importance of the regularity and legality of the transactions and the sound financial management of the operations.

On an annual basis, the Project Audit Sector will provide the Authorizing Officer with an opinion on the legality and regularity of the underlying transactions and the sound financial management of the audited projects, based on the results of the work performed during the previous financial year.

The Project Audit Sector constitutes one of the elements of the internal control systems that the Authorizing Officer shall put in place in accordance with Article 38 of the SJU Financial Rules. The work of the Project Audit Sector shall be seen as a complement to other controls as well as a tool to contribute for raising awareness and producing guidelines.

### 4. Scope

In order to achieve its mission, the Project Audit Sector will perform audits based on internationally accepted auditing standards. In this respect, the audits performed shall be sufficiently specific, complete, intensive and thorough to provide an input in the level of reasonable assurance to SJU's management and all interested parties on the use of the SJU resources.

SJU's audit domain may be classified in the following categories, taking into account the respective budget lines:



- (a) Audit of the Members and their affiliates, subsidiaries, subcontractors, associates and any other third parties involved in the execution of the MFA (Chapter 3.3 and 3.2 of the SJU Budget). The audit of the expenditure within this Chapter shall be performed applying two different methodologies answering different objectives:
  - I. Statistical approach - this approach will be applied to determine the Interim Financial Statements per project and Member to be subject, in principle, to a SJU compliance and/or financial audit on a given financial year. It is expected that each year at least 5 Members will be audited and all Members will be audited at least twice during the overall Programme period (see also section 5 below);
  - II. Risk Based Approach - this approach will be used to determine the Projects to be subject to a value for money audit.
- (b) Audit of other contracts related to operational expenditure, concluded between the SJU and any third party (e.g. AIRE, OPTIMI etc.) (Chapter 3.1 of the SJU Budget). This part of the SJU's audit domain will be scrutinised through a Risk Based Approach.

The following type of audits may be performed by the Project Audit Sector:

- (a) Financial Audits;
- (b) Value for Money audits: these audits will aim to assess the sound financial management of the performed activities, consequently including both technical and financial aspects;
- (c) Compliance Audits;
- (d) Scientific and Technological Audits;
- (e) Ethical Audits;
- (f) Any other audit relevant to establish the legality and regularity and the sound financial management of the activities performed by the SJU auditees.

## **5. Annual Audit Plan**

Each year, following the submission of the Interim Financial Statements, a rolling Project Audit Annual Plan will be established and submitted for approval to the Authorizing Officer.

The Project Audit Annual Plan will contain the project audits to be performed

- determined either through a statistical approach or on a risk based approach as presented in section 4 a and b above
- or as required by the SJU management taking into consideration different relevant elements.

### **Statistical selection Budget (Budget Chapter 3.3)**

The population from which to draw samples will be defined as the amounts of all Interim Financial Statements (IFSs) received during a specific financial year. Cost Breakdown Forms (CBFs) will be listed in a table which will include the Project number, the Member and the total amount claimed. Each year, a minimum of 5 Members will be audited. The selection of the Members to be audited will be such that all the 16 Members will be audited in 3 years time. For each Member, a number (to be determined) of CBFs will be selected on a statistical sampling basis. This selection will encompass both the Member's CBFs as well as those of its affiliates. The SJU will use the MUS (monetary unit sampling) approach where each monetary unit (i.e. each Euro) is equally likely to be included in the sample. In this respect, the list of the CBFs received as part of the Interim Financial Statements of a Financial Year are put in a database, a random number which allows to identify a single CBF is generated and the process is repeated a number of times up



to when at least 5 Members are in the sample. The Members included in the sample in a year will be excluded from the population the following years, up until all Members will have been audited.

Through this selection process, it might occur that only one single CBF for a given SJU Auditee is selected. For cost effectiveness reasons and in order to maximize the audit resources, the Project Audit Sector will not only audit the selected CBFs but also other CBFs which constitute a significant amount, to come to a number of CBFs per SJU Auditee, representing a minimum total costs of 100.000€. SJU Auditees which are selected but who did not introduce CBFs for a total amount above 100.000€ will be audited in the next year when they pass the 100.000€ threshold.

If systemic errors or issues are detected in the CBFs of an SJU Auditee, in principle this will imply the need of a correction of all CBFs received by the concerned SJU Auditee. As such, the Project Audit Sector should be able, in the three years cycle, to have financial reasonable assurance on the legality and regularity of the expenditure declared by the Members.

#### Risk-based selection (Budget Chapter 3.3)

In order to assess the value for money of the Projects, the SJU will determine through a Risk Based approach the Projects that shall be subject to audit during the Programme life.

Taking into account the SJU's limited past knowledge about the Members, their management of contracts and internal procedures, no inherent risk can be identified and be considered for the selection at this stage. The Projects to be audited will be determined taking into consideration different risk factors, the results from the financial and compliance audits of the Members (see above), any relevant operational/technical issue brought to the attention of the Project Auditors, and specific requests of any agent involved in the authorization circuit, subject to the approval of the Authorizing Officer.

A detailed system will be put in place in order to record Members' procedures and assess systematically the inherent risks (the methodology is currently being piloted).

A first assessment will be performed based on the information included in the Certificate of Methodology and subsequently the criteria that can be taken into account during a selection are the following:

- Amount and number of CBFs submitted
- Past audit
- Risk identified during previous audits
- Results of previous audits
- Special requests (e.g. concerns raised by technical/financial functions)
- Coverage of Countries of operation
- Significant deviation from the budgeted amount

To perform risk analyses, the Project Audit Sector will gather information from the following sources:

- Interviews with SJU-management;
- Questionnaires to be completed by the Project Managers;
- The risk-analysis provided in the BAFO documentation;
- Bilateral meetings with the Finance Sector;
- The European Commission's WIKI on external audits by the Research DG's, which contains all reports of FP6 and FP7 audits performed by the Research DG's;
- Information deriving from completed audits.



Although it is expected that the value for money audits will be performed especially at the conclusion of a Project, they may be performed during the full life of the Programme.

Risk-based selection (Budget Chapter 3.1 and 3.2 as well as any other specific request)

The Risk Based approach will be applied to the expenditure under Chapter 3.1 and 3.2 taking into consideration the expenditure that was executed during previous years. In this respect and considering the overall materiality of the concerned Budget Chapters, the SJU will follow in principle the RTD approach to audit 50% of the budget. This percentage will be annually assessed taking into account the SJU knowledge built over the years.

In order to determine the activities to be audited, the same risk criteria as listed above for the Members will be applied mutatis mutandis. The Project Audits will be realized based on the risk profile and the resources available.

## **6. Resources**

The Project Audit Sector consists of two Project Auditors, under the supervision of the Principal Advisor to the Directorate Administration and Finance. Taking into consideration the competences required and the level of resources needed, the Project Audit Sector will avail with the support of external experts, which shall operate in compliance with the decision of the Administrative Board on the Conflict of Interest ADB (D) 10-2008. In this respect, the SJU has contracted through adequate tender procedure, Ernst & Young to support the Project Audit Sector in the performance of its activities.

The primary actions of the Project Audit Sector will be:

- Planning , co-ordination and performance of Ex-Ante and Ex-post Project Audits<sup>2</sup>
- Monitoring of the work outsourced to the External Audit Company and providing feedback;
- Analysis of the subsequent results and follow-up actions;
- Support and effective communication towards the SJU auditees in order to increase their awareness on the ex-post controls;
- Performance of Financial Verification within the internal SJU verification process;
- Contribution to the improvement of the procedures and practices of the SJU .

## **7. Underlying principles**

This Ex-Post Project Audit Strategy is guided by the following underlying principles:

### **7.1. Cost effectiveness**

Ex-post auditing activities will be conducted at all times with due regard to cost-effectiveness. This principle shall be applied in determining the different audits.

The efficiency of an individual audit has to be considered in the context of achieving the overall objectives of the Ex-post Project Audit Strategy as a whole. For example, an audit in a representative sample might not appear very cost-effective by itself, but it is to be carried out in order not to compromise the sample and

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<sup>2</sup> realised before payment are Ex-Ante. Once payment is made, on the spot controls are Ex-Post.





collect representative error rates. However, as a general rule, the impact of cost effectiveness on the tolerable risk of error measurement has to be considered.

### 7.2. Efficient coordination and harmonised approach towards beneficiaries

This Ex Post Project Audit Strategy aims at enhancing the cost effectiveness of the ex-post audit process of the SJU by ensuring a close coordination of audit activities with the Research DGs, where possible and legally allowed. This will avoid (1) unnecessary duplication of audit efforts in cases of multiple audits and (2) unnecessary control burden on the SJU auditees due to multiple audits from different instances.

### 7.3. Cost methodology certification

Inspired by the FP7 model, Article 13.2 of the Multilateral Framework Agreement requests the SJU Members to submit a Certificate on the Methodology (CoM).

*“Within ninety (90) days from the Effective Date, the Selected Member shall have the methodology used to identify Eligible Costs relating to the Programme audited by an Independent Auditor, in accordance with the Audit guidelines detailed in Schedule 5 (“Audit guidelines”) hereto, and notify the resulting Certificate on Methodology to the SJU. The SJU shall acknowledge receipt of the Certificate within thirty (30) calendar days. Acknowledgement of receipt of the Certificate shall not imply approval by the SJU of the corresponding methodology used by the Member, nor acceptance as Eligible Costs of the costs that the Member would declare pursuant to this methodology.*

*The Selected Member shall have the Interim Financial Statements audited each Financial Year by an Independent Auditor, in accordance with the Audit guidelines detailed in Schedule 5 (“Audit guidelines”) hereto.*

*The Selected Member shall have the Final Financial Statements relating to the Programme audited by an Independent Auditor, in accordance with the Audit guidelines detailed in Schedule 5 (“Audit guidelines”) hereto...”*

### 7.4. Extrapolation

Extrapolation is operational in the European Commission Services since the end of 2007 and has been formally integrated across Research services as from February 2008.

Extrapolation means in this document the process by which systemic errors found on audited cost claims are extrapolated to all the other non-audited claims of the same audited beneficiary, within the SESAR Programme.

It is important to note that non-systemic errors in non-audited population cannot be corrected. Given their very nature, there can be no systemic approach to removing them.

The adequate implementation of extrapolation relies on beneficiaries preparing and submitting revised cost statements from which the effect of any systemic error(s) detected in audits has been eradicated.



It must be noted that the responsibility for the implementation of extrapolation results is ultimately held by the Executive Director (Authorising Officer).

**7.5. Cooperation with DG Move, IAS, Research DGs, other Joint Undertakings, TEN-T Executive Agency and the European Court of Auditors (ECA)**

The SJU will coordinate and cooperate as much as possible in their auditing efforts with the European Institutions' and the other Joint Undertakings' audit instances. This is necessary in order to minimize the risk of overlapping and to timely identify any potential disagreement on methodological aspects.

This collaboration will cover in particular:

- Exchange of audit methodologies and planning information;
- Joint audits (when appropriate);
- Follow-up of ECA results.

DG MOVE and the SJU will both nominate a member of staff as official contact person in audit matters. Meetings between DG MOVE and the SJU will be organised on a regular basis to streamline the coordination and the cooperation.