

ANNEXES

ANNEX 1: Statement of the Head of Department for Administration, Finance and Support Services

I declare that in accordance with the Commission's communication on clarification of the responsibilities of the key actors in the domain of internal audit and internal control in the Commission¹, I have reported my advice and recommendations to the Director on the overall state of internal control in the Research Executive Agency.

I hereby certify that the information provided in Parts 2 and 3 of the present AAR and in its annexes is, to the best of my knowledge, accurate and exhaustive.

Brussels, 25 March 2015

Signed

Wilfried Beurms

Head of Department for
Administration,
Finance and Support Services
Internal Control Coordinator

¹ Communication to the Commission: Clarification of the responsibilities of the key actors in the domain of internal audit and internal control in the Commission; SEC(2003) 59 of 21 January 2003.

ANNEX 2: Human and Financial resources

2.1. Human Resources by ABB activity

The table listed below details the total staff employed within the REA as of 31 December 2014. These data do not constitute full-time equivalent units throughout the year.

Table 1 – Breakdown of human resources by ABB activity

Code ABB activity	ABB activity	Human Resources by ABB activity		
		Temporary Agents	Contract Agents	Total
Activity 02.04	Leadership in Space actions *	11	19	30
Activity 05.09	Part of SC-2 *	25	60	85
Activity 08.02	Part of SC-2, SC-6 , Spreading Excellence, Widening Participation and Science with and for Society *	2	4	6
Activity 09.04	FET Open, part of SC-6 and SC-7 *	8	23	31
Activity 15.03	Management of H2020 MSCA *	46	138	184
--	Support Services	10	89	99
--	Coordination and Administrative Support	37	76	113
TOTAL		139	409	548

General remark: the above data rely on the snapshot of personnel actually at the REA as of 31 December 2014. These data do not necessarily constitute full-time-equivalents throughout the year.

On 31 December the REA had 548 staff in place. With the job offers sent out and accepted with a starting date in 2015 and known resignations the total figure is 565.

The envisaged target of 580 staff has not been reached by the end of 2014 as recruitments have been put on hold during the internal redeployment exercise that took place during the first half of the year.

2.2. Financial resources – Implementation of the REA's operating budget

Table 2 – Overview REA's administrative budget

Budget Title	Appropriations 2014 (C1) (in € million)			Appropriations carried over from 2013 (C8) (in € million)	
	Available	Committed	Paid	Total available	% paid
Title 1 - Staff Expenditure	34.02	33.73	33.26	0.48	93.1%
Title 2 - Infrastructure and Operating Expenditure	8.54	8.53	7.29	0.96	93.6%
Title 3 - Programme Support Expenditure	8.98	8.98	6.58	1.39	87.5%
TOTAL	51.54	51.24	47.13	2.83	90.52%

Resources by ABB activity	Available		
H2020			
Part I - Excellent science	4.88		
Part II - Industrial leadership	0.53		
Part III - Societal Challenge 2	0.71		
Part III - Societal Challenge 6	0.53		
Part III - Societal Challenge 7	0.75		
Widening & Excellence	0.80		
FP7			
People	14.5		
Space and Security	5.5		
SME actions	5.2		
Support services	18.15		
TOTAL	51.54		

ANNEX 3: Draft annual accounts and financial reports

AAR 2014 Version 1

Annex 3.1 Financial Reports - DG REA - Financial Year 2014 Operational Budget

Table 1 : Commitments

Table 2 : Payments

Table 3 : Commitments to be settled

Table 4 : Balance Sheet

Table 5 : Statement of Financial Performance

Table 6 : Average Payment Times

Table 7 : Income

Table 8 : Recovery of undue Payments

Table 9 : Ageing Balance of Recovery Orders

Table 10 : Waivers of Recovery Orders

Table 11 : Negotiated Procedures (excluding Building Contracts) - not applicable

Table 12 : Summary of Procedures (excluding Building Contracts) - not applicable

Table 13 : Building Contracts - not applicable

Table 14 : Contracts declared Secret - not applicable

Note: the figures are those related to the provisional accounts and not yet audited by the Court of Auditors

Annex 3.1 - Financial Reports Operational Budget

Additional comments

100% Budget execution rates, both for commitment and payment appropriations, are reported in the body of the AAR. These rates refer exclusively to the management of appropriations authorised by the general EU budget.

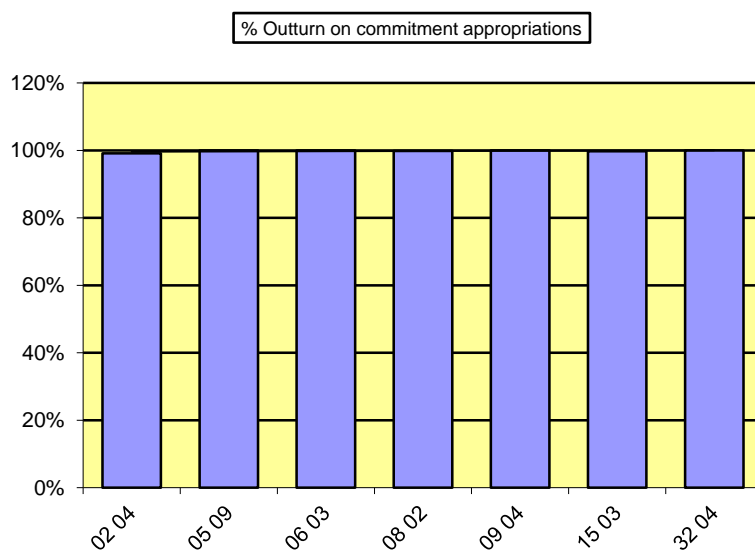
However, in table 1 and 2 lower budget execution rates are reported (slightly below 100% for commitment appropriations and significantly lower for payment appropriations). This can be explained by the fact that the tables 1 and 2 refer to the execution of appropriations from various sources, including earmarked revenue resulting from recoveries and from third country contributions to the programmes managed. These "other" funds sources are usually not consumed in the year they become available (the former are carried over automatically – as a rule not more than once; the latter – especially the payment appropriations - are carried forward automatically until the contracts to which they relate are fully implemented/paid).

The amounts reported in table 6 include invoices booked wrongly on the late interests GL accounts and that cannot be corrected. The real late interests paid by the REA in 2014 amount to 18.069,89 Euro.

In table 8, the amount of €61.3m indicated as total recovery context includes around €10m of final payment cases where the recovery context has been used to exclude from the cost claims the eligible costs exceeding the maximum EU contribution ("capping"). This type of recovery context should not be considered as "non-eligible amount in cost claims". For that reason, this amount is not taken into account in the body of the AAR.

TABLE 1: OUTTURN ON COMMITMENT APPROPRIATIONS IN 2014 (in Mio €)					
			Commitment appropriations authorised	Commitments made	%
			1	2	3=2/1
Title 02 Enterprise and Industry					
02	02 04	Horizon 2020 and Completion of 7th Framework Programme	209.66	207.81	99.12 %
Total Title 02			209.66	207.81	99.12%
Title 05 Agriculture and rural development					
05	05 09	Horizon 2020	52.11	52.11	100.00 %
Total Title 05			52.11	52.11	100.00%
Title 06 Mobility and transport					
06	06 03	Horizon 2020	0.82	0.82	100.00 %
Total Title 06			0.82	0.82	100.00%
Title 08 Research and Innovation					
08	08 02	Horizon 2020 and Completion of 7th Framework Programme	266.58	266.24	99.87 %
Total Title 08			266.58	266.24	99.87%
Title 09 Communications networks, content and technology					
09	09 04	Horizon 2020	170.58	170.58	100.00 %
Total Title 09			170.58	170.58	100.00%
Title 15 Education and culture					
15	15 03	Horizon 2020 and Completion of 7th Framework Programme	856.11	853.95	99.75 %
Total Title 15			856.11	853.95	99.75%
Title 32 Energy					
32	32 04	Horizon 2020	2.00	2.00	100.00 %
Total Title 32			2.00	2.00	100.00%
Total DG REA			1,557.86	1,553.51	99.72 %

* Commitment appropriations authorised include, in addition to the budget voted by the legislative authority, appropriations carried over from the previous exercise, budget amendments as well as miscellaneous commitment appropriations for the period (e.g. internal and external assigned revenue).

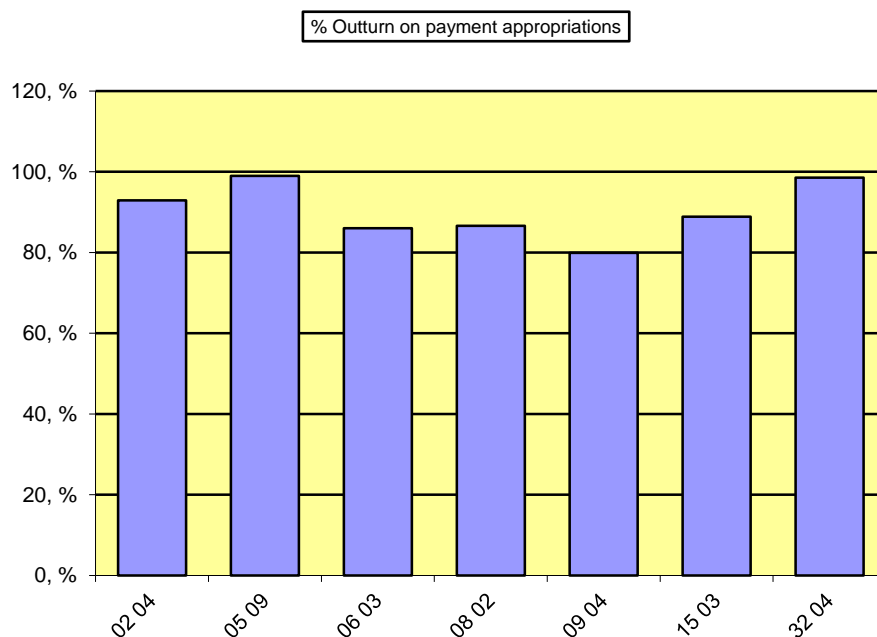


Note: the figures are those related to the provisional accounts and not yet audited by the Court of Auditors

Annex 3.1 - Financial Reports Operational Budget

TABLE 2: OUTTURN ON PAYMENT APPROPRIATIONS IN 2014 (in Mio €)					
Chapter			Payment appropriations authorised *	Payments made	%
			1	2	3=2/1
Title 02 Enterprise and Industry					
02	02 04	Horizon 2020 and Completion of 7th Framework Programme	272.01	252.74	92.92 %
Total Title 02			272.01	252.74	92.92%
Title 05 Agriculture and rural development					
05	05 09	Horizon 2020	1.18	1.17	99.00 %
Total Title 05			1.18	1.17	99.00%
Title 06 Mobility and transport					
06	06 03	Horizon 2020	0.75	0.65	86.01 %
Total Title 06			0.75	0.65	86.01%
Title 08 Research and Innovation					
08	08 02	Horizon 2020 and Completion of 7th Framework Programme	172.48	149.40	86.62 %
Total Title 08			172.48	149.40	86.62%
Title 09 Communications networks, content and technology					
09	09 04	Horizon 2020	10.46	8.36	79.92 %
Total Title 09			10.46	8.36	79.92%
Title 15 Education and culture					
15	15 03	Horizon 2020 and Completion of 7th Framework Programme	768.05	682.68	88.88 %
Total Title 15			768.05	682.68	88.88%
Title 32 Energy					
32	32 04	Horizon 2020	1.92	1.89	98.54 %
Total Title 32			1.92	1.89	98.54%
Total DG REA			1,226.85	1,096.88	89.41 %

* Payment appropriations authorised include, in addition to the budget voted by the legislative authority, appropriations carried over from the previous exercise, budget amendments as well as miscellaneous payment appropriations for the period (e.g. internal and external assigned revenue).

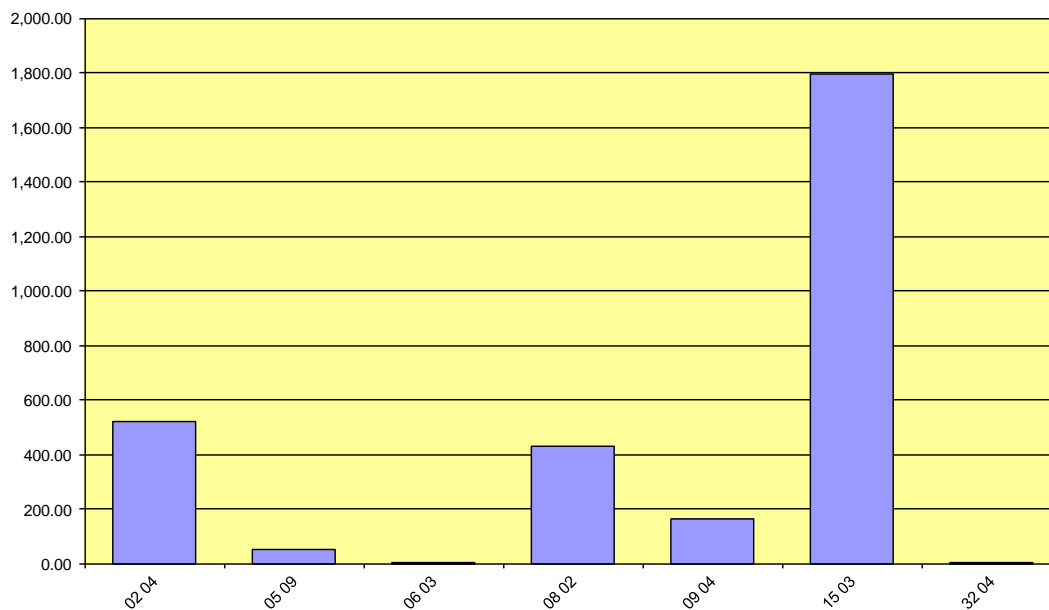


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Annex 3.1 - Financial Reports Operational Budget

TABLE 3 : BREAKDOWN OF COMMITMENTS TO BE SETTLED AT 31/12/2014 (in Mio €)									
Chapter			2014 Commitments to be settled				Commitments to be settled from financial years previous to 2014	Total of commitments to be settled at end of financial year 2014 (incl corrections)	Total of commitments to be settled at end of financial year 2013 (incl. corrections)
			Commitments 2014	Payments 2014	RAL 2014	% to be settled			
			1	2	3=1+2	4=1+2/1	5	6=3+5	7
Title 02 : Enterprise and Industry									
02	02 04	Horizon 2020 and Completion of 7th Framework Programme	207.81	28.45	179.36	86.31 %	340.83	520.19	568.30
Total Title 02			207.81	28.45	179.36	86.31%	340.83	520.19	568.30
Title 05 : Agriculture and rural development									
05	05 09	Horizon 2020	52.11	1.17	50.94	97.76 %	0.00	50.94	0.00
Total Title 05			52.11	1.17	50.94	97.76%	0.00	50.94	0.00
Title 06 : Mobility and transport									
06	06 03	Horizon 2020	0.82	0.65	0.18	21.32 %	0.00	0.18	0.00
Total Title 06			0.82	0.65	0.18	21.32%	0.00	0.18	0.00
Title 08 : Research and Innovation									
08	08 02	Horizon 2020 and Completion of 7th Framework Programme	266.24	13.25	252.99	95.02 %	175.66	428.65	312.21
Total Title 08			266.24	13.25	252.99	95.02%	175.66	428.65	312.21
Title 09 : Communications networks, content and technology									
09	09 04	Horizon 2020	170.58	8.36	162.22	95.10 %	0.00	162.22	0.00
Total Title 09			170.58	8.36	162.22	95.10%	0.00	162.22	0.00
Title 15 : Education and culture									
15	15 03	Horizon 2020 and Completion of 7th Framework Programme	853.95	115.50	738.45	86.47 %	1,053.78	1,792.23	1,639.28
Total Title 15			853.95	115.50	738.45	86.47%	1,053.78	1,792.23	1,639.28
Title 32 : Energy									
32	32 04	Horizon 2020	2.00	1.89	0.11	5.51 %	0.00	0.11	0.00
Total Title 32			2.00	1.89	0.11	5.51%	0.00	0.11	0.00
Total DG REA			1,553.51	169.27	1,384.24	89.10 %	1,570.28	2,954.52	2,519.79

Breakdown of Commitments remaining to be settled (in Mio EUR)



Note: the figures are those related to the provisional accounts and not yet audited by the Court of Auditors

Annex 3.1 - Financial Reports Operational Budget

TABLE 4 : BALANCE SHEET

BALANCE SHEET	2014	2013
A.I. NON CURRENT ASSETS	850,745,162.57	414,093,007.10
A.I.6. Non-Current Pre-Financing	850,745,162.57	
A.I.7. OLD LT Pre-Financing	0.00	414,093,007.10
A.II. CURRENT ASSETS	194,889,340.47	930,518,595.41
A.II.2. Current Pre-Financing	190,121,182.30	924,884,999.57
A.II.4. Exchange Receivables	2,535,692.28	1,734,171.87
A.II.5. Non-Exchange Receivables	2,232,465.89	3,899,423.97
ASSETS	1,045,634,503.04	1,344,611,602.51
P.III. CURRENT LIABILITIES	-133,946,983.96	-162,570,328.90
P.III.4. Accounts Payable	-59,943,162.57	-59,918,846.13
P.III.5. Accrued charges and deferred income	-74,003,821.39	-102,651,482.77
LIABILITIES	-133,946,983.96	-162,570,328.90
NET ASSETS (ASSETS less LIABILITIES)	911,687,519.08	1,182,041,273.61
P.I.2. Accumulated Surplus / Deficit	1,066,310,507.89	4,431,583.38
Non-allocated central (surplus)/deficit*	-1,977,998,026.97	-1,186,472,856.99
TOTAL	0.00	0.00

It should be noted that the balance sheet and economic outturn account presented in Annex 3 to this Annual Activity Report, represent only the (contingent) assets, (contingent) liabilities, expenses and revenues that are under the control of this Directorate General. Significant amounts such as own resource revenues and cash held in Commission bank accounts are not included in this Directorate General's accounts since they are managed centrally by DG Budget, on whose balance sheet and economic outturn account they appear. Furthermore, since the accumulated result of the Commission is not split amongst the various Directorates General, it can be seen that the balance sheet presented here is not in equilibrium.

Additionally, the figures included in tables 4 and 5 are provisional since they are, at this date, still subject to audit by the Court of Auditors. It is thus possible that amounts included in these tables may have to be adjusted following this audit.

TABLE 5 : STATEMENT OF FINANCIAL PERFORMANCE

STATEMENT OF FINANCIAL PERFORMANCE	2014	2013
II.1 REVENUES	-1,285,908.72	-73,850.94
II.1.1. NON-EXCHANGE REVENUES	-2,000,752.39	-273,297.39
II.1.1.5. RECOVERY OF EXPENSES	-1,683,747.79	-209,951.06
II.1.1.6. OTHER NON-EXCHANGE REVENUES	-317,004.60	-63,346.33
II.1.2. EXCHANGE REVENUES	714,843.67	199,446.45
II.1.2.1. FINANCIAL INCOME	-108,321.34	-1,078,927.60
II.1.2.2. OTHER EXCHANGE REVENUE	823,165.01	1,278,374.05
II.2. EXPENSES	1,340,982,628.73	1,061,952,775.45
II.2. EXPENSES	1,340,982,628.73	1,061,952,775.45
11.2.10. OTHER EXPENSES		0.00
II.2.2. EXP IMPLEM BY COMMISS&EX.AGENC. (DM)	1,340,914,445.73	1,061,926,520.35
II.2.8. FINANCE COSTS	68,183.00	26,255.10
STATEMENT OF FINANCIAL PERFORMANCE	1,339,696,720.01	1,061,878,924.51

Explanatory Notes (facultative):

It should be noted that the balance sheet and economic outturn account presented in Annex 3 to this Annual Activity Report, represent only the (contingent) assets, (contingent) liabilities, expenses and revenues that are under the control of this Directorate General. Significant amounts such as own resource revenues and cash held in Commission bank accounts are not included in this Directorate General's accounts since they are managed centrally by DG Budget, on whose balance sheet and economic outturn account they appear. Furthermore, since the accumulated result of the Commission is not split amongst the various Directorates-General, it can be seen that the balance sheet presented here is not in equilibrium.

Additionally, the figures included in tables 4 and 5 are provisional since they are, at this date, still subject to audit by the Court of Auditors. It is thus possible that amounts included in these tables may have to be adjusted following this audit.

TABLE 6: AVERAGE PAYMENT TIMES FOR 2014 - DG REA

Legal Times							
Maximum Payment Time (Days)	Total Number of Payments	Nbr of Payments within Time Limit	Percentage	Average Payment Times (Days)	Nbr of Late Payments	Percentage	Average Payment Times (Days)
30	12378	7929	64.06 %	17.68	4449	35.94 %	45.36
45	6	4	66.67 %	35.50	2	33.33 %	96.00
90	2949	2819	95.59 %	54.03	130	4.41 %	122.69
105	1	1	100.00 %	51.00			

Total Number of Payments	15334	10753	70.13 %		4581	29.87 %	
Average Payment Time	33.30			27.22			47.57

Target Times							
Target Payment Time (Days)	Total Number of Payments	Nbr of Payments within Target Time	Percentage	Average Payment Times (Days)	Nbr of Late Payments	Percentage	Average Payment Times (Days)
20	1784	1691	94.79 %	10.30	93	5.21 %	40.58
30	6	1	16.67 %	27.00	5	83.33 %	61.40
60	1				1	100.00 %	94.00
75	2763	2137	77.34 %	46.96	626	22.66 %	90.52

Total Number of Payments	4554	3829	84.08 %		725	15.92 %	
Average Payment Time	39.23			30.77			83.92

Suspensions							
Average Report Approval Suspension	Average Payment Suspension Days	Number of Suspended Payments	% of Total Number	Total Number of Payments	Amount of Suspended Payments	% of Total Amount	Total Paid Amount
0	45	3546	23.13 %	15334	532,182,462.89	51.36 %	1,036,281,181.42

Late Interest paid in 2014			
DG	GL Account	Description	Amount (Eur)
REA	65010000	Interest expense on late payment of charges	51 327.29
REA	65010100	Interest on late payment of charges New FR	16 855.71
			68 183.00

Note: the figures are those related to the provisional accounts and not yet audited by the Court of Auditors

Annex 3.1 - Financial Reports Operational Budget

TABLE 7 : SITUATION ON REVENUE AND INCOME IN 2014

Chapter		Revenue and income recognized			Revenue and income cashed from			Outstanding balance
		Current year RO	Carried over RO	Total	Current Year RO	Carried over RO	Total	
		1	2	3=1+2	4	5	6=4+5	7=3-6
52	REVENUE FROM INVESTMENTS OR LOANS GRANTED, BANK AND OTHER INTEREST	1,003,128.92	86,626.18	1,089,755.10	967,859.57	86,422.80	1,054,282.37	35,472.73
66	OTHER CONTRIBUTIONS AND REFUNDS	28,131,638.76	3,031,612.16	31,163,250.92	25,306,241.14	3,031,612.16	28,337,853.30	2,825,397.62
90	MISCELLANEOUS REVENUE	317,004.60	49,211.45	366,216.05	201,964.61	27,818.70	229,783.31	136,432.74
Total DG REA		29,451,772.28	3,167,449.79	32,619,222.07	26,476,065.32	3,145,853.66	29,621,918.98	2,997,303.09

Note: the figures are those related to the provisional accounts and not yet audited by the Court of Auditors

Annex 3.1 Financial Reports Operational Budget

**TABLE 8 : RECOVERY OF UNDUE PAYMENTS
(Number of Recovery Contexts and corresponding Transaction Amount)**

INCOME BUDGET RECOVERY ORDERS ISSUED IN 2014	Error		Irregularity		TOTAL Qualified		TOTAL RC (incl. non-qualified)		% Qualified/Total RC		
	Year of Origin (commitment)	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount
2007								4	254,707.98		
2008	2	3,951.43	26	1,337,098.04	28	1,341,049.47	77	3,477,244.74	36.36%	38.57%	
2009			19	1,196,301.84	19	1,196,301.84	107	6,523,970.49	17.76%	18.34%	
2010			6	284,013.21	6	284,013.21	114	7,887,409.24	5.26%	3.60%	
2011			5	64,570.01	5	64,570.01	75	4,628,651.30	6.67%	1.40%	
2012			2	20,519.12	2	20,519.12	122	3,604,845.08	1.64%	0.57%	
2013	1	675.00	1	4,051.47	2	4,726.47	47	1,816,264.30	4.26%	0.26%	
2014	1	2,196.54	1	3,376.00	2	5,572.54	8	266,459.75	25.00%	2.09%	
No Link							4	14,344.85			
Sub-Total	4	6,822.97	60	2,909,929.69	64	2,916,752.66	558	28,473,897.73	11.47%	10.24%	

EXPENSES BUDGET	Error		Irregularity		OLAF Notified		TOTAL Qualified		TOTAL RC (incl. non-qualified)		% Qualified/Total RC	
	Nbr	Amount	Nbr	Amount	Nbr	Amount	Nbr	Amount	Nbr	Amount	Nbr	Amount
INCOME LINES IN INVOICES									1	620.00		
NON ELIGIBLE IN COST CLAIMS	14	386,381.77	677	16,500,481.12	2	257,717.06	693	17,144,579.95	881	32,657,960.42	78.66%	52.50%
CREDIT NOTES									1	221,491.06		
Sub-Total	14	386,381.77	677	16,500,481.12	2	257,717.06	693	17,144,579.95	883	32,880,071.48	78.48%	52.14%
GRAND TOTAL	18	393,204.74	737	19,410,410.81	2	257,717.06	757	20,061,332.61	1,441	61,353,969.21	52.53%	27.94%

The provisional closure will be based on the recovery context situation at 31/01/2015.

Note: the figures are those related to the provisional accounts and not yet audited by the Court of Auditors

Annex 3.1 Financial Reports Operational Budget

TABLE 9: AGEING BALANCE OF RECOVERY ORDERS AT 31/12/2014 FOR REA

	Number at 01/01/2014	Number at 31/12/2014	Evolution	Open Amount (Eur) at 01/01/2014	Open Amount (Eur) at 31/12/2014	Evolution
2012	1		-100.00 %	27,767.25		-100.00 %
2013	36	3	-91.67 %	3,139,682.54	21,596.13	-99.31 %
2014		34			2,975,706.96	
	37	37	0.00 %	3,167,449.79	2,997,303.09	-5.37 %

Note: the figures are those related to the provisional accounts and not yet audited by the Court of Auditors

Annex 3.1 Financial Reports Operational Budget

TABLE 10 : RECOVERY ORDER WAIVERS IN 2014 >= EUR 100.000						
	Waiver Central Key	Linked RO Central Key	RO Accepted Amount (Eur)	LE Account Group	Commission Decision	Comments

Total DG	
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Number of RO waivers	
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Justifications:

**Annex 3.2 Financial Reports - REA - Financial Year 2014
Administrative Budget****Table 1 : Commitments****Table 2 : Payments****Table 3 : Commitments to be settled****Table 4 : Balance Sheet****Table 5 : Statement of Financial Performance****Table 6 : Average Payment Times****Table 7 : Income****Table 8 : Recovery of undue Payments****Table 9 : Ageing Balance of Recovery Orders****Table 10 : Waivers of Recovery Orders****Table 11 : Negotiated Procedures (excluding Building Contracts)****Table 12 : Summary of Procedures (excluding Building Contracts)****Table 13 : Building Contracts****Table 14 : Contracts declared Secret**

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Annex 3.2 - Financial Reports Administrative Budget

Additional comments

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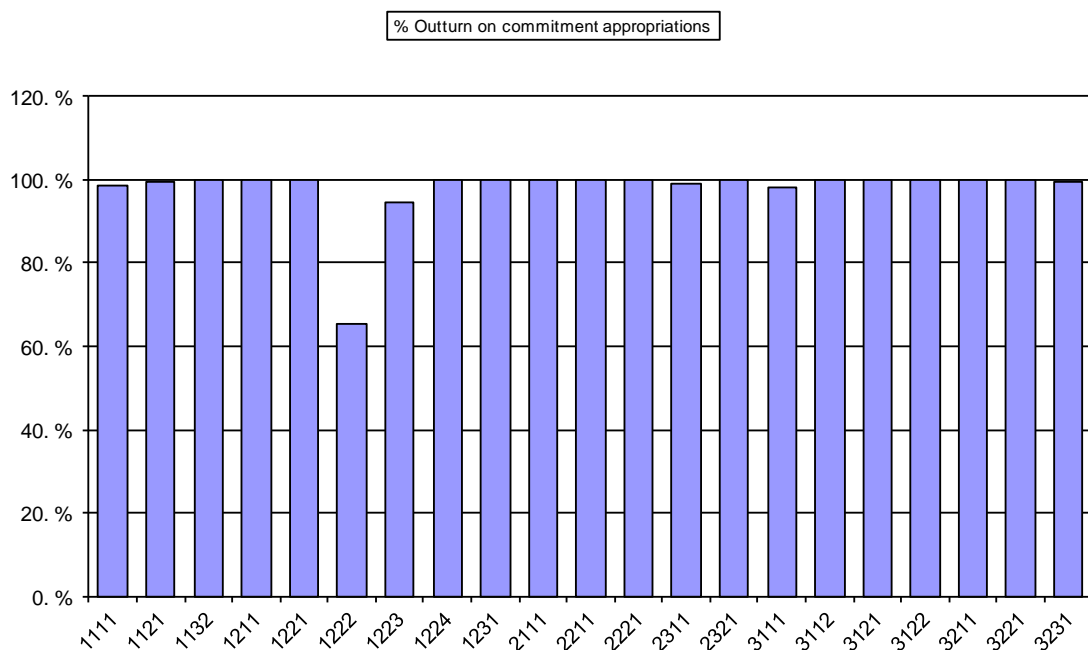
TABLE 1: OUTTURN ON COMMITMENT APPROPRIATIONS IN 2014 (in Mio €)				
		Commitment appropriations authorised *	Commitments made	%
		1	2	3=2/1
Title 1 STAFF EXPENDITURE				
Chapter 11 REMUNERATIONS, ALLOWANCES AND CHARGES				
1111	TEMPORARY AGENTS - REMUNERATION, ALLOW. AND CHARGE	13.31	13.15	98.76 %
Total Article 111		13.31	13.15	98.76%
1121	CONTRACT AGENTS - REMUNERATION, ALLOW. AND CHARGES	17.41	17.30	99.37 %
Total Article 112		17.41	17.30	99.37%
1132	INTERIM SUPPORTIVE AGENTS AND TRAINEES	1.65	1.65	100.00 %
Total Article 113		1.65	1.65	100.00%
Chapter 12 PROFESSIONAL DEVELOPMENT AND SOCIAL EXPENDITURE				
1211	SPECIFIC STAFF-RELATED CHARGES AND RECRUIT. EXP.	1.08	1.08	100.00 %
Total Article 121		1.08	1.08	100.00%
1221	TRAINING COURSES FOR PROF. AND PERS. DEV. OF STAFF	0.32	0.31	99.94 %
1222	MISSIONS FOR PROF. AND PERS. DEV. OF STAFF	0.02	0.01	65.21 %
1223	MEDICAL SERVICE	0.11	0.10	94.41 %
1224	MOBILITY AND OTHER SOCIAL EXPENSES	0.10	0.10	100.00 %
Total Article 122		0.55	0.54	97.68%
1231	REPRESENTATION EXP. EVENTS AND INTERNAL MEETINGS	0.01	0.01	100.00 %
Total Article 123		0.01	0.01	100.00%
Title 2 INFRASTRUCTURE AND OPERATING EXPENDITURE				
Chapter 21 BUILDING EXPENDITURE				
2111	RENT / USUFRUCT INSTALMENTS AND BUILDING CHARGES	5.39	5.39	100.00 %
Total Article 211		5.39	5.39	100.00%
Chapter 22 ICT EXPENDITURE				
2211	ICT ENVIRONMENT (INFRA, SYSTEMS AND SERVICES)	2.43	2.43	99.95 %
Total Article 221		2.43	2.43	99.95%
2221	DATA PROCESSING AND APPLICATION DEVELOPMENT	0.44	0.44	99.92 %
Total Article 222		0.44	0.44	99.92%
Chapter 23 MOVABLE PROPERTY AND CURRENT OPERATING EXPENDITURE				
2311	FURNITURE, MATERIALS AND TECHNICAL INSTALLATIONS	0.06	0.06	98.86 %
Total Article 231		0.06	0.06	98.86%
2321	OFFICE SUPPLIES AND OTHER CURRENT OPERATING EXPEND	0.22	0.22	100.00 %
Total Article 232		0.22	0.22	100.00%

Note: the figures are those of the provisional accounts and not yet audited by the Court of Auditors

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Title 3 PROGRAMME SUPPORT EXPENDITURE				
Chapter 31 PROGRAMME MANAGEMENT EXPENDITURE				
3111	COMMUN., INFO., PUB., LINGUIST. TRAINING P.M. REL.	0.08	0.08	97.97 %
3112	ICT INFRA., ENVIR. AND SYST. P.M. RELATED	0.18	0.18	100.00 %
Total Article 311		0.26	0.26	99.36%
3121	EXTERNAL AUDITS	1.19	1.19	99.84 %
3122	MISSIONS AND OTHER P.M. REL. EXP.	0.43	0.43	100.00 %
Total Article 312		1.61	1.61	99.88%
Chapter 32 COMMON SUPPORT SERVICES EXPENDITURE				
3211	CSS - BUILDING EXP.	5.23	5.23	99.98 %
Total Article 321		5.23	5.23	99.98%
3221	CSS - ICT, LOG, INF. COMMUN. AND CURR. OPER. EXP.	1.69	1.68	99.87 %
Total Article 322		1.69	1.68	99.87%
3231	MEETINGS OF EXPERTS AND ASSOCIATED COSTS	0.20	0.20	99.69 %
Total Article 323		0.20	0.20	99.69%
TOTAL REA		51.54	51.24	99.42 %

* Commitment appropriations authorised include, in addition to the budget voted by the legislative authority, appropriations carried over from the previous exercise, budget amendments as well as miscellaneous commitment appropriations for the period (e.g. internal and external assigned revenue).



Note: the figures are those of the provisional accounts and not yet audited by the Court of Auditors

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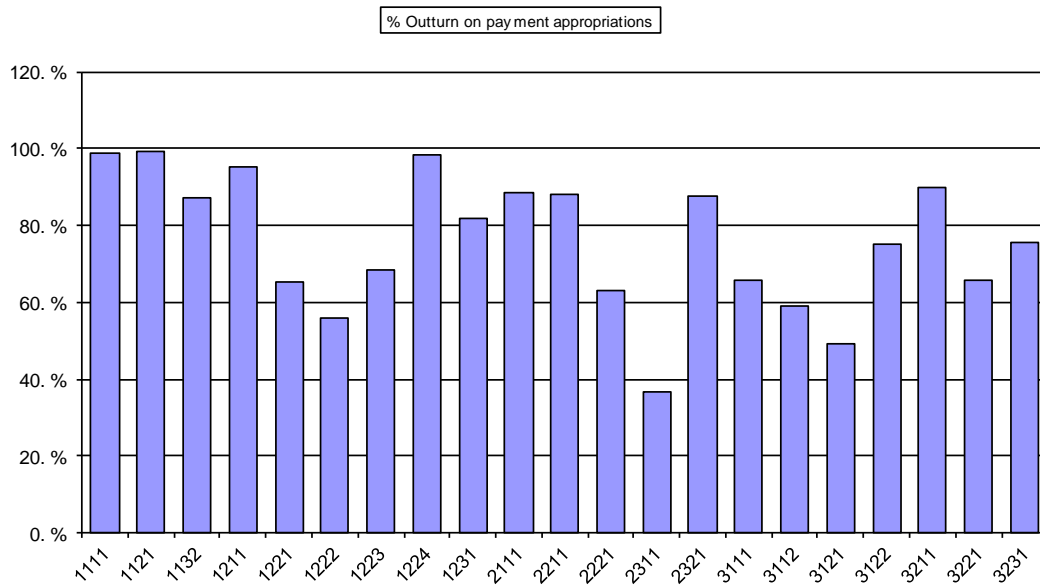
TABLE 2: OUTTURN ON PAYMENT APPROPRIATIONS IN 2014 (in Mio €)				
		Payment appropriations authorised *	Payments made	%
		1	2	3=2/1
Title 1 STAFF EXPENDITURE				
Chapter 11 REMUNERATIONS, ALLOWANCES AND CHARGES				
1111	TEMPORARY AGENTS - REMUNERATION, ALLOW. AND CHARGE	13.31	13.15	98.76 %
Total Article 111		13.31	13.15	98.76%
1121	CONTRACT AGENTS - REMUNERATION, ALLOW. AND CHARGES	17.41	17.30	99.37 %
Total Article 112		17.41	17.30	99.37%
1132	INTERIM SUPPORTIVE AGENTS AND TRAINEES	1.83	1.59	87.27 %
Total Article 113		1.83	1.59	87.27%
Chapter 12 PROFESSIONAL DEVELOPMENT AND SOCIAL EXPENDITURE				
1211	SPECIFIC STAFF-RELATED CHARGES AND RECRUIT. EXP.	1.16	1.11	95.38 %
Total Article 121		1.16	1.11	95.38%
1221	TRAINING COURSES FOR PROF. AND PERS. DEV. OF STAFF	0.44	0.29	65.45 %
1222	MISSIONS FOR PROF. AND PERS. DEV. OF STAFF	0.02	0.01	56.07 %
1223	MEDICAL SERVICE	0.21	0.14	68.43 %
1224	MOBILITY AND OTHER SOCIAL EXPENSES	0.11	0.11	98.53 %
Total Article 122		0.78	0.55	70.77%
1231	REPRESENTATION EXP. EVENTS AND INTERNAL MEETINGS	0.01	0.01	81.66 %
Total Article 123		0.01	0.01	81.66%
Title 2 INFRASTRUCTURE AND OPERATING EXPENDITURE				
Chapter 21 BUILDING EXPENDITURE				
2111	RENT / USUFRUCT INSTALMENTS AND BUILDING CHARGES	5.96	5.27	88.35 %
Total Article 211		5.96	5.27	88.35%
Chapter 22 ICT EXPENDITURE				
2211	ICT ENVIRONMENT (INFRA, SYSTEMS AND SERVICES)	2.59	2.29	88.20 %
Total Article 221		2.59	2.29	88.20%
2221	DATA PROCESSING AND APPLICATION DEVELOPMENT	0.64	0.41	63.09 %
Total Article 222		0.64	0.41	63.09%
Chapter 23 MOVABLE PROPERTY AND CURRENT OPERATING EXPENDITURE				
2311	FURNITURE, MATERIALS AND TECHNICAL INSTALLATIONS	0.06	0.02	36.53 %
Total Article 231		0.06	0.02	36.53%
2321	OFFICE SUPPLIES AND OTHER CURRENT OPERATING EXPEND	0.23	0.21	87.54 %
Total Article 232		0.23	0.21	87.54%
Title 3 PROGRAMME SUPPORT EXPENDITURE				
Chapter 31 PROGRAMME MANAGEMENT EXPENDITURE				
3111	COMMUN., INFO., PUB., LINGUIST. TRAINING P.M. REL.	0.17	0.11	65.77 %
3112	ICT INFRA., ENVIR. AND SYST. P.M. RELATED	0.34	0.20	59.22 %
Total Article 311		0.51	0.32	61.41%
3121	EXTERNAL AUDITS	2.05	1.01	49.08 %

Note: the figures are those of the provisional accounts and not yet audited by the Court of Auditors

Annex 3.2 - Financial Reports Administrative Budget

3122	MISSIONS AND OTHER P.M. REL. EXP.	0.53	0.40	75.28 %
Total Article 312		2.58	1.40	54.42%
Chapter 32 COMMON SUPPORT SERVICES EXPENDITURE				
3211	CSS - BUILDING EXP.	5.23	4.70	89.95 %
Total Article 321		5.23	4.70	89.95%
3221	CSS - ICT, LOG, INF. COMMUN. AND CURR. OPER. EXP.	1.85	1.22	65.86 %
Total Article 322		1.85	1.22	65.86%
3231	MEETINGS OF EXPERTS AND ASSOCIATED COSTS	0.21	0.16	75.66 %
Total Article 323		0.21	0.16	75.66%
TOTAL REA		54.36	49.68	91.40 %

** Payment appropriations authorised include, in addition to the budget voted by the legislative authority, appropriations carried over from the previous exercise, budget amendments as well as miscellaneous payment appropriations for the period (e.g. internal and external assigned revenue).*



Note: the figures are those of the provisional accounts and not yet audited by the Court of Auditors

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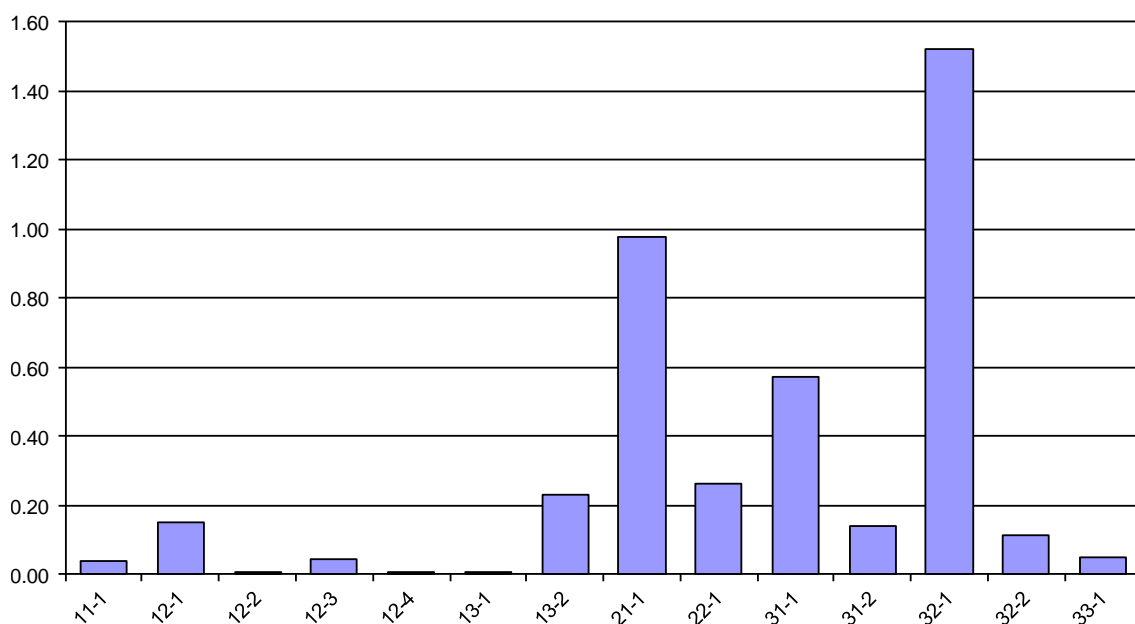
TABLE 3 : BREAKDOWN OF COMMITMENTS TO BE SETTLED AT 31/12/2014 (in Mio €)					
Chapter		2014 Commitments to be settled			
		Commitments 2014	Payments 2014	RAL 2014	% to be settled
		1	2	3=1-2	4=1-2/1
Title 1 STAFF EXPENDITURE					
Chapter 11 REMUNERATIONS, ALLOWANCES AND CHARGES					
1111	TEMPORARY AGENTS - REMUNERATION, ALLOW. AND CHARGE	13.15	-13.15	0.00	0.00 %
Total Article 111		13.15	-13.15	0.00	0.00%
1121	CONTRACT AGENTS - REMUNERATION, ALLOW. AND CHARGES	17.30	-17.30	0.00	0.00 %
Total Article 112		17.30	-17.30	0.00	0.00%
1132	INTERIM SUPPORTIVE AGENTS AND TRAINEES	1.65	-1.42	0.23	13.91 %
Total Article 113		1.65	-1.42	0.23	13.91%
Chapter 12 PROFESSIONAL DEVELOPMENT AND SOCIAL EXPENDITURE					
1211	SPECIFIC STAFF-RELATED CHARGES AND RECRUIT. EXP.	1.08	-1.04	0.04	3.75 %
Total Article 121		1.08	-1.04	0.04	3.75%
1221	TRAINING COURSES FOR PROF. AND PERS. DEV. OF STAFF	0.31	-0.16	0.15	47.59 %
1222	MISSIONS FOR PROF. AND PERS. DEV. OF STAFF	0.01	-0.01	0.00	14.01 %
1223	MEDICAL SERVICE	0.10	-0.06	0.04	42.36 %
1224	MOBILITY AND OTHER SOCIAL EXPENSES	0.10	-0.10	0.00	1.57 %
Total Article 122		0.54	-0.34	0.20	36.84%
1231	REPRESENTATION EXP. EVENTS AND INTERNAL MEETINGS	0.01	-0.01	0.00	19.24 %
Total Article 123		0.01	-0.01	0.00	19.24%
Title 2 INFRASTRUCTURE AND OPERATING EXPENDITURE					
Chapter 21 BUILDING EXPENDITURE					
2111	RENT / USUFRUCT INSTALMENTS AND BUILDING CHARGES	5.39	-4.74	0.65	12.02 %
Total Article 211		5.39	-4.74	0.65	12.02%
Chapter 22 ICT EXPENDITURE					
2211	ICT ENVIRONMENT (INFRA, SYSTEMS AND SERVICES)	2.43	-2.14	0.29	12.02 %
Total Article 221		2.43	-2.14	0.29	12.02%
2221	DATA PROCESSING AND APPLICATION DEVELOPMENT	0.44	-0.20	0.24	54.35 %
Total Article 222		0.44	-0.20	0.24	54.35%
Chapter 23 MOVABLE PROPERTY AND CURRENT OPERATING EXPENDITURE					
2311	FURNITURE, MATERIALS AND TECHNICAL INSTALLATIONS	0.06	-0.02	0.04	64.06 %
Total Article 231		0.06	-0.02	0.04	64.06%
2321	OFFICE SUPPLIES AND OTHER CURRENT OPERATING EXPEND	0.22	-0.19	0.03	12.72 %
Total Article 232		0.22	-0.19	0.03	12.72%

Note: the figures are those of the provisional accounts and not yet audited by the Court of Auditors

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Title 3 PROGRAMME SUPPORT EXPENDITURE					
Chapter 31 PROGRAMME MANAGEMENT EXPENDITURE					
3111	COMMUN., INFO., PUB., LINGUIST. TRAINING P.M. REL.	0.08	-0.03	0.05	60.61 %
3112	ICT INFRA., ENVIR. AND SYST. P.M. RELATED	0.18	-0.04	0.14	78.56 %
Total Article 311		0.26	-0.07	0.19	72.98%
3121	EXTERNAL AUDITS	1.19	-0.29	0.89	75.32 %
3122	MISSIONS AND OTHER P.M. REL. EXP.	0.43	-0.31	0.11	26.99 %
Total Article 312		1.61	-0.60	1.01	62.55%
Chapter 32 COMMON SUPPORT SERVICES EXPENDITURE					
3211	CSS - BUILDING EXP.	5.23	-4.70	0.52	10.04 %
Total Article 321		5.23	-4.70	0.52	10.04%
3221	CSS - ICT, LOG, INF. COMMUN. AND CURR. OPER. EXP.	1.68	-1.06	0.63	37.30 %
Total Article 322		1.68	-1.06	0.63	37.30%
3231	MEETINGS OF EXPERTS AND ASSOCIATED COSTS	0.20	-0.15	0.05	24.89 %
Total Article 323		0.20	-0.15	0.05	24.89%
TOTAL REA		51.24	-47.13	4.11	8.02 %

Breakdown of Commitments remaining to be settled (in Mio EUR)



Note: the figures are those of the provisional accounts and not yet audited by the Court of Auditors

Annex 3.2 - Financial Reports Administrative Budget

TABLE 4 : BALANCE SHEET REA

BALANCE SHEET	2014	2013
A.I. NON CURRENT ASSETS	5,519,895.00	6,920,873.10
A.I.1. Intangible Assets	2,240,770.00	3,456,014.10
A.I.2. Property, plant and equipment	3,279,125.00	3,464,859.00
A.II. CURRENT ASSETS	10,986,725.12	7,166,200.12
A.II.4. Exchange Receivables	6,292,107.32	2,841,111.11
A.II.5. Non-Exchange Receivables	921.83	72,676.88
A.II.7. Cash and Cash Equivalents	4,693,695.97	4,252,412.13
ASSETS	16,506,620.12	14,087,073.22
P.II. NON CURRENT LIABILITIES		0.00
P.II.2. Long-term provisions		0.00
P.III. CURRENT LIABILITIES	-3,314,719.33	-4,440,462.42
P.III.2. Short-term provisions	0.00	-331,156.11
P.III.4. Accounts Payable	-738,542.29	-1,888,421.15
P.III.5. Accrued charges and deferred income	-2,576,177.04	-2,220,885.16
LIABILITIES	-3,314,719.33	-4,440,462.42
NET ASSETS (ASSETS less LIABILITIES)	13,191,900.79	9,646,610.80
P.I.2. Accumulated Surplus / Deficit	-9,646,610.80	-10,021,850.90
Non-allocated central (surplus)/deficit*	-3,545,289.99	375,240.10
TOTAL	0	0

It should be noted that the balance sheet and economic outturn account presented in Annex 3 to this Annual Activity Report, represent only the (contingent) assets, (contingent) liabilities, expenses and revenues that are under the control of this Directorate General. Significant amounts such as own resource revenues and cash held in Commission bank accounts are not included in this Directorate General's accounts since they are managed centrally by DG Budget, on whose balance sheet and economic outturn account they appear. Furthermore, since the accumulated result of the Commission is not split amongst the various Directorates General, it can be seen that the balance sheet presented here is not in equilibrium.

Additionally, the figures included in tables 4 & 5 are provisional since they are, at this date, still subject to audit by the Court of Auditors. It is thus possible that amounts included in these tables may have to be adjusted following this audit.

TABLE 5 : ECONOMIC OUTTURN ACCOUNT REA

STATEMENT OF FINANCIAL PERFORMANCE	2014	2013
II.1 REVENUES	-51,323,074.45	-45,592,327.39
II.1.1. NON-EXCHANGE REVENUES	-51,056,859.70	-45,590,066.59
II.1.1.6. OTHER NON-EXCHANGE REVENUES	-51,056,859.70	-45,590,066.59
II.1.2. EXCHANGE REVENUES	-266,214.75	-2,260.80
II.1.2.1. FINANCIAL INCOME	-158,357.11	
II.1.2.2. OTHER EXCHANGE REVENUE	-107,857.64	-2,260.80
II.2. EXPENSES	47,777,784.46	45,967,567.49
II.2. EXPENSES	47,777,784.46	45,967,567.49
11.2.10. OTHER EXPENSES	16,695,525.40	17,466,872.29
II.2.6. STAFF AND PENSION COSTS	31,082,259.06	28,500,695.20
II.2.8. FINANCE COSTS		0.00
STATEMENT OF FINANCIAL PERFORMANCE	-3,545,289.99	375,240.10

Explanatory Notes (facultative):

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It should be noted that the balance sheet and economic outturn account presented in Annex 3 to this Annual Activity Report, represent only the (contingent) assets, (contingent) liabilities, expenses and revenues that are under the control of this Directorate General. Significant amounts such as own resource revenues and cash held in Commission bank accounts are not included in this Directorate General's accounts since they are managed centrally by DG Budget, on whose balance sheet and economic outturn account they appear. Furthermore, since the accumulated result of the Commission is not split amongst the various Directorates General, it can be seen that the balance sheet presented here is not in equilibrium.

Additionally, the figures included in tables 4 & 5 are provisional since they are, at this date, still subject to audit by the Court of Auditors. It is thus possible that amounts included in these tables may have to be adjusted following this audit.

TABLE 6: AVERAGE PAYMENT TIMES FOR 2014 - REA

Legal Times

Maximum Payment Time (Days)	Total Number of Payments	Nbr of Payments within Time Limit	Percentage	Average Payment Times (Days)	Nbr of Late Payments	Percentage	Average Payment Times (Days)
30	1503	1383	92.02 %	18.03	120	7.98 %	43.13
45	289	284	98.27 %	24.05	5	1.73 %	56.40
60	18	14	77.78 %	38.64	4	22.22 %	65.00

Total Number of Payments	1810	1681	92.87 %		129	7.13 %	
Average Payment Time	21.01			19.22			44.32

Target Times

Target Payment Time (Days)	Total Number of Payments	Nbr of Payments within Target Time	Percentage	Average Payment Times (Days)	Nbr of Late Payments	Percentage	Average Payment Times (Days)
30	334	287	85.93 %	18.32	47	14.07 %	47.45

Total Number of Payments	334	287	85.93 %		47	14.07 %	
Average Payment Time	22.42			18.32			47.45

Suspensions

Average Report Approval Suspension Days	Average Payment Suspension Days	Number of Suspended Payments	% of Total Number	Total Number of Payments	Amount of Suspended Payments	% of Total Amount	Total Paid Amount
0	28	63	3.48 %	1810	688,583.06	3.10 %	22,182,832.26

Late Interest paid in 2014

Agency	GL Account	Description	Amount (Eur)

Note: the figures are those of the provisional accounts and not yet audited by the Court of Auditors

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TABLE 7 : SITUATION ON REVENUE AND INCOME IN 2014					
Title	Description	Year of Origin	Revenue and Income recognized	Revenue and Income cashed	Outstanding Balance
20-0	EU'S BUDGET CONTRIBUTION TO THE REA	2014	51,395,032.41	51,395,032.41	0.00
90-0	MISCELLANEOUS REVENUE	2014	250,435.73	249,435.73	1,000.00
TOTAL REA			51,645,468.14	51,644,468.14	1,000.00

Note: the figures are those of the provisional accounts and not yet audited by the Court of Auditors

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**TABLE 8 : RECOVERY OF UNDUE PAYMENTS
(Number of Recovery Contexts and corresponding Transaction Amount)**

INCOME BUDGET RECOVERY ORDERS ISSUED IN 2014	TOTAL Qualified		TOTAL RC (incl. non-qualified)		% Qualified/Total RC	
	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount
Year of Origin (commitment)						
No Link						
Sub-Total						

EXPENSES BUDGET	Error		Irregularity		OLAF Notified		TOTAL Qualified		TOTAL RC (incl. non-qualified)		% Qualified/Total RC	
	Nbr	Amount	Nbr	Amount	Nbr	Amount	Nbr	Amount	Nbr	Amount	Nbr	Amount
INCOME LINES IN INVOICES												
NON ELIGIBLE IN COST CLAIMS												
CREDIT NOTES												
Sub-Total												

GRAND TOTAL												
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Note: the figures are those of the provisional accounts and not yet audited by the Court of Auditors

Annex 3.2 - Financial Reports Administrative Budget

TABLE 9: AGEING BALANCE OF RECOVERY ORDERS AT 31/12/2014 FOR REA

Year of Origin	Number at 01/01/2014	Number at 31/12/2014	Evolution	Open Amount (Eur) at 01/01/2014	Open Amount (Eur) at 31/12/2014	Evolution
2014		1			1,000.00	
Totals		1			1,000.00	

Note: the figures are those of the provisional accounts and not yet audited by the Court of Auditors

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TABLE 10 : RECOVERY ORDER WAIVERS IN 2014 >= EUR 100.000						
	Waiver Central Key	Linked RO Central Key	RO Accepted amount (Eur)	LE Account Group	Commission Decision	Comments

Total REA	
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Number of RO waivers	
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Justifications:

TABLE 11 : CENSUS OF NEGOTIATED PROCEDURES - DG REA - 2014

Negotiated Procedure Legal base	Number of Procedures	Amount (€)
Total		

No data to be reported

TABLE 12 : SUMMARY OF PROCEDURES OF DG REA EXCLUDING BUILDING CONTRACTS

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Additional comments

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TABLE 13 : BUILDING CONTRACTS

Total number of contracts :	
Total amount :	

Legal base	Contract Number	Contractor Name	Description	Amount (€)

No data to be reported

TABLE 14 : CONTRACTS DECLARED SECRET

Total Number of Contracts :	
Total amount :	

Legal base	Contract Number	Contractor Name	Type of contract	Description	Amount (€)

No data to be reported

Note: the figures are those of the provisional accounts and not yet audited by the Court of Auditors

Annex 3.2 - Financial Reports Administrative Budget

ANNEX 4: Materiality criteria

The Standing Instructions for the preparation of Annual Activity Reports stipulate that the quantitative materiality threshold **must not exceed 2% of the authorised payments of the reporting year of the ABB expenditure**. However, the Guidance on AARs also allows a multi-annual approach, especially for budget areas (e.g. programmes) for which a multi-annual control system is more effective. In such cases, the calculation of errors, corrections and materiality of the residual amount at risk should be done on a "cumulative basis" on the basis of the totals over the entire programme lifecycle.

Because of its multiannual nature, the effectiveness of the Research services' control strategy can only be fully measured and assessed at the final stages in the life of the framework programme, once the ex-post audit strategy has been fully implemented and systematic errors have been detected and corrected.

In addition, basing materiality solely on ABB expenditure for one year may not provide the most appropriate basis for judgements, as ABB expenditure often includes significant levels of pre-financing expenditure (e.g. during the initial years of a new generation of programmes), as well as reimbursements (interim and final payments) based on cost claims that 'clear' those pre-financings. Pre-financing expenditure is very low risk, being paid automatically after the signing of the contract with the beneficiary.

The general control objective for the Research services, following the standard quantitative materiality threshold proposed in the Standing Instructions, is to ensure for each FP, that **the residual error rate, i.e. the level of errors which remain undetected and uncorrected, does not exceed 2% by the end of the FP's management cycle**. The question of being on track towards this objective is to be (re)assessed annually, in view of the results of the implementation of the ex-post audit strategy and taking into account both the frequency and importance of the errors found as well as a cost-benefit analysis of the effort needed to detect and correct them.

Notwithstanding the multiannual span of their control strategy, the Director of the REA is required to sign a statement of assurance for each financial reporting year. In order to determine whether to qualify this statement of assurance with a reservation, the effectiveness of the control systems in place needs to be assessed not only for the year of reference but also with a multiannual perspective, to determine whether it is possible to reasonably conclude that the control objectives will be met in the future as foreseen. In view of the crucial role of ex-post audits defined in the common FP7 and future H2020 audit strategy, this assessment needs to check in particular whether the scope and results of the ex-post audits carried out until the end of the reporting period are sufficient and adequate to meet the multiannual control strategy goals.

The criteria for making a decision on whether there is material error in the expenditure of the Agency, and so on whether to make a reservation in the AAR, will therefore be principally, though not necessarily exclusively, based on the level of error identified in ex-post audits of cost claims on a multi-annual basis.

Effectiveness of controls

The starting point to determine the effectiveness of the controls in place is the cumulative level of error expressed as the percentage of errors in favour of the EC, detected by ex-post audits, measured with respect to the amounts accepted after ex-ante controls.

However, to take into account the impact of the ex-post controls, this error level is to be adjusted by subtracting:

- Errors detected corrected as a result of the implementation of audit conclusions;
- Errors corrected as a result of the extrapolation of audit results to non-audited contracts with the same beneficiary.

This results in a residual error rate, which is calculated in accordance with the following formula:

$$ResER\% = \frac{(RepER\% * (P - A)) - (RepERsys\% * E)}{P}$$

where:

ResER%	residual error rate, expressed as a percentage.
RepER%	representative error rate, or error rate detected in the common representative sample, expressed as a percentage. For FP7 this rate is the same for all research services.
RepERsys%	portion of the RepER% representing (negative) systematic errors, expressed as a percentage. The RepER% is composed of two complementary portions reflecting the proportion of negative systematic and non-systematic errors detected.
P	total aggregated amount in € of EC share of funding in the auditable population. In FP7, the population is that of all received cost statements, and the € amounts those that reflect the EC share included in the costs claimed in each cost statement.
A	total EC share of all audited amounts, expressed in €. This will be collected from audit results.
E	total non-audited amounts of all audited beneficiaries. In FP7, this consists of the total EC share, expressed in €, excluding those beneficiaries for which an extrapolation is ongoing.

If the residual error rate is not (yet) below 2% at the end of a reporting year within the FP's management lifecycle, a reservation must be considered.

The Common Representative audit Sample (CRaS) is the starting point for the calculation of the residual error rate. It is representative of the expenditure of FP7/H2020 as a whole. Nevertheless, the Director of the Agency must also take into account other information when considering if the overall residual error rate is a sufficient basis on which to draw a conclusion on assurance (or make a reservation) for specific segment(s) of FP7. This may include the results of other ex-post audits, ex-ante controls, risk assessments, audit reports from external or internal auditors, etc. All this information may be used in assessing the overall impact of a weakness and considering whether to make a reservation or not.

If the CRaS results are not used as the basis for calculating the residual error rate this must be clearly disclosed in the AAR, along with details of why and how the final judgement was made.

In case a calculation of the residual error rate based on a representative sample is not possible for a FP for reasons not involving control deficiencies,² the consequences are to be assessed quantitatively by making a best estimate of the likely exposure for the reporting year based on all available information. The relative impact on the Declaration of Assurance would be then considered by analysing the available information on qualitative grounds and considering evidence from other sources and areas. This should be clearly explained in the AAR.

The Space and Security themes of the Cooperation Programme managed by the REA are implemented according to the general FP7 funding rules. As a result, the REA considers the CRaS representative error rate as a good basis for calculating the residual error rate for Space and Security research actions managed by the REA.

The Research for the Benefit of SMEs actions of the Capacities Specific Programme and the Marie Curie actions of the People Specific Programme have a different risk profile compared to mainstream FP7 projects. Therefore the representative CRaS error rate can only be one element in estimating the risk exposure in terms of legality/regularity errors in the underlying transactions. Additional evidence from the nearly 400 finalised audits undertaken by the REA is also used in arriving at an overall judgement.

For these two activities the REA calculates a detected error rate which is based on randomly selected audits of participations financed under these programmes and audits targeting top beneficiaries³ (thus excluding risk-based audits). Although the size and the composition of the sample do not ensure statistical precision, this error rate gives an indication of the risk exposure in terms of error in the two populations and, as such,

² Such as, for instance, when the number of results from a statistically representative sample collected at a given point in time is not sufficient to calculate a reliable error rate.

³ Audits of top beneficiaries (TOP) are audits targeting the beneficiaries participating for significant amounts of EU funding. According to the common FP7 audit strategy 2009-2016, by focusing on 'big spenders' a significant part of the total budget can be cleaned from systematic errors in the cost claims of these top beneficiaries and, after taking account of recoveries and corrections, the residual rate of error for FP7 may further reduce. However, since the beginning of 2014, the TOP beneficiaries under People, Space and Security actions have not been addressed anymore. Audits on SME grants have, on the contrary, been intensified as a result of the higher risk profile of this action.

represents an important element in the assurance building. The inclusion of top beneficiaries in this calculation of the detected error rate is not considered to introduce any significant bias, which would render this indicator less relevant. This can be justified as follows:

- The People Specific Programme is characterised by a high level of participation by universities (both in high-value network grants and in mono-beneficiary fellowships). Funding modalities have remained largely identical compared to FP6 which implies that virtually all beneficiaries have gained a sufficient understanding of the funding rules, independent from whether participating at higher or lower frequency. There is no longer any differentiation between error rates for incidental and repeat beneficiaries to be expected;*
- The SME actions have many non-repeat beneficiaries and, as a result, there is only a relatively low share of the total budget of the actions that is covered by beneficiaries that have been audited for at least one of their FP7 participations. The top beneficiaries for the SME actions include mostly audits that have been selected as an add-on to a random selection⁴. As such, by excluding audits selected on the basis of a risk identification while including audits under the strand of ‘top beneficiaries’, there is no significant bias to be expected in the detected error rate to be used as an indication for error rates in the population of SME grants.*

The detected error rates are based on 94 and 313 cost statements, for SME actions and the People Programme respectively.

Moreover, the specific design of the SME action needs to be taken into account as the SMEs receive EU funds to reimburse RTD performers for research and demonstration activities outsourced to them. In return, the SMEs acquire the ownership of commercially exploitable project results. About 68% of each grant is directed towards financing of the subcontracts with RTD performers (against a contractually defined fee and based on a technical review of conformity of the work performed). The remaining 32% of the funding is directed towards costs incurred by SME beneficiaries (for their own activities). As audits of SME beneficiaries have shown, one of the most frequent errors in the SME actions is that SMEs do not always properly record the invoices of RTD performers, thereby rendering the respective costs ineligible. The risk exposure specific to the non-registration of RTD performer invoices in the accounts of SMEs has been calculated on the basis of a desk audit campaign that targeted 49 SME beneficiaries.

Adequacy of the audit scope

The quantity of the (cumulative) audit effort carried out until the end of each year is to be measured by the actual volume of audits completed. The data is to be shown per year and cumulated, in line with the current AAR presentation of error rates. The

⁴ While one cost-claim is selected, an outsourced ex-post assignment can cover up to three participations, each with up to three cost claims, as part of one assignment for which a flat rate fee is due.

multiannual planning and results should be reported in sufficient detail to allow the reader to form an opinion on whether the strategy is on course as foreseen.

The Director of the Agency should form a qualitative opinion to determine whether deviations from the multiannual plan are of such significance that they seriously endanger the achievement of the internal control objective. In such case, she or he would be expected to qualify his annual statement of assurance with a reservation.

Materiality is assessed for each Framework Programme

In 2014, the REA managed financial operations under the seventh and H2020 framework programmes. Both programmes are managed under different sets of regulatory and contractual provisions. Therefore, the assessment of the performance of the internal controls has to take into account these differences.

For H2020, it has to be noted, however, that no payment against cost claim has been made and no audit has been carried out yet, thus no error rate has been calculated for H2020.

ANNEX 5: Internal Control Templates for budget implementation (ICTs)

Grants direct management – FP7 and H2020

Stage 1: Programming, evaluation and selection of proposals

A - Preparation, adoption and publication of the Annual Work Programme and Calls for proposals⁵

Main control objectives: Ensuring that the most promising projects for meeting the policy objectives are among the proposals submitted; Compliance; Prevention of fraud

Main risks It may happen (again) that...	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls	Control indicators
<p>The annual work programme and the subsequent calls for proposals do not adequately reflect the policy objectives, priorities, are incoherent and/or the essential eligibility, selection and award criteria are not adequate to ensure the evaluation of the proposals.</p> <p>The annual work programmes are not consistent within the Research family and with the 7 years' framework</p> <p>The programme H2020 implementation (procedures, monitoring arrangements, communication with beneficiaries, budget planning, etc.) is not consistent within the</p>	<p>Hierarchical validation within the authorising department Inter-service consultation, including all relevant services Adoption by the Commission Explicit allocation of responsibility.</p> <p>The Common Support Centre in RTD provides all the members of the Family with harmonised procedures, guidance and IT tools.</p>	<p>Coverage / Frequency: 100%</p> <p>Depth: All work programmes are thoroughly reviewed at all levels, including for operational and legal aspects.</p> <p>Coverage/ Frequency: 100%</p> <p>Depth All the underlying implementation tools are</p>	<p>Costs: estimation of cost of staff involved in the preparation and validation of the annual work programme and calls.</p> <p>Benefits: Only qualitative benefits. A good Work Programme and well publicised calls should generate a large number of good quality projects, from which the most excellent can be chosen. There will therefore be real competition for funds.</p> <p>Costs: costs of the staff</p>	<p>% of "over-subscription" proposals received/selected</p>

⁵ The agency notes that this stage of grant management cycle remains largely under the control of the Commission. The agency is taking up duties by publishing calls from the moment the Commission established the relevant work programmes. The common indicator of the research family are therefore only partly relevant for assessing the REA's own performance.

Main risks It may happen (again) that...	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls	Control indicators
Research family and with the 7 years' framework	DG RTD centralises the budget planning and the monitoring of the H2020's budget implementation	defined et developed at family level.	involved in Family coordination activities Benefits: Qualitative benefits: Optimised procedures, common approach on multiple issues (audits, fraud, legal aspects, reporting...); better reporting on the whole programme – better management of the programme. ⁶	

B - Selecting and awarding: Evaluation, ranking and selection of proposals

Main control objectives: Ensuring that the most promising projects for meeting the policy objectives are among the proposals selected; Compliance; Prevention of fraud

Main risks It may happen (again) that...	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls	Control indicators
The evaluation, ranking and selection of proposals is not carried out in accordance with the established procedures, the policy objectives, priorities and/or the essential eligibility, or with the selection and award criteria defined in the annual work programme and subsequent calls for proposals.	Selection and appointment of expert evaluators Assessment by independent experts Comprehensive IT system supporting the stage and allowing better monitoring of the process	100% vetting (including selecting) of experts for technical expertise and independence (e.g. conflicts of interests, nationality bias, ex-employer bias, collusion) 100% of proposals are evaluated.	Costs: estimation of cost of staff involved in the evaluation and selection of proposals. Cost of the appointment of experts and of the logistics of the evaluation. Benefits: Qualitative benefits	% of number of (successful) redress challenges / total number of proposals received Average time to publication of selection results (FR 128.2 and/or Horizon 2020 limits) % of Time-To-Inform on time

⁶ The mutualisation of the support services represents a quantitative benefit which is certain but not accurately quantifiable in the context of reorganisations, new programme's setting up, and general HR offsetting through the Commission.

Main risks It may happen (again) that...	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls	Control indicators
	<p>Validation by the AOSD of ranked list of proposals. In addition, if applicable: Opinion of advisory bodies; comitology; inter-service consultation and adoption by the Commission; publication</p> <p>Systematic checks on operational and legal aspects performed before signature of the GA</p> <p>Redress procedure</p>	<p>Coverage: 100% of ranked list of proposals. Supervision of work of evaluators.</p> <p>100% of contested decisions are analysed by redress committee</p>	<p>Expert evaluators from outside the Commission bring independence, state of the art knowledge in the field and a range of different opinions. This will have an impact on the whole project cycle : better planned, better implemented projects</p>	<p>cost of evaluating + selecting grants / value of grants contracted</p> <p>% of budget "over-subscription" from proposals received</p>

Stage 2: Contracting

Main control objectives: : Ensuring that the most promising projects for meeting the policy objectives are among the proposals contracted; SFM (optimal allocation of the budget available); Compliance; Prevention of fraud

Main risks It may happen (again) that...	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls	Control indicators
<p>The description of the action in the grant agreement includes tasks which do not contribute to the achievement of the programme objectives and/or that the budget foreseen overestimates the costs necessary to carry out the action.</p> <p>The beneficiary lacks operational and/or financial capacity to carry out the actions.</p> <p>Procedures do not comply with regulatory framework.</p> <p>The evaluation stage hasn't detected a potentially fraudulent proposal/beneficiary.</p>	<p>Project Officers implement evaluators' recommendations. Hierarchical validation of proposed adjustments. Validation of beneficiaries (operational and financial viability).</p> <p>Systematic checks on operational and legal aspects performed before signature of the GA</p> <p>Ad hoc anti-fraud checks for riskier beneficiaries</p> <p>Signature of the grant agreement by the AO.</p> <p>Financial verification where necessary</p> <p>Participant Guarantee Fund.</p>	<p>100% of the selected proposals and beneficiaries are scrutinised.</p> <p>Coverage: 100% of draft grant agreements.</p> <p>Depth may be differentiated; determined after considering the type or nature of the beneficiary (e.g. SMEs, joint-ventures) and/or of the modalities (e.g. substantial subcontracting) and/or the total value of the grant.</p> <p>Note that, given the constraints on the time to grant set out in the H2020 legislation, "negotiation" of projects is kept to a minimum, as far as possible the positively evaluated projects are accepted without modification.</p>	<p>Costs: estimation of cost of staff involved in the contracting process.</p> <p>Benefits: Qualitative benefits: The whole committed budget checked for quality (prevention of later errors). This stage should lead to a higher assurance on the achievement of the projects – and policy objectives.</p>	<p>Average Time to Sign (FR 128.2)</p> <p>% of Time-to-Sign on time</p> <p>Average time to grant (FR 128.2)</p> <p>% of Time-to-grant on time</p> <p>% cost over annual amount contracted</p>

Stage 3: Monitoring the implementation

Main control objectives: ensuring that the operational results (deliverables) from the projects are of good value and meet the objectives and conditions; ensuring that the related financial operations comply with regulatory and contractual provisions; prevention of fraud; ensuring appropriate accounting of the operations

Main risks It may happen (again) that...	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls	Control indicators
<p>The actions foreseen are not, totally or partially, carried out in accordance with the technical description and requirements foreseen in the grant agreement.</p> <p>The amounts paid exceed what is due in accordance with the applicable contractual and regulatory provisions.</p> <p>The cost claims are irregular or fraudulent.</p> <p>Lack of harmonised approach within the family with the consequence of unequal treatment of the beneficiaries</p>	<p>Kick-off meetings and "launch events" involving the beneficiaries in order to avoid project management and reporting errors</p> <p>Effective external communication about guidance to the beneficiaries</p> <p>Anti-fraud awareness raising training for the project officers</p> <p>Enhanced family approach (anti-fraud cooperation; common legal and audit service; comprehensive and common IT system for all the family)</p> <p>Operational and financial checks in accordance with the financial circuits. Operation authorisation by the AO For riskier operations, more in-depth ex-ante controls</p>	<p>100% of the projects are controlled, including only value-adding checks. Riskier operations subject to more in-depth controls.</p> <p>The depth depends on risk criteria. However, as a deliberate policy to reduce administrative burden, and to ensure a good balance between trust and control, the level of control at this stage is reduced to a minimum</p> <p>High risk operations identified by risk criteria. Red flags: suspicions raised by staff, audit results, EWS, individual or "population" risk assessment Audit certificates required for any beneficiary claiming more than €375000 (FP7)/€325 000 (H2020).</p>	<p>Costs: estimation of cost of staff involved in the actual management of running projects.</p> <p>Benefits: budget value of the costs claimed by the beneficiary, but rejected by staff Reductions in error rates identified by audit certificates. Benefits due to operational review of projects and consequent corrective actions imposed on projects</p>	<p>Average number & value of running projects managed 'per' staff FTE</p> <p>Time-to-pay: % of payments made on time</p> <p>Time-to pay: Average nb days net/gross + suspension days</p> <p>Cost of control from contracting and monitoring the execution up to payment included/ amount paid (%)</p> <p>Average project mngt cost (staff FTE * standard staff cost) per running* project</p>

Main risks It may happen (again) that...	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls	Control indicators
	<p>Selection and appointment of expert for scientific reviews of intermediate and/or final reporting</p> <p>If needed: application of Suspension/interruption of payments, Penalties or liquidated damages. Referring grant/beneficiary to OLAF</p>			

Stage 4: Ex-post controls

A - Reviews, audits and monitoring

Main control objectives: Measuring the level of error in the population after ex-ante controls have been undertaken; detect and correct any error or fraud remaining undetected after the implementation ex-ante controls; identifying possible systemic weaknesses in the ex-ante controls, or weaknesses in the rules

Main risks It may happen (again) that...	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls	Control indicators
<p>The ex-ante controls (as such) do not prevent, detect and correct erroneous payments or attempted fraud to an extent going beyond a tolerable rate of error.</p> <p>Lack of consistency in the audit strategy within the family.</p> <p>Lack of efficiency for absence of coordination: multiple audits on the same beneficiary, same programme: reputational risk and high administrative burden on the beneficiaries' side.</p>	<p>Common Ex-post control strategy for the entire Research family (H2020), implemented by a central service (Common Support Centre, DG RTD):</p> <ul style="list-style-type: none"> - At intervals carry out audits of a representative sample of operations to measure the level of error in the population after ex-ante controls have been performed - Additional sample to address specific risks - when relevant, joint audits with the Court of Auditors <p>Multi-annual basis (programme's lifecycle) and coordination with other AOs concerned</p> <p>Validate audit results with beneficiary</p> <p>In case of systemic error detected, extrapolation to all the projects run by the audited beneficiary</p> <p>If needed: referring the beneficiary or grant to OLAF</p>	<ul style="list-style-type: none"> - Common Representative audit Sample (CRaS): MUS sample across the programme to draw valid management conclusions on the error rate in the population. - RTD risk-based sample, determined in accordance with the selected risk criteria, aimed to maximise deterrent effect and prevention of fraud or serious error 	<p>Costs: estimation of cost of staff involved in the coordination and execution of the audit strategy .Cost of the appointment of audit firms for the outsourced audits.</p> <p>Benefits: budget value of the errors detected by the auditors.</p> <p>Non quantifiable benefits: Deterrent effect. Learning effect for beneficiaries. Improvement of ex-ante controls or risk approach in ex-ante controls by feeding back findings from audit. Improvement in rules and guidance from feedback from audit.</p>	<p>Representative error rate.</p> <p>Residual error rate in comparison to the materiality threshold.</p> <p>Amount of errors and corrections concerned.</p> <p>Number of audits finalised (+ % of beneficiaries & value coverage)</p> <p>Cost of control ex post audits/ value of grants audited</p>

B - Implementing results from ex-post audits/controls

Main control objectives: Ensuring that the (audit) results from the ex-post controls lead to effective recoveries; Ensuring appropriate accounting of the recoveries made

Main risks It may happen (again) that...	Mitigating controls	How to determine coverage, frequency and depth	How to estimate the costs and benefits of controls	Control indicators
<p>The errors, irregularities and cases of fraud detected are not addressed or not addressed in a timely manner</p>	<p>Systematic registration of audit / control results to be implemented and actual implementation. Validation of recovery in accordance with financial circuits. Authorisation by AO Notification to OLAF and regular follow up of detected fraud.</p>	<p>Coverage: 100% of final audit results <i>with a financial impact</i>. Depth: All audit results are examined in-depth in making the final recoveries. Systemic errors are extrapolated to all the non-audited projects of the same beneficiary</p>	<p>Costs: estimation of cost of staff involved in the implementation of the audit results. Benefits: budget value of the errors, detected by ex-post controls, which have actually been corrected (offset or recovered). Loss: budget value of such ROs which are 'waived' or have to be cancelled.</p>	<p>Amounts being recovered and offset Number/value/% of audit results pending implementation Number/value/% of audit results implemented.</p>