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ΕΥΡΩΠΑΪΚΟ ΕΛΕΓΚΤΙΚΟ ΣΥΝΕΔΡΙΟ
EUROPEAN COURT OF AUDITORS
COUR DES COMPTES EUROPÉENNE
CÚIRT INIÚCHÓIRÍ NA HEORPA



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EUROPEISKA REVISIONSRÄTTEN

Report on the annual accounts
of the SESAR Joint Undertaking
for the financial year 2010

together with the replies of the Joint Undertaking

INTRODUCTION

1. The SESAR Joint Undertaking was set up in February 2007¹, located in Brussels, in order to manage the activities of the SESAR (Single European Sky Air Traffic Management Research) project.
2. The SESAR project aims to modernise Air Traffic Management (ATM) in Europe and is divided into three phases:
 - (a) "Definition phase" started in 2005 and led by the European Organisation for Safety of Air Navigation (Eurocontrol), with co-financing from the European Union (EU) budget through the Trans European Network - Transport programme. The outcome is the European ATM Master Plan, which defines the content, the development and deployment plans of the next generation of ATM systems.
 - (b) "Development phase" (2008-2013) managed by the SESAR Joint Undertaking² and leading to the production of new technological systems, components and operational procedures as defined in the European ATM Master Plan.
 - (c) "Deployment phase" (2014-2020) to be led by industry and stakeholders, for the large-scale production and implementation of the new air traffic management infrastructure.
3. The Joint Undertaking is designed as a public-private partnership. The founding members are the European Union represented by the European Commission, and Eurocontrol represented by its Agency. Following a call for

¹ Council Regulation (EC) No 219/2007 on the establishment of a Joint Undertaking to develop the new generation European air traffic management system (SESAR) (OJ L 64, 2.3.2007, p. 1) amended by Regulation (EC) No 1361/2008 (OJ L 352, 31.12.2008, p. 12).

² The **Annex** summarises the Joint Undertaking's competences and activities. It is presented for information purposes.

expressions of interest, fifteen public and private enterprises from the air navigation industry are members of the Joint Undertaking. These include air navigation service providers, ground and aerospace manufacturing industry, aircraft manufacturers, airport authorities and airborne equipment manufacturers.

4. The budget for the development phase of the SESAR project is 2,1 billion euro, to be provided in equal parts by the EU, by Eurocontrol and by the participating public and private partners. The EU contribution is funded from the Seventh Research Framework Programme and the Trans-European Networks – Transport programme. Around 90 % of the funding from Eurocontrol and the other stakeholders is in the form of in-kind contributions.

5. The SESAR JU started to work autonomously on 10 August 2007.

STATEMENT OF ASSURANCE

6. Pursuant to the provisions of Article 287(1), second paragraph of the Treaty on the Functioning of the European Union, the Court has audited the annual accounts³ of the SESAR Joint Undertaking, which comprise the “financial statements”⁴ and the “reports on implementation of the budget”⁵ for the financial year ended 31 December 2010 and the legality and regularity of the transactions underlying those accounts.

³ 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.

⁴ The financial statements include the balance sheet and the economic outturn account, the cash-flow table, the statement of changes in capital and the annex to the financial statements which includes the description of the significant accounting policies and other explanatory information.

⁵ 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 1605/2002⁶.

The Director's responsibility

8. As authorising officer, the Director implements the revenue and expenditure of the budget in accordance with the financial rules of the Joint Undertaking⁷ under his own responsibility and within the limits of the authorised appropriations⁸. The Director is responsible for putting in place the organisational structure and the internal management and control systems and procedures relevant for drawing up final accounts⁹ 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 ISSAI¹⁰ International Auditing Standards and Codes of Ethics. Those standards require

⁶ OJ L 248, 16.9.2002, p. 1.

⁷ SESAR Financial Rules adopted by the Administrative Board on 28 July 2009.

⁸ Article 33 of Commission Regulation (EC, Euratom) No 2343/2002 (OJ L 357, 31.12.2002, p. 80).

⁹ 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 Commission Regulation (EC, Euratom) No 652/2008 (OJ L 181, 10.07.2008, p. 23) and are incorporated in the Financial Rules of the SESAR Joint Undertaking.

¹⁰ International Federation of Accountants (IFAC) and International Standards of Supreme Audit Institutions (ISSAI).

that the Court complies with ethical requirements and plans and performs the audit to obtain reasonable assurance about whether the accounts are free from material misstatement and whether the underlying transactions are legal and regular.

11. The Court's audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts and about the legality and the regularity of the transactions underlying them. The procedures selected depend on its audit judgement, including the assessment of the risks of material misstatement of the accounts or of illegal or irregular transactions, whether due to fraud or error. In making those risk assessments internal control relevant to the entity's preparation and presentation of accounts is considered in order to design audit procedures that are appropriate in the circumstances. The Court's audit also includes evaluating the appropriateness of accounting policies used and, the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the accounts.

12. The Court believes 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 SESAR Joint Undertaking's annual accounts present fairly, 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 Regulation.

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

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

15. The comments which follow do not call the Court's opinions into question.

BUDGETARY AND FINANCIAL MANAGEMENT

16. The final 2010 budget adopted by the Administrative Board included commitment appropriations of 135 million euro and payment appropriations of 143 million euro. The utilisation rates for commitment and payment appropriations were 97,3% and 82,2% respectively.

17. In 2010, the contributions from members (55,6 million euro) together with the outturn of the previous year (86,5 million euro) amounted to 142,1 million euro, against payments of 84,9 million euro and the carryover of appropriations of 3,7 million euro. This led to a positive budget outturn of 53,5 million euro and deposits in bank accounts at the end of the year totalling 57,2 million euro. This is at odds with the budgetary principle of equilibrium.

18. According to Article 6 of the SESAR Joint Undertaking Financial Rules, no expenditure may be committed or authorised in excess of the appropriations authorised by the budget. For two budget headings – administrative expenditure and studies and development – authorised expenditure exceeded budgetary appropriations by 11% and 9% respectively.

OTHER MATTERS

Internal control systems

19. In 2010, the Joint Undertaking began to use the financial reporting systems also used by the Commission (ABAC and SAP). However, the SESAR Joint Undertaking operational programme management system is not integrated into these financial reporting systems. At the end of 2010, the underlying business processes had not been validated by the Accounting Officer as required by the Financial Rules of the Joint Undertaking.

Late payment of membership contributions

20. The deadline of 1 July 2010 for payment to the Joint Undertaking of the cash contributions for the year from its members was not respected. Delays in

payment ranged from 12 to 113 days. Two members had paid no contribution at all by the end of 2010.

Internal Audit Function and Commission Internal Audit Service

21. 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. While the Statutes have not been amended, the Court notes that the Commission and the Joint Undertaking have taken action to ensure a clearer definition of the respective operational roles of the Commission's Internal Audit Service (IAS) and of the internal auditing function of the Joint Undertaking.

22. In line with the views expressed by the Court, the Director-General of the IAS has confirmed in a note to all EU Joint Undertakings the responsibilities of the IAS under the general Financial Regulation to act as Internal Auditor of the Joint Undertakings. The Administrative Board of the SESAR Joint Undertaking has modified the charter of its internal auditing function accordingly.

This report was adopted by Chamber II, headed by Mr Harald NOACK, Member of the Court of Auditors, in Luxembourg at its meeting of 12 October 2011.

For the Court of Auditors

Vitor Manuel da SILVA CALDEIRA

President

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

Areas of EU competence deriving from the Treaty <i>(Article 187)</i>	<p>Research and technological development and space</p> <p>Efficient execution of EU research, technological development and demonstration programmes.</p>
Competences of the Joint Undertaking <i>(Council Regulation (EC) 219/2007, as last modified by Council Regulation (EC) 1361/2008)</i>	<p><u>Main objectives</u></p> <p>The aim of the SESAR Joint Undertaking shall be to ensure the modernisation of the European air traffic management system by coordinating and concentrating all relevant research and development efforts in the EU. It shall be responsible for the execution of the ATM Master Plan and in particular for carrying out the following tasks:</p> <ul style="list-style-type: none"> – organising and coordinating the activities of the development phase of the SESAR project, in accordance with the ATM Master Plan, resulting from the definition phase of the project managed by Eurocontrol, by combining and managing under a single structure public and private sector funding; – ensuring the necessary funding for the activities of the development phase of the SESAR project in accordance with the ATM Master Plan; – ensuring the involvement of the stakeholders of the air traffic management sector in Europe, in particular: air navigation service providers, airspace users, professional staff associations, airports, and manufacturing industry; as well as the relevant scientific institutions or the relevant scientific community; – organising the technical work of research and development, validation and study, to be carried out under its authority while avoiding fragmentation of such activities; – ensuring the supervision of activities related to the development of common products duly identified in the ATM Master Plan and if necessary, to organise specific invitations to tender.
Governance	<p><u>1 - Administrative Board</u></p> <p>The Administrative Board is responsible for:</p> <ul style="list-style-type: none"> (a) adopting the ATM Master Plan endorsed by the Council as referred to in Article 1(2) of this Regulation and approving any proposal to modify it; (b) giving guidelines and taking the decisions necessary for the implementation of the development phase of the SESAR project and exercising overall control over its implementation; (c) approving the Joint Undertaking's work programme and annual work programmes referred to in Article 16(1) as well as the annual budget, including the staff establishment plan; (d) authorising negotiations and deciding on the accession of new members and on the relating agreements as referred to in Article 1(3); (e) supervising the execution of the agreements between members and the Joint Undertaking; (f) appointing and dismissing the Executive Director and approving the organisation chart and monitoring the Executive Director's performance; (g) deciding on the amounts and procedures for the payment of members' financial contributions and the assessment of contributions in kind; (h) adopting the financial rules of the Joint Undertaking; (i) approving the annual accounts and balance-sheet; (j) adopting the annual report on the progress of the development phase of the SESAR project and its financial situation referred to in Article 16(2);

- (k) deciding on proposals to the Commission on the extension and the dissolution of the Joint Undertaking;
- (l) establishing procedures for granting rights of access to tangible and intangible assets which are the property of the Joint Undertaking and the transfer of such assets;
- (m) laying down the rules and procedures for awarding the contracts necessary to implement the ATM Master Plan, including specific procedures for conflicts of interest;
- (n) deciding on proposals to the Commission to amend the Statutes in accordance with Article 24;
- (o) exercising such other powers and performing such other functions, including the establishment of subsidiary bodies, as may be necessary for the purposes of the development phase of the SESAR project;
- (p) adopting the arrangements for implementing Article 8.

2 – Executive Director

The Executive Director shall perform his duties with complete independence within the powers assigned to him.

The Executive Director shall direct the execution of the SESAR project within the guidelines established by the Administrative Board to which he shall be responsible. He shall provide the Administrative Board with all information necessary for the performance of its functions.

The Executive Director has to:

- (a) employ, manage and supervise the staff of the Joint Undertaking, including the staff referred to in Article 8;
- (b) organise, manage and supervise the activities of the Joint Undertaking;
- (c) submit to the Administrative Board his proposals concerning the organisation chart;
- (d) draw up and regularly update the global and the annual work programme of the Joint Undertaking, including an estimate on programme costs, and submit them to the Administrative Board;
- (e) draw up, in accordance with the Financial Rules, the draft annual budget, including the staff establishment plan, and submit them to the Administrative Board;
- (f) ensure that the obligations of the Joint Undertaking, with regard to the contracts and agreements it concludes, are met;
- (g) ensure that the activities of the Joint Undertaking are carried out with complete independence and without any conflicts of interest;
- (h) draw up the annual report on the progress of the SESAR project and its financial situation, and such other reports as may be requested by the Administrative Board, and submit them to the latter;
- (i) submit the annual accounts and balance-sheet to the Administrative Board;
- (j) submit to the Administrative Board any proposal involving changes in the design of the SESAR project.

3 – Internal Audit

Internal Auditor of the European Commission.

4 – External audit

European Court of Auditors.

5 – Discharge authority

European Parliament, Council and the Administrative Board of the SJU.

Resources made available to the Joint Undertaking in 2010 (2009)	<u>Budget</u>
	134,7 million euro (325,1 million euro)
	<u>Staff at 31 December 2010</u>
	The 2010 operating budget provides for an establishment plan of 39 Temporary Agents and 3

	<p>Seconded National Experts (SNE), leading to a total of 42 staff posts, out of which 37 were occupied at year end 2010 (18 in 2009):</p> <ul style="list-style-type: none"> – 23 temporary staff, recruited externally – 10 staff seconded by SJU Members in accordance with Article 8 of Council Regulation (EC) 219/2007 – 2 contractual staff – 2 SNEs <p><i>Allocated to</i></p> <p>Operational tasks: 21</p> <p>Administrative and support tasks: 15</p> <p>Mixed tasks: 1.</p>
<p>Products and services 2010</p>	<p>Following the launch of the SESAR Programme activities in June 2009:</p> <ol style="list-style-type: none"> (a) at the end of 2010, 285 projects were initiated and 232 entered the execution phase; the integration of activities awarded as part of IBAFO II is underway and around 1800 persons are currently involved in the different projects of the SESAR Programme. The Programme activities are developing as planned and constitute a basis to be further progressed to contribute to the achievement of the 2012 strategic objectives. (b) in June 2010, the first Engineering Review Session, i.e. the assessment of the progress of the different Work Packages/Projects towards the SESAR Joint Undertaking Targets, was performed. In particular, the review highlighted how the critical dependencies have been established and contribute to the coherent progressing of the projects towards the Targets as well as the need for some corrective actions to align schedules, content, and engineering methodology; (c) with regard to the Programme reporting, the Joint Undertaking has introduced a structured quarterly reporting based on effort consumption that has to be submitted by the Members, starting with quarter III 2010. This report provides the Joint Undertaking with an additional monitoring of the alignment of the Members' efforts with the programme objectives, and of the risk incurred; (d) with regard to Validation, SESAR partners agreed on a Validation & Verification roadmap, which in particular stresses the importance of being as close as possible to the real operational environment in all validation activities; (e) Work Package E (Long Term Research) and Work Package 11 (Flight Operations Centre Systems) have been launched and activities started fully respectively by year end and by the first quarter 2011; (f) in order to ensure the involvement of all stakeholders in the Programme, the SJU has assured their participation through the award of contracts as a result of procurement procedures, directly or through Eurocontrol: <ul style="list-style-type: none"> - during the first months of 2010 a contract was signed to add "low cost airspace users" expertise. The amount committed during 2010 is 1,5 million euro; - with regard to the involvement of the military, more and more contacts are developed with the different National Defence administrations and through Eurocontrol DCMAC. The recruitment of a Senior Military Advisor in May 2010 has substantially increased the awareness of SESAR within the military community; - the involvement of the Professional Staff Associations has been assured through the signature by Eurocontrol on behalf of the Joint Undertaking of 5 contracts with each of the associations. The amount committed for the period 2010 to 2012 is 1 million euro as cash contribution of Eurocontrol. The administration and payments are managed by Eurocontrol, once the deliverables are approved by the Joint Undertaking; (g) the second phase of AIRE (Atlantic Interoperability Initiative to Reduce Emissions) procurement procedure was launched and completed, resulting in the award of 18 contracts with different consortia in charge of the performance of the activities. The total amount committed is 2,7 million euro; (h) a study on wireless communication was launched by the Joint Undertaking in May 2010 and 2 contracts for an amount of 0,5 million euro were signed; (i) following the signature of a Memorandum of Cooperation between the EU and the US Federal Aviation Administration, the Joint Undertaking in cooperation with the European Commission and Eurocontrol will establish the most appropriate framework to implement this memorandum in concrete activities. In this respect, it is the intention of the Joint

Undertaking to ensure that its Members involved operationally in projects are focal points with their American counterparts in the different relevant domains. Furthermore, external relation in co-operation with the EC and Eurocontrol were established with different strategic areas around the world, in particular Brazil, China, India and the Middle East;

- (j) the communication plan has been implemented in accordance with the Budget approved by the Administrative Board. Within the activities performed by the Communication team, the annual Amsterdam Global Air Traffic Control conference in March constitutes an example of efficient and effective results within contained resources;
- (k) The implementation of ABAC and SAP was completed in May 2010, while ABAC Assets and ABAC Contract are planned to be implemented by the end of 2011.

Source: Information supplied by the SESAR Joint Undertaking.

REPLIES OF THE JOINT UNDERTAKING

17. The SJU considers that it has clearly progressed in respect of the budgetary principle of equilibrium. The 2010 end of year cash balance of 57,2 million euro is a decrease of 34% compared to 2009. Of the 55,6 million euro of contributions from members, 43,8 million euro was received in the last weeks of the year, to ensure the funding of operations in 2011.

18. The SJU acknowledges the comment of the Court but the SJU has a limited lifetime, and considers that it can only enter the total payment appropriations once into the overall budget for 2007-2016, in order to avoid exceeding the total budget ceiling by the end of the SESAR development phase in 2016.

19. The SJU has developed an operational programme management system that complements the financial and budgetary information and considers that it has integrated its systems as far as possible, given the constraints on its use of ABAC and SAP. The SJU is planning to implement ABAC Assets and ABAC Contract by the end of 2011. The report of the Accounting Officer of the SJU on the validation of the local systems will be finalised in 2011.

20. The total contributions due from the two Members who had not paid by the end of 2010 amount to 18 000 euro. The delay was due to a miscommunication within the consortium of Members. These contributions were received at the beginning of 2011.