

Analysis and assessment of the Fuel Cells and Hydrogen 2 Joint Undertaking (FCH 2 JU) Annual Activity Report (AAR) 2014 by the FCH 2 JU Governing Board

Legal basis

Article 20 (1) of the FCH 2 JU Financial Rules states that “*The authorizing officer shall report annually to the Governing Board on the performance of his or her duties in the form of a consolidated annual activity report[...] (which) shall be submitted to the Governing Board for assessment and approval*”.

Article 20 (2) of the FCH 2 JU Financial Rules further specifies that '*No later than 1 July each year the consolidated annual activity report together with its assessment shall be sent by the Executive Director to the Court of Auditors, to the Commission, to the European Parliament and the Council*'.

Analysis

The Fuel Cells and Hydrogen 2 Joint Undertaking's Annual Activity Report 2014 (Authorising Officer's report) was presented to the FCH 2 JU Governing Board on 27 February 2015 and is planned to be approved by the Governing Board in June 2015.

The Governing Board is of the opinion that the FCH 2 JU AAR 2014 covers well the main activities of the FCH 2 JU in 2014, clearly identifies the risks associated with the FCH 2 JU operations, duly reports on the use made of the FCH 2 JU resources provided, and indicates the efficiency and effectiveness of the FCH 2 JU internal control system.

The Governing Board recognises the progress made by the FCH 2 JU and the achieved results in year 2014 and positively notes in particular that:

- As of June 2014, the newly set-up FCH 2 JU is running in parallel two programs with different rules: actions initiated under FP7 (expected completion by end of 2017) and those under H2020. The Joint Undertaking will continue to have its discharge separated from the Commission.
- FCH 2 JU has initiated the development of a comprehensive policy on the prevention and management of conflicts of interests covering all levels of the organisation, planned to be formally adopted in 2015 by the Governing Board.
- The first Call for Proposals of the FCH 2 JU under H2020 was published on 9 July 2014 with a deadline for submission of proposals on 6 November 2014 and an estimated budget of EUR 93 million. The signature of the grant agreements is expected to take place in the second quarter of 2015.
- The FCH 2 JU completed the negotiations for the successful proposals of Call 2013-1 and Call 2013 – 2 (closed on 22 May 2013 and 27 February 2014 accordingly), leading to the signature of 25 grant agreements and payment of the related pre-financing amounts before the end of 2014.
- Overall for the 155 projects funded under FP7, with 545 different beneficiaries from 22 EU Member States, 28% are SMEs.
- The achievements in relation to the technical objectives are included in the AAR, as well as the results of the projects finished. In this respect, the 155 projects funded under FP7 have produced almost 114 research publications in peer reviewed journals with high citation index, and 14 patent publications.

- The fourth Programme Review Days and the seventh edition of the Stakeholders Forum were successful in enabling the public assessment of the progress of the FCH 2 JU programme towards its objectives and in marking the continuation of the FCH Joint Undertaking under H2020.
- The low number of complaints from coordinators of proposals not retained for negotiations can be considered as an indication of the robustness of the evaluation process (5 complaints from a total of 79 proposals of 2013-1 and 2013-2 calls, or 6.3% under a target of < 10%).
- The maturity of FP7 programme is reflected in the overall increase of operational payments and a different proportion of payments related to pre-financing and those related to payment of cost claims: ~ EUR 68,8 million in 2014 (of which ~EUR 35,6 million, or 52%, pre-financing) versus ~ EUR 40,7 million in 2013 (of which ~ EUR 31,1 million, or 76%, pre-financing). 100% of payments for grants were paid on time (pre-financing and payment of cost claims). However, only 65% of payments of experts were made on time (decrease from 96% of payments on time in 2013 and 89 % in 2012).
- Several steps have been taken to further guide beneficiaries aiming at facilitating the implementation of the projects and avoiding errors, in particular organisation of a new session of the Communication campaign to avoid errors in the financial reporting with ‘on-site’ and ‘online’ participation, bringing to 141 the total number of beneficiaries involved in 129 projects that have attended the communication campaigns organised by the Joint Undertaking since 2012.
- The Governing Board also recognises that actions have been taken by the FCH 2 JU to implement the remarks provided by the European Court of Auditors in its report on the FCH JU Annual Accounts 2013, on the monitoring and reporting of the project research results and on following up on the recommendations resulting from the second interim evaluation of the FCH JU (an action plan to address these recommendations being adopted by the Governing Board on 11 November 2014).
- The average time to grant (TTG) for the last two Calls for Proposals run under FP7 was continuously reduced, while the H2020 Programme includes the requirement of maximum 8 months (240 days) as TTG.

However, the Governing Board considers that the following aspects require improvement:

- There is a need to reinforce the reporting and monitoring of beneficiaries’ use and dissemination plans, as highlighted by the IAS Limited review on ‘Use and dissemination of research results’. The Governing Board takes note that an action plan to address the IAS recommendations is in place, aiming in particular to (1) in cooperation with the Common Support Centre provide clear guidance to beneficiaries on how to report information on the use and dissemination of research results under H2020, (2) provide clear guidance to project managers on the assessment of the use and dissemination activities reported by beneficiaries and (3) set up a follow-up system of implementation of midterm comments and recommendations related to use and dissemination of research results. It appreciates that most actions should be implemented by mid-2015.
- The AAR 2014 reports on communication activities but without sufficient indication of the results of these activities. It is thus recommended that more detailed information on the quantitative and qualitative outputs of these activities is included in the AAR. Furthermore it is expected that an updated communication strategy is adopted in 2015.

Risk management process

Concerning the “Risk Management process”, the Governing Board appreciates that mitigating actions have been implemented to address the high risk of understaffing identified in previous exercises.

The Governing Board also acknowledges that the management of the FCH 2 JU has taken actions to tackle the risk areas identified in the 2014 Risk Management exercise, in particular, (1) the uncertainties on the readiness of H2020 new IT tools, and (2) the parallel running of two programmes with different rules.

Human resources

In relation to the use of human resources, the Governing Board notes that the FCH 2 JU staff assigned to the activities carried out in 2014 has been used for their intended purpose. It is also noted that at the end of the year there was one vacant post.

Also, the Governing Board notes that "understaffing", which was identified as a “critical” risk in year 2012 and a “high” risk in 2013, has been downgraded to “medium” in 2014.

Internal control system

The Governing Board is of the opinion that, in general, the internal control system is working and adequately mitigates the critical risks which could hamper the achievement of the FCH 2 JU objectives and activities.

The Governing Board acknowledges that thanks to the Action Plan for the effective implementation of the internal control standards, several weaknesses were identified in relation to the following internal control standards: ICS 3 (Staff allocation and flexibility), ICS 8 (Processes and procedures), ICS 11 (Document Management), ICS 12 (Information and Communication), and ICS 13 (Accounting and Financial Reporting). It is appreciated that measures to address these weaknesses are being implemented.

The functioning of the internal control system has been monitored through the year by the systematic registration of exceptions, leading to corrective and alternative mitigating measures.

The Governing Board also notes that further enhancing the effectiveness of the FCH 2 JU's control arrangement is required, in particular by fully implementing the action plans on recommendations of both internal and external auditors, and by improving the use of the monitoring tools.

The Governing Board welcomes the reasonable assurance that overall suitable control systems are in place and working as intended; that the identified risks are being mitigated and/or monitored; and that the improvements and reinforcement are being implemented.

Ex-post controls

The Governing Board notes with satisfaction that the ex-post audit strategy intended to ensure the legality and regularity of the expenditure has been duly implemented in 2014. Since the adoption of the ex-post audit strategy, 70 audits (56 representative and 14 risk-based) have been launched

(comprising 210 cost claims) of which 65 are finalised and 5 are on-going. The cumulative audit coverage represents 23% (on finalised audits) and 26% (on total audits) of the value of the validated cost claims at the cut-off reporting date (i.e. 31 December 2014). The Governing Board appreciates that the necessary controls and monitoring mechanisms are in place to ensure that all errors detected in favour of the FCH 2 JU are timely and effectively corrected.

The Governing Board welcomes that no reservation is necessary to the AAR 2014, as it can be stated with reasonable assurance that by the end of the programme the residual error rate is below the materiality threshold (i.e. 2%).

Assessment

The declaration of the Executive Director and the FCH 2 JU AAR 2014 gives a good assessment of operational and financial management in relation to the achievement of objectives. Based on the information provided, the FCH 2 JU key objectives set up for year 2014 have been met in compliance with the principles of legality and regularity of operations. Improvements are nevertheless recommended on the few aspects stated in the analysis of this report.

The Governing Board notes that the management of the FCH 2 JU has reasonable assurance that, overall, suitable controls are in place and working as intended, risks are being properly monitored and mitigated and necessary improvements and reinforcements detected by the auditors are being implemented. Therefore, the Executive Director, in his capacity as Authorising Officer, has signed the Declaration of assurance without any reservation.

The FCH 2 JU Governing Board hereby adopts the analysis and assessment of the FCH 2 JU AAR 2014.