

ANNEX 1: Statement of the Internal Control Coordinator¹

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 Commission², I have reported my advice and recommendations to the Director-General on the overall state of internal control in the DG.

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, 31 March 2014

[signed]

*Wolfgang BURTSCHER
Internal Control Coordinator*

¹ In DG Research and Innovation, the Deputy Director-General in charge of Framework Programme: Policy and Management is entrusted with the function of Internal Control Coordinator. The Director of Resources reports to him.

² SEC(2003)59 of 21.01.2003.

Table 1

Human Resources by ABB activity ¹				
Code ABB Activity	ABB Activity	Establishment Plan posts	External Personnel	Total
08.02	Cooperation - Health	122	53	175
08.03	Cooperation – Food, agriculture and fisheries, and biotechnology	83	31	114
08.04	Cooperation – Nanosciences, nanotechnologies, materials and new production technologies	79	41	120
08.05	Cooperation — Energy	62	23	85
08.06	Cooperation — Environment (incl. climate change)	79	39	118
08.07	Cooperation — Transport (incl. aeronautics)	71	26	97
08.08	Cooperation — Socioeconomic sciences and the humanities	29	18	47
08.09	Cooperation — Risk-sharing finance facility	4	1	5
08.10	Ideas	14	1	15
08.12	Capacities — Research infrastructures	33	13	46
08.13	Capacities — Research for the benefit of SMEs	11	7	18
08.14	Capacities — Regions of knowledge	6	3	9
08.15	Capacities — Research potential	9	7	16
08.16	Capacities — Science in society	29	18	47
08.17	Capacities — International cooperation activities	68	44	112
08.18	Capacities — Risk-sharing finance facility	2	0	2
08.19	Capacities — Support for coherent development of research policies	9	7	16
08.20	Euratom — Fusion energy	99	13	112
08.21	Euratom — Nuclear fission and radiation protection	19	9	28
08.22	Completion of previous framework programmes and other activities	8	8	16
08.23	Research programme of the research fund for coal and steel	14	11	25
AWBL 01	Administrative support for the Directorate-General for 'Research'	153	80	233
AWBL 02	Policy strategy and coordination for the Directorate-General for 'Research'	179	53	232
AWBL 03	European Research Area Development	46	23	69
AWBL 04	Innovation Union	46	28	74
Total			1274	557

Table 2 – not applicable for 2013²

¹ Data is a snapshot of Commission personnel actually employed in DG RTD as of 31 December 2013 and does not necessarily constitute full-time equivalents throughout the year. It shows the total number of establishment plan posts and contractual and other external personnel recorded in Sysper2 and excluding trainees and intra-muros service providers, who do not constitute Commission personnel and are not part of its workforce.

² Table 2 will be presented as of 2014.

Table 3

Personnel externe - Exécution SIRE - Env Globale 2013			
	TOTAL CONSUMABLE Q + HQ	TOTAL CONSUMED Q + HQ	PERCENTAGE EXECUTION
DG	<i>Sire</i>	<i>Sire</i>	<i>Sire</i>
RTD	299 034.00	233 023.50	77.93%
Grand Total	299 034.00	233 023.50	77.93%

DG	NOM			MONTANTS DEGAGES	LIGNE MERE	MISSIONS	REPRESENTATION	REUNIONS	CONFERENCES	COMITES	ETUDES	INFORMATIQUE	FORMATION	Total		Loss on credits	% loss	% execution	% cancelled	
08	RTD	C1	CREDIT			154 400		129 439	40 000	41 381			31 514.00	396 734						
08		C1	EXECUTION			154 400		129 439	40 000	41 381			31 514.00	396 734	C1	0	0.00%	100.00%		
08		C8	ENGAGEMENT			14 356		24 546	8 664	9 116			5 986.29	62 666						
08		C8	PAIEMENT			10 842		15 719	1 836				5 490.67	33 887	C8	28 780	45.93%	54.07%		
08				<i>PERTE C8/Poste</i>			3 512		8 827	6 828	9 116			495.62		28 780				7.25%
08																				

Execution C1 and C8 2012

Execution C1 2013						
		FMC	Credits	Engagement	Payments	% EXECUTION
08	07.010211.00.01.10	RTD	126 498	126 498	114 006	
08	07.010211.00.01.30	RTD				
08	08.010211.00.02.20	RTD	150 000	150 000	114 308	
08	08.010211.00.02.40	RTD	40 100	40 100	30 639	
08	08.010211.00.03	RTD	48 622	48 622	43 593	
08	08.010211.00.06	RTD	29 335	29 335	21 230	
08 Total			394 554	394 554	323 776	100.00%

Annex 3 Financial Reports - DG RTD - Financial Year 2013**Table 1 : Commitments****Table 2 : Payments****Table 3 : Commitments to be settled****Table 4 : Balance Sheet****Table 5 : Economic Outturn Account****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 Contracts (excluding Building Contracts)****Table 13 : Building Contracts****Table 14 : Contracts declared Secret**

Additional comments

Tables 1 and 2 include EU, EFTA, third countries' contribution as well as C4 and C5 credits together with commitments that can be implemented in 2012 (n+1) or until the end of FP7. When we take into consideration only the credits authorised by DG RTD that may not be carried forward to the next year, the implementation rates reach 100% as well for the commitments as for the payments.

Tables 11, 13 and 14 have no data to be reported.

TABLE 1: OUTTURN ON COMMITMENT APPROPRIATIONS IN 2013 (in Mio €)					
			Commitment appropriations authorised	Commitments made	%
			1	2	3=2/1
Title 05 Agriculture and rural development					
05	05 08	Policy strategy and coordination of the `Agriculture and rural development- policy area	0	0	
Total Title 05			0	0	
Title 08 Research					
08	08 01	Administrative expenditure of the `Research-policy area	349,67	335,91	96,06 %
	08 02	Cooperation - Health	1.041,52	1.040,94	99,94 %
	08 03	Cooperation - Food, agriculture and fisheries, and biotechnology	374,41	374,18	99,94 %
	08 04	Cooperation - Nanosciences, nanotechnologies, materials and new production technologies	640,52	639,87	99,90 %
	08 05	Cooperation - Energy	225,67	224,88	99,65 %
	08 06	Cooperation - Environment (including climate change)	350,56	350,3	99,93 %
	08 07	Cooperation - Transport (including aeronautics)	578,66	577,79	99,85 %
	08 08	Cooperation - Socioeconomic sciences and the humanities	116,53	116,05	99,59 %
	08 10	Ideas	0	0	
	08 12	Capacities - Research infrastructures	77,46	77,46	100,00 %
	08 13	Capacities - Research for the benefit of small and medium-sized enterprises (SMEs)	20	20	99,99 %
	08 14	Capacities - Regions of knowledge	28,18	28,11	99,77 %
	08 15	Capacities - Research potential	77,29	76,7	99,24 %
	08 16	Capacities - Science in society	65,52	65,43	99,86 %
	08 17	Capacities - International cooperation activities	41,08	41,08	100,00 %
	08 18	Capacities - Risk-sharing finance facility (RSFF)	51,62	51,62	100,00 %
	08 19	Capacities - Support for coherent development of research policies	14,02	13,85	98,80 %
	08 20	Euratom - Fusion energy	990,43	987,52	99,71 %
	08 21	Euratom - Nuclear fission and radiation protection	56,11	56,09	99,96 %
	08 22	Completion of previous framework programmes and other activities	808,74	622,14	76,93 %
	08 23	Research programme of the Research Fund for Coal and Steel	59,88	53,66	89,60 %
Total Title 08			5.967,88	5.753,59	96,41%
Title 15 Education and culture					
15	15 07	People - Programme for the mobility of researchers	6,42	6,37	99,28 %
Total Title 15			6,42	6,37	99,28%
Title 21 Development and relations with African, Caribbean and Pacific (ACP) States					
21	21 04	Environment and sustainable management of natural resources, including energy	0,5	0,5	100,00 %

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

Annex 3 Financial Reports - DG RTD
Report printed on 03/04/2014

TABLE 1: OUTTURN ON COMMITMENT APPROPRIATIONS IN 2013 (in Mio €)				
		Commitment appropriations authorised	Commitments made	%
		1	2	3=2/1
Total Title 21		0,5	0,5	100,00%
Total DG RTD		5.974,79	5.760,46	96,41 %

* 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).

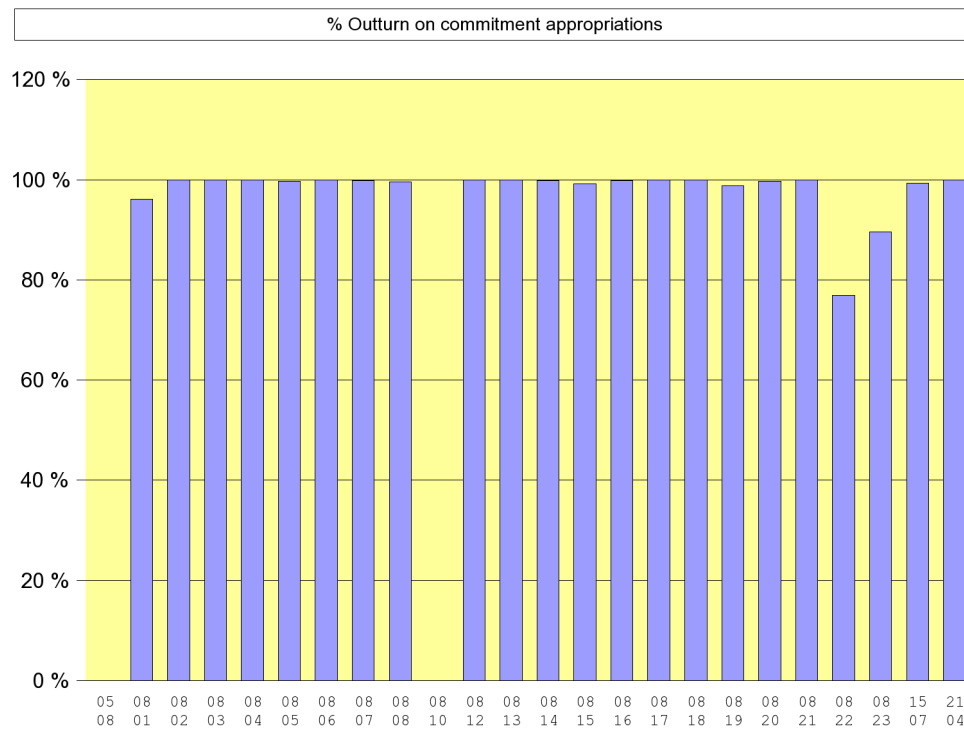


TABLE 2: OUTTURN ON PAYMENT APPROPRIATIONS IN 2013 (in Mio €)

Chapter		Payment appropriations authorised *	Payments made	%	
		1	2	3=2/1	
Title 05 Agriculture and rural development					
05	05 08	Policy strategy and coordination of the `Agriculture and rural development- policy area	0	0	
Total Title 05			0	0	
Title 08 Research					
08	08 01	Administrative expenditure of the `Research- policy area	375,16	321,34	85,65 %
	08 02	Cooperation - Health	880,77	880,64	99,99 %
	08 03	Cooperation - Food, agriculture and fisheries, and biotechnology	331,76	331,51	99,92 %
	08 04	Cooperation - Nanosciences, nanotechnologies, materials and new production technologies	540,46	539,78	99,87 %
	08 05	Cooperation - Energy	174,42	174,14	99,84 %
	08 06	Cooperation - Environment (including climate change)	293,06	292,96	99,97 %
	08 07	Cooperation - Transport (including aeronautics)	438,83	438,02	99,82 %
	08 08	Cooperation - Socioeconomic sciences and the humanities	78,22	77,81	99,48 %
	08 09		0	0	
	08 10	Ideas	0,01	0,01	100,00 %
	08 12	Capacities - Research infrastructures	122,28	122,28	100,00 %
	08 13	Capacities - Research for the benefit of small and medium-sized enterprises (SMEs)	15,99	15,99	99,98 %
	08 14	Capacities - Regions of knowledge	19,8	19,73	99,68 %
	08 15	Capacities - Research potential	58,62	58,55	99,88 %
	08 16	Capacities - Science in society	43,15	43,15	100,00 %
	08 17	Capacities - International cooperation activities	28,2	28,2	100,00 %
	08 18	Capacities - Risk-sharing finance facility (RSFF)	51,62	51,62	100,00 %
	08 19	Capacities - Support for coherent development of research policies	9,69	9,68	99,97 %
	08 20	Euratom - Fusion energy	336,92	334,01	99,14 %
	08 21	Euratom - Nuclear fission and radiation protection	54,27	54,24	99,96 %
	08 22	Completion of previous framework programmes and other activities	1.004,76	508,96	50,65 %
	08 23	Research programme of the Research Fund for Coal and Steel	61,02	48,8	79,97 %
Total Title 08			4.919,02	4.351,45	88,46%
Title 15 Education and culture					
15	15 07	People - Programme for the mobility of researchers	6,41	6,27	97,72 %
Total Title 15			6,41	6,27	97,72%
Title 21 Development and relations with African, Caribbean and Pacific (ACP) States					
21	21 04	Environment and sustainable management of natural resources, including energy	0,25	0,25	100,00 %
Total Title 21			0,25	0,25	100,00%
Total DG RTD			4.925,68	4.357,96	88,47 %

* 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).

"% Outturn on payment appropriations"

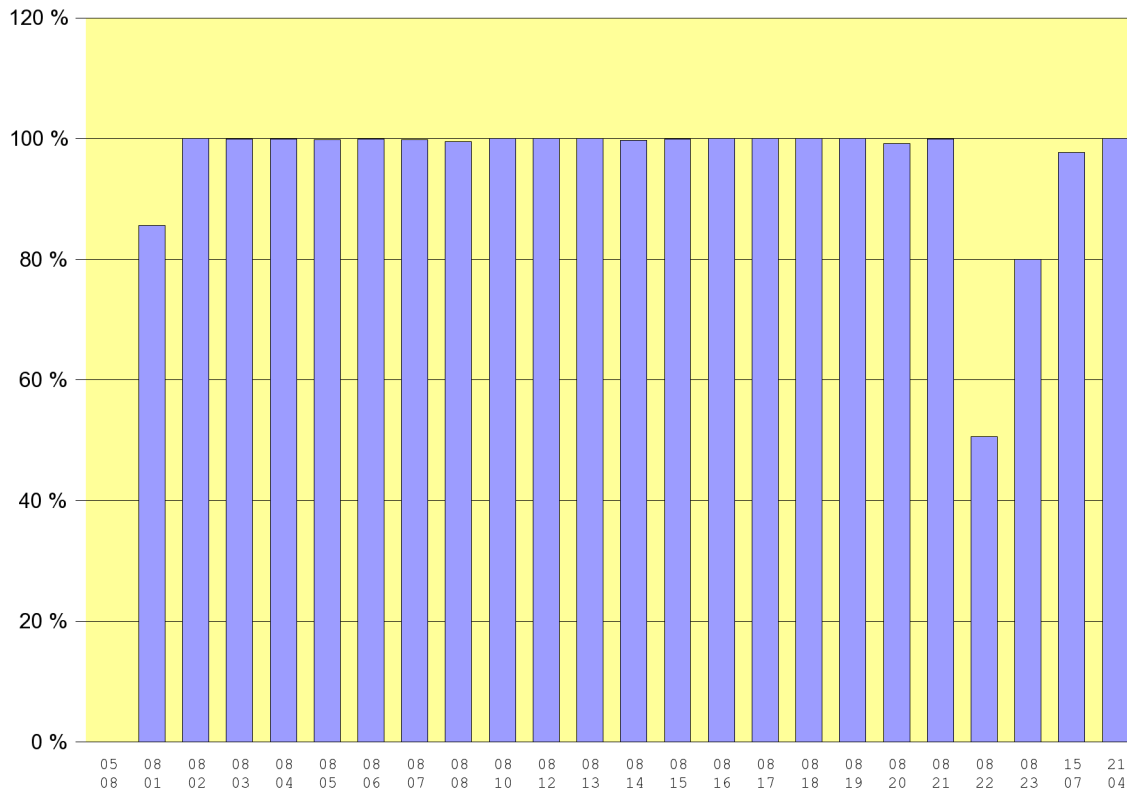


TABLE 3 : BREAKDOWN OF COMMITMENTS TO BE SETTLED AT 31/12/2013 (in Mio €)

Chapter			2013 Commitments to be settled				Commitments to be settled from financial years previous to 2013	Total of commitments to be settled at end of financial year 2013 (incl corrections)	Total of commitments to be settled at end of financial year 2012 (incl. corrections)
			Commitments 2013	Payments 2013	RAL 2013	% to be settled			
			1	2	3=1-2	4=1-2/1	5	6=3+5	7
Title 05 : Agriculture and rural development									
05	05 08	Policy strategy and coordination of the 'Agriculture and rural development- policy area	0	0,00	0	#DIV/0	0,25	0,25	0,25
Total Title 05			0	0,00	0	#DIV/0	0,25	0,25	0,25
Title 08 : Research									
08	08 01	Administrative expenditure of the 'Research- policy area	333,81	298,82	34,99	10,48 %	0,00	34,99	25,49
	08 02	Cooperation - Health	1.040,94	248,81	792,12	76,10 %	1.377,49	2.169,62	2010,58
	08 03	Cooperation - Food, agriculture and fisheries, and biotechnology	374,18	183,84	190,34	50,87 %	334,28	524,62	482,75
	08 04	Cooperation - Nanosciences, nanotechnologies, materials and new production technologies	639,87	285,76	354,11	55,34 %	530,09	884,20	799,74
	08 05	Cooperation - Energy	224,88	93,86	131,03	58,27 %	232,13	363,16	312,64
	08 06	Cooperation - Environment (including climate change)	350,3	165,86	184,44	52,65 %	254,47	438,91	381,87
	08 07	Cooperation - Transport (including aeronautics)	577,79	276,82	300,97	52,09 %	425,22	726,18	588,87
	08 08	Cooperation - Socioeconomic sciences and the humanities	116,05	9,49	106,56	91,82 %	121,14	227,70	190,92
	08 10	Ideas	0	0,00	0	#DIV/0	0,05	0,05	0,06
	08 12	Capacities - Research infrastructures	77,46	48,85	28,61	36,93 %	144,15	172,75	218,51
	08 13	Capacities - Research for the benefit of small and medium-sized enterprises (SMEs)	20	0,75	19,25	96,25 %	13,61	32,86	29,81

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

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Chapter			2013 Commitments to be settled				Commitments to be settled from financial years previous to 2013	Total of commitments to be settled at end of financial year 2013 (incl corrections)	Total of commitments to be settled at end of financial year 2012 (incl. corrections)
			Commitments 2013	Payments 2013	RAL 2013	% to be settled			
			1	2	3=1-2	4=1-2/1	5	6=3+5	7
08	08 14	Capacities - Regions of knowledge	28,11	16,51	11,61	41,29 %	12,01	23,61	15,71
	08 15	Capacities - Research potential	76,7	51,03	25,68	33,47 %	30,61	56,29	40,99
	08 16	Capacities - Science in society	65,43	16,31	49,12	75,08 %	66,18	115,30	93,70
	08 17	Capacities - International cooperation activities	41,08	20,48	20,6	50,14 %	25,32	45,92	33,15
	08 18	Capacities - Risk-sharing finance facility (RSFF)	51,62	51,62	0	0,00 %	0,00	0,00	0,00
	08 19	Capacities - Support for coherent development of research policies	13,85	2,22	11,62	83,94 %	11,92	23,55	20,06
	08 20	Euratom - Fusion energy	987,52	99,24	888,28	89,95 %	1.232,78	2.121,06	1469,54
	08 21	Euratom - Nuclear fission and radiation protection	56,09	29,63	26,46	47,18 %	66,95	93,41	91,57
	08 22	Completion of previous framework programmes and other activities	622,14	400,29	221,86	35,66 %	196,98	418,83	352,86
	08 23	Research programme of the Research Fund for Coal and Steel	53,66	21,86	31,8	59,27 %	94,28	126,08	123,89
Total Title 08			5.751,49	2322,05	3.429,43	59,63%	5.169,67	8.599,1	7.282,73
Title 15 : Education and culture									
15	15 07	People - Programme for the mobility of researchers	6,37	1,11	5,26	82,57 %	5,35	10,61	10,54
Total Title 15			6,37	1,11	5,26	82,57%	5,35	10,61	10,54
Title 21 : Development and relations with African, Caribbean and Pacific (ACP) States									
21	21 04	Environment and sustainable management of natural resources, including energy	0,5	0,25	0,25	50,52 %	0,00	0,25	0,00
Total Title 21			0,5	0,25	0,25	50,52%	0	0,25	0

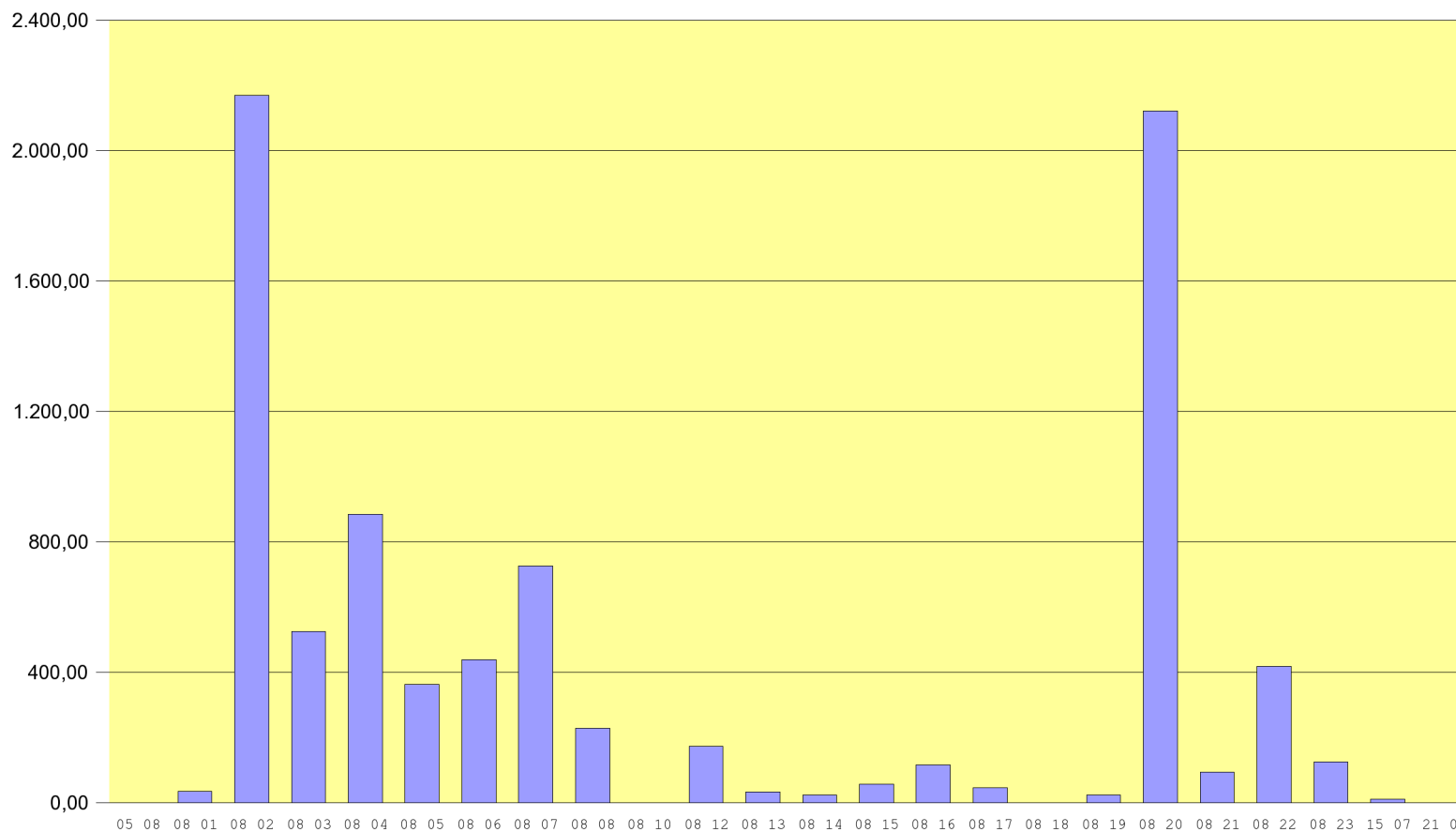
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Annex 3 Financial Reports - DG RTD
Report printed on 03/04/2014

TABLE 3 : BREAKDOWN OF COMMITMENTS TO BE SETTLED AT 31/12/2013 (in Mio €)

Chapter	2013 Commitments to be settled				Commitments to be settled from financial years previous to 2013	Total of commitments to be settled at end of financial year 2013 (incl corrections)	Total of commitments to be settled at end of financial year 2012 (incl. corrections)
	Commitments 2013	Payments 2013	RAL 2013	% to be settled			
	1	2	3=1-2	4=1-2/1	5	6=3+5	7
Total DG RTD	5.758,36	2323,41	3.434,95	59,65 %	5.175,27	8.610,22	7.293,53

= "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

TABLE 4 : BALANCE SHEET

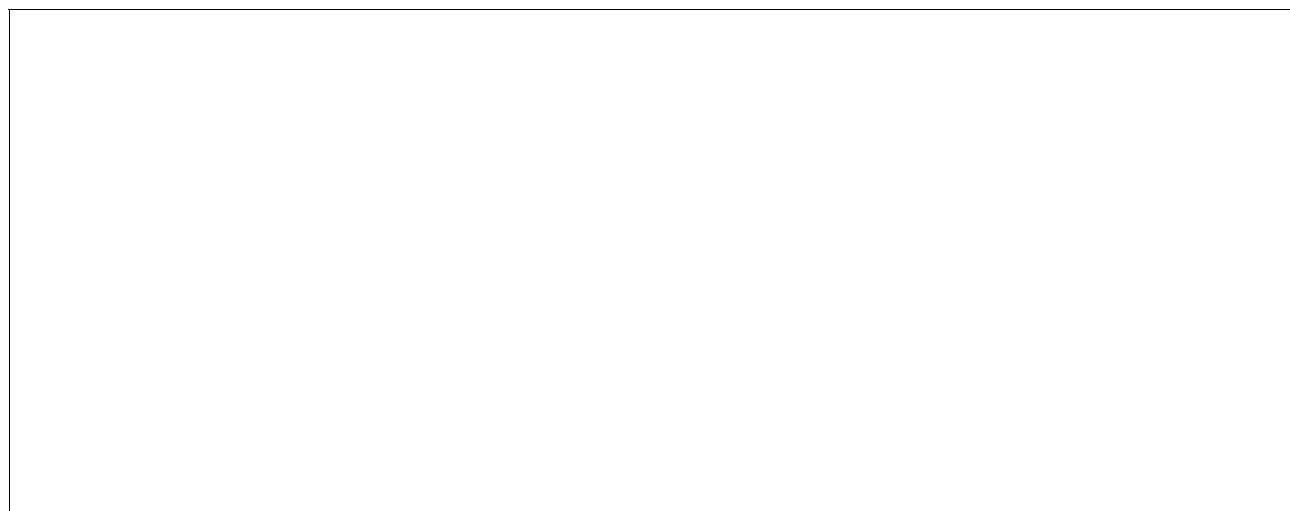
BALANCE SHEET	2013	2012
A.I. NON CURRENT ASSETS	1.445.452.811,92	1.150.332.362,93
A.I.1. Intangible Assets	5.937.468,19	2.592.297,28
A.I.3. Invstmnts Acctnd For Using Equity	55.987.098,75	41.542.502,32
A.I.4. Non-Current Financial Assets	789.093.088,14	593.560.715,96
A.I.5. LT Pre-Financing	544.837.135,14	462.720.207,75
A.I.6. LT Receivables	49.598.021,70	49.916.639,62
A.II. CURRENT ASSETS	2.456.584.933,43	2.249.121.446,48
A.II.2. Short-term Pre-Financing	1.752.322.286,53	1.556.435.669,98
A.II.3.2. Current Receivables and Recove	193.241.659,67	217.844.986,23
A.II.3. Current Financial Assets	407.620.440,93	160.375.025,77
A.II.5. Cash and Cash Equivalents	103.400.546,30	314.465.764,50
ASSETS	3.902.037.745,35	3.399.453.809,41
P.I. NET ASSETS/LIABILITIES	-8.769.961,54	-15.880.194,63
P.I.1. Reserves	-8.769.961,54	-15.880.194,63
P.II. NON CURRENT LIABILITIES	-3.024.704	
P.II.2. Long-term provisions	-3.024.704,00	
P.III. CURRENT LIABILITIES	-514.503.998,49	-518.786.958,98
P.III.2. Short-term provisions	-6.306.607,75	-1.485.333,75
P.III.4. Accounts Payable	-508.197.390,74	-517.301.625,23
LIABILITIES	-526.298.664,03	-534.667.153,61
NET ASSETS (ASSETS less LIABILITIES)	3.375.739.081,32	2.864.786.655,80
P.I.2. Accumulated Surplus / Deficit	104.917.302,39	0
Non-allocated central (surplus)/deficit*	-3.483.681.087,71	-2.864.786.655,8
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 : ECONOMIC OUTTURN ACCOUNT

ECONOMIC OUTTURN ACCOUNT	2013	2012
II.1 SURPLUS/ DEF. FROM OPERATING ACTIVT	2.504.628.886,24	2.341.980.909,81
II.1.1. OPERATING REVENUES	-694.895.368,07	-607.734.244,32
II.1.1.2. Other operating revenue	-694.895.368,07	-607.734.244,32
II.1.2. OPERATING EXPENSES	3.199.524.254,31	2.949.715.154,13
II.1.2.1. Administrative Expenses	109.913.383,22	105.084.150,54
II.1.2.2. Operating Expenses	3.089.610.871,09	2.844.631.003,59
II.2. SURPLUS/DEF. NON OPERATING ACTIVIT	395.715.478,51	354.549.114,13
II.2.1. FINANCIAL OPERATIONS	-17.242.234,73	-30.566.843,91
II.2.1.1. Financial revenue	-41.298.340,46	-42.388.002,81
II.2.1.2. Financial expenses	24.056.105,73	11.821.158,90
II.2. OTHER NON OPERATING ACTIVITIES	412.957.713,24	385.115.958,04
II.2.3. Share of deficit associates & JV	412.957.713,24	385.115.958,04
ECONOMIC OUTTURN ACCOUNT	2.900.344.364,75	2.696.530.023,94



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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 2013 - DG RTD

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)
20	16	16	100,00 %	11,19			
30	5134	4735	92,23 %	16	399	7,77 %	44,03
45	879	785	89,31 %	19,98	94	10,69 %	76,9
60	96	94	97,92 %	17,83	2	2,08 %	73,5
90	915	848	92,68 %	54,35	67	7,32 %	190,81
105	985	939	95,33 %	61,17	46	4,67 %	132,3

Total Number of Payments	8025	7417	92,42 %		608	7,58 %	
Average Payment Time	29,99			26,54			72,06

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	927	811	87,49 %	11,09	116	12,51 %	38,8
30	4345	3875	89,18 %	17,04	470	10,82 %	48,36
45	8	8	100,00 %	22			
60	9	9	100,00 %	35,89			
75	162	115	70,99 %	42,11	47	29,01 %	205,91
90	877	700	79,82 %	53,83	177	20,18 %	106,91

Total Number of Payments	6328	5518	87,20 %		810	12,80 %	
Average Payment Time	27,48			21,4			68,93

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
14	73	2792	34,79 %	8025	1.357.304.674,89	33,85 %	4.009.826.655,49

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

Late Interest paid in 2013			
DG	GL Account	Description	Amount (Eur)
RTD	65010000	Interest expense on late payment of charges	
RTD	65010100	Interest on late payment of charges New FR	24 145,92
			24 145,92

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

Annex 3 Financial Reports - DG RTD
Report printed on 03/04/2014

TABLE 7 : SITUATION ON REVENUE AND INCOME IN 2013

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	3.460.435,8	930.178,54	4.390.614,34	3.455.429,12	879.499,51	4.334.928,63	55.685,71
59	OTHER REVENUE ARISING FROM ADMINISTRATIVE MANAGEMENT	3.434.360,05	0	3.434.360,05	3.434.360,05	0	3.434.360,05	0
60	CONTRIBUTIONS TO UNION PROGRAMMES	636.042.559,06	8.518.371,35	644.560.930,41	634.126.559,06	8.518.371,35	642.644.930,41	1.916.000
61	REPAYMENT OF MISCELLANEOUS EXPENDITURE	52.606.884,02	235.172,58	52.842.056,6	52.526.845,49	235.172,58	52.762.018,07	80.038,53
66	OTHER CONTRIBUTIONS AND REFUNDS	75.563.310,9	34.969.784,88	110.533.095,78	72.164.630,11	23.132.514,21	95.297.144,32	15.235.951,46
70	INTEREST ON LATE PAYMENTS	0	61.684,63	61.684,63	0	0	0	61.684,63
90	MISCELLANEOUS REVENUE	1.364.509,02	310.699,75	1.675.208,77	957.366,03	53.948,57	1.011.314,6	663.894,17
Total DG RTD		772.472.058,85	45.025.891,73	817.497.950,58	766.665.189,86	32.819.506,22	799.484.696,08	18.013.254,5

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

Annex 3 Financial Reports - DG RTD
Report printed on 03/04/2014

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

INCOME BUDGET RECOVERY ORDERS ISSUED IN 2013 Year of Origin (commitment)	Error		Irregularity		OLAF Notified		TOTAL Qualified		TOTAL RC (incl. non-qualified)		% Qualified/Total RC	
	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount
2000	1	7.857,68					1	7.857,68	2	28.356,37	50,00%	27,71%
2003	7	53.666,06	4	98.662,05			11	152.328,11	14	190.610,84	78,57%	79,92%
2004	33	361.023,35	29	2.395.833,68			62	2.756.857,03	80	3.237.527,60	77,50%	85,15%
2005	37	460.158,54	40	867.160,75			77	1.327.319,29	97	4.542.280,28	79,38%	29,22%
2006	17	155.046,01	32	597.588,61			49	752.634,62	66	1.285.592,71	74,24%	58,54%
2007	7	143.529,79	19	257.465,36			26	400.995,15	43	1.350.937,54	60,47%	29,68%
2008	16	427.119,33	38	925.917,07			54	1.353.036,40	130	5.212.667,71	41,54%	25,96%
2009	8	257.224,01	31	1.173.409,84			39	1.430.633,85	101	3.199.290,70	38,61%	44,72%
2010	1	131.078,75	4	14.361,60			5	145.440,35	26	49.664.044,40	19,23%	0,29%
2011			1	1.920,17			1	1.920,17	19	642.716,31	5,26%	0,30%
2012			1	5.599,00			1	5.599,00	9	5.628.471,70	11,11%	0,10%
No Link	8	46.807,28	16	3.685.832,10	1	155.418,00	25	3.888.057,38	98	66.242.141,03	25,51%	5,87%
Sub-Total	135	2.043.510,80	215	10.023.750,23	1	155.418,00	351	12.222.679,03	689	141.251.374,68	50,94%	8,65%

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	27	699.747,29	27	306.730,72	1	63.503	55	1.069.981,01	90	1.318.424,20	61,11%	81,16%
NON ELIGIBLE IN COST CLAIMS	68	885.682,46	815	36.837.089,08			883	37.722.771,54	1.405	119.315.706,20	62,85%	31,62%
CREDIT NOTES	47	686.780,24	1	1.038,1			48	687.818,34	83	2.770.884,66	57,83%	24,82%
Sub-Total	142	2.272.209,99	843	37.144.857,9	1	63.503	986	39.480.570,89	1.578	123.405.015,06	62,48%	31,99%
GRAND TOTAL	277	4.315.720,79	1.058	47.168.608,13	2	218.921	1.337	51.703.249,92	2.267	264.656.389,74	58,98%	15,07%

Note : The figures are those related to the provisional accounts and not yet audited by the Court of Auditors. The provisional closure will be based on the recovery context situation at 31/01/2014.

TABLE 9: AGEING BALANCE OF RECOVERY ORDERS AT 31/12/2013 FOR RTD

	Number at 01/01/2013	Number at 31/12/2013	Evolution	Open Amount (Eur) at 01/01/2013	Open Amount (Eur) at 31/12/2013	Evolution
1993	2	2	0,00 %	281.333,80	281.333,80	0,00 %
1994	1	1	0,00 %	46.307,00	46.307,00	0,00 %
1996	1	1	0,00 %	132.500,00	132.500,00	0,00 %
2000	7	1	-85,71 %	10.000.448,20	375.718,96	-96,24 %
2001	4	4	0,00 %	316.121,27	316.121,27	0,00 %
2002	5	3	-40,00 %	449.182,37	120.182,37	-73,24 %
2003	4	4	0,00 %	199.123,66	199.123,66	0,00 %
2004	2	2	0,00 %	202.999,03	120.944,14	-40,42 %
2005	6	6	0,00 %	384.929,62	384.929,62	0,00 %
2006	3	3	0,00 %	159.025,77	159.025,77	0,00 %
2007	8	8	0,00 %	1.326.488,11	1.324.748,11	-0,13 %
2008	7	6	-14,29 %	459.042,52	433.042,52	-5,66 %
2009	18	17	-5,56 %	1.419.986,25	1.277.954,51	-10,00 %
2010	15	14	-6,67 %	524.106,13	490.091,37	-6,49 %
2011	19	12	-36,84 %	2.592.486,23	1.898.261,91	-26,78 %
2012	117	19	-83,76 %	26.596.332,16	4.646.100,50	-82,53 %
2013		93			5.806.868,99	
	219	196	-10,50 %	45.090.412,12	18.013.254,50	-60,05 %

TABLE 10 : RECOVERY ORDER WAIVERS IN 2013 >= EUR 100.000

	Waiver Central Key	Linked RO Central Key	RO Accepted Amount (Eur)	LE Account Group	Commission Decision	Comments
1	3233130076	3241203680	-207.489,58			
2	3233130110	3240404230	-284.000,00			
3	3233130119	3230913247	-142.031,74			
4	3233130196	3241203621	-109.425,90			
5	3233130210	3240203698	-1.604.121,54			

Total DG	-2.347.068,76
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Number of RO waivers	5
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RO1: C(2013) 1776 Private Companies
RO2: C(2013) 2685 Private Companies
RO3: C(2013) 3084 Private Companies
RO4: C(2013) 6405 Private Companies
RO5: C(2013) 4254 EIEG

TABLE 11 : CENSUS OF NEGOTIATED PROCEDURES - DG RTD - 2013

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

No data to be reported

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

Internal Procedures > € 60,000		
Procedure Type	Count	Amount (€)
Open Procedure (Art. 122.2 IR)	3	37.955.868,00
Open Procedure (Art. 127.2 RAP)	12	160.631.615,75
TOTAL	15	198.587.483,75

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

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 (and the Coal and Steel Research Fund for DG RTD), 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-Generals of the Research DGs (and the Directors of ERCEA and REA) are 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 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 DG or service, 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:

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

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 FP 7 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 €, of all non-audited received cost statements for all audited beneficiaries (whether extrapolation has been launched or not).

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 as a whole. Nevertheless, the Director-General (or Director for the Executive Agencies) 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,¹ 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.

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 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-General (or Director for the Executive Agencies) 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 2013, the Research services managed financial operations under the sixth and seventh framework programmes, and the Coal and Steel Research Fund. Each is 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.

However, given that the expenditure for the 6th Framework Programme is now a very small part of operations, and given the full disclosure on the results for this FP in the AAR 2012, information on the 6th FP should only be reported if there are exceptional elements, the non-disclosure of which would result in the reader being misled.

¹ 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.

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

Grants direct management – FP7¹

Stage 1: Programming, evaluation and selection of proposals

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

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>Hierarchical validation within the authorising department Inter-service consultation, including all relevant DGs Adoption by the Commission Explicit allocation of responsibility.</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>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>% of number of calls successfully published / number of calls planned in MP/WP</p> <p>% of budget "over-subscription" from proposals received</p> <p>% of budget value implemented / budget allocated (commitments from calls)</p>

¹ The Annual Activity report for 2013 presents a transitional situation in terms of ICT indicators. Since those were defined at the end of 2013, clearly in the perspective of coming years, not each of them had been monitored during the particular year of 2013.

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
<p>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.</p>	<p>Selection and appointment of expert evaluators Assessment by independent experts</p> <p>Validation by the AO 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>100% vetting (including selecting) of experts for technical expertise and independence (e.g. conflicts of interests, nationality bias, ex-employer bias, collusion)</p> <p>100% of proposals are evaluated.</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>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.</p> <p>Benefits: Qualitative benefits 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 executed projects</p>	<p>% of number of (successful) redress challenges / total number of proposals received</p> <p>Average time to publication of selection results (FR 128.2)</p> <p>Average evaluation cost per proposal (external experts paid only)</p> <p>% cost over annual amount disbursed in grants</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. Procedures do not comply with regulatory framework.</p>	<p>Project Officers implement evaluators' recommendations in discussion with selected applicants. Hierarchical validation of proposed adjustments.</p> <p>Validation of beneficiaries (operational and financial viability).</p> <p>Systematic checks on operational and legal aspects performed before signature of the GA</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>Costs: estimation of cost of staff involved in the contracting process.</p> <p>Benefits: Difference between the budget value of the selected proposals and that of the corresponding grant agreements.</p> <p>+ Qualitative benefits: The whole committed budget checked for quality (prevention of later errors). This stage should lead to a higher quality of scientific result.</p>	<p>% reduction in the EC contribution as a result of the negotiation process</p> <p>Average time to grant (FR 128.2)</p> <p>% cost over annual amount contracted</p>

Stage 3: Monitoring the execution

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 and/or the amounts paid exceed what is due in accordance with the applicable contractual and regulatory provisions.</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>Operational and financial checks in accordance with the financial circuits.</p> <p>Operation authorisation by the AO</p> <p>For riskier operations, more in-depth ex-ante controls</p> <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>	<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 a to a minimum</p> <p>High risk operations identified by risk criteria. Red flags: suspicions raised by staff, audit results, EWS or other reasons (being developed) Audit certificates required for any beneficiary claiming more than €375000 (FP7).</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.</p> <p>Benefits due to operational review of projects and consequent corrective actions imposed on projects</p>	<p>% and value of reductions made to EC contribution paid out through the ex-ante desk checks / total value of cost claims</p> <p>Average number & value of running projects managed 'per' staff FTE</p> <p>Time-to-pay</p> <p>% and number of suspended payment</p> <p>Average project mngt cost (staff FTE * standard staff cost) per running* project</p> <p>% cost over budget of running projects</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>Ex-post control strategy:</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 <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>Total & Average ex-post audit cost in-house (FTE * standard staff cost) and/or outsourced (audit fees paid)</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</p> <p>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.</p> <p>Benefits: budget value of the errors, detected by ex-post controls, which have actually been corrected (offset or recovered).</p> <p>Loss: budget value of such ROs which are 'waived' or have to be cancelled.</p>	<p>Amounts being recovered and offset</p> <p>Number/value/% of audit results pending implementation</p> <p>Number/value/% of audit results implemented.</p>

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

Indirect entrusted management RTD¹

The ICT covers: (1) the operating (administrative) budget of the executive agencies REA and ERCEA (2) cross delegations to other Commission services (3) the joint undertakings (4) the Article 185 entities (5) the RSFF.

Stage 1: Establishment (or prolongation) of the mandate to the entrusted entity (“delegation act”/ “contribution agreement” / etc).

Main control objectives: Ensuring that the legal framework is fully compliant and regular (legality & regularity), delegated to an appropriate entity (best value for public money, economy, efficiency), without any conflicts of interests (anti-fraud strategy), and gives all the references necessary for a smooth running of the new entity.

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 establishment (or prolongation) act of the mandate of the entrusted entity lacks clear references regarding the responsibilities of each involved actor.</p> <p>For PPPs: the evaluation method of the in-kind contributions provided by the industry partners is not clear.</p>	<p>Ex-ante evaluation</p> <p>Widespread consultation, internally and with external stakeholders.</p> <p>Hierarchical validation within the authorising department</p> <p>Inter-service consultation, including all relevant DG.</p> <p>Adoption by the Commission</p>	<p>Coverage/Frequency:</p> <p>100%/once for the establishment and partial for amendments or extensions.</p>	<p>Costs: This stage implies several DGs, doesn't happen regularly and can be very different for each entity. A systematic cost calculation wouldn't give exploitable data</p> <p>Benefits: Benefits cannot be calculated in terms of budget.</p>	<p>Quality of the legal work: No criticism of the design from key stakeholders.</p> <p>Facility to apply it</p>

¹ The Annual Activity report for 2013 presents a transitional situation in terms of ICT indicators. Since those were defined at the end of 2013, clearly in the perspective of coming years, not each of them had been monitored during the particular year of 2013. In addition, there is not necessarily events relating to each and every stage described in this annex in each year, which explains why certain indicators are absent of the report's body.

Stage 2: Assessment and supervision of the entrusted entity’s financial and control framework (towards “budget autonomy”; “financial rules”).

Main control objectives: Ensuring that the entrusted entity is fully prepared to start/continue implementing the delegated funds autonomously with respect of all 5 ICOs.

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 financial and control framework deployed by the entrusted entity is not fully mature to guarantee achieving all 5 ICOs</p>	<p>Ex-ante assessment, conditional to granting budget autonomy Hierarchical validation within the authorising department Use of Model- or Framework- financial rules (MFR or FFR)</p> <p>Continuous cooperation within the Research family (IC network, FAIR...) in order to harmonize the IC framework Review of audit reports (IAS, ECA)</p>	<p>Coverage/frequency: 100% of entrusted entities/once at the beginning and partial (problem focussed) for amendments or work arrangements</p> <p>Depth may be determined after considering the type or nature of the entrusted entity (e.g. other international organisation with a specific EC agreement, EIB/EIF, PPPs, CFSP persons, etc) and/or the value of the budget concerned.</p>	<p>Costs: estimation of cost of staff involved in the ex-ante assessment process (which may include missions, if applicable).</p> <p>Benefits: The total budget amount entrusted to the entity,</p>	<p>The entrusted entity is granted budget autonomy</p>

Stage 3: Operations: monitoring, supervision, reporting.

Main control objectives: Ensuring that the Commission is fully and timely informed of any relevant management issues encountered by the entrusted entity, in order to possibly mitigate any potential financial and/or reputational impacts (legality & regularity, achievement of scientific objectives, sound financial management, true and fair view reporting, anti-fraud strategy).

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 Commission is not informed of relevant management issues encountered by the entrusted entity in a timely manner</p> <p>The Commission does not react upon and mitigate notified issues in a timely manner which may reflect negatively on the Commission’s governance reputation and quality of accountability reporting.</p> <p>The Commission is not sufficiently informed of a failure by the body to achieve its operational objectives.</p>	<p>Delegation Act/ Contribution agreement/etc specifying the control, accounting, audit, publication, etc related requirements – incl. the modalities on reporting back relevant and reliable control results</p> <p>Monitoring or supervision of the entrusted entity (e.g. ‘regular’ monitoring meetings at operational level to review progress in achieving operational results; review of reported control results and any underlying mngt/audit reports; representation and intervention at the board, scrutiny of annual report, etc).</p> <p>Management review of the supervision results. If appropriate/needed:</p> <ul style="list-style-type: none"> - reinforced monitoring of operational and/or financial aspects of the entity - intervention, e.g. via own audits on-the-spot, by IAC or IAS - potential escalation of any major governance-related issues with entrusted entities 	<p>Coverage: 100% of the entities are monitored/supervised.</p> <p>Frequency: monthly key KPI's), regularly (steering committee meetings), annually (AAR and operational reporting), evaluation reports.</p> <p>In case of operational and/or financial issues, appropriate mitigating measures are available and should be used</p>	<p>Costs: estimation of cost of staff involved in the actual (regular or reinforced) monitoring of the entrusted entities (which may include missions, if applicable).</p> <p>Benefits: The average annual budget amount entrusted to the entity.</p>	<p>Number of serious issues arising not identified through standard reporting channels.</p> <p>Agreed reporting by the entity is duly received 'on time'.</p> <p>Cost/benefit ratio of supervision.</p> <p>Average supervision cost per entrusted entity.</p> <p>% cost over annual amount delegated.</p>

Stage 4: Commission contribution: payment or suspension/interruption.

Main control objectives: Ensuring that the Commission adequately assesses the management situation at the entrusted entity, before either paying out the (next) contribution for the operational and/or operating budget of the entity, or deciding to suspend/interrupt the (next) contribution . This is very closely linked to stage 3 above

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 Commission pays out the (next) contribution to the entrusted entity, while not being aware of the management issues that may lead to financial and/or reputational damage.</p> <p>Bad cash forecast leading to the Commission paying too much compared to the EE's needs</p>	<p>Delegation Act/ Contribution agreement/etc specifying the control, accounting, audit, publication, etc related requirements – including reporting back</p> <p>Management review of the supervision results.</p> <p>Ex-ante OV and FV, Hierarchical validation of contribution payment and recovery of non-used operating budget subsidy</p> <p>Good internal communication to ensure that issues are known and dealt with (see stage 3)</p>	<p>Coverage: 100% of the contribution payments.</p> <p>Frequency: following the rhythm of the payments</p> <p>There is a review before each payment is made. However, the depth will depend on identified issues and on the body involved.</p>	<p>Costs: estimation of cost of staff involved in the OV and FV of the contribution payments/recoveries to/from the entrusted entities. (part of the general supervision costs also linked to stage 3 above)</p> <p>Benefits: The average annual budget amount entrusted to the entity</p>	<p>Payments /recoveries done (unused budget recovered)</p> <p>Cost/benefit ratio.</p> <p>Average cost per entrusted entity.</p> <p>% cost over annual amount delegated.</p> <p>Note – it is not considered appropriate to separate the indicator by stage, it will be an overall indicator (stages 3-5 together)</p>

Stage 5: Audit and evaluation, Discharge for Joint Undertakings

Main control objectives: Ensuring that assurance building information on the entrusted entity’s activities is being provided through independent sources as well, which may confirm or contradict the management reporting received from the entrusted entity itself (on the 5 ICOs).

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 Commission has not sufficient information from independent sources on the entrusted entity’s management achievements, which prevents drawing conclusions on the assurance for the budget entrusted to the entity – which may reflect negatively on the Commission’s governance reputation and quality of accountability reporting.</p>	<p>Delegation Act/Contribution agreement/etc specifying the control, accounting, audit, publication, etc related requirements – including independent audit function and cooperation with IAS and ECA Harmonised ex-post audits, common audit service- potential escalation of any major governance-related issues with entrusted entities</p> <p>- Exchange of relevant anti-fraud information about shared beneficiaries within the Research family</p>	<p>Coverage: sample as needed (e.g. random/representative, value-targeted, risk-based). Frequency: whenever necessary.</p> <p>The depth depends on the type of entity,</p>	<p>Costs: estimation of cost of staff involved in the supervision of this stage (goes together with the costs of supervision in stages 3 and 4).</p>	<p>Assurance being provided (via mngt/audit reporting); representative error rate, residual error rate within a tolerable range; Situation confirmed by audit opinions.</p> <p>Cost/benefit ratio. Average cost per entrusted entity. % cost over annual amount delegated. Note – it is not considered appropriate to separate the indicator by stage, it will be an overall indicator (stages 3-5 together)</p>

ANNEX 6: Implementation through national or international public-sector bodies and bodies governed by private law with a public sector mission

1. European Joint Undertaking for ITER and the Development of Fusion Energy (F4E)

1. Programmes concerned

Seventh EURATOM Framework Programme: thematic area 'Fusion Energy research'

2. Annual budgetary amount entrusted

The following budgetary amounts¹ have been entrusted to ITER and the Development of Fusion Energy:

-	Commitment appropriations operational under 2013 credits:	€865 510 000
-	Commitment appropriations administrative under 2013 credits:	€39 390 000
-	Payment appropriations operational under 2013 credits:	€205 612 495
-	Payment appropriations administrative under 2013 credits:	€39 390 000

3. Duration of the delegation

35 years (parallel with the ITER International Agreement)

4. Justification of recourse to indirect centralised management

Council Decision 2007/198/EURATOM (O.J. L 90/2007, p.58)

5. Justification of the selection of the bodies (identity, selection criteria, possible indication in the legal basis, etc)

Not applicable

6. Synthetic description of the implementing tasks entrusted to these bodies

See Art. 1 of Council Decision 2007/198/EURATOM.

¹ EU Contribution only.

2. Innovative Medicines Initiative (IMI)

1. Programmes concerned

Seventh Framework Programme: thematic area 'Health' of the 08 02 Specific Programme 'Cooperation'²

2. Annual budgetary amount entrusted.

The following budgetary amounts³ have been entrusted to IMI:

- Commitment appropriations operational under 2013 credits:	€196 029 206
- Commitment appropriations administrative under 2013 credits:	€20 000 000
- Payment appropriations operational under 2013 credits:	€121 629 159
- Payment appropriations administrative under 2013 credits:	€4 200 000

3. Duration of the delegation.

Until 31 December 2017

4. Justification of recourse to indirect centralised management.

An indirect centralised management by a JU within the meaning of Art. 187 TFEU is the most flexible, effective and efficient mean to implement such a joint technology initiative, aiming at increasing the research investment in the biopharmaceutical sector in the Member States and associated countries to FP7 by pooling resources and fostering collaboration between the public and private sectors.

5. Justification of the selection of the bodies (identity, selection criteria, possible indication in the legal basis, etc).

Not applicable.

6. Synthetic description of the implementing tasks entrusted to these bodies.

See Art. 2 of the Council Regulation (EC) No 73/2008 of 20 December 2007 setting up the Joint Undertaking for the implementation of the Joint Technology Initiative on Innovative Medicines (OJ L 30, 4.2.2008, p. 38) and Art. 1 of the annexed Statutes.

7. Implementation in 2013

The last three calls for proposals under IMI were launched, committing the remaining of available funds. Projects have delivered important breakthroughs such as predictive toxicology and safety or enhanced clinical trial design.

² See section 1.1.6.

³ Including EFTA contributions and transfers.

3. Clean Sky

1. Programmes concerned.

Seventh Framework Programme: thematic area 'Aeronautics' of the 08 07 Specific Programme 'Cooperation – Transport' (including aeronautics)⁴

2. Annual budgetary amount entrusted.

The following budgetary amounts⁵ have been entrusted to Clean Sky:

- Commitment appropriations operational under 2013 credits:	€221 513 959
- Commitment appropriations administrative under 2013 credits:	€12 484 310
- Payment appropriations operational under 2013 credits:	€121 725 043
- Payment appropriations administrative under 2013 credits:	€2 888 523

3. Duration of the delegation.

Until 31 December 2017.

4. Justification of recourse to indirect centralised management.

Indirect centralised management by a JU in line with Art. 187 TFEU was selected to accelerate the introduction of 'green' technologies in aeronautics by forming a JU with industry. The large scale ensures a maximal synergy and additionally across all innovations, with involvement of all key players. The industry input ensures adaptation to changing market conditions.

5. Justification of the selection of the bodies (identity, selection criteria, possible indication in the legal basis, etc).

Not applicable.

6. Synthetic description of the implementing tasks entrusted to these bodies.

See Art. 2 of Council Regulation (EC) No 71/2007 of 20 December 2007 setting up the Clean Sky Joint Undertaking (OJ L 30, 4.2.2008, p. 1) and Art. 2 of the annexed Statutes.

⁴ See section 1.1.11.

⁵ Including EFTA contributions and transfers.

4. Fuel Cells and Hydrogen Joint Undertaking (FCH JU)

1. Programmes concerned

Seventh Framework Programme, Specific Programmes

08 04 Cooperation – Nanosciences, Nanotechnologies, Materials and New Production Technologies – NMP⁶

08 05 Cooperation – Energy⁷

08 06 Cooperation – Environment (including climate change)⁸

08 07 Cooperation – Transport (including aeronautics)⁹

2. Annual budgetary amount entrusted

The following budgetary amounts have been entrusted¹⁰ to FCH JU:

-	Commitment appropriations operational under 2013 credits:	€69 991 039
-	Commitment appropriations administrative under 2013 credits:	€6 735 221
-	Payment appropriations operational under 2013 credits:	€55 201 460
-	Payment appropriations administrative under 2013 credits:	€1 191 805

3. Duration of the delegation

Until 31 December 2017

4. Justification of recourse to indirect centralised management

Indirect centralised management by a JU in line with Art. 187 TFEU was selected with a view to increase the overall efficiency of research efforts and accelerate the development and deployment of fuel cells and hydrogen technologies, in the Members States and countries associated to FP7.

5. Justification of the selection of the bodies (identity, selection criteria, possible indication in the legal basis, etc)

Not applicable.

6. Synthetic description of the implementing tasks entrusted to these bodies

See Art. 2 of Council Regulation (EC) No 521/2008 of 30 May 2008 setting up the Fuel Cells and Hydrogen Joint Undertaking (OJ L 153, 12.6.2008, p. 1) and Art. 1 of its Annex¹¹.

⁶ See section 1.1.8.

⁷ See section 1.1.9.

⁸ See section 1.1.10.

⁹ See section 1.1.11.

¹⁰ Including EFTA contributions, other DGs' contributions, and transfers.

¹¹ Statutes of the Fuel Cells and Hydrogen Joint Undertaking.

5. Art. 185 Eurostars

1. Programmes concerned.

Seventh Framework Programme, Specific Programme 08 13 Capacities – Research for the benefit of SMEs¹²

2. Annual budgetary amount¹³ entrusted.

- Commitment appropriations under 2013 credits:	€20 000 000
- Payment appropriations under 2013 credits:	€15 780 000

3. Duration of the delegation.

The financial contribution of the EU to Eurostars covers the period from 2008 till 2013. According to the Delegation Agreement, the delegation is expected to last till 31 December 2017.

4. Justification of recourse to indirect centralised management.

The use of indirect centralised management is foreseen in Decision 743/2008/EC of the European Parliament and of the Council of 9 July 2008 on the Community's participation in a research and development programme undertaken by several Member States aimed at supporting research and development performing small and medium-sized Enterprises (OJ L201/58 of 30.7.2008).

5. Justification of the selection of the bodies (identity, selection criteria, possible indication in the legal basis, etc).

Legal basis stipulating Eureka Secretariat (ESE) as dedicated implementation structure: Decision 743/2008/EC.

6. Synthetic description of the implementing tasks entrusted to these bodies.

The ESE shall act as the dedicated implementation structure of the Eurostars Joint Programme and is in charge of the execution of the Programme. A more detailed list of tasks can be found in section 4 of Annex II to Decision 743/2008/EC of the European Parliament and of the Council.

7. Implementation in 2013

Eurostars has had its cut-off for FP7 in April 2013 with around 80 projects selected for funding. A group of independent experts has been set up to undertake the final assessment of Eurostars with the findings being expected for next year.

¹² See section 1.1.16.

¹³ A maximum of 4.5% of the Community financial contribution shall be used by the dedicated implementation structure to contribute to the overall operational costs of the Eurostars Joint Programme. This ceiling has been respected.

6. Art. 185 European Metrology Research Programme (EMRP)

1. Programmes concerned

Seventh Framework Programme, Specific Programme 'Cooperation'

2. Annual budgetary amount entrusted.

-	Commitment appropriations under 2013 credits:	€45 000 000 ¹⁴
-	Payment appropriations under 2013 credits:	€43 622 000

3. Duration of the delegation

General agreement with EURAMET ends on 31 December 2017.

4. Justification of the selection of the bodies (identity, selection criteria, possible indication in the legal basis, etc).

Decision No 912/2009/EC of the European Parliament and of the Council of 16 September 2009 on the participation by the Community in a European metrology research and development programme undertaken by several Member States (OJ L 257, 30.9.2009, p. 12).

5. Synthetic description of the implementing tasks entrusted to these bodies.

Annex II of the Decision No 912/2009/EC.

¹⁴ EU contribution.

7. Art. 185 European and Developing Countries Clinical Trial Partnership (EDCTP)

1. Programmes concerned

Sixth Framework Programme : priority theme "Life sciences, genomics and biotechnology for health" of the specific programme entitled "Integrating and strengthening the European Research Area (2002 to 2006)".

2. Annual budgetary amount entrusted

- No more year 2013 commitment credit, all EC contribution committed under FP6
- Payment appropriations under 2013 credits: €17 919 894,36 (€17 589 248,48 interest deducted).

3. Duration of the delegation

140 months from 15 September 2003, until 14 May 2015.

4. Justification of recourse to indirect centralised management

N/A (cf. Art. 185 TFEU).

5. Justification of the selection of the bodies (identity, selection criteria, possible indication in the legal basis, etc).

N/A (cf. Art. 185 TFEU).

6. Synthetic description of the implementing tasks entrusted to these bodies

The EU, through its Decision No 1209/2003/EC of the European Parliament and the Council of 16 June 2003 on Community participation in a research and development programme aimed at developing new clinical interventions to combat HIV/AIDS, malaria and tuberculosis through a long-term partnership between Europe and developing countries, undertaken by several Member States, has decided to grant a financial contribution for the implementation of the Action entitled "Research and development programme aimed at developing new clinical interventions to combat HIV/AIDS, malaria and tuberculosis through a long term partnership between Europe and the developing countries, undertaken by several Member States".

7. Implementation in 2013

PROMISE-PEP, a clinical trial co-funded under EDCTP, reported promising results on the proven efficacy of prophylactic anti-retroviral treatment (ART) to prevent mother-to-child transmission of HIV through breastfeeding. Transmission rate is as low as 1.1% at 12 months, the lowest rate ever reported for breastfeeding, while the survival rate was 96% among infants who remained uninfected for a period of 50 weeks, the highest rate ever reported.

8. Art. 185 Bonus – Joint Baltic Sea Research and Development Programme

1. Programmes concerned

Bonus - Joint Baltic Sea Research and Development Programme undertaken by several Member States - an initiative under Article 169 of the EC Treaty (currently Art. 185 TFEU).

2. Annual budgetary amount entrusted

- Commitment appropriations under 2013 credits: €21 317 588
- Payment appropriations under 2013 credits: €8 591 476

3. Duration of the delegation

The duration of the delegation covers the strategic phase (23 months) and the implementation phase (minimum period of 5 years until the full lifecycle of all Bonus- funded projects has ended). The strategic phase started on 1 June 2010 and ended on 31 April 2012. The implementation agreement was signed by the Commission and entered into force on 18 October 2012.

4. Justification of recourse to indirect centralised management

The use of indirect centralised management is foreseen in the Decision n° 862/2010/EU of the European Parliament and of the Council of 22 September 2010 on the participation of the Union in a Joint Baltic Research and Development Programme (Bonus) undertaken by several Member States (OJ. L256/1 of 30.09.2010).

5. Justification of the selection of the bodies (identity, selection criteria, possible indication in the legal basis, etc)

Legal basis stipulating Baltic Organisations Network for funding Science BONUS EEIG as dedicated implementation structure is the Decision 862/2010/EU of the European Parliament and of the Council of 22 September 2010 on the participation of the Union in a Joint Baltic Research and Development Programme undertaken by several Member States (OJ L 256/1 of 30.09.2010).

6. Synthetic description of the implementing tasks entrusted to these bodies

BONUS EEIG shall act as the dedicated implementation structure of the Bonus Joint Programme and is in charge of the execution of the Programme. A more detailed list of tasks can be found in Art. 2 and 5 of Decision 862/2010/EU of the European Parliament and of the Council.

7. Implementation in 2013

First calls were launched.

ANNEX 7: AARs of Executive Agencies

Annual Activity Report 2013 Research Executive Agency

Annual Activity Report 2013 European Research Council Executive Agency

The annexes are available separately.



2013

Annual Activity Report

Research Executive Agency

Table of Contents

FOREWORD	1
INTRODUCTION	2
THE REA IN BRIEF	2
THE YEAR IN BRIEF	3
EXECUTIVE SUMMARY	6
KEY PERFORMANCE INDICATORS (KPIs)	6
PERFORMANCE AGAINST SELECTED KPIs	8
KEY CONCLUSIONS ON RESOURCES MANAGEMENT AND INTERNAL CONTROL EFFECTIVENESS	10
INFORMATION TO THE COMMISSIONER	12
1. IMPLEMENTATION OF THE AGENCY'S ANNUAL WORK PROGRAMME	13
1.1 ACHIEVEMENT OF GENERAL AND SPECIFIC OBJECTIVES	13
1.1.1 ACTIVITY LEVELS OF THE AGENCY – PROGRAMME IMPLEMENTATION TASKS	13
1.1.1.1 Implementation of calls financed under the 2013 commitment budget	13
1.1.1.2 Implementation of the 2012 global commitments	14
1.1.1.3 Management of calls financed under previous years' budgets (2007-2012)	15
1.1.1.4 Processing of amendments to grant agreements	16
1.1.2 ACTIVITY – FP7 SUPPORT SERVICES	16
1.1.2.1 Support services	16
1.1.2.2 Evaluation services	17
1.1.2.3 Validation services	17
1.1.2.4 REA's role in IT governance for various tools supporting its provision of FP7 Support services	17
1.1.2.4.1 Expert Management in the Participant Portal (EMPP)	17
1.1.2.4.2 Submission and Evaluation of Proposals (SEP)	18
1.1.2.4.3 Participant management in the participant portal	18
1.1.3 MID-TERM EVALUATION OF THE REA'S OPERATION	19
1.2 SPECIFIC EFFORTS TO IMPROVE 'ECONOMY' AND 'EFFICIENCY' OF SPENDING AND NON-SPENDING ACTIVITIES.	19
1.2.1 MANAGEMENT OF CENTRAL SUPPORT SERVICES FOR FP7 AS A WHOLE	19
1.2.2 USE OF REMOTE EVALUATIONS FOR CALLS	20
2. MANAGEMENT OF RESOURCES	21
2.1 MANAGEMENT OF HUMAN AND FINANCIAL RESOURCES BY THE REA	22
2.1.1 MANAGEMENT'S ASSESSMENT OF INHERENT RISKS OF THE PROGRAMMES/ACTIVITIES MANAGED	23
2.1.1.1 The People Specific Programme	23
2.1.1.2 Capacities Specific Programme – Research for the benefit of SMEs	23
2.1.1.3 Cooperation Specific Programme – Space and Security themes	27
2.1.1.4 FP7 Support Services	27
2.1.2 IMPLEMENTATION OF THE CONTROL FRAMEWORK FOR THE MANAGEMENT OF THE OPERATIONAL BUDGET	28
2.1.2.1 Stage one: Programming, evaluation and selection of proposals	30
2.1.2.1.1 Share of calls published successfully	31
2.1.2.1.2 Number of redress complaints upheld	31
2.1.2.1.3 Execution of the operational budget	32
2.1.2.1.4 Success rates by programme	32
2.1.2.1.5 Average evaluation cost by proposal	33
2.1.2.2 Stage two: Conclusion of grant agreements	33
2.1.2.2.1 Financial impact of the negotiation process	34
2.1.2.2.2 Time-To-Grant (TTG)	34
2.1.2.3 Stage three: Monitoring of the grant agreement execution	38
2.1.2.3.1 Execution of operational payment appropriations	38
2.1.2.3.2 Time-To-Pay (TTP)	38
2.1.2.3.1 Additional assurance from Certificates on Financial Statements (CFS)	39
2.1.2.3.2 Time to amend grant agreements	39
2.1.2.3.3 Cost of control of monitoring the execution of the grant agreement	40
2.1.2.3.4 Average number of projects managed by a REA staff member	40
2.1.2.3.5 Benefits of ex-ante controls during the project	40
2.1.2.4 Stage four: Ex-post controls and recoveries	41
2.1.2.4.1 Resources used for ex-post controls and recoveries	41
2.1.2.4.2 Implementation of the audit strategies and plans	42
2.1.2.4.3 Error rates in the context of political and policy orientations	48

2.1.2.4.4	Conclusions from findings from ex-post audit activities with respect to the annual declaration of assurance	50
2.1.2.4.5	Expected development of error rates in the future	51
2.1.2.4.6	Implementation of FP7 audit results – including extrapolations	51
2.1.2.4.7	Liquidated damages	53
2.1.2.5	Indicators relating to FP7 Support Services	53
2.1.3	FRAUD PREVENTION AND DETECTION	55
2.1.4	IMPLEMENTATION OF THE CONTROL FRAMEWORK FOR THE MANAGEMENT OF THE ADMINISTRATIVE BUDGET	56
2.1.4.1	Management's assessment of inherent risks for the implementation of the Agency's administrative budget	56
2.1.4.2	Execution of the 2013 administrative budget – commitments	57
2.1.4.3	Execution of the REA's 2013 administrative budget – payments	57
2.1.4.4	Implementation of the RAL 2012	58
2.1.4.5	Recoveries for the administrative budget	58
2.1.4.6	TTP for the administrative budget	59
2.1.5	OVERVIEW OF COSTS AND BENEFITS OF CONTROLS.....	59
2.1.6	CONCLUSION ON THE OVERALL IMPACT OF THE 2013 CONTROL RESULTS ON THE DECLARATION OF ASSURANCE ...	61
2.2	BUDGET IMPLEMENTATION TASKS ENTRUSTED TO OTHER SERVICES AND ENTITIES	61
2.3	ASSESSMENT OF AUDIT RESULTS AND FOLLOW-UP OF AUDIT RECOMMENDATIONS	61
2.3.1	AUDITS BY THE EUROPEAN COURT OF AUDITORS (ECA)	62
2.3.2	FOLLOW-UP OF ACTIONS RESULTING FROM ECA AUDITS OF PREVIOUS YEARS	63
2.3.3	COMMISSION'S INTERNAL AUDIT SERVICE (IAS).....	63
2.3.4	ACTIONS RESULTING FROM IAS AUDITS OF PREVIOUS YEARS	64
2.3.5	THE REA'S INTERNAL AUDIT CAPABILITY (IAC).....	64
3.	ASSESSMENT OF THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEMS	66
3.1	FOLLOW-UP OF ACTIONS UNDER THE PRIORITISED ICS FOR 2013	66
3.2	MANAGEMENT'S ASSESSMENT OF THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEMS AND PRIORITISATION OF THE ICS FOR THE YEAR 2014	67
3.3	REA CONTROL SYSTEM AND OPERATING PROCEDURES.....	68
3.4	SIX-MONTHLY REPORTING OF THE AUTHORISING OFFICERS BY SUB-DELEGATION (AOSDs)	68
3.5	REGISTER OF EXCEPTIONS, ANALYSIS OF INTERNAL CONTROL WEAKNESS OR CONTROL FAILURES RECORDED DURING THE YEAR.....	69
3.6	REA RISK ASSESSMENT EXERCISE	69
3.7	ASSESSMENT OF THE FUNCTIONING OF THE INTERNAL CONTROL SYSTEM	69
3.8	THE OPINION OF THE INTERNAL CONTROL COORDINATOR (ICC) ON THE REA'S STATE OF CONTROL	70
4.	MANAGEMENT ASSURANCE	71
4.1	REVIEW OF THE ELEMENTS SUPPORTING ASSURANCE.....	71
4.2	RESERVATIONS AND OVERALL CONCLUSION ON ASSURANCE	74
	DECLARATION OF ASSURANCE	80

FOREWORD

This Annual Activity Report (AAR) covers activities of the Research Executive Agency (REA), an executive agency in charge of programme implementation. As such, the AAR focuses on the performance in managing grant programmes and the corresponding internal control framework. By implementing programmes under the supervision of its parent DGs at the Commission, the REA supports the implementation of its Research and Innovation policy. However, reporting on policy-related achievements falls outside the Agency's remit and is therefore excluded from this report.

This AAR covers the last year of call publications under the [Seventh Framework Programme \(FP7\)](#). This is being implemented across various Commission services and the management modalities of the REA are largely aligned to those of the research family.

At the end of 2013, the REA's mandate was extended to [Horizon 2020 \(H2020\)](#), the new framework programme for research and innovation under the programming period 2014-2020. In 2013 the REA was fully involved in various preparatory stages for the take-up of the new mandate and the launch of operations under the new framework programme.

INTRODUCTION

The REA in brief

The REA was set up by a [Commission Decision](#)¹ in late 2007, in order to implement parts of the FP7 for research and technological development. The Agency is located in Brussels, where the parent Directorates-General (DGs)² of the REA are situated.

The REA Delegation Act³ sets out in detail the role of the Agency in the management of FP7 for the parts it is in charge of. This includes implementing, as a funding body, the whole grant management lifecycle (i.e. organising evaluations of proposals, taking the lead on negotiations and conclusions of grant agreements, monitoring the implementation of grant agreements, etc.). The REA was also tasked with the dissemination of project results, organisation of events related to programme implementation, the provision of support to the Commission's DGs in their role of policy developers and contributing to the evaluation of the impact of the programmes. In addition, the Commission delegated to the REA the provision of FP7 support services⁴ to the FP7 Specific Programmes Capacities, Cooperation and People.

The REA mission is to implement the delegated FP7 tasks by delivering efficient and effective services to the Agency's clients, establishing close contact with the final beneficiaries and ensuring a high visibility of the EU.

Through its high-quality project evaluation, selection and review process, the REA has ensured that the projects it is funding have a real impact in tackling societal challenges and boost European competitiveness (i.e. the REA offered "*first class support for European research that matters*").

The REA has developed a performance-based and service-oriented culture, characterised by a drive for reaching ambitious targets monitored against Key Performance Indicators (KPIs)⁵.

The Agency is an autonomous body and it has its own legal entity. However, the REA operates under the full control of the Commission. In line with the [Framework Regulation for executive agencies](#)⁶, the REA is managed by a Director, who is a senior

¹ Commission Decision 2008/46/EC of 14 December 2007, OJ L 11, 15.1.2008, p.9.

² Parent DGs are the DGs of the Commission which hold the policy responsibility for the programmes implemented by an Agency. Under FP7 the REA's parent DGs were DG RTD, DG EAC and DG ENTR.

³ C(2008) 3980 final, not published.

⁴ These include administrative tasks relating to contracting and payment of expert evaluators, validations of legal entities, financial viability checking, etc.

⁵ For results please see the next sections.

⁶ Council Regulation (EC) No 58/2003 of 19 December 2002, OJ L11, 16.1.2003, p.1.

official seconded by the Commission and a Steering Committee, which is the governing board consisting of representatives of the REA's parent DGs. The Agency's senior and middle managers are also seconded Commission officials. The strong cooperation with Commission services is governed by bilateral Memoranda of Understanding and Service Level Agreements.

In November 2013 the European Parliament and the Council adopted the H2020 framework programme. The new programme entered into force as of 1 January 2014. The Commission extended the mandate of the REA to include the management of parts of H2020 during the period 2014-2024⁷. Under H2020 the Agency's role remains similar to FP7; it will however implement an extended portfolio of tasks⁸.

At the end of 2013, the REA had 545 staff. With the enlarged portfolio of tasks delegated under H2020 and a substantially increased budget⁹, it is envisaged that the Agency will grow to 764 staff by 2020.

The year in brief

The year 2013 was characterised by organisational challenges and strategic developments. The Agency focused on four main areas: (i) coping with record numbers of proposals/running projects and shortages of payment appropriations, while maintaining a high level of performance, (ii) implementing the action plans deriving from last years' AAR reservations, (iii) collaborating with the Commission on its external evaluation of the Agency's first 3-years of operation and (iv) contributing to the preparations for launching H2020.

During the year, the REA evaluated 12,072 proposals and managed a stock of 7,129 running projects. This represents an increase compared to 2012 by 29% and 11%, respectively. To keep a high performance, strong efforts were made for simplifying internal processes and obtaining efficiency gains. This allowed to further improve performance measured against the KPIs relating to "Time-To-Grant" – TTG and "Time-To-Pay" – TTP¹⁰. For most of the calls the target on the processing time for evaluation, grant negotiation, award and signature of grant agreements was reached and some calls even achieved record performances (like the 2013 ITN, IAPP, RG-1 or NIGHT). Despite strong efforts, the TTG targets could not be reached for COFUND and SME actions. For COFUND, the design features render negotiations and grant signatures more complex, while for SME actions the target of 9 months appeared to be too ambitious under the

⁷ Commission Implementing Decision 2013/778/EU of 13 December 2013.

⁸ This Report mentions some preparation activities undertaken by the Agency in view of launching H2020 and extending its mandate. However, the REA's role under H2020 and the related performance will be discussed in detail in the AAR 2014.

⁹ The operational budget delegated to the REA under H2020 will more than double (+120%) compared to FP7.

¹⁰ For detailed information on the two indicators please refer to Sections 2.1.2.2.2 and 2.1.2.3.2.

current set of FP7 rules. The TTG of many calls was impacted by the shortages of payments appropriations deriving from blocking political discussions at the EU level, especially for the Security call 2012, where the signature of grant agreements had to be put on hold and the processing time for signing grant agreements was considerably longer than the target set. Despite these difficulties the REA, in close collaboration with the parent DGs, ensured that global commitments made in 2012 were fully executed by the end of 2013.

A high performance was maintained for TTP. Over the year 96% of project-related payments were made on time. For payments to experts, the REA temporarily experienced difficulties in the months of March and April (due to an unanticipated high turn-over and unavailability of staff). As large numbers of payments were made during this period, the impact on the yearly result is significant. As a result, only 69% of payments to experts were made on time. The situation was quickly addressed with new appointments and the REA regained its excellent TTP performance for expert payments (i.e. 99.5% of payments of the second semester were made within the deadlines). Moreover, where expert payments could not be made on time, the delay remained limited, as demonstrated by the annual average TTP for experts of 26 days, well within the contractually defined target of 30 days.

In terms of risk management, the REA, together with the parent DGs, continued to implement actions addressing last year's AAR reservations. In this context, ex-ante checks were further improved and the REA's audit planning was adjusted by shifting resources to risk-based ex-post controls. An information campaign, addressing beneficiaries and their auditors providing certificates on financial statements, was launched to highlight and provide additional guidance on recurring errors detected in FP7 projects. The attention of the beneficiaries of the SME actions was drawn to the obligation to record in their accounts invoices of RTD performers that are subsequently included in cost claims.

The above-mentioned Framework Regulation stipulates the requirement to perform an external evaluation on the first years of the Agency's operation (following the autonomous status obtained in 2009). A significant part of the fieldwork for this external evaluation was done in 2012 but the validation of the findings was made in the first semester of 2013. The final report, in the form of a retrospective Cost-Benefit Analysis (CBA), highlights that the delegation of tasks to the REA is a success, generating gains in terms of quality of programme implementation, service delivery and cost-effectiveness. In response to the recommendations made in the context of the evaluation, the REA developed an action plan which had been fully implemented by the end of the year.

Last but not least, the REA was closely involved in preparations for H2020. The Agency participated actively in various inter-service working groups focusing on the implementing modalities for the new framework programme, the respective business processes/IT governance bodies and fora on cross-cutting issues (like reporting). Investments into new IT tools for H2020 continued and the Agency was coordinating business processes or piloting new applications on behalf of the research family as a whole.

In August the CBA for the delegation of the new generation of programmes including Horizon 2020 was finalised and proposed various delegation scenarios. On this basis the Commission decided on the future portfolio of programmes to be delegated to the executive agencies. The Agency was liaising closely with the Commission services in preparing the legislative package – the future establishment and delegation acts and the corresponding Financial Statement. These were subsequently adopted, as mentioned in the previous section.


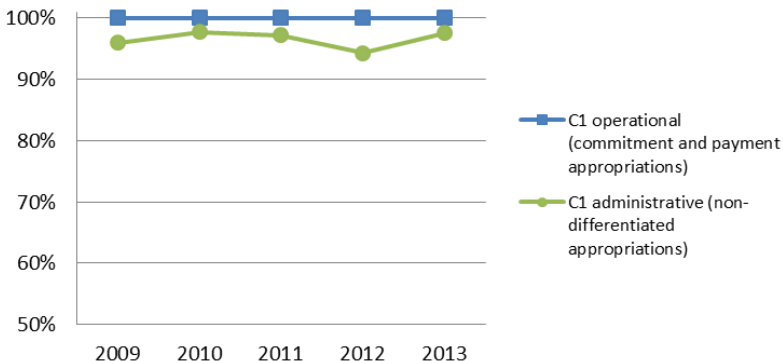

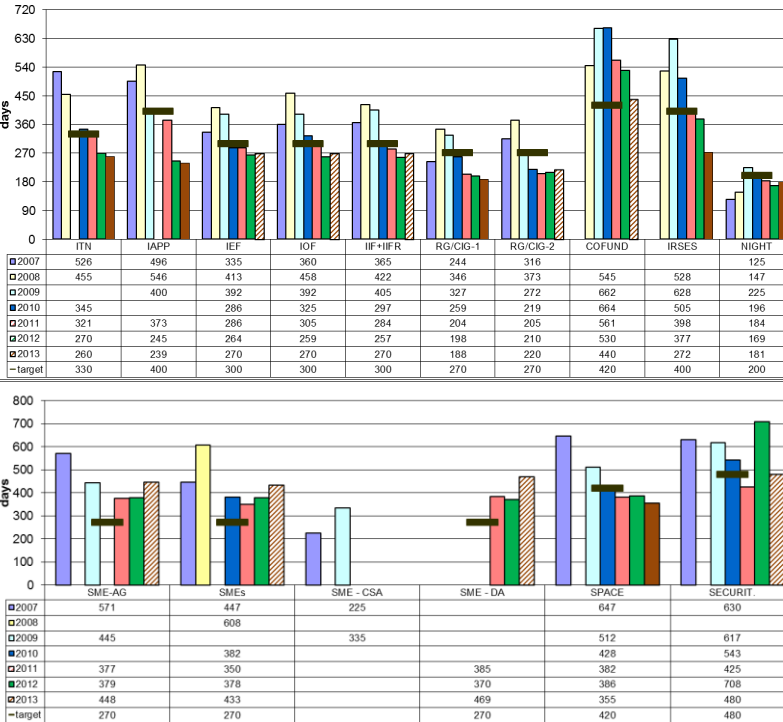
In parallel to the legislative procedure, the REA prepared internally for the launch of H2020. The REA's future organisation chart was agreed with the Commission services, information campaigns for staff were organised to brief them on the changes ahead and a re-deployment exercise was launched with a view to offer new opportunities for REA staff and to ensure that competencies are equally spread across the agency, including the new units to be set up to manage actions newly delegated to the REA.

Towards the end of 2013, the REA intensified contacts with its future parent DGs¹¹ on matters concerning aspects of programme implementation. In December the Agency obtained a formal agreement from the DGs granting autonomy to the Agency for the management of actions under H2020 that succeed to FP7 programmes previously managed by the REA and for a continued delivery of support services under H2020. The effective transfer of programmes newly delegated under H2020 is expected for the second semester of 2014.

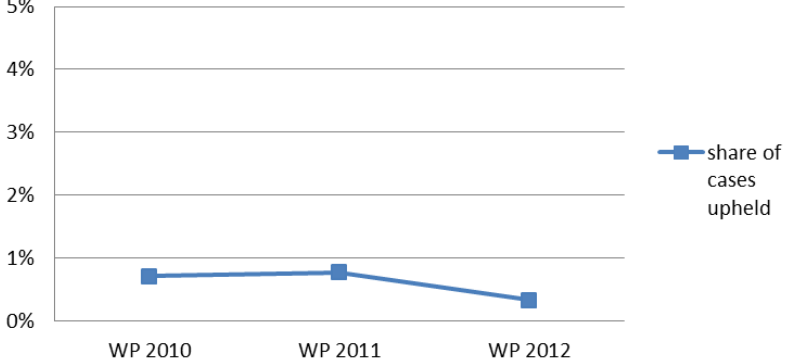
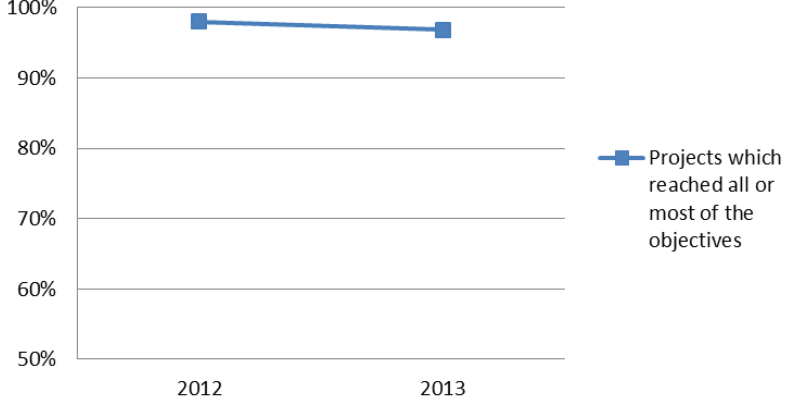
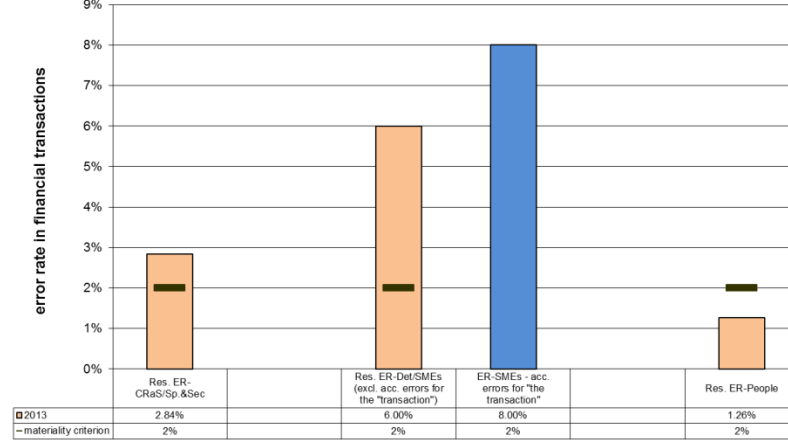
¹¹ The family of FP7 parent DGs has under H2020 been enlarged to DG CNECT and AGRI.

EXECUTIVE SUMMARY

Key Performance Indicators (KPIs)

Impact indicator/target	Results in historical perspective																																																																																																																																																																			
<p>KPI 1 – Full implementation of the administrative and operational budget (per call)</p> <p>Target: 100% execution of commitment and payment appropriations</p>		<p style="text-align: center;">Budget execution of commitment and payment appropriations</p> 																																																																																																																																																																		
<p>KPI 2 – Rapid conclusion of grant agreements ("Time-To-Grant"-TTG)</p> <p>Targets¹²: Set by scheme, ranging from 200 to 480 days</p>		 <table border="1" data-bbox="560 1108 1345 1243"> <thead> <tr> <th></th> <th>ITN</th> <th>IAPP</th> <th>IEF</th> <th>IOF</th> <th>IIF+IFR</th> <th>RG/CIQ-1</th> <th>RG/CIQ-2</th> <th>COFUND</th> <th>IRSES</th> <th>NIGHT</th> </tr> </thead> <tbody> <tr> <td>2007</td> <td>526</td> <td>496</td> <td>335</td> <td>300</td> <td>365</td> <td>244</td> <td>316</td> <td>545</td> <td>528</td> <td>125</td> </tr> <tr> <td>2008</td> <td>455</td> <td>546</td> <td>413</td> <td>458</td> <td>422</td> <td>346</td> <td>373</td> <td>662</td> <td>628</td> <td>147</td> </tr> <tr> <td>2009</td> <td></td> <td>400</td> <td>392</td> <td>392</td> <td>405</td> <td>327</td> <td>272</td> <td>664</td> <td>628</td> <td>225</td> </tr> <tr> <td>2010</td> <td>345</td> <td></td> <td>286</td> <td>325</td> <td>297</td> <td>259</td> <td>219</td> <td>664</td> <td>505</td> <td>196</td> </tr> <tr> <td>2011</td> <td>321</td> <td>373</td> <td>286</td> <td>305</td> <td>284</td> <td>204</td> <td>205</td> <td>561</td> <td>398</td> <td>184</td> </tr> <tr> <td>2012</td> <td>270</td> <td>245</td> <td>264</td> <td>259</td> <td>257</td> <td>198</td> <td>210</td> <td>530</td> <td>377</td> <td>169</td> </tr> <tr> <td>2013</td> <td>260</td> <td>239</td> <td>270</td> <td>270</td> <td>270</td> <td>188</td> <td>220</td> <td>440</td> <td>272</td> <td>181</td> </tr> <tr> <td>-target</td> <td>330</td> <td>400</td> <td>300</td> <td>300</td> <td>300</td> <td>270</td> <td>270</td> <td>420</td> <td>400</td> <td>200</td> </tr> </tbody> </table> <table border="1" data-bbox="560 1243 1345 1581"> <thead> <tr> <th></th> <th>SME-AG</th> <th>SMEs</th> <th>SME-CSA</th> <th>SME-DA</th> <th>SPACE</th> <th>SECURIT</th> </tr> </thead> <tbody> <tr> <td>2007</td> <td>571</td> <td>447</td> <td>225</td> <td></td> <td>647</td> <td>630</td> </tr> <tr> <td>2008</td> <td></td> <td>608</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>2009</td> <td>445</td> <td></td> <td>335</td> <td></td> <td>512</td> <td>617</td> </tr> <tr> <td>2010</td> <td></td> <td>382</td> <td></td> <td></td> <td>428</td> <td>543</td> </tr> <tr> <td>2011</td> <td>377</td> <td>350</td> <td></td> <td>385</td> <td>382</td> <td>425</td> </tr> <tr> <td>2012</td> <td>379</td> <td>378</td> <td></td> <td>370</td> <td>386</td> <td>708</td> </tr> <tr> <td>2013</td> <td>448</td> <td>433</td> <td></td> <td>469</td> <td>355</td> <td>480</td> </tr> <tr> <td>-target</td> <td>270</td> <td>270</td> <td></td> <td>270</td> <td>420</td> <td>480</td> </tr> </tbody> </table>		ITN	IAPP	IEF	IOF	IIF+IFR	RG/CIQ-1	RG/CIQ-2	COFUND	IRSES	NIGHT	2007	526	496	335	300	365	244	316	545	528	125	2008	455	546	413	458	422	346	373	662	628	147	2009		400	392	392	405	327	272	664	628	225	2010	345		286	325	297	259	219	664	505	196	2011	321	373	286	305	284	204	205	561	398	184	2012	270	245	264	259	257	198	210	530	377	169	2013	260	239	270	270	270	188	220	440	272	181	-target	330	400	300	300	300	270	270	420	400	200		SME-AG	SMEs	SME-CSA	SME-DA	SPACE	SECURIT	2007	571	447	225		647	630	2008		608					2009	445		335		512	617	2010		382			428	543	2011	377	350		385	382	425	2012	379	378		370	386	708	2013	448	433		469	355	480	-target	270	270		270	420	480
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¹² The bars with cross-hatched pattern indicate projections, since the implementation of these calls runs into 2014.

Impact indicator/target	Results in historical perspective																
<p>KPI 3 - High quality of key procedures for proposal evaluation and scientific and financial grant management¹³</p> <p>Target: 0% redress procedures upheld (i.e. concluding on flaws in the evaluation process)</p>	😊	<p style="text-align: center;">Share of redress cases upheld in comparison with the number of proposals evaluated</p>  <table border="1"> <caption>Share of redress cases upheld</caption> <thead> <tr> <th>Year</th> <th>Share of cases upheld</th> </tr> </thead> <tbody> <tr> <td>WP 2010</td> <td>0.8%</td> </tr> <tr> <td>WP 2011</td> <td>0.8%</td> </tr> <tr> <td>WP 2012</td> <td>0.4%</td> </tr> </tbody> </table>	Year	Share of cases upheld	WP 2010	0.8%	WP 2011	0.8%	WP 2012	0.4%							
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<p>KPI 4 – Share of closed projects that achieved all or most of their objectives</p> <p>Target: 90% of closed projects which achieved most of their objectives</p>	😊	<p style="text-align: center;">Projects which reached all or most of the objectives</p>  <table border="1"> <caption>Projects which reached all or most of the objectives</caption> <thead> <tr> <th>Year</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>2012</td> <td>98%</td> </tr> <tr> <td>2013</td> <td>97%</td> </tr> </tbody> </table>	Year	Percentage	2012	98%	2013	97%									
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<p>KPI 5 – Error rates in underlying transactions financed from the operational budget managed by the Agency¹⁴</p> <p>Target: below 2%</p>	☹️	<p style="text-align: center;">error rate in financial transactions</p>  <table border="1"> <caption>error rate in financial transactions</caption> <thead> <tr> <th>Category</th> <th>2013 Error Rate</th> <th>Materiality Criterion</th> </tr> </thead> <tbody> <tr> <td>Res. ER-CReS/Sp.&Sec</td> <td>2.84%</td> <td>2%</td> </tr> <tr> <td>Res. ER-Det-SMEs (excl. acc. errors for the "transaction")</td> <td>6.00%</td> <td>2%</td> </tr> <tr> <td>ER-SMEs-acc. errors for "the transaction"</td> <td>8.00%</td> <td>2%</td> </tr> <tr> <td>Res. ER-People</td> <td>1.26%</td> <td>2%</td> </tr> </tbody> </table>	Category	2013 Error Rate	Materiality Criterion	Res. ER-CReS/Sp.&Sec	2.84%	2%	Res. ER-Det-SMEs (excl. acc. errors for the "transaction")	6.00%	2%	ER-SMEs-acc. errors for "the transaction"	8.00%	2%	Res. ER-People	1.26%	2%
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¹³ It should be noted that the redress procedures for some 2013 calls are ongoing and therefore results cannot yet be included.

¹⁴ The third bar (ER-SMEs-acc. errors for "the transaction") represents the errors detected relating to the lack of accounting by the SMEs for the declared costs for subcontracting to RTD performers. For further information, please refer to Sections 2.1.1.2 and 4.

Performance against selected KPIs

The results presented above refer to the end of 2013 and show the REA's performance over several years, measured against five selected KPIs. For some indicators reporting arrangements were not yet in place as of 2009 (when the REA gained its autonomy¹⁵) or exploitable results have become available only at a later stage.

The results show annual performances, while the indicators on the quality of projects and the error rate are based on cumulative data.

REA KPI 1 – Implementation of commitment appropriations

The budget execution rates for the year 2013 were very high for the administrative and the operational appropriations. The operational commitment and payment appropriations from the EU general budget (excluding earmarked revenue) were fully executed, while the execution rate for the (non-differentiated) administrative appropriations reached 97.5%. The non-executed part of the administrative budget relates to appropriations earmarked for salary adjustments for the years 2011 and 2012, for which the European Court of Justice (ECJ) eventually made a ruling that prevented such adjustments to be paid before year end.

REA KPI 2 – Time-to-grant (TTG)

The TTG¹⁶ for almost all calls was shortened or stayed in the range of the previous years. Further improvements would have been possible if the Agency would not have been confronted with shortages in payment appropriations. As explained in the previous section, this shortage impacted in particular the Security call 2012.

REA KPI 3 – Share of complaints on evaluation results upheld (redress)

Like other services, the REA makes strong efforts in constantly improving the quality of the evaluation process and the Evaluation Summary Reports (ESRs). This is being reflected in a reduced share of redress cases (fully or partially) upheld compared to the number of proposals evaluated. The share of redress cases upheld further decreased from 0.8% for the 2011 calls to only 0.3% for the 2012 calls¹⁷.

REA KPI 4 – Share of projects that achieved all or most of their objectives

The results against this KPI are based on projects closed by the end of 2013. In total, 97% of the closed projects achieved all or most of their objectives. This is comparable to the results of 2012, when 98 % reached all or most of their objectives.

¹⁵ The results for the year 2009 also do not refer solely to the performance of the REA, but also to the one of the Commission services which transferred activities to the REA in the course of the year.

¹⁶ TTG measured for calls which reached in 2013 the measuring threshold of 75% of grant agreements signed (as defined in the REA's Annual Work Programme (AWP)).

¹⁷ The implementation of some 2013 calls was still ongoing at year-end and a comparable statistic on the number of redress cases upheld for these 2013 calls is not yet available.

REA KPI 5 – Error rate in financial transactions

The Commission services and the REA calculate various error rates for underlying transactions financed from the EU budget. The estimated level of error for FP7 as a whole is provided by the *representative error rate* calculated on the basis of a Common Representative audit Sample (CRaS). The CRaS was selected using the Monetary Unit Sampling (MUS) method. 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 residual error rate as a good estimate of the residual error rate in this subpopulation of actions for Space and Security research managed by the REA.

Two other Activity-Based Budgeting (ABB)¹⁸ activities implemented by the Agency have a different risk profile: the Research for the benefit of SME actions of the Capacities Programme and the People Programme. For these activities, the CRaS representative error rate cannot be taken as a reference and the REA is relying on detected error rates to provide indications of the likely detected¹⁹ and residual error rates for each of these ABB activities. The results obtained lack full statistical precision and can therefore only be considered as a first indication of the risk exposure in terms of error in the subpopulations concerned. These estimates need to be corroborated with other information available to management (notably its own assessment of risk exposure and the quality and results of ex-ante controls).

The CRaS representative error rate (for Space and Security research) or the detected error rates for the SME actions and the People Programme are subsequently used as a basis for estimating the *residual error rate* in the population of cost claims processed after deduction of the impact of corrections performed as a result of all audit activities (including risk-based audits and the extension of findings on systematic errors on non-audited participations of audited beneficiaries).

The representative error rate for Space and Security research themes amounts to 4.14% and the residual error rate to 2.84%. This is above the materiality criterion of 2% and thereby calls for maintaining the reservation made in the AAR 2012.

The detected error rate is currently quantified at 5.93% for the SMEs action and some 1.4% for the People Programme. The residual error rates are estimated at 6%²⁰ and

¹⁸ This is a method of budgeting in which the activities that incur costs in every functional area of an organisation are recorded and their relationships are defined and analysed. Activities are then linked to strategic goals, after which the costs of the activities needed are used to create the budget.

¹⁹ The detected error rate includes only findings from audits on transactions randomly selected or transactions selected from the list of beneficiaries accounting for high total amounts for programme participation. It excludes any findings from audits on transactions selected on the basis of risk-assessments.

²⁰ The residual error rate is quantified at 5.80% but it cannot be excluded that this figure may further increase with ongoing audits. Therefore, a residual error rate of 6% is used as a reference for calculating the exposure.

1.26% respectively. The results lack full statistical precision but trends can be validated by considering also elements from other assurance building blocks (i.e. by an assessment of the inherent risks of the schemes made by the management, cross-cutting risk assessments and results from internal audits). The high rate of error for the SME actions justifies maintaining a reservation for this programme while the lower error rate for the People Programme confirms the REA's assessment about reasonable assurance that this programme is not impacted by material errors.

With respect to the SME actions an additional exposure relates to a recurrent error whereby SMEs are not complying with one of the formal eligibility criteria for their declared costs for subcontracting: the majority of the funding under this scheme is directed to the outsourcing of research activities to RTD performers. This funding is sometimes channelled directly from the coordinator to the RTD performers rather than "transiting" through the SMEs to whom services are delivered. While such cash flows can be allowed, some SMEs have failed to ensure that the formal eligibility requirement defined in the grant agreement, namely that these costs, declared under the grant agreement, are duly recorded in their accounts, is respected.. The exposure resulting from this risk amounts to some 8% of payments made under this scheme.

Actions to correct the errors have been put in motion. The REA launched a mass information campaign highlighting the issue and targeting beneficiaries of both ongoing and closed projects. The matter has also been raised in meetings with coordinators and in other exchanges with beneficiaries. The beneficiaries have been given more time to comply with the requirement, also for projects that had already been closed. Thereby they have been informed that the formal obligation to record the costs in the accounts of SMEs cannot be waived. When the REA will obtain evidence that these formal errors have been corrected, this part of the reservation may be lifted.

A detailed presentation and breakdown of results against KPIs, as outlined in the Agency's AWP is provided in the introductory part and Section 2.

Key conclusions on resources management and internal control effectiveness

In accordance with the governance statement of the European Commission, which is also applicable to the REA, the Agency conducts its operations in compliance with the applicable laws and regulations, working in an open and transparent manner and meeting the expected high level of professional and ethical standards.

The Commission has adopted a set of internal control standards, based on international good practice, aimed to ensure the achievement of operational objectives and to support the Commission in reaching its policy objectives. As required by the Financial Regulation, the REA Director has put in place the organisational structure and the internal control systems suited to the achievement of the control objectives, in accordance with the standards and having due regard to the risks associated with the environment in which it operates.

The REA has assessed the effectiveness of its internal control systems during the reporting year and has concluded that the internal control standards are effectively

implemented.

In addition, the REA has systematically examined the available control results and indicators, as well as the observations and recommendations issued by auditors, like the REA's Internal Audit Capability (IAC), the Commission's Internal Audit Service (IAS) and the European Court of Auditors (ECA). These elements have been assessed to determine their impact on the management's assurance as regards the achievement of control objectives. In the context of an audit on the implementation of FP7 control systems performed in the second semester of 2013, the IAS made some important observations which aim at further improving the REA's overall control system. These findings are however not considered as critical and they do not impact on the positive conclusions regarding the overall assurance. Please refer to Section 2 for further details.

In conclusion, REA management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated and necessary improvements and reinforcements are being implemented. The Director, in his capacity as Authorising Officer (AO) for the administrative budget and Authorising Officer by Delegation (AOD) for the operational budget, has signed the Declaration of Assurance albeit qualified by reservations concerning the ABB activities Space and Security (Cooperation Specific Programme) and Research for the Benefit of SMEs (Capacities Specific Programme).

The reservations are based on the estimated error rate in the underlying transactions that exceeds the materiality level and, when the error rate is not representative for the subpopulations, on complementary information regarding the activities' risks available to management.

The reservation with regard to the Space and Security themes refers to risks which are common to FP7 programme management and result from complex funding rules without disposing of systematic tools to mitigate risks ex-ante. The Agency will continue to collaborate with other members of the research family in addressing this risk in a proportional manner which maintains a fair balance between trust and control and an appropriate focus on funding value-added research.

Regarding SME Actions, on average 68% of costs are related to "the transaction" (see below). For the remaining 32%, including expenses incurred by the SMEs themselves, the financing modalities are similar to Cooperation-like projects. However, the risk profile of the SME scheme is different, since the participations of SMEs are more prone to errors. With a view to further reducing residual error rates the REA will continue with ex-post control and will pay particular attention to the projects with SME participations when launching its corrective risk-based audits. Nevertheless, it is not expected that such controls will reduce the residual error rates for the Space and Security themes and the SME actions below the 2% materiality level.

For the SME actions, a part of the reservation relates to the lack of accounting by some SMEs for the subcontracting to RTD performers. The estimated exposure in this respect amounts to €15.50 million. To address this specific issue the REA has launched dedicated actions to document the errors and ensure corrections (as further specified in Section 4.1). If the corrective actions are implemented, this part of the reservation may

be lifted.

This AAR contains, for the first time, an analysis of costs and benefits of controls. The analysis and presentation may need to be refined in the future. One should give due consideration to the fact that “control” refers not only to verifications and checks for which benefits in terms of corrected errors can be quantified but include all management processes for programme implementation. In this context, the REA's administrative budget as a share of the operational budget serves as a good indicator on cost of control. The REA's operating cost represents 2.33% of the operational budget, which is low in comparison to the 6% ceiling in the FP7 legal base. On the other hand it should be highlighted that many benefits of such controls are qualitative and therefore very difficult to measure.

Information to the Commissioner

The main elements of this report and assurance declaration, including the reservations envisaged, have been brought to the attention of the Agency's Steering Committee, its parent DGs and the Director-General of DG RTD. The DGs have taken these into consideration for their reporting and DG RTD, as lead parent DG, transmitted the REA's report to Commissioner Máire Geoghegan-Quinn, responsible for Research and Innovation.

1. IMPLEMENTATION OF THE AGENCY'S ANNUAL WORK PROGRAMME

1.1 Achievement of general and specific objectives

This section provides workload indicators on the implementation of the Agency's Work Programme, detailed for the following ABB activities:

- Activity 02.04 – Management of the Cooperation Programme – Space and Security themes
- Activity 08.13 – Management of the Capacities Programme – Research for the benefit of small and medium-sized enterprises (SMEs)
- Activity 15.07 – Management of the People Programme

In addition to its programme implementation tasks, the REA also provides various support services to other parts of these programmes not managed by the Agency. The workload indicators are also presented hereafter.

In addition, the Agency's Work Programme for 2013 identifies many key performance indicators which are reported under Section 2 below.

1.1.1 Activity levels of the Agency – programme implementation tasks

1.1.1.1 Implementation of calls financed under the 2013 commitment budget

The following table outlines the results obtained in implementing the calls charged to the 2013 budget: timing of the calls, the total call budget (including the planned increase in budget, mostly through transfers or the use of appropriations from third countries' receipts) and the success rate for the calls.

Table 1: Indicator – Implementation of calls charged to the 2013 commitment budget

Action	Call deadline	Total budget allocated € million				Number of proposals				Of which grants signed		Of which pre- financing paid € million
		Planned call budget	Additional appropriations in the total (C4/C5/R0/additional C1)	Total		Number of proposals evaluated (a)	Positively evaluated (b)	Main list (c)	Success rate (c)/(a)	Number	€ million	
ITN	22/11/2012	470.72	47.07	10.00%	517.79	1,165	783	150	13%	159	485.24	271.31
IAPP	16/01/2013	81.00	8.10	10.00%	89.10	306	196	48	16%	48	75.80	42.85
IEF	14/08/2013	134.00	13.40	10.00%	147.40	4,916	3,856	614	12%	0	0.00	0.00
IOF	14/08/2013	44.50	4.45	10.00%	48.95	1,207	983	152	13%	0	0.00	0.00
IIF+IIFR	14/08/2013	44.50	4.45	10.00%	48.95	1,936	1,353	184	10%	0	0.00	0.00
CIG-1	07/03/2013	20.00	2.00	10.00%	22.00	885	760	202	23%	204	19.7	9.02
CIG-2	18/09/2013	20.00	2.00	10.00%	22.00	1,257	1,114	201	16%	0	0	0
COFUND	05/12/2012	115.00	11.50	10.00%	126.50	69	49	29	42%	7	27.18	0.00
IRSES	17/01/2013	30.00	2.95	9.82%	32.95	233	155	84	36%	90	31.61	11.58
NIGHT	08/01/2013	4.00	0.00	0.00%	4.00	98	62	53	54%	53	4.00	3.21
TOTAL People		963.72	95.92	9.95%	1,059.64	12,072	9,311	1,717	14%	561	643.53	337.97
CSA	No REA call											
SME-AG	15/11/2012	58.73	4.80	8.17%	63.53	197	53	30	15%	24	43.27	24.27
SMEs	15/11/2012	181.04	14.79	8.17%	195.83	1,063	375	154	14%	126	141.84	80.95
SME-DA	15/11/2012	28.83	2.36	8.17%	31.19	95	39	31	33%	23	22.27	13.36
TOTAL SMEs		268.60	21.95	8.17%	290.55	1,355	467	215	16%	173	207.38	118.58
Space	21/11/2012	153.60	-9.16	-5.96%	144.44	295	208	46	16%	51	133.26	73.31
Security	22/11/2012	222.67	23.78	10.68%	246.45	346	160	66	19%	0	0.00	0.00
TOTAL SPACE & SECURITY		376.27	14.62	3.89%	390.89	641	368	112	17%	51	133.26	73.31
GRAND TOTAL		1,608.59	132.49	8.24%	1,741.07	14,068	10,146	2,044	15%	785	984.17	529.86

The planned call budget derives from the (updated) 2013 Work Programmes. For Security, the call budget shows only appropriations earmarked for REA-managed projects²¹.

The success rates for the proposals submitted are comparable across the majority of the actions. However, a higher rate can be noted for IRSES, COFUND, NIGHT and SME-DA (demonstration actions). For these actions, the negotiations are effectively used to ensure that only high-quality projects are finally funded – in this phase any weaknesses are addressed based on the recommendations of expert evaluators. For NIGHT, which has the highest success rate, the special nature of the action needs to be considered, where potential beneficiaries in some countries cooperate to propose fewer but stronger projects with a wider coverage. For SME-DA the higher success rate results from the fact that this call targets exclusively successful projects that benefited from previous SME calls.

By the end of the year 785 grant agreements had been signed on the 2013 budget for a value of €984.17 million and related pre-financing payments were made for a total amount of €529.86 million. With respect to grant agreements signed on the global commitments of the previous years, please refer to Table 3: Indicator – Stocktaking/activities for the management of projects launched under previous years' budgets.

1.1.1.2 Implementation of the 2012 global commitments

By the end of the year, the REA implemented 99.6% of the 2012 global commitments. The small unused balance stems from savings during negotiations which were too low (or became known too late) to allocate these savings to another grant from the reserve list.

²¹ It should also be noted that the share of additional appropriations (C4/C5/R0/additional C1 - 10.68%) relates to the REA-earmarked budget only. At the level of the call (managed jointly with DG ENTR) the additional appropriations amount to 7.36% and are thus not exceeding the maximum mark-up of 10% provided for in the Work Programme.

Table 2: Indicator – Implementation of 2012 global commitments

CALL ID	call deadline	total call budget	selected in € million	selected in %	concluded in € million	concluded in %
COFUND	15/02/2012	119.96	118.87	99.1%	118.85	99.1%
IEF	16/08/2012	130.86	130.62	99.8%	130.59	99.8%
IRSES	18/01/2012	31.60	31.23	98.8%	31.20	98.7%
IOF	16/08/2012	43.62	43.23	99.1%	43.13	98.9%
IIF	16/08/2012	43.62	43.58	99.9%	43.58	99.9%
NIGHT	10/01/2012	4.40	4.40	100.0%	4.40	100.0%
CIG-1	06/03/2012	21.81	21.77	99.8%	21.72	99.6%
CIG-2	18/09/2012	21.81	21.80	99.9%	21.80	99.9%
ITN	12/01/2012	461.53	461.08	99.9%	461.08	99.9%
IAPP	19/04/2012	87.24	87.24	100.0%	87.24	100.0%
TOTAL PEOPLE		966.45	963.83	99.7%	963.59	99.7%
SME	06/12/2011	176.30	174.90	99.2%	174.89	99.2%
SME AG	06/12/2011	55.00	54.33	98.8%	54.27	98.7%
SME DEMO	06/12/2011	14.41	14.39	99.9%	14.39	99.9%
TOTAL SME		245.71	243.63	99.2%	243.56	99.1%
SPACE	23/11/2011	90.43	90.41	100.0%	90.31	99.9%
SECURITY	23/11/2011	136.61	135.46	99.2%	135.46	99.2%
TOTAL SPACE & SECURITY		227.04	225.87	99.5%	225.77	99.4%
GRAND TOTAL		1439.19	1433.33	99.6%	1432.91	99.6%

1.1.1.3 Management of calls financed under previous years' budgets (2007-2012)

The following table provides an overview on the implementation of calls charged to the budget of the previous years. It highlights the REA's activities in terms of negotiations, grant signature, pre-financing, interim and final payments.

Table 3: Indicator – Stocktaking/activities for the management of projects launched under previous years' budgets

Action	Running projects as of 1 January 2013		Grants signed January - December 2013		Payments made January - December 2013		Projects closed January - December 2013		Running projects as of 31 December 2013	
	Number	Open balance € million	Number	Contr. amount € million	Number	€ million	Number	Decomm. € million	Number	Open balance € million
ITN	477	521.90	8	25.15	149	167.87	19	2.89	466	376.29
IAPP	259	129.48	13	20.14	122	65.50	14	1.65	258	82.46
IEF	1,461	82.87	621	130.44	1078	119.77	529	4.23	1,553	89.32
IIF	543	34.30	215	43.58	410	45.05	196	1.74	562	31.09
IOF	485	43.39	161	43.13	393	41.95	117	2.32	529	42.24
COFUND	104	113.05	35	118.85	67	67.29	9	6.16	130	158.44
IRSES	425	49.87	28	10.71	142	16.56	23	0.67	430	43.35
NIGHT	52	0.88	0	0	46	0.79	49	0.06	3	0.04
RG/CIG	1,680	54.14	232	22.60	830	26.65	314	1.51	1,598	48.57
TOTAL People	5,486	1,029.88	1,313	414.59	3,237	551.43	1,270	21.23	5,529	871.81
SMEs	464	149.94	21	22.04	297	85.53	110	2.08	375	84.36
SME-AG	126	58.15	8	13.21	67	27.98	21	1.08	113	42.30
DEMO	27	8.74	2	1.27	16	4.61	2	0	27	5.41
ERA-Net	2	0.60	0	0	0	0	0	0	2	0.60
CSA	4	0.32	0	0	2	0.29	3	0.02	1	0.02
TOTAL SMEs	623	217.76	31	36.52	382	118.41	136	3.18	518	132.68
Space	189	129.00	1	1.50	118	53.32	33	0.43	157	76.74
Security	126	199.54	27	111.73	100	121.38	13	2.08	140	168.22
TOTAL Space & Security	315	328.54	28	113.22	218	174.70	46	2.52	297	244.97
GRAND TOTAL	6,424	1,576.17	1,372	564.33	3,837	844.53	1,452	26.92	6,344	1,269.04

By the end of the year the number of running projects charged to the budgets of previous years amounted to 6,344. Together with the projects signed so far under the

2013 budget (785, as reported under Section 1.1.1.1 above) the REA managed by the end of the year a total stock of 7,129 projects (an increase of 11% compared to 2012). It is expected that the number of FP7 projects managed by the REA will reach its peak in the first semester of 2014 when the majority of grant agreement for the 2013 IxF and CIG calls will have been signed.

1.1.1.4 Processing of amendments to grant agreements

During 2013 the REA reviewed the practice of handling amendment requests with the aim of ensuring a harmonised implementation across all operational units, and had set up monitoring arrangements to support a timely implementation of the requests received and adequate reporting on the Agency's performance.

The number of amendment requests handled per programme during the year is presented in the following table.

Table 4: Indicator – Amendment requests handled during the year

	Outstanding amendment requests at the beginning of 2013	Amendment requests received during 2013	Amendment requests implemented during 2013	Amendment requests outstanding at the end of 2013
People	153	2,090	2,060	183
SMEs	65	270	249	86
Space and Security	31	151	151	31
REA - all activities	249	2,511	2,460	300

1.1.2 Activity – FP7 Support Services

Major highlights and workload indicators related to the provision of the FP7 support services in 2013 are detailed below:

1.1.2.1 Support services

Activity levels for the support services during the year can be summarised as follows:

- The REA supervised the FP7 evaluation activities involving 17,236 experts assisting the Commission for the evaluation of proposals. For further details, including information about the remote evaluation process, please refer to Section 1.2 below;
- The Research Enquiry Service (RES)²² received 4,587 enquiries and responded to 4,488 enquiries. Of these, 70.1% were answered directly by the external service provider (EUROPE DIRECT Contact Centre; EDCC);
- The REA provides support for Financial Viability Checks (FVCs), which consist of centralising financial data from coordinators and selected beneficiaries and

²² The RES is a single entry point for questions on research, via the web or by telephone. The REA coordinates the service provided by an external supplier, Europe Service Network (ESN) in collaboration with DG COMM under the umbrella of EUROPE DIRECT Contact Centre (EDCC). The ESN is responsible for responding directly to all incoming enquiries or escalating them to specialised EC Helpdesks within an average of 3 and up to a maximum of 8 working days.

verifying summary financial information against supporting documents. During the year 2,839 requests were received and 2,825 FVCs were performed.

1.1.2.2 Evaluation services

With respect to the contracting and payment of experts:

- 6,321 expert appointment letters were produced for both REA and RTD calls;²³
- 5,065 payments to experts were made for the calls managed by the Agency;
- 3,028 payment files were prepared for DG Research and Innovation.

1.1.2.3 Validation services

In total, 4,524 entities had their legal status validated by the REA Validation Services. A further 6,787 corrections were implemented and 6,287 LEARs²⁴ were validated during the year.

1.1.2.4 REA's role in IT governance for various tools supporting its provision of FP7 Support services

1.1.2.4.1 Expert Management in the Participant Portal (EMPP)

The REA holds the role of Business Process Owner (BPO) for expert contracting and payment and coordinated the development and maintenance of EMPP²⁵ and EMI²⁶, two interconnected IT tools supporting expert management. Since the launch of EMPP in July 2012, 47,585 expert profiles were migrated from the previous CORDIS database and some 43,000 validated profiles are now kept in the database.

In September a new release of EMPP went into production supporting the electronic signature of expert contracts and the electronic submission of requests for payments. In addition, support for expert handling for the education and culture programmes managed by DG EAC and EACEA was introduced. The changes for H2020, including the update of specialist fields and keywords, was successfully tested and implemented towards the end of the year. Additional functionalities will be added in 2014, including electronic exchange with experts to obtain proof documents for validating their legal entity and bank account information.

A new call for expressions of interest for experts was launched in November 2013,

²³ The number of payments is bigger than the number of appointment letters as some payments relate to appointment letters from 2012 and there may be several payments for one appointment letter.

²⁴ LEAR – Legal Entity Authorised Representative: Every legal entity is required to appoint a LEAR to monitor the correctness of participant data held by the REA and to grant specific access rights to FP7 IT tools supporting the grant management life cycle for selected staff within its organisation.

²⁵ EMPP – Expert Management in the Participant Portal: the front office application for expert management allowing experts to register under the open call for expressions of interest and to interact with the FP7 managing services in the performance of appointment letters for proposal evaluations, project reviews or various other monitoring tasks.

²⁶ EMI – Expert Management Internal: back-office application for the contracting and payment of experts.

supported by a communication campaign about the expert registration process and aiming at attracting new experts, in particular for the evaluation of Innovation Actions where expertise on innovation and business development will be required. All FP7 registered experts have been invited to register under the call for expression of interest.

1.1.2.4.2 Submission and Evaluation of Proposals (SEP)

In the beginning of 2013, the REA took over the role of BPO for submission and evaluation of proposals, which includes supervision over the SEP application²⁷.

In spring 2013 the SEP submission system replaced the previous EPSS tool which had been operated by an external contractor. During 2013, 89 calls with 23,543 submitted proposals were supported by SEP. Towards the end of the year the first bulk call publication for H2020 was prepared and a new release of SEP went into production to deal with the new features of H2020.

Throughout the year, the REA also used the SEP evaluation system with several pilot calls. Notwithstanding one major incident with a system breakdown for the evaluation of the People ITN call, these pilots have enabled the system to develop further with a view to supporting H2020 proposal evaluations and to phase out the ESS, the previous IT tool operated by an external contractor.

1.1.2.4.3 Participant management in the participant portal

The REA also holds responsibilities as BPO for participant validation, which includes control over the URF/PDM applications²⁸.

A new PDM version 5, launched in September, only delivered partly on the user requirements, caused significant difficulties to the operation of the Validation services and created confusion amongst project officers (POs). Progress towards solving the observed shortcomings has remained slow and there are concerns about delays in validation time if the system does not improve in 2014.

On the adaptation to H2020, PDM has included the so-called "extended mandate" covering the new role the LEARs will have for all H2020 transactions under the electronic management. It has also consolidated FP7 and H2020 elements under the "Research" fact (including the possibility for beneficiaries to declare the operation of large research infrastructures, which will trigger the ex-ante assessment by the Commission). A particularly sensitive aspect of the new features under H2020 concerns the possibility for applicants to claim the SME status (in calls where this will be an eligibility criteria), via a questionnaire supporting a self-declaration embedded in the Participant Portal and linked to the PDM tool. The target date for the release of this new feature is end of February, with an enhanced version (usability aspects and graphical

²⁷ SEP- Submission and Evaluation of Proposals: a front-office application for the submission and evaluation of the proposals as well as service implementation

²⁸ URF – Unique Registration Facility: is a front-office application in the participant portal for registration of FP7 participants; PDM – Participant Database Management: is a back-office application used to register and validate legal entity data for FP7 participants.

presentation) to be deployed by mid-2014.

1.1.3 Mid-term evaluation of the REA's operation

The [Framework Regulation on executive agencies](#) stipulates the requirement to perform an external evaluation on the first years of the Agency's operation (following the autonomous status obtained in 2009). A significant part of the fieldwork for this external evaluation was done in 2012 but the validation of the findings was made in the first semester of 2013. The final report, in the form of a retrospective Cost-Benefit Analysis (CBA), highlights that the delegation of tasks to the REA is a success, generating gains in terms of quality of programme implementation, service delivery and cost-effectiveness. Moreover, the conclusions state that savings estimated at the time of establishing the Agency have been largely exceeded. In response to the recommendations made in the context of the evaluation, the REA developed an action plan which had been fully implemented by the end of the year.

1.2 Specific efforts to improve 'economy' and 'efficiency' of spending and non-spending activities.

According to the Financial Regulation (Article 30), the principle of economy requires that the resources used by the Agency in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and the best price. The principle of efficiency concerns the best relationship between resources employed and results achieved.

The respect of these principles is continuously pursued through the implementation of internal procedures and predefined practices. These procedures ensure that activities are executed in an efficient manner (e.g. the different workflows contribute to the efficient cooperation between staff, units) and according to the principle of economy (e.g. the procurement rules ensure procurement in optimal conditions).

The REA is continuously fine-tuning its internal arrangements in order to improve the efficiency and economy of its operations. The following two initiatives are examples of how these principles are implemented in the Agency:

1.2.1 Management of central support services for FP7 as a whole

The REA is in charge of the management of centralised FP7 support services. By centralising this support for the research family as a whole, the REA can offer this service at a significantly reduced cost through economies of scale, compared to the previous practices under FP6 where each managing service was implementing these tasks under its own responsibility. In the past, this resulted in the duplication of processing capacities and in repetitive requests to programme participants on similar or identical data when dealing with multiple FP6 managing services. Benefits of the central support function are therefore both quantitative and qualitative (with respect to an improved service to programme participants).

1.2.2 Use of remote evaluations for calls

The REA has considerably improved the efficiency of the evaluation process by using web conferencing for briefings to experts prior to the start of proposal evaluation sessions and by using remote evaluations for a part of the evaluations for several of its calls (decreasing the share of central evaluations taking part at REA premises). The use of remote evaluations enables the Agency to process a higher number of concurrent evaluations and minimising the pressure on the Commission's evaluation premises.

In 2013 the REA had one call where remote consensus discussions were held for 80% of the proposals evaluated, thus considerably reducing the travel and accommodation costs of experts and related carbon emissions. Efficiency gains were also made in the use of REA staff time as remote evaluations are less labour-intensive to organise than central ones.

Furthermore, expert web-briefings were organised for two REA calls prior to the start of the evaluation work. This enabled the experts to be fully briefed before they began their evaluation work and allowed them to concentrate on consensus meetings as soon as they arrived in Brussels. The savings made in experts' fees and allowances can be estimated to reach up to €25,000-100,000 per call depending on the number of experts attending the briefing.

The Agency will continue to explore widening the use of remote evaluations in the future.

2. MANAGEMENT OF RESOURCES

Assurance is an objective examination of evidence for the purpose of providing an assessment of the effectiveness of risk management, control and governance processes. This examination is carried out by management, who monitors the functioning of the internal control systems on a continuous basis, and by internal and external auditors. Its results are explicitly documented and reported to the Director. The reports produced are:

- the twice-yearly reports submitted by the Heads of Unit in their capacity of Authorising Officer by Sub-Delegation (AOSD),
- the opinion on the state of control of the REA's Internal Control Coordinator (ICC),
- the outcome of activities of the ex-post audit function and fraud prevention measures,
- the independent opinion of the REA's Internal Audit Capability (IAC) on the state of internal controls,
- the observations and recommendations reported by the Internal Audit Service (IAS),
- the observations and recommendations reported by the European Court of Auditors (ECA),
- the observations and recommendations reported by DG BUDG (in the context of the validation of the local accounting systems by the Commission's Accounting officer),
- the observations deriving from the assessment performed on the effectiveness of internal control in the REA (ICAT exercise).

Given the particular mandate of the REA, the Declaration of Assurance provides assurance on the implementation of the Commission's operational budget delegated to the REA (for programmes implemented through direct management), as well as on the implementation of the REA's own operating (administrative) budget.

This section reports the control results and other relevant elements that support managements' assurance on the achievement of the internal control objectives²⁹. It is structured in two separate sections: (1) the REA's assessment of its own activities for the management of its resources; and (2) the assessment of the results of internal and external audits, including the implementation of audit recommendations and results.

²⁹ Effectiveness, efficiency and economy of operations; reliability of reporting; safeguarding of assets and information; prevention, detection, correction and follow-up of fraud and irregularities; and adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments (Article 32 of the Financial Regulation).

Table 5: Indicator – Total budget managed by REA in 2013 and since 2009

Operational and administrative expenditure in € million	Pre-financing	Payments against cost statements	Experts payments	Total operational expenditure	Administrative expenditure	Total
2013	540.52	834.11	19.34	1,393.97	45.85	1,439.82
2009 - 2012	3,147.56	1,984.53	62.30	5,194.39	180.52	5,374.91

2.1 Management of human and financial resources by the REA

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives. More specifically, this section covers the AOD's obligation to include in the AAR information on "the efficiency and effectiveness of the internal control systems, including an overall assessment of the costs and benefits of controls" (Article 66(9) of the Financial Regulation). Annex 5 outlines the main risks together with the control processes aimed to mitigate them and the indicators used to measure the performance of the control systems.

The REA has set up internal control processes to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments concerned.

The control objective is to ensure that the residual error rate in financial transactions does not exceed 2% (cumulative by the end of the programme implementation). However, the Commission has in recent years underlined the negative effects that an over-emphasis on this target can have, in terms of the attractiveness of the policy and international competitiveness. The key aim is to achieve a good balance between legality and regularity and the achievement of policy objectives, and between trust and control, rather than concentrating on one legality and regularity indicator.

The principle of efficiency concerns the best relationship between resources employed and results achieved. The principle of economy requires that the resources used by the institution in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and at the best price.

The next section presents the programmes delegated to the REA with respect to their design and inherent risks. It outlines the REA's overall approach in mitigating the identified risks and specific measures which have been undertaken.

The sections below, which follow the presentation of the programmes' inherent risks, outline the indicators used to monitor the efficiency and effectiveness of the internal control systems (per type of expenditure and per stage of the project cycle), including an overall assessment of the costs and benefits of controls.

2.1.1 Management's assessment of inherent risks of the programmes/activities managed

The Agency implements the parts of FP7 delegated to it under the direct management mode which implies direct financial contributions through grants to (consortia of) beneficiaries for projects in the field of research and innovation. Payments are authorised on the basis of project progress reports and summary statements on costs incurred. As a rule, the REA is not able to fully ensure that the costs declared and the EU funding paid are accurate and in compliance with the applicable legal and contractual dispositions. Ex-ante controls focus mostly on assessing progress from a technical and scientific point of view, reviewing certificates on financial statements that are due for claims exceeding €375,000 and performing plausibility checks on the costs declared by reviewing justifications provided by beneficiaries on the use of resources. Full compliance with regulatory and contractual rules can only be checked through on-the-spot checks at the beneficiaries' premises through verification of proof documents and accounting registrations.

2.1.1.1 The People Specific Programme

One key feature of the People Programme relates to the extensive use of flat rate financing for researcher mobility grants. The total funding for such mobility actions is a combination of various flat rates for the benefit of the researcher and the host institution. The REA communicates extensively with beneficiaries with a view to explaining the firm requirement to use the full flat rate mobility allowances for the exclusive benefit of the researchers so that – in line with the policy objective of the People Programme to promote better employment conditions – these researchers have a guaranteed minimum allowance during their mobility experience. As a result, and unlike more traditional flat rate financing, the flat rate mobility allowances remain subject to subsequent verification and audit to determine that actual allowances paid to the researchers (and related employers' social security charges) are equal to or exceed the flat rates defined in the grant agreement. Experiences from FP6/FP7 management have demonstrated that the occurrence and impact of errors of "underpayment of researchers" remains fairly low (well below 2%). Moreover, where such underpayments are discovered, beneficiaries are required to make additional payments to the researchers (rather than re-paying the difference back to the EU budget).

Overall the financing modalities for mobility grants financed under the People Specific Programme remain much simpler compared to other FP7 specific programmes. Most recurring errors detected when auditing projects from the other FP7 programmes (i.e. wrong calculation of hourly rates, absence of time recording systems and wrong calculation of overhead rates) have hardly any relevance for mobility grants.

As a result, REA management assesses the intrinsic risk of legality and regularity errors in cost claims submitted for Marie Curie actions financed under the People Specific Programme leading to unjustified EU funding as low.

2.1.1.2 Capacities Specific Programme – Research for the benefit of SMEs

The majority of EU funding provided under this scheme relates to expenditure incurred by SMEs (lacking or having little research capacity themselves) in outsourcing RTD work

to RTD performers under a commercial contract at a price agreed between them ("the transaction").

The SME projects managed by the REA are characterised by a significant technological component which requires the Agency's project officers to invest in acquiring a certain level of subject matter expertise, complemented by a call on external experts for proposal evaluation and project review.

The above-mentioned client-seller relationship under the SME actions includes several features which differ from normal business relationships and creates a risk that the transaction does not reflect normal market conditions. Under the existing control framework, the "effort" component (in person-months) of the budget for the transaction is monitored throughout the evaluation, negotiation and project monitoring phases and can be checked ex-post during technical audits or reviews. However, the commercial rates invoiced by the RTD performer are difficult to assess during the project evaluation and negotiation phases as such rates do not result from a competitive tendering process but should be in line with normal market conditions that apply in the country of the RTD performer. Moreover, such rates can only be assessed at evaluation and negotiation stage as the price of the transaction is agreed upon as an integral part of the grant agreement concluded between the REA, the SMEs and the RTD performers. During project monitoring, it is no longer possible to challenge the pricing of the transaction. Therefore ex-post controls at the level of the RTD performer are limited to technical assessments that work performed complies with the Description of Work (Annex 1 to the grant agreement).

The following factors result in increased risks that rates agreed at the negotiation of the grant and invoiced by the RTD performers to the SMEs exceed normal market conditions (i.e. non-respect of the arm's length principle):

- although SMEs usually co-finance 25% of the cost of outsourcing to RTD performers, there are some cases where the consortium agreement (between all project participants – including SMEs and RTD performers) guarantees that total funding under the grant will suffice to cover this co-financing cost for the transaction, leaving other – unfunded – costs incurred by SMEs as their contribution in kind to the project. As a side-effect, such arrangements may result in financial flows within the consortium whereby the invoices from RTD performers are paid directly by the project coordinator from EU funding received from the REA, without transiting the funds through the SMEs concerned and without the SMEs recording these invoices and cash flows in their accounts;
- there is a relatively low number of RTD performers operating in the context of this scheme and relying on funding from this scheme. Their extensive experience with EU funding programmes contrasts with inexperienced SMEs who may participate in FP7 for the first time. As a result, some projects are de facto controlled by RTD performers who are the driving actor behind the proposals and who often assume the role of project coordinator. This may result in pressure from RTD performers on SMEs to maximise the EU funding by increasing the cost of the transaction and provides limited negotiation powers to

these SMEs. Moreover, although there is a policy orientation to empower SMEs in the running of these projects, many SMEs participating in these projects lack sufficient financial standing to assume the role of project coordinator.

This weakness results from the specific design of this scheme which, unlike other programmes operating under FP7, is less based on cost-reimbursement and includes major subcontracting at commercial rates.

To mitigate the risk of over-pricing, the REA requested a change to the 2012 and 2013 SME work programmes (impacting the last two FP7 calls delegated to the REA), stating that the price of the transaction should be according to market conditions and the corresponding Guide for Applicants required proposers to demonstrate that the transaction price agreed with the RTD performers respects market conditions so that proposal evaluators could assess this aspect in more detail.

Considering the lump-sum financing for the transaction which accounts for some 68% of the total grant, most recurring errors detected when auditing other specific programmes and actions under FP7 (e.g. wrong calculation of hourly rates, absence of time recording systems and wrong calculation of overhead rates) have relevance for only 32% of the total SME grant. Besides the transaction, spending by SMEs in relation to their non-outsourced activities is governed by the standard FP7 financial arrangements. Experience gained through the ex-post controls indicate that the frequency and magnitude of errors in costs declared by SMEs is higher than average across FP7 (as further detailed below).

During 2012 the REA discovered, through its ex-post audit activities, a high frequency of errors by SMEs who declare costs for subcontracting to RTD performers (referred to in the grant agreement as “the transaction”) without recording any invoices/payment in their accounts³⁰. As many SMEs face financial difficulties under the economic crisis, consortia prefer not to channel funds to RTD performers via these SMEs and RTD performers are often paid directly by coordinators from the EU pre-financing received. The high frequency of errors with respect to a lack of accounting by SMEs for the cost of the transaction indicates that the scheme is not well designed for the target audience. SMEs do not always perceive such a requirement to channel all funding for RTD performers through their accounts to be justified in the context of the overall design of the scheme. This design provides for a negotiated price for work to be performed whereby the agreed lump-sum is due, provided the RTD performers have duly completed their tasks and the results are accepted by the SMEs concerned. Through regular project reviews, with the assistance of external experts, the REA is getting reasonable assurance that the work has been completed as planned. Although such a design resembles a deliverable-based funding scheme where funding is earned exclusively on the basis of acceptance of the deliverable, the SME scheme has nevertheless maintained the eligibility criterion (set out in the Model Grant Agreement

³⁰ Any costs declared for funding need to be recorded in the accounts in accordance with the cost eligibility criteria defined the grant agreement.

adopted by the Commission) whereby SMEs need to guarantee that the cost of the transaction is duly recorded in their accounts, and this requirement was not fully understood by many SMEs.

Considering principles of proportionality and substance over form, and under the exclusive condition that the REA has obtained reasonable assurance that the transaction was performed as planned and benefits the SMEs³¹ the REA has offered SMEs the possibility to regularise this formal requirement ex-post. For this purpose, a dedicated communication campaign was launched in July 2013 clarifying the requirement for accounting of costs that are subsequently declared as a basis for the requested EU funding.³² In this communication to all beneficiaries in the SME scheme, the REA urged for a systematic compliance with this requirement for all new and ongoing projects.

In the campaign, the REA also offered, on an exceptional basis, the possibility to beneficiaries of closed projects that had not complied with this requirement in due time to regularise the lack of accounting for the cost of the transaction ex-post in order to ensure eventual compliance. In accordance with Internal Control Standard 8 this exception is registered in the Agency's register of exceptions and is justified by:

- the assurance that funds have been used for the intended purposes, that invoices were issued by the RTD performer and that these invoices were paid;
- the consideration that recovering significant amounts from SMEs and applying liquidated damages for non-compliance with this formal requirement without offering a possibility to rectify the situation ex-post would be disproportionate. This would run against the policy objective of the SME actions of strengthening the innovation capacity of European SMEs by helping them to outsource research.

This exception concerns only the provision of more time for the beneficiaries to comply with the requirement and it does not imply that the contractual requirement to record the costs in the accounts of the SMEs would be waived. The beneficiaries were reminded in the communication campaign that they need to bring their accounting in line with the requirement without delay and that the failure to use this additional possibility to conform with the rule may lead to recovery of previously paid EU funds as well as the application of liquidated damages. The REA will continue to highlight the need to ensure full compliance also in its future information activities.

Finally, the current economic climate results in many bankruptcies of SMEs. The REA has experienced a significant increase in bankruptcies for the SME actions, from 10 cases in 2012 to 21 additional cases in 2013. Although there is no direct financial loss for the EU

³¹ The REA addressed specific attention to the management of Intellectual Property Rights (IPR) to ensure that results from research outsourced to RTD performers are owned by SMEs.

³² The information sent to the beneficiaries in the communication campaign is available on the REA website: http://ec.europa.eu/rea/manage_your_project/sme/index_en.htm.

budget as a result of interventions of the Participant Guarantee Fund, there may be an indirect impact as a result of projects not delivering on all expectations because of defaulting partners in the consortium.

As a consequence, the REA considers that the intrinsic risk of the Research for the Benefit of the SME scheme is high.

2.1.1.3 Cooperation Specific Programme – Space and Security themes

The Space and Security projects managed by the REA and financed from the Cooperation Specific Programme are characterised by a significant technological component. This requires the REA project officers to invest in acquiring a certain level of subject matter expertise, complemented by a call on external specialised experts for proposal evaluation and project review. The REA has built up experience and expertise in order to meet the challenges of effective proposal negotiation and project monitoring. In addition, the REA maintains a close interaction with and seeks advice from the Commission services which manage other parts of these themes in parallel.

The grants for the Space and Security themes fully apply the standard FP7 financing modalities. Therefore, in assessing the risks linked to the management of these themes, REA management also consulted other FP7 managing services with a view to pooling experience in managing FP7 grants financed from the Cooperation Specific Programme.

The REA considers that the intrinsic risk of the Space and Security themes scheme is similar to other schemes of the Cooperation Specific Programme.

2.1.1.4 FP7 Support Services

Service-Level Agreements (SLAs) on FP7 support services have been signed with the REA's various clients outlining the rights and obligations of both parties and setting clear performance criteria.

The REA's management of the evaluation process on behalf of the Cooperation, Capacities and People Specific Programmes draws on long standing experience in the management of the evaluation platform and the process is effectively supported by IT tools.

Expert handling support services are offered to REA units and the majority of RTD Directorates. Contracting and payment of REA expert evaluators and reviewers was effective, and performance in terms of paying experts on time was very favourable throughout the year, with the exception of the months of March and April when the performance dropped due to unplanned staff departures (see also Section 2.1.2.5 below). Further developments of the EMPP tool will facilitate the handling of contracting of and payments to experts and will offer efficiency gains while maintaining a high level of compliance with legality and regularity requirements.

Performance in delivering the FP7 participant validation service carries a significant reputational risk. In 2013 the REA faced some difficulties relating to the development of the main application PDM/URF supporting the participant validation process. Validations were nevertheless performed without significant delays. In the absence of adequate IT monitoring tools, priority setting for validations remains very much

dependent on bilateral contacts with the various DGs and services and calls on significant resources from the REA staff in coordinating this process.

Financial capacity checking does not bear a significant inherent risk for the REA, since the Agency's tasks are limited to encoding summary financial information on the financial standing of potential beneficiaries and to verifying this information against official documents.

For support services to programmes falling outside the REA's mandate, the Agency maintained a close collaboration with the team in DG RTD providing similar services to these other programmes to ensure coherence in service delivery and overall quality of the participants database.

Overall, the support services delivered by the REA provide a strong contribution to efficiency gains and bear little risks in terms of legality/regularity of spending operations.

2.1.2 Implementation of the control framework for the management of the operational budget

The REA's activities for FP7 implementation are fully streamlined with the overall FP7 structures and processes applied within the Commission. This implies that the overall control strategy defined for FP7 is fully applicable to the REA.

Effective control provides reasonable assurance to the REA management on the achievement of objectives. Control includes all the measures management and staff take to ensure that operational activities are effective and efficient, that legal and regulatory requirements are met, and that financial and other management reporting is reliable and assets and information are safeguarded. This includes for example the implementation of organisational structures, procedures, controls, training, etc.

The FP7 control strategy is characterised by investing significantly in issuing guidance to grant beneficiaries on modalities for the correct implementation of grants, ex-ante controls, a strong emphasis on ex-post controls at the level of final beneficiaries and creating a dissuasive impact on overcharging through the systematic application of liquidated damages for all cases of detected overcharging as well as penalties³³.

The activities delegated to the REA are implemented under the 'direct management' mode, which implies direct financial contributions for the co-financing of projects through grants and contracts signed with external parties (research organisations, companies, experts). In 2013, 2,157 grant agreements with 5,955 participations were

³³ On the basis of the Internal Audit Service (IAS) report (for further information, refer to Section 2.3.3) and considering that liquidated damages have a relatively low financial impact, the REA took a decision of principle to apply, in addition to liquidated damages, also penalties in cases of fraud.

signed, with an EU financial contribution of €1,548.49 million.

In 2013, €1,393.97 million were paid in relation to grant agreements signed in 2013 or earlier. At the moment when the payment is authorised, the REA is not able to fully control, for every payment, that the amount paid is accurate and in compliance with the applicable legal and contractual provisions. That would require the REA to add a huge administrative burden onto participants beyond reporting obligations defined in the grant agreements concluded and this would be impossible with the human resources available to the Agency. Instead, and in line with recommendations made by the European Parliament and the Council, the REA operates a trust-based system of controls before payment, with limited substantive controls. It uses complementary evidence in expressing assurance from in-depth on-the-spot checks for a sample of cost statements declared by beneficiaries.

The Commission's research services have defined and implemented a common control strategy, the key elements of which are the ex-post audit strategy and the recovery process. These elements are intended to provide reasonable assurance on the legality and regularity of expenditure on a multi-annual basis by systematically detecting and correcting errors. Since 2012, as an extension of the ex-post audit strategy, CRaS was used to identify the common error across the whole of FP7 operations. The CRaS has been instrumental in lowering the audit burden on large beneficiaries who, before the implementation of this new approach, would have been audited by several EU services.

Materiality is assessed for the FP7 in accordance with Annex 4. To give an indication of the relative weight of each of the programmes managed by the REA, the following table shows the distribution of payments in 2013.

Table 6: Indicator – REA’s payments in 2013 and 2007-2013 per activity

€ million	2013			2007-2013		
	Paid	Clearing of pre-financing	Total	Paid	Clearing of pre-financing	Total
People	889.54	0.00	889.54	3,178.93	0.00	3,178.93
Prefinancing	738.31	-268.32	469.99	2,773.53	-622.95	2,150.57
Cost claims	151.23	268.32	419.55	405.40	622.95	1,028.35
SMEs	237.00	0.00	237.00	1,015.97	0.00	1,015.97
Prefinancing	165.64	-121.90	43.74	836.04	-326.22	509.82
Cost claims	71.36	121.90	193.26	179.93	326.22	506.16
Space	126.71	0.00	126.71	457.10	0.00	457.10
Prefinancing	78.18	-69.13	9.05	348.49	-122.61	225.88
Cost claims	48.53	69.13	117.66	108.61	122.61	231.22
Security	121.38	0.00	121.38	480.10	0.00	480.10
Prefinancing	54.05	-36.31	17.74	351.29	-90.00	261.29
Cost claims	67.33	36.31	103.64	128.81	90.00	218.81
Expert payments	19.34	0.00	19.34	62.30	0.00	62.30
TOTAL	1,393.97	0.00	1,393.97	5,194.40	0.00	5,194.40
Prefinancing	1,036.18	-495.66	540.52	4,309.34	-1,161.78	3,147.56
Cost claims	338.45	495.66	834.11	822.76	1,161.78	1,984.53
Expert payments	19.34	0.00	19.34	62.30	0.00	62.30

The control systems are divided into four distinct stages, each with specific control objectives. Key indicators have been defined for each stage.

2.1.2.1 Stage one: Programming, evaluation and selection of proposals

The first stage concerns the preparation of calls for proposals and their evaluation. The overall control objective of this stage is to evaluate the projects in order to ensure scientific excellence (selection of the best projects) and the achievement of the operational objectives set out in the specific work programmes, as adopted by the Parliament and the Council. Proposals are reviewed by panels of external reviewers, who are experts in the scientific field.

Key controls include the screening of proposals for eligibility, the choice of independent evaluators, the evaluation by a minimum of three evaluators who – after performing an individual assessment – exchange opinions and agree on a consensus evaluation report and a panel review for the ranking of proposals by benchmarking scores across the various teams of evaluators involved in the evaluation of proposals for that panel. The list of approved proposals is checked for legal compliance by the Authorising Officer before it is submitted for a Commission inter-service consultation. These are key checks to ensure the excellence of the science to be funded and the legality and regularity of operations, since a compliance deficiency in the selection process would affect the regularity of all the ensuing grants.

2.1.2.1.1 Share of calls published successfully

Table 7: Indicator - % of calls successfully published

	No. of calls planned in the AWP 2013	No. of calls successfully published in 2013
People	9	9 (100%)
Space and Security	2	2 (100%)
SME actions	1	1(100%)
Total	12	12 (100%)

In 2013 all calls planned by the Annual Work Programme (AWP) have been effectively launched.

2.1.2.1.2 Number of redress complaints upheld

Table 8: Indicator – number of redress complaints upheld³⁴

	WP 2011						WP 2012					
	Call deadline	Evaluated	No. of redress cases			Call deadline	Evaluated	No. of redress cases			% upheld/evaluated	
			filed	upheld	% upheld/evaluated			filed	upheld	of these funded after re-evaluation		
ITN	26/01/2011	909	27	12	1.3%	12/01/2012	1,015	28	5	0	0.5%	
IAPP	07/12/2010	160	8	0	0.0%	19/04/2012	264	2	2	0	0.8%	
IEF	11/08/2011	3,302	91	33	1.0%	16/08/2012	3,708	71	5	1	0.1%	
IOF	11/08/2011	856	26	7	0.8%	16/08/2012	955	29	7	0	0.7%	
IIF+IIFR	11/08/2011	1,290	43	17	1.3%	16/08/2012	1,447	32	5	0	0.3%	
RG/CIG-1	08/03/2011	707	13	1	0.1%	06/03/2012	746	26	3	0	0.4%	
RG/CIG-2	06/09/2011	747	27	3	0.4%	18/09/2012	899	28	3	1	0.3%	
COFUND	17/02/2011	64	0	0	0.0%	15/02/2012	60	4	1	0	1.7%	
IRSES	17/03/2011	186	6	0	0.0%	18/01/2012	155	4	0	0	0.0%	
NIGHT	13/01/2011	95	3	0	0.0%	10/01/2012	98	3	0	0	0.0%	
TOTAL PEOPLE		8,316	244	73	0.9%		9,347	227	31	2	0.3%	
SME - AG	08/12/2010	144	5	0	0.0%	06/12/2011	143	7	0	0	0.0%	
SMEs	08/12/2010	743	29	2	0.3%	06/12/2011	807	19	2	1	0.2%	
SME - DA	08/12/2010	24	0	0	0.0%	06/12/2011	36	1	0	0	0.0%	
TOTAL SMEs		911	34	2	0.2%		986	27	2	1	0.2%	
Space	25/11/2010	122	4	0	0.0%	23/11/2011	187	11	4	0	2.1%	
Security	02/12/2010	300	12	0	0.0%	23/11/2011	326	8	0	0	0.0%	
TOTAL SPACE & SECURITY		422	16	0	0.0%		513	19	4	0	0.8%	
GRAND TOTAL		9,649	294	75	0.8%		10,846	273	37	3	0.3%	

The redress procedure provides applicants with the possibility of making a complaint if they think that there were shortcomings in the handling of their proposal during the evaluation. A redress committee analyses complaints and, where appropriate, may recommend the re-evaluation of the proposal. The final decision on follow-up actions is taken by the Authorising Officer. The indicator on the redress procedure presented above for calls financed under the WPs 2011 and 2012 provides an indication of the quality and effectiveness of the proposal evaluation process, which constitutes a key element of the grant award process. The implementation of the calls from the WP 2013 was ongoing at year-end and exhaustive statistics on the redress procedure are

³⁴ The data for redress cases funded after re-evaluation are not available for 2011. Redress procedures for many 2013 calls were still ongoing and are therefore not reported in this AAR.

therefore not yet available.

The low share of redress requests and cases upheld for the calls of the WP 2012 – 2.52% and 0.34% respectively – provides a good indication of the robustness of the proposal evaluation and grant award process and offers assurance with respect to the effectiveness of the internal control system.

2.1.2.1.3 Execution of the operational budget

Table 9: Indicator – operational budget execution rates

	EU budget implemented (in % of EU budget allocated – excluding earmarked revenue)	
	Commitment appropriations ³⁵	Payment appropriations
People	997.15 (100%)	860.33 (100%)
Space and Security	370.18 (100%)	230.40 (100%)
SME actions	263.56 (100%)	227.02 (100%)
Total	1,630.89 (100%)	1,317.74 (100%)

By the year-end the REA implemented 100% of the 2013 commitment appropriations³⁶.

2.1.2.1.4 Success rates by programme

Table 10: Indicator – Success rates by programme

	No of eligible proposals evaluated	No. of proposals retained for funding
People	12,072	1,717 (14%)
Space and Security	641	112 (17%)
SME actions	1,355	215 (16%)
Total	14,068	2,044 (15%)

Details on success rates by call are provided in Section 1.1.1.1 above.

Success rates by call are comparable across the majority of the actions. However, a higher rate can be noted for IRSES, COFUND, NIGHT and SME-DA. For these actions, the negotiations are effectively used to ensure that only high-quality projects are finally funded – in this phase any weaknesses are addressed based on the recommendations of expert evaluators. For NIGHT, which has the highest success rate, the special nature of the action needs to be considered, where potential beneficiaries in some countries cooperate to propose fewer but stronger projects with a wider coverage. For SME-DA (demonstration actions) the higher success rate results from the fact that this call targets exclusively successful projects that benefited from previous SME calls.

³⁵ This refers to implementation of global commitments, for which grant agreements can be signed until 31 December 2014. The global commitment is made when the evaluation process is closed and it is based on the main list of positively evaluated proposals.

³⁶ An overview of the implementation of the 2012 global commitments is provided in the introductory section.

The applicants of FP7 grants receive information letters with qualitative comments on their proposals as well as the marks their proposal received at an early stage following the end of the evaluation process. In the context of reporting requirements of the Financial Regulation, the REA is putting in place monitoring arrangements, allowing the Agency to report on the time needed to publish the selection results from 2014 onwards.

2.1.2.1.5 Average evaluation cost by proposal

Table 11: Indicator – Average evaluation cost by proposal (cost of expert evaluators only) for calls implemented by the REA

	No. of proposals received	No. of eligible proposals evaluated	Total cost of expert evaluators	Average evaluation cost by proposal (evaluated)
People	12,343	12,072	12,851,373	1,064
Space and Security	649	641	2,160,271	3,370
SME actions	1,387	1,355	3,088,766	2,280
Total	14,379	14,068	18,100,410	1,287

In addition, the REA staff cost in operating the evaluation process for the calls implemented by the REA is estimated at €3.04 million (please refer to Table 37). The differences in the average evaluation costs per proposal between the activities are due to the differences in the complexity of the schemes. Space and Security are very scientifically driven themes, resulting in more complex proposals and more costly evaluations (per proposal).

The benefits of these controls are not quantifiable; they relate to the qualitative assurance that the most excellent projects are selected out of the many projects proposed, which is a pre-requisite for their successful implementation in accordance with a legal and regular evaluation and selection process. The effectiveness of this control can also be demonstrated by referring to fact that 97% of all REA projects reached all or most of their objectives (as reported under KPI 4), the low (and decreasing) share of redress requests and the positive overall remarks made by the independent observers concerning the quality of the evaluation processes run by REA with only minor suggestions for improvement.

2.1.2.2 Stage two: Conclusion of grant agreements

The second stage concerns the negotiation of proposals and the award of grants by signing grant agreements. The main control objective is to ensure that the most promising projects for meeting the policy objectives that have been retained following the evaluation process are optimised with respect to cost-effectiveness and the achievement of policy objectives within the limitations of the call budget. The overall objective of this stage is the “translation” of each of the retained scientific research proposals into a legally binding grant agreement allowing for the management of the scientific and financial aspects of the project. The negotiation process excludes work not directly contributing to the achievement of the scientific objectives, substantiates the project costs, determines the duration of the project and sets the contribution from the EU budget.

2.1.2.2.1 Financial impact of the negotiation process

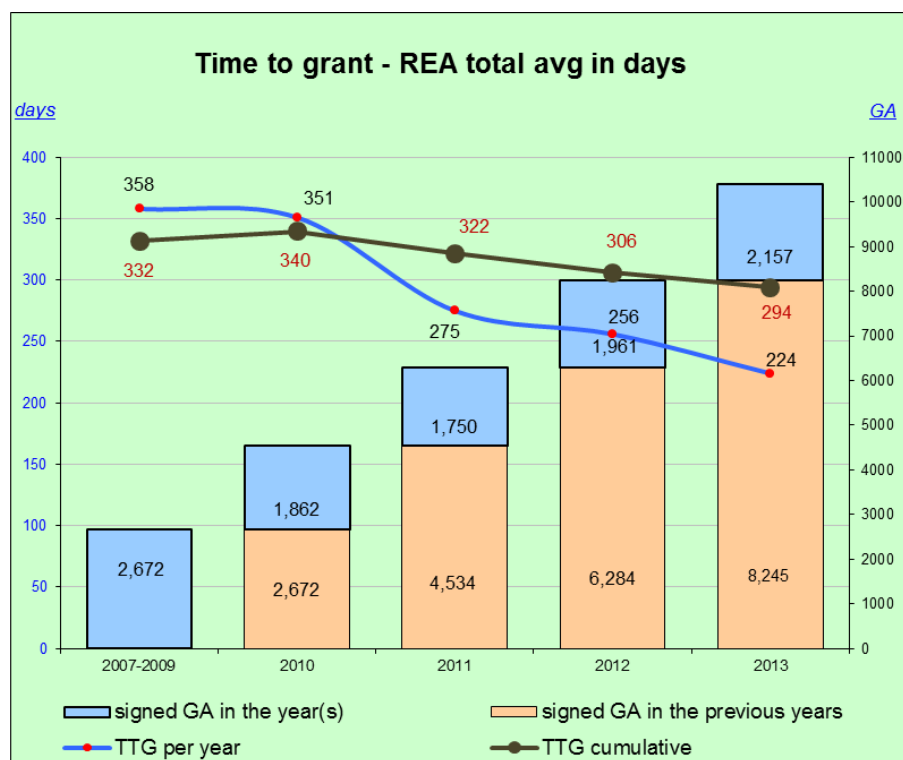
Table 12: Indicator - Financial impact of the negotiation process

	2011	2012	2013
Number of grant agreements signed	1,714	2,034	2,140
EU contribution requested in the proposals (in € million)	947.67	1,322.54	1,444.98
EU contribution provided on the basis of grant agreements signed (in € million)	937.20	1,307.19	1,432.91
% reduction	1.1%	1.2%	0.8%

Although the reduction of costs at this stage is not an objective, such reductions contribute to the achievement of the overall economy and efficiency control objective. The financial impact of the negotiation process is defined as the reduction (expressed as a percentage) of the EU contribution to the grant agreements as a result of the negotiation process. The 2013 average adjustment resulting from negotiation was 0.8%.

2.1.2.2.2 Time-To-Grant (TTG)

Figure 1: Indicator – “Time-To-Grant”



Another key indicator concerns the length of the time period between the closure date of the call for proposals and the date of the signature of the contract with the coordinator, the so-called “Time-To-Grant” (TTG). This is an important indicator of the efficiency and effectiveness of the negotiation process, and shows the progress made within the Agency. Participants, especially SMEs and Marie Curie fellows, want a quick answer to their proposals.

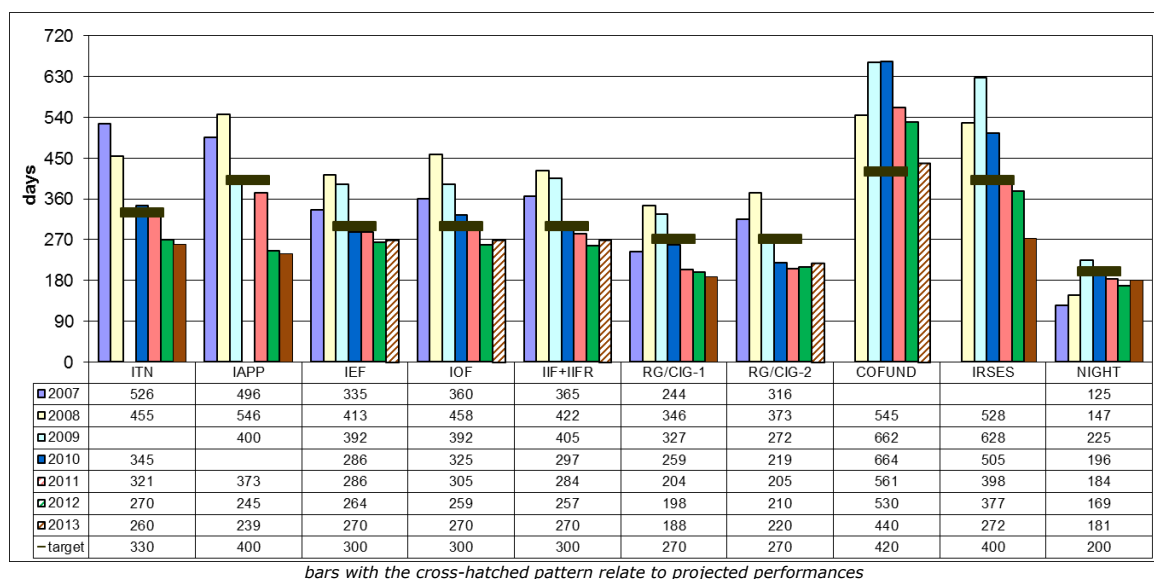
The overall TTG is mostly influenced by the length of the grant negotiations. Throughout FP7, the REA has been gradually reducing the time for grant negotiations (with the

exception of the time taken for grant negotiation and signature of the grant agreement for the 2012 security call for reasons of shortages in payment appropriations detailed below).

Although the cumulative average TTG so far is 294 days, the average TTG for grants signed in 2013 is 224 days only. This demonstrates that – in global terms – the REA is prepared for reaching future targets on TTG set at 270 days under the new Financial Regulation³⁷ and at 240 days under the Rules for Participation for H2020 (applicable for calls in 2014). However, as further detailed below, the performance by programme and type of action varies significantly. Reaching the tighter deadlines in the future will require structural measures in terms of simplification, process design and intensified use of IT tools for which the REA is collaborating with other members of the research family (in the context of preparing for H2020).

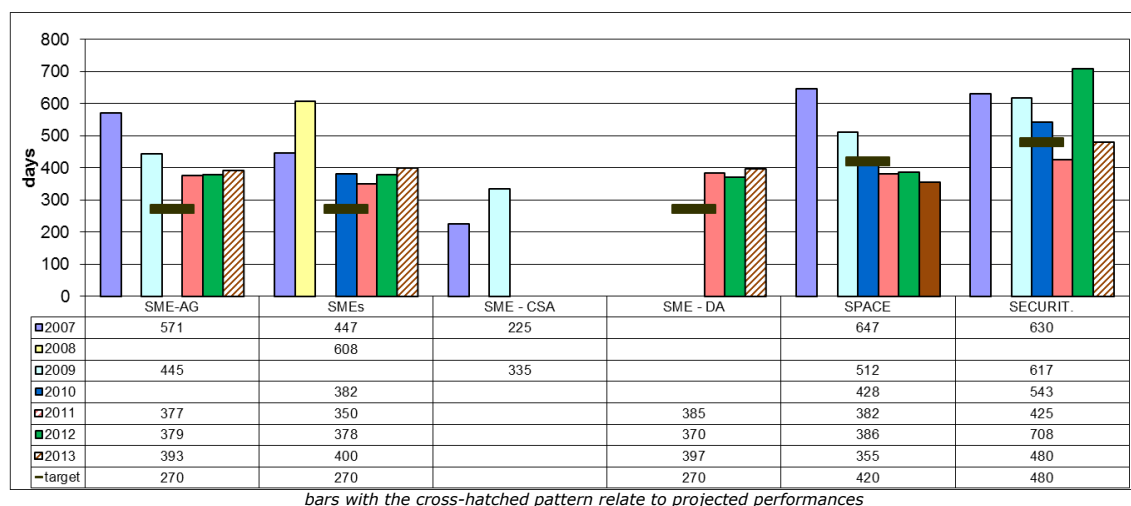
Throughout FP7, the REA has been measuring performance on TTG in calendar days from the call deadline to the date when 75% of the call budget (as outlined in the REA AWP) is implemented by means of grant agreements signed. Details on the REA's performance, broken down by programme/theme/action, are outlined in the two figures below.

Figure 2: TTG for calls under the People Programme



³⁷ The new Financial Regulation target of 270 days is applicable only for calls published as of 1 January 2013. For REA this implies that from all calls of 2013, only the IxF calls of the People Programme are subject to this target. The new targets provide for a maximum period of 6 months for informing the applicants on the outcome of the evaluation of their proposal and the award of the grant (only 5 months under the Rules for Participation for H2020) and an additional 3 months for grant finalisation and signature of the grant agreement. The REA is currently setting up more detailed monitoring arrangements that will allow for reporting on the overall TTG, broken down in these two stages, to allow for reporting in due time on performance against these targets. For the 2013 IxF calls, the deadline of 270 days for TTG will expire on 14 May 2014.

Figure 3: TTG for other themes/actions/calls managed by the REA



Towards the end of the year, the 2012 Security call reached the 75% measuring threshold with a TTG of 708 days. Despite the complexity of the funding scheme and additional procedures required before selecting projects (security scrutiny), the REA had been gradually reducing TTG for this action since the Agency's autonomy. However, for the 2012 call this was impossible due to the lack of payment appropriations. While negotiations progressed as planned, grant finalisation was put on hold at the selection or signature stage. This was because it had been agreed to sign grant agreements strictly in the order of the ranking list as long as there were uncertainties on the available payment appropriations to finance the initial pre-financing for all projects on the ranked list. As the lack of payment appropriations may persist in 2014, the REA and DG ENTR are working together on how to handle the situation in 2014.

The following figures show the TTG broken down by the various processing phases:

- Evaluation phase: time from call closure to the point when the ranked list is sent to the parent DGs (REA processing and, in case of the Security calls, this phase includes the ethics screening/review and the security scrutiny; the latter is under the responsibility of the parent DG);
- Inter-Service Consultation (ISC) phase: time relating to the ISCs (processing under the control of the Commission services); and
- Negotiation and finalisation phase: time from the closure of the ISC³⁸ to the point of reaching the target of 75% of grant agreements signed (negotiation by the REA project officers, consultation of programme committees and adoption of selection decisions by the parent DGs and the signature of grant agreements by the coordinators and the REA).

³⁸ For the Security call: based on the receipt of the notification from DG ENTR on the closure of the ISC and the list of projects to be managed by the REA.

Figure 4: TTG broken down by processing phases – People Programme

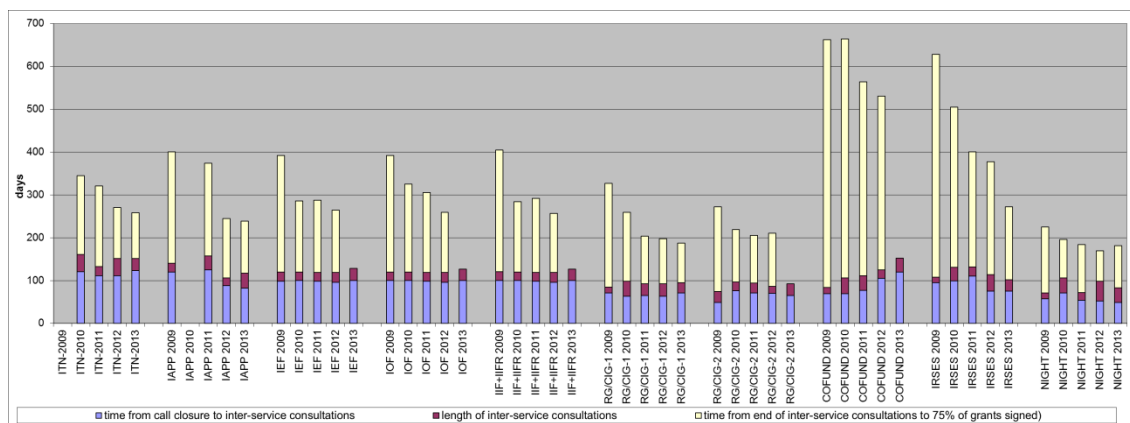
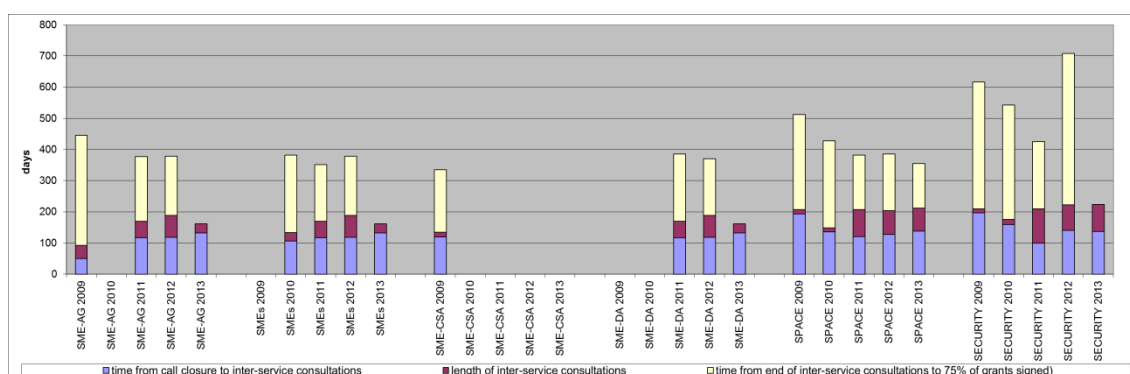


Figure 5: TTG broken down by processing phases – SME actions/Space and Security themes



Overall, the time for proposal evaluation and ISC is stable. The evaluation phase of the COFUND call was somewhat longer than in previous years due to the timing of the call as well as the fact that remote evaluation was used for the first time. The call deadline was in December just before the holidays and the remote evaluation phase lasted until February, when consensus meetings were held at the premises of the REA.

Table 13: Indicator – cost of control of stage 2 – conclusion of grant agreements

Total cost of control ³⁹	€7.02 million
Number of grant agreements finalised in 2013	2,157 ⁴⁰
Average cost of control for one finalised grant agreement	€3,255
Cost of control as a percentage of the value of signed grant agreements	0.45% ⁴⁰

While there are some financial benefits (as measured by the Indicator on the financial impact of the negotiation process listed above) from the controls implemented at the negotiation and grant agreement signature stage, cost-saving is not the main objective of this stage in the process. The main benefits gained during the negotiation stage are not quantifiable, being mainly related to assuring that excellent research is obtained in

³⁹ This includes the staff and IT costs.

⁴⁰ The number and value of the grant agreements finalised in 2013 derives from Table 1 and Table 3.

compliance with the legal framework.

2.1.2.3 Stage three: Monitoring of the grant agreement execution

The third stage concerns the supervision of the management of the project and the execution of the grant agreement. This stage comprises monitoring of the execution of planned project activities involving scientific expert reviewers and the ex-ante checks of participants' cost claims. These ex-ante checks include review of audit certificates on cost statements (established by external auditors), plausibility checks on declared costs on the basis of justifications on the use of resources provided in technical progress reports and the processing of financial transactions through the REA's financial circuits.

2.1.2.3.1 Execution of operational payment appropriations

Like in the previous years, the REA executed in 2013 100% of operational payment appropriations of the EU budget.

2.1.2.3.2 Time-To-Pay (TTP)

An important indicator is "Time-To-Pay" (TTP), which is defined as the percentage of payments made within deadlines set by the Financial Regulation.

Table 14: Indicator - Share of payments made on time

	2012	2013
Research grants – pre-financing payments	97.6%	96.8%
Research grants – interim and final payments	90.4%	94.2%

The results indicate a high compliance with the payment deadlines. The performance in 2013 remained in the range of the previous year for pre-financing payments and it somewhat improved for interim and final payments.

Table 15: Indicator - Average net and gross "Time-To-Pay" by type of expenditure

Expenditure type	Payments			
	Number	Average time to pay (calendar days)		
		Net	Suspension	Gross
Research grants				
Pre-financing payments (target = 20 days)	2,266	12.7	36.7	49.4
Interim and final payments (target = 90 days)	2,392	54.3	27.4	81.7
Administrative expenditure (target = 45 days)	1,671	25.9	1.7	27.6

Because of the good performances in terms of the high share of payments made on time, the average TTP, by type of transaction, remains significantly below the targets. However, the total time elapsed between the submission of the claim for payment and the transfer of funds by the Agency can be significantly longer, as delays resulting from requests from the REA for additional documents or clarifications are discounted from this net TTP. Pre-financing payments for grants financed under the People Programme are sometimes suspended due to the fact that the beneficiaries have the option to choose the starting date of the project some months after the entry into force of the grant agreement. The Agency, in collaboration with other members of the research

family, is planning to introduce a new process for the submission of claims (single submission – single rejection) by which coordinators need to take additional responsibilities in checking the completeness of cost claims prior to submission. This may further reduce the gross TTP.

2.1.2.3.1 Additional assurance from Certificates on Financial Statements (CFS)

Table 16: Indicator – Share of interim and final payments made with additional assurance from Certificates on Financial Statements (CFS)

Programme/theme/action	Total amount paid in 2013	Of which covered by a CFS (%)
People	419.55	10.4 %
SME actions	193.26	9.6%
Space and Security	221.30	28.8%
Total	834.11	15.1%

Certificates on financial statements are required for claims by beneficiary which during its participation in an FP7 project, exceed €375,000. Experience has shown that such certificates, which are provided by independent auditors appointed by the beneficiary and are to be submitted with the cost claim, do not provide a 100% guarantee on the legality/regularity of the declared costs. Nevertheless, they have a significant impact in reducing the risk of errors⁴¹.

2.1.2.3.2 Time to amend grant agreements

The following table demonstrates the average processing time for amendments (TTA-"Time-To-Amend") per programme implemented during the year and the share of amendments treated within the contractually-defined target of 45 days.

Table 17: Indicator – Amendments handled on time during the year

based on net TTA, for 2013	Number of amendment requests implemented on target (<=45 calendar days)	% of amendment requests implemented on target (<=45 calendar days)	Number of amendment requests implemented with a delay (>45 calendar days)	% of amendment requests implemented with a delay (>45 calendar days)	Total
People	1,897	92%	163	8%	2,060
SMEs	204	82%	45	18%	249
Space and security	127	84%	24	16%	151
REA - all activities	2,228	91%	232	9%	2,460

The table demonstrates that 91% of amendment requests received by the REA were implemented on target.⁴²

⁴¹ Audits on cost claims with CFS have on average an error rate amounting to only 50% of that found under cost claims with no CFS, which demonstrates the deterrent impact of this control.

⁴² This new indicator was introduced by the REA in 2013 and no target was set in the 2013 AWP. Considering that a fully-fledged monitoring, providing a basis for corrective actions and improvements, has been introduced only in 2013, the timely implementation of 91% of amendment requests can be considered as a favourable performance at this stage. The REA will continue focussing on the matter and making efforts for further improving its performance in this area.

2.1.2.3.3 Cost of control of monitoring the execution of the grant agreement

Table 18: Indicator – cost of control of stage 3 – monitoring of the execution of the grant agreement

Total cost of control ⁴³	€18.86 million
Number of grant agreements running on 31 December 2013	7,129
Average cost of control for one running grant agreement	€2,646

2.1.2.3.4 Average number of projects managed by a REA staff member

Table 19: Indicator – average number of projects managed by a REA staff member in operational programme management units

Total number of running projects on 31 December 2013	7,129
Number of staff in operational programme management units	337
Average number of projects by staff member in operational units (project officers and support staff) ⁴⁴	21

2.1.2.3.5 Benefits of ex-ante controls during the project

Table 20: Indicator – benefits of the control - financial impact of ex-ante controls

	in € million
Total EU funding requested	868.84
Total EU funding accepted after ex-ante controls	837.11
Total financial impact of the restrictions imposed by the funding limits in the grant agreement	26.07
Total financial impact of ex-ante controls during the project	5.66

The financial benefit of the control is lower than the total cost of control. However, this quantified financial impact of ex-ante controls is likely to be significantly understated. Many cost claims and associated information are corrected by beneficiaries after comments from the REA staff without formal registration. By submitting and registering corrected cost claims, the REA is no longer able to monitor the full impact of its ex-ante controls. In 2014 this will be resolved with the introduction of the 'single submission' IT tool. There is a certain financial benefit from ex-ante controls but this remains somewhat limited due to the design of the programmes (in particular the limited reporting requirements on declared costs) with high reliance on ex-post controls as part of the overall control framework. The ex-ante controls also act as a deterrent to potential non-compliance of beneficiaries with FP7 rules and the impact of the stringent controls applied by the REA when processing payments and approving deliverables cannot be quantified.

In addition, a significant part of the controls relate to the analysis of scientific deliverables to ensure excellent science, provide assurance that the projects are running

⁴³ Including staff costs, IT, communication, mission and evaluation platform costs and costs of reviewers. For further details, please refer to Section 2.1.5.

⁴⁴ The number varies considerably depending on the action and the complexity of projects (i.e. staff working on People Programme tend to have a significantly higher number of projects than staff in Space and Security).

as intended and allow the Agency to provide appropriate feedback to policy development. Such benefits are qualitative and cannot be quantified in financial terms. Furthermore, this process enables the projects that are not running well to improve their performance. The project review process has certainly contributed to the high share of projects (94%) that have met all or most of their objectives in 2013 (as reported under KPI 4).

2.1.2.4 Stage four: Ex-post controls and recoveries

The fourth stage includes the ex-post controls as well as the recovery of any amounts found to have been paid in excess of the amount due.

Detailed ex-ante controls represent a considerable administrative burden on beneficiaries and the Agency, as they require the transfer of large amounts of information and detailed checking. This has a negative impact on the TTG and TTP. Key stakeholders (the research community, the European Parliament and Council) have been concerned about the administrative burden imposed by the FP7 managing services and have requested a re-balancing of trust and control. For this reason the REA and the Commission services have deliberately reduced their level of ex-ante control (whilst respecting the requirements of the Financial Regulation) and have decided to obtain most of the assurance from ex-post controls.

2.1.2.4.1 Resources used for ex-post controls and recoveries

The main legality and regularity indicator is the error rate detected by ex-post audits.

Since 2007, the research services have adopted a common audit strategy intended to ensure the legality and regularity of expenditure on a multi-annual basis including detecting and correcting systematic errors. The audits examine only interim and final claims by beneficiaries. Transactions relating to pre-financing are not included in the population subject to audit. Because of its multi-annual nature, the effectiveness of the control strategy can only be fully measured and assessed in the final stages of the Framework Programme, once the ex-post control strategy has been fully implemented and systematic errors have been detected and corrected.

Up to 2011, each Authorising Officer by Delegation (AOD) involved with implementing the research budget established a representative error rate for his/her own portion of the budget. This led to considerable planning constraints and multiple audits of the same beneficiaries by different services.

Therefore CRaS was introduced in 2012 across the research family. This reduced the audit burden on beneficiaries by reducing the number of repeat audits whilst continuing to provide a representative view of the implementation of FP7. As a result, the total number of planned audits could be reduced by 1,291 for the research family as a whole and by 85 for the REA specifically.

The CRaS aims at estimating the overall level of error in FP7, across all the services involved in its management, provided that the risk profile of the schemes implemented is similar to the Cooperation-type of projects which represent the majority of the projects included in the CRaS. It is complemented by 'risk-based' audits, i.e. audits

selected according to one or more risk criteria.

Risk-based audits are directed to projects, selected on the basis of a careful assessment of indicators pointing to an evident risk of errors in the management of the projects (including 'red flags' used to target cases of fraud). Generally, SME participants are more prone to error. As such, the schemes where the SMEs are represented more prominently (including those of the People Programme, like IAPP) are also more regularly subject to risk-based audits.

The strategy emphasises also the audits of top beneficiaries, e.g. audits on beneficiaries participating for significant amounts of EU funding. 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.

Table 21: Indicator - Resources used by the REA for ex-post controls/audits

	2012	2013
Internal resources for ex-post audits and supervision of outsourced ex-post audits	8.5 FTE / € 589,211	8.5 FTE / € 649,005
Cost of externalised auditing	€ 1,223,100	€ 1,061,500
Cost of collaboration by operational units in preparing ex-post audits and implementing corrections/recoveries	€ not available	€ 568,889
Total cost of ex-post control	€ not available	€ 2,279,394

The total costs of ex-post control, including the management and support staff, and staff implementing the audit adjustments (e.g. implementing recovery orders) amounts to € 2.28 million.

2.1.2.4.2 Implementation of the audit strategies and plans

The REA 2013 Ex-post Audit Plan (complementing the common audit strategy) provided for the planning of ex-post audit resources for the year. As there was no new CRaS drawn for 2013, available audit resources could focus exclusively on the other two strands and, more than in previous years, these resources were directed to risk-based audits (compared to 2012 the share of risk-based audits increased from 16% to 71% of the total audits planned).

The risk-based audits target schemes or type of beneficiaries for which a higher risk profile has been identified. In this context, most of the risk-based audits launched in 2013 are directed towards the SME actions and the Space and Security themes of the Cooperation Programme for which a reservation was made in the 2012 annual declaration. Considering the low inherent risk of the People Programme, the overall share of risk-based audits on the projects of the Programme is lower. However, the IAPP and ITN schemes have a frequent participation of SMEs, which are more prone to errors. Accordingly, the majority of risk-based audits launched on People Programme projects concern these two schemes.

The table below gives an overview of the audit activity performed by the REA by the end of 2013.

Table 22: Indicator - Overview of ex-post audit activity for the period 2009-2013

No. of audits	No. of audits planned	audits launched*	of which	
			preliminary findings available	finalised
2013				
joint audits with the ECA	0	0	0	0
risk-based	60	61	19	11
TOP beneficiaries	25	29	20	7
random sample	0	0	0	0
GRAND TOTAL	85	90	39	18
2009-2013				
joint audits with the ECA	2	9	0	9
risk-based	99	93	21	41
TOP beneficiaries	151	166	30	134
random sample	73**	71	2	69
GRAND TOTAL	325	339	53	253

* Based on the announcement letters sent to the auditees.

** The 73 transactions in the random sample include 12 transactions selected as part of the CRaS 2012.

By the end of 2013, 90 audits were launched, some 5 more than the target of 85 audits set at the beginning of 2013.

In total 325 audits were launched from 2009 to 2013, relating to a total of 671 projects. This can be further detailed by programme/theme as presented below.

Table 23: Indicator - ex-post audit activity undertaken for the period 2009-2013 – number of projects by programme/theme/actions

2009-2013	Audits launched - no. of projects	of which	
		preliminary findings are available	audits are finalised
People (DG EAC)			
joint audits with the ECA	4	0	4
risk-based	42	20	11
TOP beneficiaries	257	38	218
random sample	21	0	21
TOTAL	324	58	254
SME (DG RTD)			
joint audits with the ECA	1	0	1
risk-based	43	7	15
TOP beneficiaries	37	9	27
random sample	34	2	32
TOTAL	115	18	75
Space & Security (DG ENTR)			
joint audits with the ECA	4	0	4
risk-based	64	9	30
TOP beneficiaries	147	36	107
random sample	17	0	17
TOTAL	232	45	158
REA TOTAL			
joint audits with the ECA	9	0	9
risk-based	149	36	56
TOP beneficiaries	441	83	352
random sample	72	2	70
GRAND TOTAL	671	121	487

The 487 projects for which the audits were finalised relate to a total of 617 audited cost claims.

Table 24: Indicator – direct and indirect coverage provided by the ex-post audits performed

Programme/theme/action	Direct coverage - % of total population*	Indirect coverage** - % of total population	% of total population
People	4%	79%	83%
SMEs	1%	6%	8%
Space & Security	8%	56%	64%
REA total	4%	55%	59%

*period requested contribution (%) audited by the REA

** non-audited share of participants audited by the REA and other Commission services

In terms of budget coverage some 59% of the population of the actions delegated to the REA were audited. A large part of the population was covered indirectly, through extrapolations of audit results. This also reflects the strategy of the research services to reduce the audit burden for the beneficiaries/the introduction of the CRaS.

The low indirect coverage of the SME actions is due to the fact that many of the SME beneficiaries participating in the scheme are non-repeat beneficiaries in FP7 as mentioned in Section 2.1.1.2. Nevertheless we can give some consideration to the fact that many RTD performers are offering their services to several one-off SME

participants. The REA's audits of some beneficiaries provide assurances on the performance of these RTD performers that has relevance to a significant share of the programme's budget.

Table 25: Indicator - Legality and regularity of financial spending by programme - Overview of error rates for the period 2009-2013 by 31 December 2013

Space and Security				Research for the benefit of SMEs				People			
	no. of audits	no. of cost claims	error rate		no. of audits	no. of cost claims	error rate		no. of audits	no. of cost claims	error rate
Joint-ECA audits	4	4	-4.96%	Joint-ECA audits	1	1	-0.82%	Joint-ECA audits	4	4	-1.37%
Risk-based	21	34	-6.27%	Risk-based	8	21	-20.26%	Risk-based	9	10	-16.63%
based on the Common Representative audit Sample (CRaS) - finalised audit reports*				based on a random selection (incl. TOP beneficiaries) - finalised audit reports				based on a random selection (incl. TOP beneficiaries) - finalised audit reports			
Representative error rate	143	156	-4.14%	Detected error rate	42	76	-5.30%	Detected error rate	97	251	-1.43%
Residual error rate			-2.84%	Residual error rate			-5.19%	Residual error rate			-1.30%
*The level of completion for the CRaS is 96%.				based on a random selection (incl. TOP beneficiaries) - finalised and draft audit reports				based on a random selection (incl. TOP beneficiaries) - finalised and draft audit reports			
				Detected error rate	48	94	-5.93%	Detected error rate	111	301	-1.40%
				Residual error rate			-5.80%	Residual error rate			-1.26%

Based on the expected increasing trend in the error rate for the SME activity when draft audit results are taken into account, we retain an error rate of 6% as reference for building assurance in other parts of this report.

Different error rates are calculated to provide a comprehensive view of legality and regularity by programme:

- CRaS error rate:

This is the error rate derived solely from the results of audits on a representative sample of participations and is used to estimate the error rate in the total population by statistical extrapolation. This error rate provides an estimate of the level of error in FP7 at the time of the audits but does not give any consideration to the follow-up and corrections/recoveries undertaken by FP7 managing services after the audit, nor of the net final financial impact of errors. This error rate is calculated for FP7 as a whole.

Based on 156 cost statements for which the audit is completed (96% out of a sample of 162), this error rate is 4.14%. The remaining cases are still subject to contradictory procedures with the beneficiaries. Consequently, the CRaS error rate may still develop. Based on the preliminary results of audits that are not yet closed it is estimated that this error rate will finish at around 5%. The CRaS error rate is in a similar range than the one referred to in the Financial Statement accompanying proposals for H2020 (between 2% and 5%), considering that H2020 will bring further simplifications, for example, the indirect flat rate or firmer requirements for time recording.

The CRaS error rate obtained is fully representative for the Space and Security themes of the Cooperation Specific Programme, since the error rate predominantly

reflects the errors encountered in the mainstream Cooperation Specific Programme projects.

- Detected error rates⁴⁵ on randomly selected audits:

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 cannot be used as a basis of estimating the risk exposure in terms of legality/regularity errors in the underlying transactions. For further clarification on this, please refer to Section 2.1.1 as well as the explanation provided below.

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 beneficiaries (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, 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 selection⁴⁶. 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

⁴⁵ The detected error rate takes into account audited transactions that were part of the CRaS and were financed from these REA managed programmes, all previous randomly selected audits launched by the REA since the start of FP7 and audits performed on the strand of top beneficiaries. The error rate is calculated as a percentage deviation between the sum of accepted costs before audit (for all transactions that are part of the perimeter) and the sum of accepted costs after audit (i.e. error rates are weighted by the size of the transaction).

⁴⁶ 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.

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 76 and 251 cost statements, for SME actions and the People Programme respectively.

The error rate obtained for SME actions is somewhat higher from the one of the CRaS – 5.30% (or 5.93% when including also draft audit reports). Moreover, the specific design of the action needs to be taken into account. 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) where errors are frequent. As such, the error rate obtained on this part of the declared costs is estimated to be considerably higher than the one detected at the level of a project as a whole⁴⁷. The SME scheme is also prone to errors relating to a lack of accounting by SMEs for the costs of subcontracting to RTD performers. This amounts to approximately 8% of the budget of the SME actions. This is explained in further detail in Section 4.1.

The detected error rate of the People Specific Programme is only 1.43% and corroborates management's assessment of low inherent risk for this scheme.

- Residual Error Rate:

The CRaS error rate (for Space and Security) or the detected error rate for the People Programme and SME actions are subsequently used as a basis for estimating the residual error rate. The residual error rate, on a multi-annual basis, is the extrapolated level of error remaining after corrections/recoveries undertaken by Commission services following the audits that have been made. The calculation of the residual error rate is based on the following assumptions:

- (1) all errors detected will be corrected;
- (2) all participations subject to extrapolation of systematic errors detected in audited participations to non-audit participations of these audited beneficiaries are considered clean from systematic material errors (i.e. assuming all extrapolations will eventually be implemented);
- (3) the residual error rate for participations subject to extrapolation is estimated to be equal to the non-systematic error rate.

The residual error rate develops over time and depends on the assumptions set out above.

⁴⁷ If the overall error rate obtained for the ABB activity is considered only in relation to the part of costs incurred by SME beneficiaries for their own activities, this amounts to 16.56% (5.30/32).

The REA would like to underline that this indicator is reliable and acceptable for the purposes for which it was intended, e.g. as a legality and regularity indicator on the progress made, through its ex-post strategy, in dealing with errors over a multi-annual basis.

At this point in time, the residual error rate is at 2.84% for Space & Security themes (based on the CRaS error rate), estimated at 6% for SME actions and 1.26% for the People Specific Programme (the latter two based on the detected error rate), assuming that all extrapolations will eventually be implemented. As demonstrated in Table 27, the implementation of extrapolation cases is well advanced; by the end of 2013 only some 7% of the cases were pending implementation, while some 6% were under analysis to conclude whether they at all concern systematic errors.

For further details on the calculation of the residual error rate please refer to Annex 4.

- Net Financial Impact of Errors:

Not every error of legality and regularity leads to a financial loss to the EU. This is because many participants incur expenditure going above the budget set in the grant agreement and such 'surplus' expenditure is not funded. Ineligible expenditure identified during an audit for a project that ran over budget may therefore have no effect on the EU contribution to be paid. This indicator is an estimate of a reduced financial impact from legality/regularity errors in cost claims for the population of contracts closed to date.

The net financial impact of errors is not directly used in reaching an assessment of the level of error in FP7 (as set out in annex 4). However, it is an important result for arriving at a balanced picture of the management of the Framework Programme.

The net financial impact of all errors cannot be estimated on an exhaustive basis by the REA. However, an analysis was performed by DG RTD on the basis of a sample of 1,552 closed projects. Its analysis indicates a Net Financial Impact of Errors which is about half of the CRaS error rate. A comparable impact on the REA error rates can be expected.

The rate of error identified by the ECA is in a similar range. Although the residual error rate may further reduce due to the effects of further audits and recovery actions that will be undertaken in the years to come, and although the REA has an action plan to address some causes of errors, it is already clear that the target of a maximum residual error rate of 2% cannot be attained without a massive increase in the number of audits, or a considerable increase in the administrative burden imposed on participants through widespread ex- ante controls.

2.1.2.4.3 [Error rates in the context of political and policy orientations](#)

As it was stated in the Financial Statement accompanying the H2020 proposals, further

attempts to achieve this target may cause a number of unexpected and/or undesirable side-effects. Among beneficiaries and the legislative authorities, there has been a strong feeling that the control burden has become excessive. This increases the risk of lowering the attractiveness of the EU's Research programme, thereby negatively affecting research and innovation in the EU.

The European Council of 4 February 2011 concluded that:

"it is crucial that EU instruments aimed at fostering R&D&I be simplified in order to facilitate their take-up by the best scientists and the most innovative companies, in particular by agreeing between the relevant institutions a new balance between trust and control and between risk taking and risk avoidance". (see EUCO 2/1/11 REV1, Brussels 8 March 2011)

The European Parliament – in its Resolution of 11 November 2010 on simplifying the implementation of the Research Framework Programmes – explicitly supported a higher risk of errors for research funding and:

"expresses its concern that the current system and the practice of FP7 management are excessively control-oriented, thus leading to waste of resources, lower participation and less attractive research landscapes; notes with concern that the current management system of 'zero risk tolerance' seems to avoid, rather than to manage, risks".

There is, therefore, an acceptance among stakeholders and institutions that the current approach needs to be reviewed. There are other objectives and interests, especially the success of the Union's research policy, international competitiveness, and scientific excellence, which should also be considered. At the same time, there is a clear need to manage the budget in an efficient and effective manner, and to prevent fraud and waste.

Taking these elements in balance, and in the light of the results of the FP7 audit campaign, the REA considers that its overall control strategy ensures that trust, control and other policy objectives are kept in balance. Aiming to achieve a residual error rate of 2% at all costs is not a viable approach.

For this reason, Article 23 of the new proposal for the H2020 Regulation explicitly states that:

"The control system shall ensure an appropriate balance between trust and control, taking into account administrative and other costs of controls at all levels, so that the objectives of Horizon 2020 can be achieved and the most excellent researchers and the most innovative enterprises can be attracted to it".

It also states that audits of expenditure on indirect actions shall be carried out in a coherent manner "to minimize the audit burden for participants".

2.1.2.4.4 Conclusions from findings from ex-post audit activities with respect to the annual declaration of assurance

The estimated residual error rate for the Space and Security themes, and the Research for the benefit of SMEs actions, goes beyond the materiality criterion of 2% and the REA repeats its reservations for these two programmes previously made in the context of the AAR 2012.

As highlighted above, the residual error rates for the SME actions and the People Specific Programme are not based on representative samples offering full statistical precision. They are nevertheless based on detected error rates, excluding transactions selected on the basis of a risk assessment as these would introduce a bias. These error rates are to be considered in the light of additional information available to management, including its own assessment of inherent risks and results from ex-ante controls.

For the SME actions, REA management considered also the following issues:

- DG Research and Innovation, through its analysis of audit results under FP6 and FP7, identified error rates for SMEs that are on average twice as high compared to errors for other participants;
- the specific design of the SMEs scheme, where a large part of the expenditure goes towards financing of the subcontracts with RTD performers for a contractually defined fee and based on a technical review of conformity of the work performed, implies that on average 68% of grants related to lump-sum financing with virtually no risk for legality/regularity (with the exception of the issue listed below);
- the SME scheme is characterised by many new beneficiaries which participate on a one-off basis. Experience has shown that new participants in FP7 have a higher error rate than those who participated in earlier FPs;
- many SMEs declare costs for subcontracting to RTD performers but fail to record these costs correctly in their accounts. Also on this aspect, a formal reservation was made in the AAR 2012. In the third quarter of 2013 the REA raised specific attention to this requirement amongst all beneficiaries and it is planning to follow up on this matter by additional desk-checks and ex-post audits to verify the effective take-up of the recommended corrective actions. The IAS audit on REA's FP7 control systems also addresses great importance to this issue.

For the People Specific Programme, the estimated residual error rate of 1.26% remains well below the materiality level of 2%. This corresponds to the low inherent risk of the scheme, which is characterised by an extensive use of flat rates, the absence of the concept of average personnel costs and a standard 10% flat rate for contributions to indirect costs. Similar to the AAR 2012, the REA has obtained reasonable assurance that the error rate in funding provided under the People Specific Programme remains below the 2% materiality level.

2.1.2.4.5 Expected development of error rates in the future

As was reported in the 2012 AAR, a modification of the FP7 legal framework is no longer an option. However, experiences in auditing FP7 participations have provided input to many improvements proposed in the legislation and rules for H2020. For example, one of the drivers for a flat rate of indirect costs was the regular identification of errors in the use of real indirect costs, and the understanding of the complexities of real indirect costs for participants.

SME participations and participations of newcomers are crucial for the success of FP7, both in reaching the 15% policy target for SME participation and the objective of widening participation. Consequently, the research family needs to concentrate its communication and guidance efforts on these participants. The services responsible for research will continue to provide guidance to beneficiaries and certifying auditors, and will continue their control and audit operation, including recovery and extrapolation of errors to non-audited contracts wherever appropriate. This should have some effect on the error rate, particularly in lowering the residual error rate, but will not provide fundamental changes. A second CRaS will be drawn in 2014 to provide another estimate of the representative error rate. It is hoped that the learning effect from the first audits will have some effect, but this is unlikely to be substantial.

Overall, the detected error rate in FP7 audits for the SME actions can be expected to remain between 5-6%, with the residual error rate reducing only marginally over the course of the programme. For Space and Security actions the CRaS error rate can also be expected to remain around 5% with the residual error rate reducing to some 3.5%.

2.1.2.4.6 Implementation of FP7 audit results – including extrapolations

Table 26: Indicator – Implementation of the REA ex-post audit results during 2013 – adjustments in favour of the EU budget – financial benefits of the control⁴⁸

Year of audit closure	Audit adjustments for which implementation is pending on 1 January 2013		New audit adjustments during the year		Audit adjustments implemented during the year		Audit adjustments for which implementation is pending on 31 December 2013	
	No. of projects	Funding adjustments (in €)	No. of projects	Funding adjustments (in €)	No. of projects	Funding adjustments (in €)	No. of projects	Funding adjustments made (in €)
2009-2011	2	6,517	1	17,266	3	23,783	0	0
2012	32	455,577	0	0	15	58,384	17	397,194
2013	0	0	79	2,845,972	32	410,734	47	2,435,239
TOTAL	34	462,095	80	2,863,238	50	492,901	64	2,832,432

The number of audit adjustments handled increased considerably during the year. The number of audit adjustments pending implementation increased by 30, while the number of cases implemented stayed largely in the range of the previous year. Following the IAC audit on the REA's ex-post audits the REA Audit Guide, which provides

⁴⁸ The opening balance has been increased by €33,427 from the closing balance of 2012 due to the correction of an error in a letter of conclusion issued in 2012.

instructions for the implementation of adjustments, will be reviewed, in view of putting in place arrangements which will accelerate the process and consequently increase the share of implementation.

Table 27: Indicator – Implementation of extrapolation of systematic errors to non-audited participations of audited beneficiaries for the period 2009-2013 – financial benefits of the control

Audit closing year	No. of projects with extrapolation by the end of the year			Implemented cases in favour of the EU budget by the end of the year		No. of cases still to be implemented by the REA	No. of cases where no correction is required	No. of cases under analysis
	Deriving from REA audits	Deriving from non-REA audits	Total	No. of projects	Funding adjustments (€)			
2009-2011	7	32	39	4	5,383	1	33	1
2012	47	219	266	29	86,352	2	230	5
2013	51	336	387	31	359,811	47	276	33
TOTAL as of 31 December 2013	105	587	692	64	451,546	50	539	39
TOTAL as of 31 December 2012	39	268	307	25	73,737	22	230	29
Change compared to the previous year	66	319	385	39	377,809	28	309	10

By the end of the year, 692 REA projects were subject to extrapolation. The number of projects impacted by extrapolation is high and increased considerably during the year; however, the number of cases under analysis remained relatively stable, as efforts have been made to respond to beneficiaries more quickly.

By the end of 2013, 64 cases had been implemented and for 50 cases the implementation was outstanding (some 94% of these open cases deriving from audits closed in 2013). A significant improvement in the implementation of adjustments in 2013 can be noted. In total, 39 cases were implemented during the year, representing 61% of the implementations done in the period 2009-2013. For 539 cases, no corrections were required (e.g. when findings are not relevant for the action, no cost claims were processed yet by the REA to which extrapolation would apply).

Table 28: Indicator - Adjustments for REA audits and extrapolation cases fully implemented in 2013 and over the period 2009-2013 – by implementation mode⁴⁹

Implemented during the year	Offsetting from payments (no. of cases)	Recovery orders made (no. of cases)	Reversed clearing method (no. of cases)	TOTAL
audit closing year				
2009-2011	1	1	1	3
2012	18	3	1	22
2013	42	17	5	64
TOTAL	61	21	7	89

Implemented in the period 2009-2013	Offsetting from payments (no. of cases)	Recovery orders made (no. of cases)	Reversed clearing method (no. of cases)
audit closing year			
2009-2011	42	14	1
2012	68	8	4
2013	42	17	5
TOTAL	152	39	10

⁴⁹ The reverse clearing method refers to an implementation mode that may be applied in cases where EU funding, calculated on the basis of declared costs, was not fully reimbursed (because of reaching a contractually defined ceiling for interim payments) and whereby part of the pre-financing previously paid was cleared. Where, following ex-post controls, part of that EU funding is no longer justified, the REA can implement the correction by reversing all or part of the clearing of pre-financing.

The table demonstrates adjustments fully implemented by the end of the year by giving information on the implementation mode applied. In addition to the cases deriving from the audits (50), adjustments relating to extrapolations⁵⁰ have been included (39).

2.1.2.4.7 Liquidated damages

The follow-up of liquidated damages deriving from audit results is done independently by means of recovery orders addressed directly to the audited beneficiary. The table below gives an estimate of the number of projects for which liquidated damages are or will be implemented.

Table 29: Indicator – Implementation of liquidated damages for the period 2009-2013

Audit closing year	Cases implemented (by recovery order) 2009-2013	Total amounts recovered 2009-2013	Estimated no. of cases undergoing assessment as of 31 December 2013
2009-2011	15	55,424	3
2012	12	58,384	10
2013	5	2,742	42
TOTAL	32	116,550	55

Liquidated damages have a relatively low financial impact. Therefore, in line with the IAS recommendations, the REA decided to apply, in addition to liquidated damages, also financial penalties in cases of fraud. The impact deriving from this measure will become notable from 2014 onwards.

2.1.2.5 Indicators relating to FP7 Support Services

The FP7 support services, in particular the validation services, the financial viability checks (FVCs) and the support in expert contracts and payments, offer benefits to all FP7 managing services.

Table 30: Indicator - Share of expert payments made on time (limited to experts supporting the REA managed programmes)

	2012	2013
Experts with appointment letters (target = 30 days)	98%	69%
Experts' payment files collected at the end of the panel	95%	94%

For payments to experts, the REA temporarily experienced difficulties in the months of March and April (due to an unanticipated high turn-over and unavailability of staff). As large numbers of payments were made during this period, the impact on the yearly

⁵⁰ Extrapolation cases refer to audit findings with respect to errors which are considered as systematic and therefore likely to impact also on non-audited participations of the audited participant. The audit strategy aims at maximising the corrective impact of audits by proposing to the beneficiaries to apply corrections of systematic errors on all their participations.

result is significant. As a result, only 69% of payments to experts were made on time. The situation was quickly addressed with new appointments and the REA regained its excellent TTP performance for expert payments (i.e. 99.5% of payments of the second semester were made within the deadlines).

Table 31: Indicator - Average net and gross TTP by type of expenditure

Expenditure type	Payments			
	Number	Average time to pay (calendar days)		
		Net	Suspension	Gross
Experts with appointment letters	5,051	26.3	1.3	27.6

The average net and gross TTP are below the contractual target of 30 days, thereby implying that the above-mentioned delays were limited. Also the overall suspension time is minor.

Table 32: Indicator – Time to validate URF validation requests

	2012	2013
A degree of satisfaction of the client services in the DGs	A satisfaction survey was performed in 2012, confirming a high degree of satisfaction.	
To perform a duplicate search and contact 100% of participants within three working days from the moment the participants linked to a call appear in PDM with the right priority	N/A ⁵¹	100%
To validate on average 35% of the participants linked to a call within 15 working days	N/A ⁵¹	58%
To validate on average 60% of the participants linked to a call within 30 working days and send systematic reminders to non-respondents	N/A ⁵¹	87%

The performance of the validation services is favourable and target deadlines for validations have been fully respected.

Table 33: Indicator - Timely handling of requests to the enquiry service

	2012	2013
Direct questions through the enquiry service answered or forwarded within 8 days with an average of 3 working days.	100% of questions answered within 8 working days (97% within 3 working days)	99% of questions answered or forwarded within 8 working days (96% within 3 working days)

⁵¹ The indicator was newly introduced in the AWP 2013 and performance for the year could not yet be measured.

100% of questions answered within 15 working days	98% answered within 15 working days	93% answered within 15 working days
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The support services assist almost all services managing the FP7 in achieving their objectives but this activity has no direct impact on the REA's overall assurance with respect to its programme implementation tasks and budgetary spending.

2.1.3 Fraud prevention and detection

The REA has developed its Anti-Fraud Approach (AFA) as required by the Commission's overall Anti-Fraud Strategy (CAFS)⁵² and in line with the 2012 Common Anti-Fraud Strategy for the Research family (RAFS). The approach was adopted in October 2013.

While the CAFS and RAFS remain key strategic documents for antifraud activity in the REA, the main purpose of revising the REA AFA was to take concrete measures addressing risks that are particularly relevant for the actions managed by the REA.

The REA AFA is accompanied by an action plan and some of these actions were already implemented by the time the REA AFA was formally approved by the Steering Committee in October 2013.

The REA AFA provided for the establishment of an anti-fraud team. This team, which became operational in September 2013, will strengthen the fraud prevention and detection activities in the REA and boost the cooperation with the Commission services, including OLAF.

The anti-fraud team is supported by antifraud correspondents in each unit who operate as the focal contact points for the implementation of fraud prevention and detection activities. Their duties include the follow-up on cases under investigation for suspicion of fraud, exchange of good practices and awareness-raising activities.

Training sessions for project officers and financial officers to support their detection of anomalies at an early stage were organised in collaboration with OLAF during 2013⁵³ and they will continue throughout 2014.

The implementation of the action plan will be accelerated following the recommendations from the IAS audit. The remaining outstanding actions will be performed in collaboration with the Common Support Centre (CSC) of DG RTD which started its operations on 1 January 2014. Progress on the actions is well advanced and the last outstanding actions, which involve the identification of appropriate IT tools developed to support fraud prevention and detection and the drafting of internal guidance documents, will be completed in the first quarter of 2014.

⁵² COM(2011) 376 of 24 June 2011.

⁵³ In 2013, 61 staff members attended the courses.

The REA provides to the parent DGs and the Steering Committee quarterly updates on cases which are under OLAF investigations.

Table 34: Indicator – Number of open OLAF cases relating to participations managed by the REA

Number of pending OLAF cases on 1 January 2013	15
New OLAF cases reported in 2013 and retained by OLAF for further investigation	10
Cases for which OLAF concluded its investigations and issues its conclusions	3
Number of pending OLAF cases on 31 December 2013	22

Selected fraud risk schemes (such as double funding and plagiarism) were addressed in collaboration with the research DGs and assessed by counteracting measures. However, very few concrete results were obtained as a result of data mining controls and such fraud schemes remain very difficult to detect. By pooling resources in the Common Support Centre as of 2014, the research family may further improve the effectiveness of its fraud prevention and detection tools and the REA will fully collaborate in this endeavour in accordance with an IAS recommendation.

In 2014, the REA will update its AFA in view of possible changes to be introduced in the context of H2020.

2.1.4 Implementation of the control framework for the management of the administrative budget

2.1.4.1 Management's assessment of inherent risks for the implementation of the Agency's administrative budget

Some of the Agency's administrative budget for 2013 relates to "fixed" costs linked to salaries (processed with the support of PMO), rent and related building charges, various service level agreements for administrative support received from the Commission's horizontal services (e.g. DIGIT for IT network and related services, HR/PMO for salaries and security services, BUDG for the use of the Commission's accounting system) and the REA's contribution to common expenditure shared among the members of the research family (costs related to the central FP7 evaluation platform and costs for developing common IT applications).

The remaining budget relates to expenditure for ex-post audits, purchase of IT equipment and services, training, etc. Most of this expenditure is incurred by using framework contracts made available by the Commission (e.g. training, audits, IT equipment). The costs of staff going on missions are processed with the help of PMO and are reimbursed in line with the Commission's rules for reimbursement of mission costs.

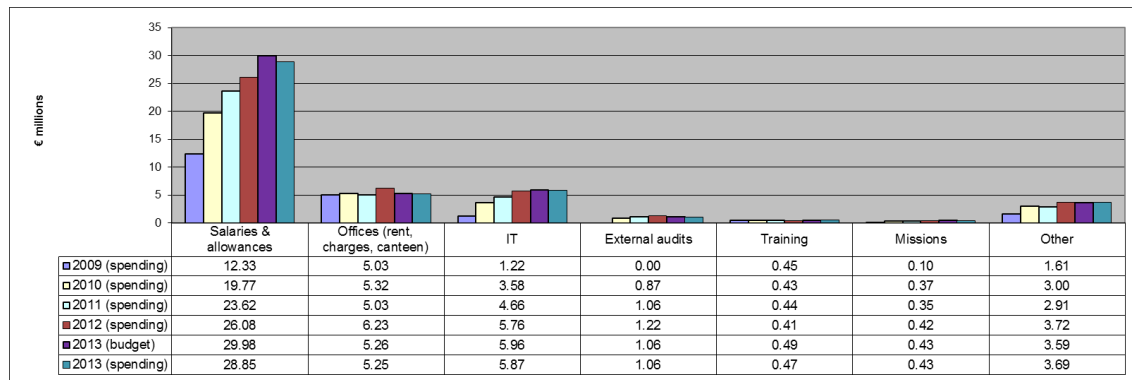
Over a number of years the ECA has provided a positive opinion on the execution of the REA's administrative budget.

For the reasons outlined above, the Agency considers the risks, in terms of legality/regularity, for the implementation of its administrative budget as low and therefore the Director did not express any reservation over the implementation of the administrative budget.

The sections below details the Agency's implementation of the administrative budget measures against performance indicators.

2.1.4.2 Execution of the 2013 administrative budget – commitments

Figure 6: Indicator – Spending of the 2013 administrative budget in commitment appropriations compared with the spending in the years 2009-2012

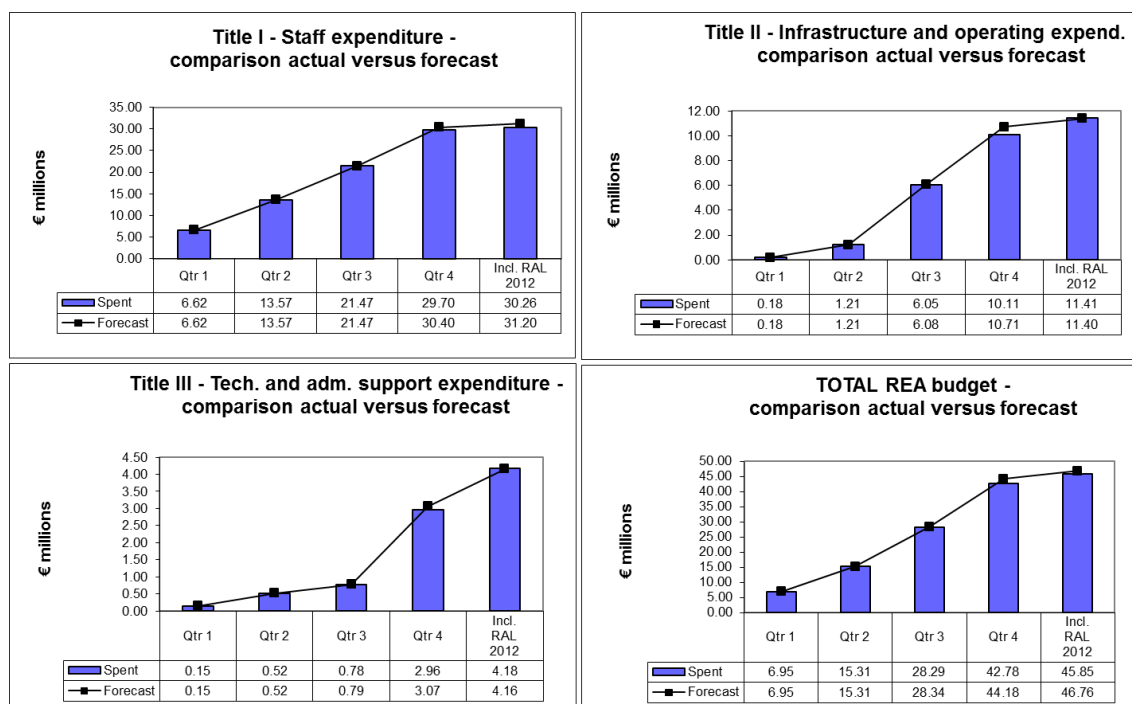


A large part of the REA's administrative budget is earmarked for salaries and building costs. The significant increase in budget for salary costs mainly results from the build-up of staff over the period 2009-2013.

By the end of the year, the REA committed €45.60 million against the amended budget adopted by the REA Steering Committee. The non-committed budget relates predominantly to appropriations earmarked for salary adjustments for the period July 2011 – December 2013, for which – following the ruling of the European Court of Justice (ECJ) – payment could not be executed before year-end.

2.1.4.3 Execution of the REA's 2013 administrative budget – payments

Figure 7: Indicator – Spending of the 2013 administrative budget in payment appropriations against forecast



By the end of the year the payments were close to the forecast; only the above-mentioned salary adjustments remained outstanding. Compared to the previous two years, the administrative budget of 2013 was executed with a lower RAL carried forward to the following year (only 6% of RAL carried over, as opposed to 7-9% in the two previous years).

2.1.4.4 Implementation of the RAL 2012

Table 35: Indicator – Implementation by 31 December 2013 of the RAL of 2012 carried forward to 2013 (in €)

Budget line	Name of the budget line	RAL 2012 as of 1 January 2013	Paid in 2013	Total RAL unused
Chapter 11	Salaries allowances and other personnel charges	403,632	360,584	43,048
Chapter 12	Sundries of recruitment and change of personnel	9,935	7,500	2,435
Chapter 13	Expenses of missions	142,706	62,327	80,379
Chapter 14	Socio, infrastructure and training	155,464	131,844	23,620
Chapter 17	Representation expenses and events	588	97	491
Title 1	Title I - STAFF EXPENDITURES	712,325	562,351	149,973
Chapter 20	Offices	547,397	537,475	9,921
Chapter 21	Computer equipment purchase and maintenance	653,258	559,112	94,147
Chapter 22	Movable property and associated expenses	234,738	197,181	37,558
Chapter 23	Current administrative expenditures	14,106	160	13,947
Chapter 24	Telecommunication and expenses of posting	996	988	8
Title 2	Title II - INFRASTRUCTURE/OPERATIONAL	1,450,496	1,294,916	155,580
Chapter 31	Meetings of experts, conferences and seminars	4,939	2,323	2,617
Chapter 32	Information, publications and communication	251,174	244,370	6,804
Chapter 33	Other technical expenses and of administrative support	1,199,864	971,429	228,435
Title 3	Title III - TECH./ADMIN. SUPPORT	1,455,978	1,218,122	237,856
TOTAL REA		3,618,798	3,075,389	543,409

The REA executed by the end of the year approximately €3.08 million of the RAL carried forward from 2012, which accounts for approximately 85% of the total RAL that was carried forward.

About 37% the unused RAL relates to outsourced ex-post audits for which the REA did not receive the invoices in time to allow payment before the deadline of 31 December 2013. The audits were not closed in time due to fact that the many audits were launched during the last quarter of 2012 and, considering the complexity of the audit process, the contractors were not able to finalise the audits by the end of 2013. The majority of the remaining unused RAL relates to mission and IT expenses.

2.1.4.5 Recoveries for the administrative budget

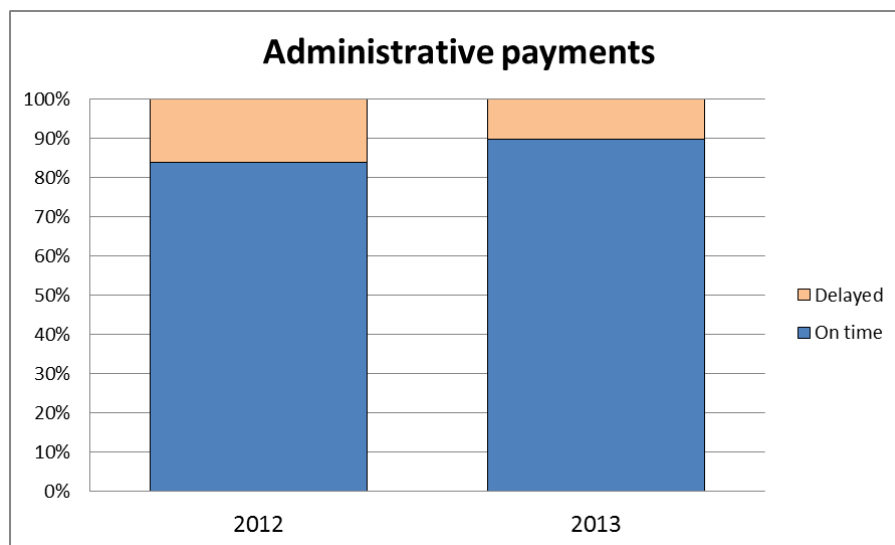
Table 36: Indicator – Overview of recovery orders on the administrative budget – overview of changes during 2013 and ageing balance by 31 December 2013

Breakdown by type	Open recoveries as of 31 December 2012		Recoveries established in the year		Recoveries cashed in the year		Recoveries waived in the year		Open recoveries as of 31 December 2013	
	number	in €	number	in €	number	in €	number	in €	number	in €
REA administrative budget										
subletting to the JTIs	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
others	0	0.00	8	194,623.61	8	194,623.61	0	0.00	0	0.00
TOTAL	0	0.00	8	194,623.61	8	194,623.61	0	0.00	0	0.00

Eight recovery orders were issued during the year, relating to regularisations of payments for salaries. In addition, the REA issued three recoveries for obtaining the Agency's operating grant. By the end of the year all recoveries were cashed.

2.1.4.6 TTP for the administrative budget

Figure 8: Indicator – TTP administrative budget



Some 89.7% of the administrative payments were made on time (as a rule within 30 days from receipt of payment request), which is an improvement of 7.5 percentage points compared to 2012.

2.1.5 Overview of costs and benefits of controls

The costs and benefits of controls are detailed below. This analysis is introduced for the first time and there may be a need for some further refinement over time. The benefits of the grant management control system are considered here as a whole, as they cannot only be expressed in monetary terms. The benefits are quantitative and qualitative and a purely quantitative cost-benefit evaluation would not reflect this reality.

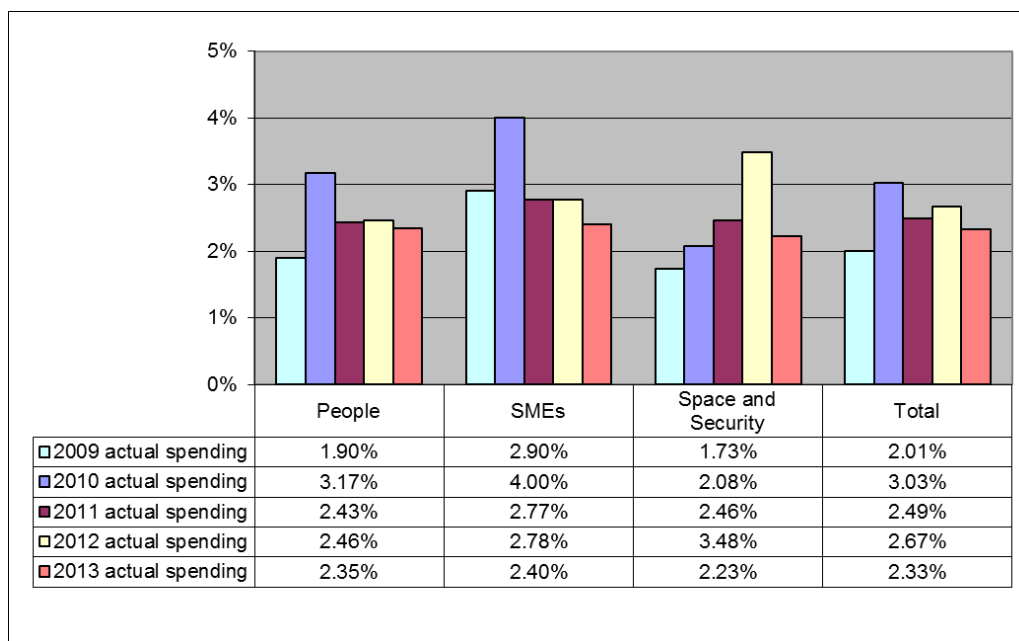
Table 37: Indicator – REA's total cost of controls – broken down by stage of the grant management life cycle and other activities/tasks

		Total staff costs (in € million)	Other expenditure (in € million)		Total cost of control (in € million)
			of which charged to the <u>administrative</u> budget (Title III - IT, comm., audits, missions, eval. platform)	of which charged to the <u>operational</u> budget (expert evaluator and reviewers)	
ex-ante	Stage 1 – Programming, evaluation and selection	3.04	1.05	10.90	40.87
	Stage 2 – Conclusion of grant agreements	6.02	1.00	0.00	
	Stage 3 – Monitoring the GA execution	15.79	1.82	1.25	
ex-post	Stage 4 – Ex-post controls and recoveries	1.22	1.06	0.00	2.28
Total cost of control for the grant management life cycle		26.07	4.93	12.15	43.15
FP7 Support activities		5.66	2.00		
Other tasks (coordination and administrative support)		6.42	0.58		
REA total operating cost		45.16			

The REA's total operating cost of €45.16 million represents 2.88% of the operational budget managed. However, by excluding the share of costs of control of FP7 support activities offered as a service to all FP7 implementing DGs and bodies, the percentage of

the cost of control reduces to 2.33%.

Figure 9: Indicator – The REA's operating cost (in % of operational budget) for the period 2009 – 2013



Although the REA management cost does not include additional costs for policy development and supervision by Commission services, a management cost for programme implementation tasks of less than 3% remains well below the maximum ceiling of 6% provided in the legal basis for FP7.

Many controls have a non-quantifiable but undeniable impact that cannot be measured in financial terms:

- With respect to stage one (programming, evaluation and selection), the qualitative benefits relate to ensuring that only the very best project proposals are selected for funding;
- With regard to the second stage, i.e. negotiation and signature of the grant agreement, the aim is not to save costs, but rather to ensure that the proposal is converted into a cost-effective project within the FP7 legal framework;
- With regard to the third stage, i.e. the monitoring arrangements, the REA ensures that the projects remain on track in terms of performance;
- With regard to the fourth stage, i.e. the ex-post controls, they have, among other, a strong dissuasive impact leading to a higher compliance with the overall legal framework/policy objectives, for which the financial impact cannot be measured.

Nevertheless, during the different control stages, some savings were made in 2013 for

the EU budget: reductions of the requested EU contribution in the grant agreements during the contracting stage (€0.42 million), rejected costs during the contract management stage (€5.66 million⁵⁴), and ex post recoveries of irregular expenditure (€0.78 million). These amounts offer only a partial view on the overall effectiveness and rigour of the controls carried out. The totality of the appropriations would be at risk if the controls were not in place.

Considering that in addition to the quantitative benefits there are considerable qualitative benefits, the control system is deemed to be cost-effective.

2.1.6 Conclusion on the overall impact of the 2013 control results on the Declaration of Assurance

Taking into account the partial effectiveness of the ex-ante controls as a result of the design of the overall control strategy for the research family as a whole and considering the results of the ex-post controls in terms of estimating the residual error rates, the REA concludes that it can provide reasonable assurance regarding the legality and regularity of underlying transactions, sound financial management, reliability of financial and management information and safeguarding of assets. The REA's operating cost represents 2.33% of the operational budget, which is very low in comparison to the 6% ceiling in the FP7 legal base.

However, this reasonable assurance is subject of a reservation for the material impact of residual errors in the SME programme financed under the Capacities Specific Programme and the Space and Security themes financed under the Cooperation Specific Programme exceeding the materiality level of 2% by 3.20 and 2.14 percentage points respectively.

As already highlighted in the Section 2.1.1.2, the SME scheme is prone to errors relating to a lack of accounting by SMEs for the costs of subcontracting to RTD performers. This amounts to approximately 8% of the budget of the SME actions. This is explained in further detail in Section 4.1.

2.2 Budget implementation tasks entrusted to other services and entities

This section is not applicable to an executive agency.

2.3 Assessment of audit results and follow-up of audit recommendations

This section reports and assesses the observations and conclusions reported by auditors which could have a material impact on the achievement of the internal control

⁵⁴ This amount is likely to be even higher since not all corrections could be captured in the analysis.

objectives, and therefore on assurance, together with any management measures taken in response to the audit recommendations. It also gives an overview of the follow-up actions taken.

2.3.1 Audits by the European Court of Auditors (ECA)

Concerning the audit on the accounting closure for the REA's operational budget, the ECA did not detect any major errors. The Court made some comments on de-commitment rates that would need to be considered in estimating accrued amounts at year-end. The REA, in collaboration with DG BUDG, posted a correction to the final accounts for the year 2012. The ECA acknowledged the revision of the REA methodology and the corrections undertaken and closed the audit with no further remarks.

As a result of the financial audit on the REA's management of its 2012 administrative budget and the 2012 annual accounts, the most significant remark of the Court related to deputising arrangements. The ECA is of the opinion that deputising arrangements were applied too often and that the REA should have designated additional Authorising Officers (AOs). The REA addressed the Court's remark by appointing a second AO within the Finance Unit for all payments charged to the administrative budget. Moreover, the REA plans to transfer in 2014 the responsibility for the implementation of the administrative budget from the Finance Unit to the Administration Unit (the former remaining involved for ex-ante verification).

The Court also sent its final observations (closure) following the audit on the REA supervisory and control system for its management of operational activities delegated by the Commission. The Court reported on some errors detected in transaction testing supporting its annual Declaration of Assurance: a late notification of a rejection decision, missing 'certification of correctness' for a payment made, incorrect application of country correction coefficients for a Marie Curie Outgoing Fellowship and a late registration of a non-compliance event. In addition, in the context of the implementation of the FP7 ex-post audit strategy, the ECA recommended a closer monitoring to shorten the time taken to implement the ex-post audits while acknowledging that the implementation of findings deriving from these audits has been handled adequately. After the contradictory procedure the Court withdrew their finding on the late notification of the rejection decision. The Court also decided not to consider the non-compliance event as a legality and regularity issue. The REA is following-up on these errors in the context of its project monitoring tasks and will revise its 2014 ex-post audit plan to include targets on timely implementation of audit findings.

In 2013, the ECA selected a total of 5 transactions in the context of the 2013 DAS audit. For 4 transactions preliminary findings have been communicated to the REA:

- three transactions were free of errors;
- for one transaction on a Marie Curie IAPP project the Court made some limited remarks concerning the incompleteness of the working agreements signed between the hosting organization and the fellows and the non-respect of principle of monthly payment to fellows. This error does not affect the reliability

of the accounts. The Court also estimated the underpayment of some fellows for an amount representing 1.91% of the costs declared (€12,573 out of €657,935).

2.3.2 Follow-up of actions resulting from ECA audits of previous years

On the 1 January 2013 there was no outstanding recommendation deriving from ECA audits other than corrections to be implemented as a result of ex-post controls performed in the context of the DAS for which progress in implementation is reported under Section 2.3.1.

2.3.3 Commission's Internal Audit Service (IAS)

In 2013 The IAS carried out a new audit on the implementation of FP7 control systems in the Agency to assess whether the REA's FP7 control strategy is efficiently and effectively implemented. The audit examined whether the strategy ensures that corrective measures are taken promptly and proportionately, in order to obtain reasonable assurance on the legality and regularity of the transactions. The final audit report was submitted on 31 January 2014 and concluded that the internal control system in place provides reasonable assurance regarding the achievement of the business objectives set up for the implementation of FP7 control systems in the REA except for the following very important findings/recommendations, which were all accepted:

- The REA should further develop an alternative process for assurance building for the AAR for those programmes where findings resulting from a representative ex-post audit sample are not available;
- The REA should assess further the risk of irregularity and potential fraud in the SMEs schemes and report it in the AAR 2013, clearly stating the reasons and justifications for any exceptions made and the actions taken (see also Section 2.1.1.2 and Section 4.1 where these issues are described in more detail);
- Strengthening actions on fraud prevention and detection through accelerating the implementation of the REA anti-fraud action plan;
- The REA should revise the REA ex-post control planning, execution and follow-up to make it more risk based, include additional performance criteria and set clear objectives;
- The REA should further develop a risk-based ex-ante control strategy and should apply systematically the deterrent measures provided by the FP7 grant agreement.

Considering the overall objective to streamline and harmonise processes and procedures for FP7 programme implementation across all members of the research family to ensure that applicants/beneficiaries no longer perceive any differential handling depending on the FP7 managing service they are dealing with, the implementation of corrective actions needs to be aligned with other FP7 managing services. The REA therefore developed an action plan to address these recommendations in full collaboration with other members of the research family.

The first recommendation, calling for an alternative process of assurance building for the AAR, has already been implemented in the context of preparing this AAR 2013. Other recommendations aim at improving the effectiveness of the REA's internal control strategy. However, the controls that were in place throughout 2013 have already provided the necessary input for establishing assurance, subject to the two reservations outlined in Section 4. Therefore, while the IAS audit provides very important recommendations on improving certain controls for the future, the findings as such do not have any further impact on conclusions supporting the Director's Declaration of Assurance.

2.3.4 Actions resulting from IAS audits of previous years

In 2010 the IAS performed an audit on the "Set-up of Internal Controls and Financial Management Systems in the Research Executive Agency – Design".

A follow-up audit undertaken in 2011 confirmed the REA's implementation report, with the exception of two actions which had been reported by the Agency as closed and which were re-opened. The two actions outstanding had been implemented in the first quarter and in May 2013 the IAS performed a second follow-up audit. The IAS confirmed its assessment on the full implementation of corrective actions and by end of 2013 all the IAS recommendations resulting from this audit were closed.

2.3.5 The REA's Internal Audit Capability (IAC)

In early 2013 the IAC finalised two audits started in 2012 on cost claims/payments and amendments that contributed to the overall opinion of 2012. The IAC also completed follow-up audits on validation services, IT governance and evaluation of proposals – use of experts and launched two audits covering respectively (i) implementation of ex-post audit findings and (ii) ex-post audit process. The first audit was finalised and the final report was issued at the end of January 2014. The second audit is in progress and will be completed during the second quarter of 2014.

The audit on the implementation of ex-post audit findings did not highlight any critical issues. However, the auditors recommend harmonising implementation practices across the REA units, with respect to audit adjustments (including extrapolations, liquidated damages) and informing the coordinators of multi-beneficiary projects of adjustments arising from audits of a participant.

Concerning the follow-up audit on validation services, the auditors concluded that all recommendations were considered as fully implemented.

With respect to the follow-up audit on IT governance, the auditors concluded that, out of 20 recommendations, one action linked to a very important recommendation and one action linked to an important recommendation had been partially implemented. The very important recommendation asks REA management to take further steps to ensure that the responsibilities of system ownership as defined in the REA IT Governance are effectively carried out by the owner of a system and not by the IT supplier. Corrective action has been fully implemented by the end of 2013.

For the follow-up audit on evaluation of proposals – the use of experts, the auditors concluded that, out of the 15 recommendations, 11 had been fully implemented and four partially implemented (one very important and three important recommendations). The very important recommendation relates to how reporting of exceptions or weaknesses could be facilitated by guidance material on the ICS pages. An action plan was established and corrective actions have been initiated for which full implementation is scheduled during 2014.

Table 38: State of play on the implementation actions classified as 'very important' resulting from IAC audit reports

Audit report	Implemented	Ongoing	Delayed
Cost claims and payments 31 January 2013	1	-	-
Amendments 31 January 2013	1	-	-
Follow-up validation services 17 April 2013	1	-	-
Follow-up on IT governance 13 June 2013	1	-	-
Follow-up on Evaluations of proposals – Use of experts 8 October 2013	-	1	-
Implementation of ex-post audit findings 31 January 2014	-	2	-

Only one very important recommendation remained open by the end of 2013. It is related to the follow-up audit on the evaluation of proposals where the auditors recommended facilitating the reporting of exceptions or internal control weaknesses. To address this recommendation, the REA will elaborate more detailed guidance on when an incident has to be reported once the guidelines by DG BUDG are finalised.

3. ASSESSMENT OF THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEMS

The Commission has adopted a set of Internal Control Standards (ICS), based on international good practice, aimed to ensure the achievement of policy and operational objectives. In addition, as regards financial management, compliance with these standards is a compulsory requirement.

The REA has put in place the organisational structure and the internal control systems suited to the achievement of the policy and control objectives, in accordance with the standards and having due regard to the risks associated with the environment in which it operates.

3.1 Follow-up of actions under the prioritised ICS for 2013

The Agency is committed to maintaining and improving effectiveness of its internal controls. For 2013, the following priorities were selected, particularly in view of the transition to the management of H2020 and the related process of change management:

- ICS 7 – operational structure: new programmes, new programme design and increased budgets, plus possible changes in the REA's mandate require a review of the agency's organisational structure and the arrangements for delegation of authority.

Follow-up: As mentioned in the introductory part, a considerable part of activities throughout 2013 concerned the preparations for the REA's H2020 mandate. Amongst others, the REA was involved in the finalisation of the H2020 CBA and the preparation of the legislative package. In parallel, the REA launched a redeployment exercise, following which a new organisational structure will be implemented. The redeployment exercise builds on a strong and inter-active communication with REA staff and the Commission;

- ICS 8 – Processes and Procedures: given the political orientation to perform better with less staff, the REA needs to further intensify the work on simplification of procedures in collaboration with the Commission.

Follow-up: As the REA depends on the common rules and IT tools, the agency provided suggestions for simplification, in particular through the IT governance bodies and working groups and piloted some of the new tools and related business processes in preparing for the implementation of H2020;

- ICS 10 – Business continuity: the REA already complied with the main standard elements of ICS 9 and had a Business Continuity Plan in place since 2012. However, it was decided to consider the ICS 10 a priority standard, until the REA's IT Disaster Recovery Plan (DRP) has been tested.

Follow-up: The REA performed a successful IT DRP test in the first quarter 2013.

Thereby the Agency became fully compliant with the standard and further prioritisation is not needed.

In addition, the Agency has implemented the action plans that have resulted from supervision campaigns of the previous years (performed in accordance with ICS 9).

3.2 Management's assessment of the effectiveness of the internal control systems and prioritisation of the ICS for the year 2014

The REA has performed in 2013 an assessment on the effectiveness of the ICS with the support of the iCAT tool (internal Control Assessment) provided by DG BUDG in order to obtain a diagnostic of strengths and weaknesses in the REA's internal control framework and to identify further actions for improvement.

The exercise captured the overall perception of the 'effectiveness' of the 16 ICS (except ICS 14, which is not applicable to the REA) through an anonymous survey targeting selected staff and managers across the REA. Management and staff evaluated and gave their individual opinion on the effectiveness of the internal controls in place in the day-to-day operations. All 62 participants invited to take part in the survey have completed the survey. The overall effectiveness rate, measured by the weighted percentage of scores is 88% (92% for managers and 85% for staff).

In order to take full benefit of the results of the survey, a detailed analysis of responses to all questions for the various standards was performed and questions with scores below 80% were discussed. Management drew the conclusion that the overall assessments on effectiveness (88%) can be considered as indicative of a fairly mature internal control structure. Some issues raised had already been addressed, while for others additional actions have been identified (under the ICSs 3, 5, 7 and 8).

The survey results served also as an input to the management exercise for defining the priority standards for 2014. The following ICSs were retained for priority action in 2014 (particularly with a view to improving effectiveness in the context of the REA new mandate):

- ICS1 – Mission – in particular to update mission statements for REA and an enlarged number of units in the light of the new mandate;
- ICS3 – Staff allocation and mobility – in particular with respect to fine-tuning staff allocations with real workloads that result from a new mandate;⁵⁵
- ICS7 – Operational structure – in particular with respect to fine-tuning the organisational structures within units;

⁵⁵ This covers also situations where unplanned staff shortages could impact on the performance of the REA services, as in the case of the team dealing with expert payments (lower performance in March-April 2013).

- ICS8 – Processes and procedures – in particular with respect to (i) updates for H2020 (in close collaboration with the guidance from the CSC on harmonised business processes) and (ii) reporting and management of exceptions and internal control weaknesses to improve awareness amongst staff.

The ICS 7 and 8 were maintained from the year 2013 and the implementation of actions prioritised hereunder, is reported in Section 3.1.

3.3 REA control system and operating procedures

The operations managed by the REA are similar to research management by other Commission services. Therefore the REA's internal control system and operating procedures are streamlined with that of the parent DGs. The REA's internal control template for FP7 grant management (Annex 5) is closely aligned to that used within the research family of DGs.

The REA's Internal Control Coordinator (ICC) supervises and coordinates the development of the ICS structure and systems. As of January 2013, the Sector coordinating the implementation of ICSs and Legal Affairs was transferred under the control of the Head of Department of Administration, Finance and FP7 Support who also assumed from that moment onwards responsibilities as the REA's ICC.

The REA has an adequate internal control system commensurate with its size and the portfolio of tasks it manages. Some key features of this internal control system, contributing to the effectiveness and efficiency of the REA's internal controls can be highlighted.

3.4 Six-monthly reporting of the Authorising Officers by Sub-Delegation (AOSDs)

The REA has implemented structured reporting from the Heads of Unit, in their capacity of AOSD, to the Director on:

- assigned activities from the REA's AWP;
- implementation of the internal controls within their unit (in accordance with the overall design for the REA as a whole), non-compliance events, exceptions and/or internal control weaknesses observed during the reporting period;
- new risks related to the activities under their control;
- possible issues which may impact on the Annual Declaration of Assurance.

Except for the risks linked to the management of the SME actions and Space and Security themes (already reported in 2012 and persisting in 2013), no significant issues were signalled through the 2013 AOSD reports which would affect the Director's Declaration of Assurance.

3.5 Register of exceptions, analysis of internal control weakness or control failures recorded during the year

The REA units have to report on all exceptions, weaknesses and non-compliance events, potentially leading to weaknesses through a dedicated procedure and templates. In 2013 a total of four exceptions, one non-compliance event and one internal control weakness were recorded. One of the exceptions referred to the SME scheme (as explained in further detail in Section 2.1.1.2) and the recording of the remuneration of RTD performers in the accounts of the SMEs in projects which are already closed. It should be highlighted that this exception only concerns providing these beneficiaries more time to comply with the requirement and does not imply that the requirement would be waived.

Mitigating measures have been put in place to address the internal control weakness. The register is updated and maintained at central level. The Authorising Officers need to report exceptions and weaknesses through their bi-annual reports to the Director.

3.6 REA risk assessment exercise

A risk assessment is performed at REA level on a yearly basis in preparation of the AWP of the following year. Out of the three risks identified for 2013, one risk was re-assessed as non-significant and the risk on "Lack of payment appropriation" and the risk on "Fraudulent behaviour of beneficiaries and REA's capacity to detect external fraud" have been maintained with updated action plans.

Two new risks have been identified for 2014: "Drop in performance due to the impact of the change management process" and "Unplanned increase in workload due to a lower average size of grants by call and/or a lack of clarity on the delegation of tasks". The action plans defined to address those risks are monitored on a quarterly basis.

3.7 Assessment of the functioning of the internal control system

Throughout 2013, further efforts were made to reach full compliance with all ICS. Those standards for which the REA had already reached compliance in 2012 were reviewed and fine-tuned as necessary.

Internal Control issues are regularly discussed in the Agency's management meetings or dedicated working groups. The REA's internal control system has been strengthened considerably in 2013. Improving effectiveness for all procedures and Internal Control Standards is a constant process which will remain high on the agenda of the REA management.

During 2013, the REA made further improvements on the basis of the recommendations from audits, supervision campaigns, the risk assessment performed in preparation of the Annual Work Programme and input from staff and Authorising Officers by Sub-Delegation (reporting biannual as a result of practical experience gained during programme and project implementation).

The effectiveness of the internal controls within the Agency results, among others, from the strong supervisory arrangements by senior management and the parent DGs.

Considering the results of the above assessment of effectiveness, internal and external audit recommendations, supervision campaigns and the annual risk assessment, the REA concludes that the controls in place are working as intended and its internal control system is providing an effective framework for managing the risks to the achievement of the REA's objectives.

3.8 The opinion of the Internal Control Coordinator (ICC) on the REA's state of control

Throughout 2013 the REA's ICC supervised the implementation of the internal controls across the Agency and promoted further improvements to them. The ICC has provided the REA Director with a formal opinion on the state of control within the REA for 2013 with the conclusion that there are no critical weaknesses in the REA's system of internal control which would jeopardise the achievement of its business objectives

In conclusion, the internal control standards are effectively implemented.

4. MANAGEMENT ASSURANCE

This section reviews the assessment of the elements reported in Sections 2 and 3 and draws conclusions supporting the Declaration of Assurance and whether it should be qualified with reservations.

4.1 Review of the elements supporting assurance

The information reported in Sections 2 and 3 stems from the results of management and auditor monitoring contained in the reports listed. These reports result from a systematic analysis of the evidence available. They fully support the Declaration of Assurance with respect to the use of resources for the intended purpose and in line with the principles of sound financial management, legality and regularity. This approach provides a true and fair view, and sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to the REA Director.

One of the important elements contributing to the assurance building is also the follow-up of actions resulting from the action plan following the reservation made in the context of the previous AARs.

In its AAR 2011, the REA raised for the first time a reservation with respect to Space and Security. The reservation was also raised in the context of the AAR 2012, together with a new reservation for Research for the benefit of SMEs. Both reservations relate to a high incidence of errors with impact exceeding the materiality levels set.

In line with the plans outlined in the AARs 2011 and 2012, the REA implemented several corrective measures:

- Action: To continue, in collaboration with the other FP7 managing services, the publicity efforts to ensure that beneficiaries and certifying auditors (as requested by the ECA) are well informed about the rules and the Commission's requirements by focussing on the most recurring errors.

The REA collaborated with DG RTD in preparing and delivering an information campaign on the 10 most recurring errors in mainstream Cooperation projects detected through ex-post controls and providing further guidance on how to avoid such errors in the future. This campaign was launched in 22 Member States in 2012 and by end of 2013 some 3,100 beneficiaries attended. The REA was actively participating in the design and subsequent roll-out of this campaign across Europe.

In addition, and taking this analysis as a starting point, the REA has further analysed the risks for errors that are characteristic for the specific FP7 actions managed under its control (such specificities occur for the Marie Curie and SME actions). As a result, a customised information note was prepared for the attention of coordinators of new grant agreements informing about these recurring errors. As of August 2013 this information note was attached to all

grant agreements sent out to coordinators beneficiaries after signature by the REA authorising officer.

- Action: To further improve ex-ante controls, notably by reviewing the checklists and intensifying the sharing of good practices among the REA's network of financial correspondents.

In September 2012 the REA assessed the financial circuits in place with a view to improving efficiency of financial transaction processing, including ex-ante controls. Subsequently a review of the checklists for the major spending operations (grant negotiation and commitment, reports reception and review/approval, payments, recoveries, etc.) was launched and training/awareness-raising sessions for project officers were undertaken. In April 2013 the REA finalised an analysis of the most recurring errors detected through the centralised financial verification, with a view to highlight frequent errors so that initiating agents can address specific attention to these matters in the future.

The REA also launched fraud-awareness trainings for its project officers and assistants. This training aimed at making the REA staff more effective in scrutinising operations submitted for review/approval with respect to potential fraud. Enhanced ex-ante assessments are also addressed in the Agency's Anti-Fraud Approach which was adopted in 2013.

- Action: Continuing the implementation of the ex-post audits (judged as effective by the ECA) which, together with recovery actions, should reduce the residual error rate on a multiannual perspective.

The REA continued implementing the revised common FP7 ex-post audit strategy. The Agency adopted the Ex-post Audit Plan 2013 which aimed at a better balance between trust and control and reduced the share of randomly selected audits to be performed, notably by introducing the CRaS. At the same time it re-directed audit resources to beneficiaries accounting for a significant budget or identified at risk.

- Action: Addressing errors relating to a lack of accounting by SMEs for the costs of subcontracting to RTD performers detected in the context of ex-post audits in a more proportional manner.

Section 2.1.1.2 provides more details on the nature of these errors and the handling that the REA has been implementing to address these errors in a proportional manner.

The magnitude of the problem cannot be estimated with precision. However, based on the audit activities for the SME scheme undertaken so far (including also draft audit findings) the frequency of errors can be estimated as follows:

Table 39: Cost claims subject to findings of failure SMEs to record the declared cost of subcontracting to RTD performers in their accounts

Total number of audits for the SME scheme (2009-2013)	89
Related number of SME projects audited (2009-2013)	114
Related number of cost claims audited (2009-2013)	161
cost claims subject to findings of failure by the SME to record the declared cost of the transaction in their accounts (2009-2013):	
- number	19
- share of total cost claims audited (%)	11.8%
Estimated impact on the total budget	8%

Considering that on average some 68% of cost claims from SMEs relate to costs for the transaction, the total EU funding that may be subject to the failure by the SME to meet the formal requirement to record the declared cost of the transaction in its account, can be estimated at some 8%⁵⁶ which amounts to approximately €15.50 million. The REA will launch additional desk-checks and ex-post audits on SMEs in 2014 to verify whether SMEs have taken the required corrective action to ensure full compliance (also for closed projects) as a result of the communication campaign. If these additional checks confirm that SMEs have effectively implemented the recommended corrective action, the REA may lift the part of the reservation for the SME scheme that relates to the high frequency of errors by SMEs in failing to comply with the eligibility criterion of recording in their accounts the costs declared in support of the claim for EU funding.

The assessment by the management, the analysis of the results of the controls in place (along the indicators outlined throughout this report) and the examination of the evidence available suggest that the REA's management is in a position to provide unqualified reasonable assurance on the following areas:

- The processes relating to the selection of beneficiaries or experts involved into FP7 projects and the underlying financial operations (legal and financial commitments);
- FP7 payments relating to administrative expenditure and procurement;
- FP7 pre-financing payments for grants.

Concerning expenditure on reimbursements against cost statements.

Drawing on the error rates obtained with ex-post audits and the assessment of inherent risks of the activities, the REA maintains the reservations for the ABB activities 02.04 – Cooperation – Space and Security and 08.13 – Capacities – Research for the benefit of SMEs. The assessment and ex-post audit results do not call for a reservation for the ABB activity 15.07 – People Programme.

⁵⁶ 11.8%*68%=8%.

4.2 Reservations and overall conclusion on assurance

Table 40: Reservations and overall conclusion on assurance

Expenditure (million €)	Scope of reservation (million €)	CRaS/ Detected Error Rate (DER-%)	Control approach	Amount at risk	
				million €	Residual Error Rate (RER-%)
1) 02-04 – Cooperation – Space and Security: <i>High rate of residual errors with regard to the accuracy of cost claims impacting on granted EU funding</i>					
248.09	221.30	4.14%	Multi-annual	6.28	2.84%
2) 08.13 - Capacities – Research for the benefit of SMEs 2.1) <i>High rate of residual errors with regard to the accuracy of cost claims impacting on granted EU funding</i> 2.2) <i>Non-compliance with the eligibility criteria on recording costs for subcontracting in the accounts of the beneficiary.</i>					
237.00	193.26	5.30%	Multi-annual	2.1) 11.60	6% (est.)⁵⁷
				2.2) 15.50	8%

Reservation 1

Agency	Research Executive Agency
Title of the reservation, including its scope	Reservation concerning the rate of the residual errors with regard to the accuracy of cost claims impacting on granted EU funding for Space and Security themes of the Cooperation Specific Programme financed under the Seventh Framework Programme for Research and Technological Development.
Domain	Indirect centralised management of grants in the Seventh Research Framework Programme.
ABB activity and amount	02.04 - Cooperation – Space and Security Payments made (excluding expert payments): €248.09 million of which €221.30 million relates to intermediate and final payments and EU funding accepted and cleared against previously paid pre-financing.
Reason for the reservation	At the end of 2013, it is not possible to state with certainty that the residual error rate will fall below the materiality threshold at the end of the multi-annual period.
Materiality criterion/criteria	The materiality criterion is the residual error rate (as defined in Annex 4), i.e. the level of errors which remain undetected and uncorrected, by the end of the management cycle. The control objective is to ensure that the residual error rate on the overall population is below 2% at the end of the management cycle. As long as the residual error rate is not (yet) below 2% at the end of a reporting year within the FP's management lifecycle, a reservation would (still) be made.
Quantification of the	The maximum impact is calculated by multiplying the residual error rate

⁵⁷ The residual error rate is estimated higher than the DER to give due consideration to draft ex-post audit findings for which a contradictory procedure with the audited beneficiary is ongoing.

impact	calculated on the basis of CRaS by the amount of FP7 payments based on cost statements authorised in 2013 plus the estimated amount of the pre-financing expenditure cleared in 2013. The Representative Error Rate for 2013 is 4.14%, while the Residual Error Rate is 2.84%. The impact is estimated at €6.28 million ⁵⁸ .
Impact on the assurance	Legality and regularity of the payments made against cost claims (intermediate and final payments and EU funding accepted and cleared against previously paid pre-financing).
Responsibility for the weakness and its correction	<p>The main reason for errors are:</p> <ul style="list-style-type: none"> – the complexity of the eligibility rules as laid down in the basic acts decided by the Legislative Authorities, based on the reimbursement of actual eligible costs declared by the beneficiaries; – the fact that there are many thousands of beneficiaries making claims, and not all can be fully controlled. <p>The different control provisions set out by the REA/Commission services, along with the audit certificates on financial statements and ex-post audits, can mitigate these risks to a certain extent, but can never be carried out on 100% of the cost claims received.</p>
Corrective action	<p>At a moment where the rules for participation for H2020 (introducing radical simplifications) are in the final stage of adoption, and having regard to the length of the legislative procedure, a modification of the legal framework for FP7 is not an option. As such, possibilities to simplify FP7 rules have been exhausted. However, over the course of FP7, the Commission, together with the REA and other services of the research family, has attempted to simplify the system within the existing legal framework. This was done last through the simplification measures adopted by the Commission on 24 January 2011 (Decision C(2011) 174) and there is some evidence that the simplification measures introduced in 2011 have had a positive impact on the error rate.</p> <p>The remaining scope to reduce errors will be addressed in particular through the following actions:</p> <ul style="list-style-type: none"> – continuing its ongoing efforts to give guidance and feedback to the participants and certifying auditors to prevent errors occurring⁵⁹; – revisit the REA ex-post control strategy (complementing the strategy for the research family as a whole) by focussing even more the audit resources to sub-populations and transactions identified at risk in order to reduce the FP7 residual error rate and optimise the cost-efficiency of this control⁶⁰.

⁵⁸ This estimate is made under the assumption that all ex-post audit findings relating to systematic errors have been or will be corrected by the audited beneficiaries in their other non-audited participations.

⁵⁹ The error rates obtained clearly show that SMEs and new participants present particular risks and this analysis is being used to tailor guidance at all stages of the process to these participants, but without discouraging them from applying for grants or increasing unnecessarily their administrative burden.

⁶⁰ The REA will carry out an appropriate number of ex-post audits based on cost-effectiveness considerations and risk assessments together with the subsequent recovery actions to ensure a further reduction of the residual error rate. However, it cannot greatly extend its audit campaign without adversely affecting the other objectives of the research programme (attractiveness, reduction of administrative burden, widening, etc.).

Reservation 2

Agency	Research Executive Agency
Title of the reservation, including its scope	Reservation concerning the rate of the residual errors with regard to the accuracy of cost claims impacting on granted EU funding for Research for the benefit of SMEs actions of the Capacities Specific Programme financed under the Seventh Framework Programme for Research and Technological Development.
Domain	Indirect centralised management grants in the Seventh Research Framework Programme.
ABB activity and amount	08.13 - Capacities – Research for the benefit of SMEs Payments made (excluding expert payments): €237.00 million of which €193.26 million relates to intermediate and final payments or EU funding accepted and cleared against previously paid pre-financing.
Reason for the reservation	The reasons for the reservation is two-fold: a) Results obtained in the context of ex-post control targeting the SME actions specifically indicate an error rate which is above the materiality criterion. Considering that the estimated residual error rate of 6% detailed below relates to some 32% of total funding under the grant agreement for non-outsourced activities of SMEs (i.e. excluding the lump sum amounts for subcontracting to RTD performers), the risk exposure resulting from participations of SMEs is significantly higher than the FP7 average. Taking into account the need to balance legality/regularity with other objectives, such as attractiveness and success of the EU research policy, the wish to encourage participation of SMEs and the cost of controls, the ex-post controls cannot be increased significantly. Therefore, it is not expected that by the end of the programme period the residual error rate will be below the materiality threshold defined in Annex 4. b) Costs incurred by SMEs for outsourcing RTD tasks to RTD performers, which account for some 68% of the funding provided under the grant agreement, are not always duly recorded in the accounts of the SMEs, thereby failing a contractual eligibility requirement. Actions to rectify the situation have been put in motion.
Materiality criterion/criteria	The overall materiality criterion is the residual error rate, i.e. the level of errors that remain undetected and uncorrected, by the end of the management cycle. The control objective is to ensure that the residual error rate on the overall population is below 2% at the end of the management cycle. As long as the residual error rate is not (yet) below 2% at the end of a reporting year within the FP's management lifecycle (including the specific errors deriving from the lack of accounting), a reservation would (still) be made.
Quantification of the impact	a) The maximum impact is calculated by multiplying the residual error rate by the amount of FP7 payments based on cost statements authorised and the estimated amount of the pre-financing expenditure cleared in 2013. This residual error rate takes as a starting point the detected errors in favour of the REA and resulting from randomly selected audits and audits of beneficiaries with high-value participations while excluding

	<p>audits selected on the basis of risk identification. The Detected Error Rate for 2013 is 5.93% (including draft audit findings), while the Residual Error Rate is 5.80%. Considering the fact that ongoing audits may further increase the error rate, the REA is building its assurance on a prudent estimate of a residual error rate of 6%. On this basis, the impact is estimated at €11.60 million.</p> <p>b) With respect to the lack of accounting of declared costs for subcontracting to RTD performers, the REA estimates a risk exposure of 8% of some €15.5 million.</p>
Impact on the assurance	<p>Legality and regularity of the affected payments made against cost claims (intermediate and final payments and EU funding accepted and cleared against previously paid pre-financing).</p> <p>Formal errors relating to the lack of accounting by SMEs for declared costs for subcontracting to RTD performers. Corrective actions have been put in motion to address the issue and once the REA has obtained evidence of their effective implementation, this part of the reservation may be lifted.</p>
Responsibility for the weakness and its correction	<p>The main reason for errors are:</p> <ul style="list-style-type: none"> – the complexity of the eligibility rules as laid down in the basic acts decided by the Legislative Authorities, based on the reimbursement of actual eligible costs declared by the beneficiaries; – the fact that there are many thousands of beneficiaries making claims, and not all can be fully controlled. <p>The different control provisions set out by the REA/Commission services, along with the audit certificates on financial statements and ex-post audits, can mitigate these risks to a certain extent, but can never be carried out on 100% of the cost claims received.</p> <p>With respect to the lack of accounting by SMEs for declared costs for subcontracting to RTD performers the origin of the error lies in the specific design of the scheme and the related lack of empowerment of SMEs in the running of these projects whereby coordinators take control over the monitoring and payment of these subcontracts. As SMEs face financial difficulties under the economic crises, consortia prefer not to channel funds to RTD performers via these SMEs and RTD performers are often paid directly by coordinators from the EU pre-financing received. The high frequency of this error is indicative of a design of the scheme that is not well tailored to the specific audience targeted.</p>
Corrective action	<p>At a moment where the rules for participation for H2020 (introducing radical simplifications) are in the final stage of adoption, and having regard to the length of the legislative procedure, a modification of the legal framework for FP7 is not an option. As such, possibilities to simplify FP7 rules have been exhausted. However, over the course of FP7, the Commission, together with the REA and other services of the research family, has attempted to simplify the system within the existing legal framework. This was done last through the simplification measures adopted by the Commission on 24 January 2011 (Decision C(2011) 174) and there is some evidence that the simplification measures introduced in 2011 have had a positive impact on error rate.</p> <p>The remaining scope to reduce errors will be addressed in particular through the following actions:</p> <ul style="list-style-type: none"> – continuing its ongoing efforts to give guidance and feedback to the participants and certifying auditors to prevent errors occurring⁵⁹; – revisit the REA ex-post control strategy (complementing the strategy for the research family as a whole) by focussing even more the audit resources to sub-populations and transactions identified

	<p>at risk in order to reduce the FP7 residual error rate and optimise the cost-efficiency of this control⁶⁰.</p> <p>The REA offered to all beneficiaries the possibility to record the transaction in the accounts of the SMEs following the end of the project (in so far this was not done in due time). However, the exception only applies to the timing of the correction and does not imply that the requirement to record the remuneration of the RTD performers in the accounts of the SMEs was waived. The REA will continue to address the errors relating to a lack of accounting by SMEs for the costs of subcontracting to RTD performers detected. In this context the Agency will implement the following action:</p> <ul style="list-style-type: none">– additional desk-checks and ex-post audits will be launched on SMEs in 2014 to verify whether SMEs have taken the required corrective actions as a result of a dedicated communication campaign performed in 2013. In this context the imperative to ensure that all declared costs (including those relating to subcontracting to RTD performers) are duly recorded in their accounts will be highlighted. These corrections apply to all participations since the start of FP7 and cover both open and closed projects. In case desk-checks or ex-post audits raise doubts as to the reliability of proof documents provided to demonstrate that regularisation was made, the REA will launch on-the-spot checks and/or signal the case to OLAF. In case no regularisation was made, the REA may issue recoveries and apply liquidated damages. <p>If the additional checks provide reasonable assurance that SMEs have better understood the contractual requirements and have made the necessary arrangements to (i) regularise past non-compliant events (if any) and (ii) adjusted practices for the future, the REA may be in the position to lift this part of the reservation.</p>
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Overall conclusions on the combined impact of the reservations on the declaration as a whole

There is no reservation on the procedures relating the selection of beneficiaries or experts involved into FP7 projects and the underlying financial operations (legal and financial commitments). This is also the case for payments relating to administrative expenditure and procurement, as well as for pre-financing payments relating to grants.

Comparing the amounts at risk, in particular with respect to expenditure against cost statements in 2013, measured against the total expenditure in 2013⁶¹, allows the conclusion to be drawn that the assurance can be made regarding the 96.09% of the budget implemented in 2013.

⁶¹ Total of payments made on the basis of cost claims (excluding pre-financing) and pre-financing cleared in 2013.

DECLARATION OF ASSURANCE

I, the undersigned,

Director of the Research Executive Agency

In my capacity as authorising officer for the administrative budget and authorising officer by delegation for the operational budget

Declare that the information contained in this report gives a true and fair view⁶².

State that I have reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex-post controls, the work of the internal audit capability, the observations of the Internal Audit Service and the lessons learnt from the reports of the European Court of Auditors for years prior to the year of this declaration.

Confirm that I am not aware of anything not reported here which could harm the interests of the Research Executive Agency or those of the Commission.

However the following reservations should be noted:

- For the ABB activity: 08.13 - Capacities – Research for the benefit of SMEs

- for the ABB activity: 02.04 - Cooperation – Space and Security

Brussels, 27 March 2014

Signed

Gilbert Gascard

⁶² True and fair in this context means a reliable, complete and correct view on the state of affairs in the service.

ANNEX 1: STATEMENT OF THE HEAD OF DEPARTMENT FOR ADMINISTRATION, FINANCES 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, 27 March 2014

Signed

Marc Tachelet

Head of Department for Administration,
Finances and Support Services
Internal Control Coordinator²

¹ SEC(2003)59 of 21 January 2003.

² Since 1 February 2014 the function is held by Wilfried Beurms, the new Head of Department for Administration, Finances and Support Services. However, as specified in the nomination act for the Internal Control Coordinator, all duties related to reporting for the year 2013 would remain under the responsibility of Marc Tachelet.

ANNEX 2: HUMAN AND FINANCIAL RESOURCES BY ABB ACTIVITY

2.1. Human Resources by ABB activity

The table listed below details the total staff employed within the REA as of 31 December 2012. These data do not constitute full-time equivalent units throughout the year.

Table 10 – Breakdown of human resourced by ABB activity

Code ABB activity	ABB activity	Human Resources by ABB activity		
		Temporary Agents	Contract Agents	Total
08.11	Management of the People Programme	52	156	208
08.13	Management of the Capacities Programme – research for the benefit of SMEs	18	39	57
02.04	Management of the Cooperation Programme – Space and Security themes	24	48	72
--	FP7 Support Services ³	10	86	96
--	Coordination and Administrative Support	34	78	112
TOTAL		138	407	545

With the job offers sent out and already accepted the total figure is 547. The envisaged target of 558 staff by the end of 2013 was almost reached. The filling of the remaining open positions has been put on hold in the context of the internal redeployment exercise and in view of possible transfers of contract staff from the Commission to the REA.

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

Table 11 – Overview REA's administrative budget

Budget Title	Appropriations 2013 (C1)			Appropriations carried over from 2012 (C8)	
	Available	Committed	Paid	Total available	% paid
Title 1 – Staff Expenditure	31.12	30.10	29.70	0.71	78.9%
Title 2 – Infrastructure and Operating expenditure	11.40	11.29	10.11	1.45	89.3%
Title 3 – Technical and Administrative Support Expenditure	4.24	4.21	2.96	1.46	83.7%
TOTAL	46.76	45.60	42.78	3.62	85.0%
Resources by ABB activity		Committed			
People		25.18			
SMEs		6.99			
Space and Security		8.74			
FP7 Support services*		4.70			
TOTAL		45.60			

* FP7 support expenditure relating to People, SMEs, Space and Security is allocated to these activities.

³ Resources for FP7 Support serve the programmes managed by the REA itself as well as other actions financed under the Cooperation, Capacities and People Specific Programmes (managed by other DGs and services which are part of the research family).

ANNEX 3: DRAFT ANNUAL ACCOUNTS AND FINANCIAL REPORTS

**Annex 3.1 Financial Reports - DG REA - Financial Year 2013
Operational Budget****Table 1 : Commitments****Table 2 : Payments****Table 3 : Commitments to be settled****Table 4 : Balance Sheet****Table 5 : Economic Outturn Account****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 Contracts (excluding Building Contracts) - not applicable****Table 13 : Building Contracts - not applicable****Table 14 : Contracts declared Secret - not applicable**

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).

In table 8, the amount of €37.4m indicated as total recovery context includes €20m 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 2013 (in Mio €)					
			Commitment appropriations authorised	Commitments made	%
			1	2	3=2/1
Title 02 Enterprise					
02	02 04	Cooperation - Space and security	393,02	391,75	99,68 %
Total Title 02			393,02	391,75	99,68%
Title 08 Research					
08	08 13	Capacities - Research for the benefit of small and medium-sized enterprises (SMEs)	263,66	263,56	99,96 %
	08 22	Completion of previous framework programmes and other activities	27,93	27,93	100,00 %
Total Title 08			291,60	291,49	99,97%
Title 15 Education and culture					
15	15 07	People - Programme for the mobility of researchers	1.074,77	1.071,72	99,72 %
Total Title 15			1.074,77	1.071,72	99,72%
Total DG REA			1.759,38	1.754,97	99,75 %

* 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).

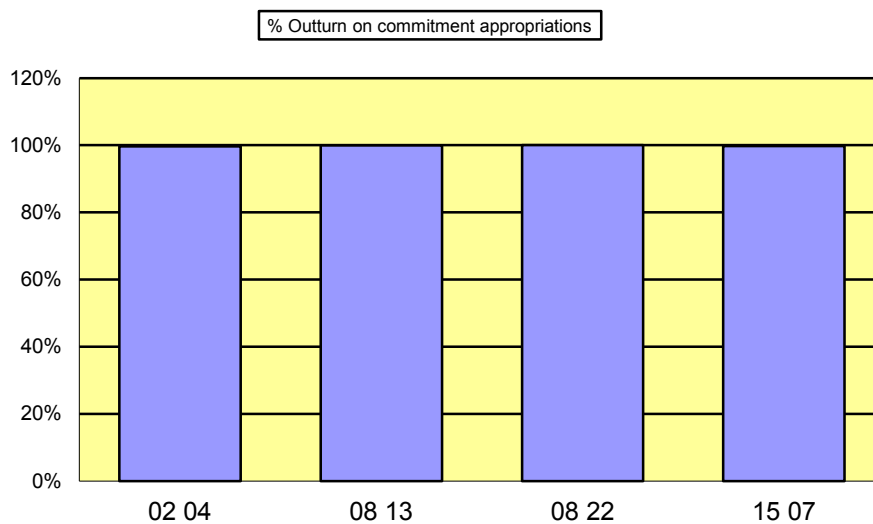
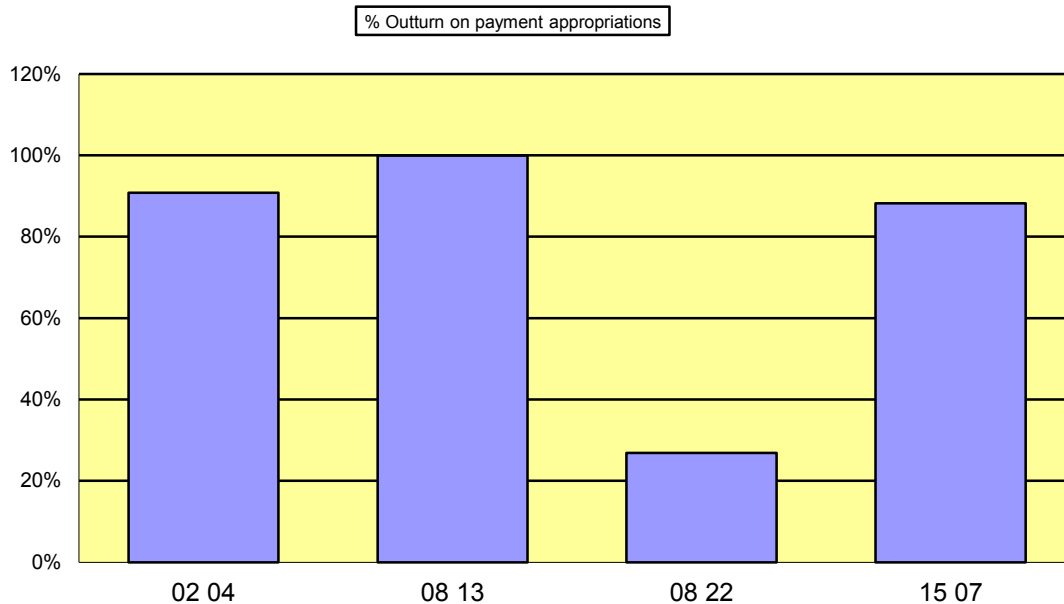


TABLE 2: OUTTURN ON PAYMENT APPROPRIATIONS IN 2013 (in Mio €)					
Chapter			Payment appropriations authorised *	Payments made	%
			1	2	3=2/1
Title 02 Enterprise					
02	02 04	Cooperation - Space and security	276,13	250,79	90,82 %
Total Title 02			276,13	250,79	90,82%
Title 08 Research					
08	08 13	Capacities - Research for the benefit of small and medium-sized enterprises (SMEs)	230,50	230,40	99,96 %
	08 22	Completion of previous framework programmes and other activities	37,78	10,15	26,87 %
Total Title 08			268,28	240,55	89,66%
Title 15 Education and culture					
15	15 07	People - Programme for the mobility of researchers	1.023,61	902,64	88,18 %
Total Title 15			1.023,61	902,64	88,18%
Total DG REA			1.568,02	1.393,98	88,90 %

* 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).

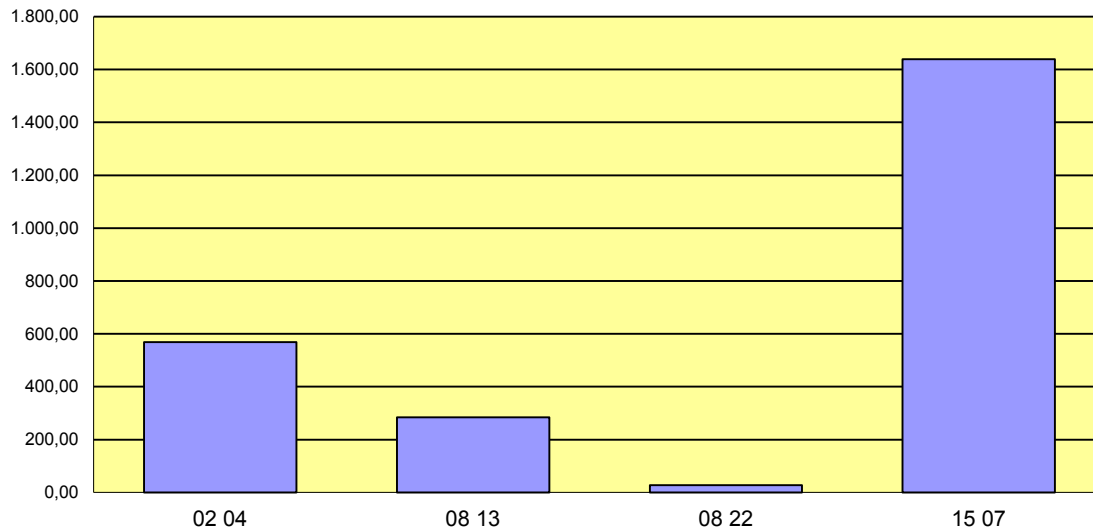


Note: the figures are those related to the provisional accounts and not yet audited by the Court of Auditors

Annex 3.1 Financial Reports Operational Budget

TABLE 3 : BREAKDOWN OF COMMITMENTS TO BE SETTLED AT 31/12/2013 (in Mio €)									
Chapter			2013 Commitments to be settled				Commitments to be settled from financial years previous to 2013	Total of commitments to be settled at end of financial year 2013 (incl corrections)	Total of commitments to be settled at end of financial year 2012 (incl. corrections)
			Commitments 2013	Payments 2013	RAL 2013	% to be settled			
			1	2	3=1-2	4=1-2/1	5	6=3+5	7
Title 02 : Enterprise									
02	02 04	Cooperation - Space and security	391,75	73,75	318,00	81,17 %	250,30	568,30	428,83
Total Title 02			391,75	73,75	318,00	81,17%	250,30	568,30	428,83
Title 08 : Research									
08	08 13	Capacities - Research for the benefit of small and medium-sized enterprises (SMEs)	263,56	114,59	148,97	56,52 %	135,61	284,58	251,47
	08 22	Completion of previous framework programmes and other activities	27,93	4,36	23,57	84,40 %	4,06	27,63	17,57
Total Title 08			291,49	118,95	172,54	59,19%	139,66	312,21	269,04
Title 15 : Education and culture									
15	15 07	People - Programme for the mobility of researchers	1.071,72	349,30	722,42	67,41 %	916,86	1.639,28	1481,57
Total Title 15			1.071,72	349,30	722,42	67,41%	916,86	1639,28	1481,57
Total DG REA			1.754,97	542,01	1.212,96	69,12 %	1.306,83	2.519,79	2.179,44

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 Financial Reports Operational Budget

TABLE 4 : BALANCE SHEET

BALANCE SHEET	2013	2012
A.I. NON CURRENT ASSETS	440.510.541,36	292.890.870,82
A.I.5. LT Pre-Financing	440.510.541,36	292.890.870,82
A.II. CURRENT ASSETS	1.108.662.388,68	746.203.419,66
A.II.2. Short-term Pre-Financing	1.103.028.792,84	741.544.667,45
A.II.3.2. Current Receivables and Recove	5.633.595,84	4.658.752,21
ASSETS	1.549.172.930,04	1.039.094.290,48
P.III. CURRENT LIABILITIES	-135.811.939,39	-174.905.000,25
P.III.4. Accounts Payable	-135.811.939,39	-174.905.000,25
LIABILITIES	-135.811.939,39	-174.905.000,25
NET ASSETS (ASSETS less LIABILITIES)	1.413.360.990,65	864.189.290,23

P.I.2. Accumulated Surplus / Deficit	4.431.583,38	0,00
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Non-allocated central (surplus)/deficit*	-1.417.792.574,03	-864.189.290,23
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TOTAL	0,00	0,00
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* This figure is a balancing amount presented here so as to reflect the fact that the accumulated result of the Commission is not attributed to each DG

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 : ECONOMIC OUTTURN ACCOUNT

ECONOMIC OUTTURN ACCOUNT	2013	2012
II.1 SURPLUS/ DEF. FROM OPERATING ACTIVT	831.611.879,97	943.497.577,43
II.1.1. OPERATING REVENUES	1.005.076,66	426.850,18
II.1.1.2. Other operating revenue	1.005.076,66	426.850,18
II.1.2. OPERATING EXPENSES	830.606.803,31	943.070.727,25
II.1.2.1. Administrative Expenses	0,00	0,00
II.1.2.2. Operating Expenses	830.606.803,31	943.070.727,25
II.2. SURPLUS/DEF. NON OPERATING ACTIVIT	-1.052.672,50	-2.037.717,74
II.2.1. FINANCIAL OPERATIONS	-1.052.672,50	-2.037.717,74
II.2.1.1. Financial revenue	-1.078.927,60	-2.062.959,45
II.2.1.2. Financial expenses	26.255,10	25.241,71
ECONOMIC OUTTURN ACCOUNT	830.559.207,47	941.459.859,69

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 2013 - 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	7332	5711	77,89 %	16,41	1621	22,11 %	42,06
45	11	10	90,91 %	25	1	9,09 %	48
90	2344	2217	94,58 %	48,62	127	5,42 %	156
105	6	2	33,33 %	51,5	4	66,67 %	157

Total Number of Payments	9693	7940	81,91 %		1753	18,09 %	
Average Payment Time	29,98			25,43			50,58

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	2242	2054	91,61 %	10,92	188	8,39 %	31,85
30	5056	3505	69,32 %	19,39	1551	30,68 %	42,05
75	2322	1947	83,85 %	44,39	375	16,15 %	107,37
90	5	2	40,00 %	51,5	3	60,00 %	167,33

Total Number of Payments	9625	7508	78,01 %		2117	21,99 %	
Average Payment Time	30,02			23,57			52,89

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	58	2660	27,44 %	9693	847.246.301,18	64,72 %	1.309.111.222,45

Late Interest paid in 2013			
DG	GL Account	Description	Amount (Eur)
REA	65010100	Interest on late payment of charges New FR	26 255,10
			26 255,10

TABLE 7 : SITUATION ON REVENUE AND INCOME IN 2013

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	
52	REVENUE FROM INVESTMENTS OR LOANS GRANTED, BANK AND OTHER INTEREST	1.459.688,41	29.535,75	1.489.224,16	1.373.062,23	29.535,75	1.402.597,98	86.626,18
66	OTHER CONTRIBUTIONS AND REFUNDS	12.447.655,98	1.478.105,57	13.925.761,55	9.443.811,07	1.450.338,32	10.894.149,39	3.031.612,16
90	MISCELLANEOUS REVENUE	63.346,33	5.000,00	68.346,33	14.134,88	5.000,00	19.134,88	49.211,45
Total DG REA		13.970.690,72	1.512.641,32	15.483.332,04	10.831.008,18	1.484.874,07	12.315.882,25	3.167.449,79

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 2013 Year of Origin (commitment)	Irregularity		No error / irregularity		TOTAL Qualified		TOTAL RC (incl. non-qualified)		% Qualified/Total RC	
	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount
	2007			4	59.333,33			4	59.333,33	
2008	10	914.555,42	57	2.874.989,94	10	914.555,42	67	3.789.545,36	14,93%	24,13%
2009	8	163.049,90	80	2.328.886,68	8	163.049,90	88	2.491.936,58	9,09%	6,54%
2010	1	14.900,10	53	1.863.224,32	1	14.900,10	54	1.878.124,42	1,85%	0,79%
2011	1	94.071,00	93	3.011.584,82	1	94.071,00	94	3.105.655,82	1,06%	3,03%
2012			35	1.254.849,80			35	1.254.849,80		
Sub-Total	20	1.186.576,42	322	11.392.868,89	20	1.186.576,42	342	12.579.445,31	5,85%	9,43%

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	434,53		
NON ELIGIBLE IN COST CLAIMS	6	86.246,23	594	15.788.347,86			600	15.874.594,09	742	24.866.326,97	80,86%	63,84%
CREDIT NOTES												
Sub-Total	6	86.246,23	594	15.788.347,86			600	15.874.594,09	743	24.866.761,50	80,75%	63,84%

GRAND TOTAL	6	86.246,23	614	16.974.924,28			620	17.061.170,51	1085	37.446.206,81	57,14%	42,39%
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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 31/12/2013 FOR REA

	Number at 01/01/2013	Number at 31/12/2013	Evolution	Open Amount (Eur) at 01/01/2013	Open Amount (Eur) at 31/12/2013	Evolution
2012	30	1	-96,67 %	1.512.641,32	27.767,25	-98,16 %
2013		36			3.139.682,54	
	30	37	23,33 %	1.512.641,32	3.167.449,79	109,40 %

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 2013 >= 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 2013
Administrative Budget****Table 1 : Commitments****Table 2 : Payments****Table 3 : Commitments to be settled****Table 4 : Balance Sheet****Table 5 : Economic Outturn Account****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 (excuding Building Contracts)****Table 12 : Summary of Contracts (excuding Building Contracts)****Table 13 : Building Contracts****Table 14 : Contracts decared Secret**

Additional comments

TABLE 1: OUTTURN ON COMMITMENT APPROPRIATIONS IN 2013 (in Mio €)				
Chapter		Commitment appropriations authorised *	Commitments made	%
		1	2	3=2/1
Title A-1 STAFF EXPENDITURE				
A-11	Salaries, allowances and other personnel charges	29,86	28,85	96,63 %
A-12	Sundries of recruitment and change of personnel	0,10	0,10	100,00 %
A-13	Expenses of missions	0,43	0,43	100,00 %
A-14	Social, Infrastructure and Training expenses	0,73	0,72	98,77 %
A-17	Representation exp., Events & Internal meetings	0,00	0,00	100,00 %
Total Title A-1		31,12	30,10	96,74%
Title A-2 INFRASTRUCTURE AND OPERATING EXPENDITURE				
A-20	Offices	5,26	5,25	99,75 %
A-21	Computer equipment purchase and maintenance	5,92	5,87	99,02 %
A-22	Movable property and associated expenses	0,08	0,07	88,57 %
A-23	Current administrative expenditure	0,08	0,05	63,29 %
A-24	Telecommunication and Posting expenses	0,05	0,05	99,98 %
Total Title A-2		11,40	11,29	99,02%
Title A-3 TECHNICAL AND ADMINISTRATIVE SUPPORT EXPENDITURE				
A-31	Meetings of experts, Conferences and Seminars	0,05	0,04	72,34 %
A-32	Information and Publications	0,23	0,22	96,37 %
A-33	Other technical expenses and of administrative sup	3,96	3,95	99,70 %
Total Title A-3		4,24	4,21	99,20%
TOTAL REA		46,76	45,60	97,52 %

* 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).

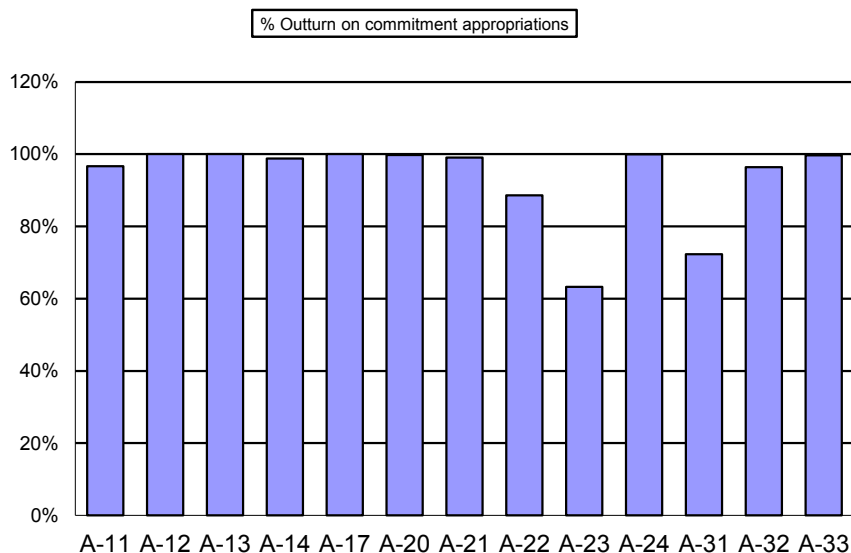


TABLE 2: OUTTURN ON PAYMENT APPROPRIATIONS IN 2013 (in Mio €)

Chapter		Payment appropriations authorised *	Payments made	%
		1	2	3=2/1
Title A-1 STAFF EXPENDITURE				
A-11	Salaries, allowances and other personnel charges	30,26	29,15	96,35 %
A-12	Sundries of recruitment and change of personnel	0,11	0,09	81,30 %
A-13	Expenses of missions	0,57	0,39	68,31 %
A-14	Social, Infrastructure and Training expenses	0,89	0,63	70,48 %
A-17	Representation exp., Events & Internal meetings	0,00	0,00	63,08 %
Total A-1		31,83	30,26	95,07%
Title A-2 INFRASTRUCTURE AND OPERATING EXPENDITURE				
A-20	Offices	5,81	5,21	89,67 %
A-21	Computer equipment purchase and maintenance	6,58	5,84	88,83 %
A-22	Movable property and associated expenses	0,32	0,26	82,70 %
A-23	Current administrative expenditure	0,10	0,05	47,61 %
A-24	Telecommunication and Posting expenses	0,05	0,05	96,30 %
Total A-2		12,85	11,41	88,77%
Title A-3 TECHNICAL AND ADMINISTRATIVE SUPPORT EXPENDITURE				
A-31	Meetings of experts, Conferences and Seminars	0,06	0,03	51,55 %
A-32	Information and Publications	0,48	0,38	80,05 %
A-33	Other technical expenses and of administrative sup	5,16	3,77	73,00 %
Total A-3		5,70	4,18	73,38%
TOTAL REA		50,38	45,85	91,01 %

* 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).

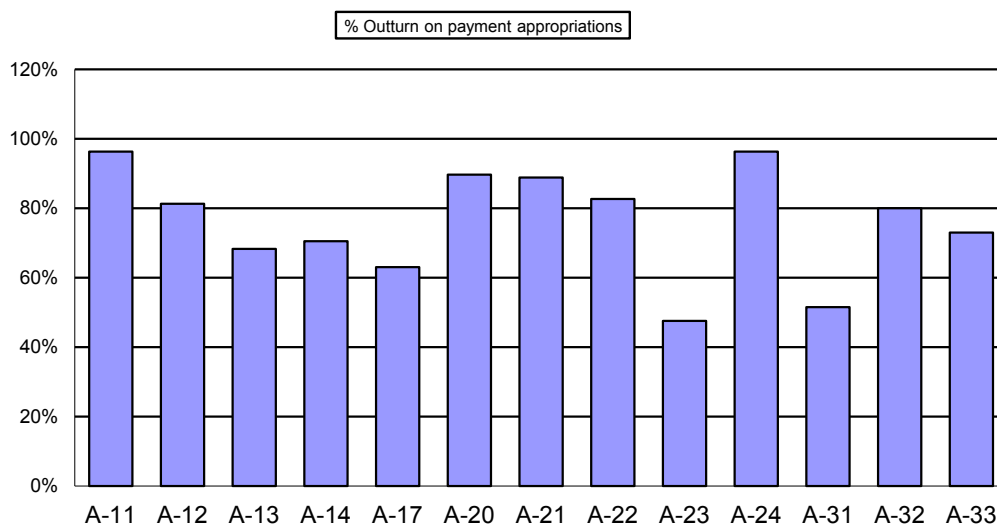
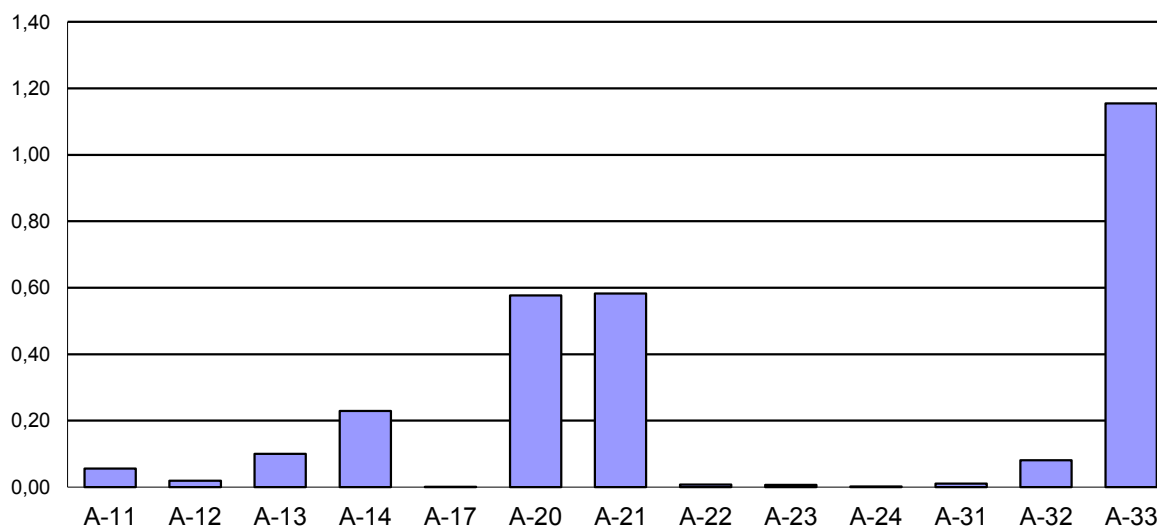


TABLE 3 : BREAKDOWN OF COMMITMENTS TO BE SETTLED AT 31/12/2013 (in Mio €)

Chapter		2013 Commitments to be settled			
		Commitments 2013	Payments 2013	RAL 2013	% to be settled
		1	2	3=1-2	4=1-2//1
Title A-1 STAFF EXPENDITURE					
A-11	Salaries, allowances and other personnel charges	28,85	-28,79	0,06	0,19 %
A-12	Sundries of recruitment and change of personnel	0,10	-0,09	0,02	18,14 %
A-13	Expenses of missions	0,43	-0,33	0,10	23,42 %
A-14	Social, Infrastructure and Training expenses	0,72	-0,49	0,23	31,73 %
A-17	Representation exp., Events & Internal meetings	0,00	0,00	0,00	23,24 %
Total A-1		30,10	-29,70	0,40	1,34%
Title A-2 INFRASTRUCTURE AND OPERATING EXPENDITURE					
A-20	Offices	5,25	-4,67	0,58	10,99 %
A-21	Computer equipment purchase and maintenance	5,87	-5,28	0,58	9,93 %
A-22	Movable property and associated expenses	0,07	-0,07	0,01	10,77 %
A-23	Current administrative expenditure	0,05	-0,05	0,01	12,54 %
A-24	Telecommunication and Posting expenses	0,05	-0,05	0,00	3,74 %
Total A-2		11,29	-10,11	1,18	10,41%
Title A-3 TECHNICAL AND ADMINISTRATIVE SUPPORT EXPENDITURE					
A-31	Meetings of experts, Conferences and Seminars	0,04	-0,03	0,01	28,12 %
A-32	Information and Publications	0,22	-0,14	0,08	36,59 %
A-33	Other technical expenses and of administrative sup	3,95	-2,80	1,15	29,20 %
Total A-3		4,21	-2,96	1,24	29,58%
TOTAL REA		45,60	-42,78	2,82	6,19 %

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	2013	2012
A.I. NON CURRENT ASSETS	6.920.873,10	7.148.095,76
A.I.1. Intangible Assets	3.456.014,10	3.068.982,41
A.I.2. Property, plant and equipment	3.464.859,00	4.079.113,35
A.II. CURRENT ASSETS	7.166.200,12	9.120.399,60
A.II.3.2. Current Receivables and Recove	2.913.787,99	2.478.994,40
A.II.5. Cash and Cash Equivalents	4.252.412,13	6.641.405,20
ASSETS	14.087.073,22	16.268.495,36
P.II. NON CURRENT LIABILITIES	0,00	
P.II.2. Long-term provisions	0,00	
P.III. CURRENT LIABILITIES	-4.969.877,67	-6.246.644,46
P.III.2. Short-term provisions	-860.571,36	-860.571,36
P.III.4. Accounts Payable	-4.109.306,31	-5.386.073,10
LIABILITIES	-4.969.877,67	-6.246.644,46
NET ASSETS (ASSETS less LIABILITIES)	9.117.195,55	10.021.850,90
P.I.2. Accumulated Surplus / Deficit	-10.021.850,90	-9.071.216,63
Non-allocated central (surplus)/deficit	904.655,35	-950.634,27
TOTAL	0,00	0,00

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;REA

ECONOMIC OUTTURN ACCOUNT	2013	2012
II.1 SURPLUS/ DEF. FROM OPERATING ACTIVT	904.655,35	-950.634,27
II.1.1. OPERATING REVENUES	-45.062.912,14	-43.440.109,90
II.1.1.2. Other operating revenue	-45.062.912,14	-43.440.109,90
II.1.2. OPERATING EXPENSES	45.967.567,49	42.489.475,63
II.1.2.1. Administrative Expenses	45.967.507,64	41.833.355,94
II.1.2.2. Operating Expenses	59,85	656.119,69
II.2. SURPLUS/DEF. NON OPERATING ACTIVIT	0,00	0,00
II.2.1. FINANCIAL OPERATIONS	0,00	0,00
II.2.1.2. Financial expenses	0,00	0,00
ECONOMIC OUTTURN ACCOUNT	904.655,35	-950.634,27

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 & 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 2013 - 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	848	776	91,51 %	18,15	72	8,49 %	41,18
45	758	660	87,07 %	24,96	98	12,93 %	75,52
60	65	63	96,92 %	36,48	2	3,08 %	61,00

Total Number of Payments	1671	1499	89,71 %		172	10,29 %	
Average Payment Time	25,94			21,92			60,98

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	1483	1084	73,10 %	18,22	399	26,90 %	48,58

Total Number of Payments	1483	1084	73,10 %		399	26,90 %	
Average Payment Time	26,39			18,22			48,58

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
2	39	71	4,25 %	1.671	243.650,09	1,14 %	21.367.668,20

Late Interest paid in 2013

Agency	GL Account	Description	Amount (Eur)
REA	65013000	Other interest expenses consolidated entities	0,00
			0,00

TABLE 7 : SITUATION ON REVENUE AND INCOME IN 2013

Title	Description	Year of Origin	Revenue and Income recognized	Revenue and Income cashed	Outstanding Balance
20-0	EU Budget Contribution to the Executive Agency	2013	46.764.740,00	46.764.740,00	0,00
TOTAL REA			46.764.740,00	46.764.740,00	0,00

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

INCOME BUDGET RECOVERY ORDERS ISSUED IN 2013 Year of Origin (commitment)	No error / irregularity		TOTAL Qualified		TOTAL RC (incl. non-qualified)		% Qualified/Total RC	
	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount
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 31/12/2013 FOR REA

Year of Origin	Number at 01/01/2013	Number at 31/12/2013	Evolution	Open Amount (Eur) at 01/01/2013	Open Amount (Eur) at 31/12/2013	Evolution
Totals						

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 10 : RECOVERY ORDER WAIVERS IN 2013 >= EUR 100.000

	Waiver Central Key	Linked RO Central Key	RO Accepted amount (Eur)	LE Account Group	Commission Decision	Comments
1						

Total REA;REA	
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Number of RO waivers	
-----------------------------	--

Justifications:

TABLE 11 : CENSUS OF NEGOTIATED PROCEDURES - DG REA - 2013

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

<p>Total Number of Contracts :</p> <p>Total amount :</p>	
---	--

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

No data to be reported

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 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:

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

where:

- ResER%** residual error rate, expressed as a percentage.
- RepER%** representative error rate, or error rate detected in the common representative sample valid for all FP7 managing services, expressed as a percentage.
- 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 of cost statements received.
- 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. This consists of the total EC share, expressed in €, of all non-audited received cost statements for all audited beneficiaries (whether extrapolation has been launched or not)¹.

¹ The calculation of the residual error rates for the REA ABB activities for 2013 reads as follows:

		Space and Security	SMEs	People
final audit results	REP ER %*	-4.14%	-5.30%	-1.43%
	REP ERSys %*	-1.75%	-0.48%	-0.08%
	P	450,030,000	506,160,000	1,028,350,000
	A	49,786,163	7,788,461	52,771,295
	E	215,456,853	26,777,532	767,806,625
	RESID ER %	-2.84%	-5.19%	-1.30%
final and draft audit results	REP ER %*		-5.93%	-1.40%
	REP ERSys %*		-0.43%	-0.07%
	P		506,160,000	1,028,350,000
	A		9,777,387	66,566,502
	E		25,220,355	756,793,544
	RESID ER %		-5.80%	-1.26%

*For People and SMEs detected error rates are used.

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 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.

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 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.

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.

ANNEX 5: INTERNAL CONTROL TEMPLATES FOR BUDGET IMPLEMENTATION (ICTS)

Grant direct management – FP7

Stage 1: Programming, evaluation and selection of proposals

A - Publication of Calls for proposals

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>Hierarchical validation within the authorising department Inter-service consultation, including all relevant DGs Adoption by the Commission</p> <p>Explicit allocation of responsibility.</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>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>% of number of calls successfully published / number of calls planned in MP/WP</p> <p>% of budget "over-subscription" from proposals received</p> <p>% of budget value implemented / budget allocated (commitments from calls)</p>

The Agency notes that this stage of the 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 the assessing the REA's own performance.

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
<p>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.</p>	<p>Selection and appointment of expert evaluators</p> <p>Assessment by independent experts</p> <p>Validation by the AO 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>100% vetting (including selecting) of experts for technical expertise and independence (e.g. conflicts of interests, nationality bias, ex-employer bias, collusion)</p> <p>100% of proposals are evaluated. 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>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.</p> <p>Benefits: Qualitative benefits: 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 executed projects</p>	<p>% of number of (successful) redress challenges / total number of proposals received</p> <p>Average time to publication of selection results (Article 128(2) of the Financial Regulation)</p> <p>Average evaluation cost per proposal (external experts paid only)</p> <p>% cost over annual amount disbursed in grants</p>

Stage 2: Conclusion of grant agreements

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>Project Officers implement evaluators' recommendations in discussion with selected applicants. Hierarchical validation of proposed adjustments.</p> <p>Validation of beneficiaries (operational and financial viability).</p> <p>Systematic checks on operational and legal aspects performed before signature of the GA</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>Costs: estimation of cost of staff involved in the grant finalisation process.</p> <p>Benefits: Difference between the budget value of the selected proposals and that of the corresponding grant agreements.</p> <p>+ Qualitative benefits: The whole committed budget checked for quality (prevention of later errors). This stage should lead to a higher quality of scientific result.</p>	<p>% reduction in the EU contribution as a result of the negotiation process</p> <p>Average time to grant (Article 128(2) of the Financial Regulation)</p> <p>% cost over annual amount contracted</p>

Stage 3: Monitoring of the grant agreement execution

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 and/or the amounts paid exceed what is due in accordance with the applicable contractual and regulatory provisions.</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>Operational and financial checks in accordance with the financial circuits.</p> <p>Operation authorisation by the AO</p> <p>For riskier operations, more in-depth ex-ante controls</p> <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.</p> <p>Referring grant/beneficiary to OLAF</p>	<p>100% of the projects are controlled, including only value-adding checks.</p> <p>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.</p> <p>Red flags: suspicions raised by staff, audit results, EWS or other reasons (being developed)</p> <p>Audit certificates required for any beneficiary claiming more than €375,000 (FP7).</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</p> <p>Reductions in error rates identified by audit certificates.</p> <p>Benefits due to operational review of projects and consequent corrective actions imposed on projects</p>	<p>% and value of reductions made to EU contribution paid out through the ex-ante desk-checks/total value of cost claims</p> <p>Average number & value of running projects managed 'per' staff FTE</p> <p>Time-to-pay</p> <p>% and number of suspended payment</p> <p>Average project management cost (staff FTE * standard staff cost) per running * project</p> <p>% cost over budget of running projects</p>

Stage 4: Ex-post controls and recoveries

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>Ex-post control strategy:</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 <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. - REA 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/detected 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>Total & Average ex-post audit cost in-house (FTE * standard staff cost) and/or outsourced (audit fees paid)</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</p> <p>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>Effectiveness:</p> <p>Amounts being recovered and offset</p> <p>Number/value/% of audit results pending implementation</p> <p>Number/value/% of audit results implemented.</p>



European Research Council
Executive Agency

Established by the European Commission



2013

Annual Activity Report

**European Research Council
Executive Agency**

Figures related to the financial statements are based on provisional accounts,
as final accounts are to be adopted by July 1st, 2014.

Table of Contents

INTRODUCTION	3
THE ERCEA IN BRIEF	3
THE YEAR IN BRIEF	4
EXECUTIVE SUMMARY	6
KEY PERFORMANCE INDICATORS	6
IMPLEMENTATION OF THE AGENCY'S ANNUAL WORK PROGRAMME - HIGHLIGHTS OF THE YEAR.....	7
KEY CONCLUSIONS ON RESOURCE MANAGEMENT AND INTERNAL CONTROL EFFECTIVENESS.....	8
INFORMATION TO THE COMMISSIONER.....	9
1. IMPLEMENTATION OF THE AGENCY'S ANNUAL WORK PROGRAMME	10
SCIENTIFIC MANAGEMENT OF THE "IDEAS" PROGRAMME.....	11
1.1.1 Calls for proposals	13
1.1.2 Evaluation of proposals	14
1.1.3 Scientific follow-up	16
FINANCIAL MANAGEMENT OF THE "IDEAS" WORK PROGRAMME	16
1.1.4 Overview of the achievement of the 2013 key targets	16
1.1.5 Implementation of the 2013 operational budget appropriations	19
IMPLEMENTATION OF ERCEA ADMINISTRATIVE BUDGET	24
SPECIFIC EFFORTS TO IMPROVE 'ECONOMY' AND 'EFFICIENCY' OF SPENDING AND NON-SPENDING ACTIVITIES.	25
1.1.6 Example 1	25
1.1.7 Example 2	26
2. MANAGEMENT OF RESOURCES	27
MANAGEMENT OF HUMAN AND FINANCIAL RESOURCES BY ERCEA	29
2.1.1 Operational budget's underlying transactions	29
2.1.2 Administrative budget's underlying transactions	41
2.1.3 Fraud prevention and detection	42
BUDGET IMPLEMENTATION TASKS ENTRUSTED TO OTHER SERVICES AND ENTITIES	43
ASSESSMENT OF AUDIT RESULTS AND FOLLOW UP OF AUDIT RECOMMENDATIONS	43
3. ASSESSMENT OF THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEMS	45
4. MANAGEMENT ASSURANCE	47
REVIEW OF THE ELEMENTS SUPPORTING ASSURANCE	47
RESERVATIONS AND OVERALL CONCLUSION ON ASSURANCE (IF APPLICABLE).....	48
DECLARATION OF ASSURANCE	49
ANNEXES	
ANNEX 1: STATEMENT OF THE HEAD OF RESOURCES AND SUPPORT	51
ANNEX 2: HUMAN AND FINANCIAL RESOURCES	52
ANNEX 3: DRAFT ANNUAL ACCOUNTS AND FINANCIAL REPORTS	53
ANNEX 4: MATERIALITY CRITERIA	72
ANNEX 5: INTERNAL CONTROL TEMPLATE(S) FOR BUDGET IMPLEMENTATION (ICTs)	75
ANNEX 6: IMPLEMENTATION OF THE ERCEA AWP 2013	85
ANNEX 7: SPECIFIC ANNEXES RELATED TO "MANAGEMENT OF RESOURCES" (PART 2)	93

INTRODUCTION

The ERCEA in brief

The European Research Council (ERC) is organised along a two-tier structure, composed of an independent Scientific Council and a dedicated implementation structure, the European Research Council Executive Agency (ERCEA), which handles autonomously the operational management of the "Ideas" programme¹. The ERC marks a new approach to investing in frontier research in Europe, aiming at reinforcing excellence, dynamism and creativity in European research by funding investigator-driven projects of the highest quality at the frontiers of knowledge. Such EU-funded research responds to the needs of improving the attractiveness of Europe for the best researchers worldwide and strengthening the EU capacity to generate new knowledge back into the economy and the society. In addition, the ERC frontier research funding benefits the scientific community in Europe by providing researchers in Europe with the means to conduct their research independently and by offering them attractive perspectives for a career in science. These objectives are fully in line with the aims of the Europe 2020 strategy designed to deliver smart, sustainable and inclusive growth through the strengthening of every link in the innovation chain, from 'blue sky' research to commercialization.

The Scientific Council², representing collectively the European scientific community, sets the ERC scientific strategy, having full authority on the type of research to be funded. It further monitors the scientific management and quality performance of the programme implementation, and establishes the external communication strategy.

In turn, the ERCEA executes the scientific strategy established by the ERC Scientific Council and supports the latter in fulfilling its tasks by providing advice and analysis, organising and running its plenary meetings as well as the regular meetings of the Scientific Council's members with ERC stakeholders, thus guiding the implementation of the "Ideas" programme. Furthermore, being accountable to the European Commission, the ERCEA is supervised by its Steering Committee³, which overlooks the Agency's operations and adopts the Annual Work Programme (AWP), administrative budget and annual reports.

Through the management of ERC funding instruments⁴, from the call for proposals to

¹ Council Decision 2006/972/EC, of 19 December 2006, OJ L54, 22/2/2008.

² Composed of 22 members.

³ The Steering Committee is composed of five members, appointed by the European Commission: the Director-General of DG Research and Innovation, as Chairperson of the Committee, the Resources Director of DG Research and Innovation, as Vice-chairperson of the Committee, the Director of DG HR, responsible for Organisation and Executive Staff, and two members of the ERC Scientific Council. The ERC Secretary General has observer status.

⁴ ERC funding instruments are the Starting Grant, the Consolidator Grant, the Advanced Grant – the 3 core schemes – the Synergy Grant and the Proof of Concept Grant. For more details, please refer to Annex 6.1.

final payments and closure of projects, the ERCEA enables to finance investigator-driven research of the highest quality and favours innovative ideas and inter-disciplinary research, along with its mission statement: *“The European Research Council Executive Agency is dedicated to selecting and funding the excellent ideas that have not happened yet and the scientists that are dreaming them up.”*

2013 being the last year of the "Ideas" programme, the overall budget of € 7,5 billion for the period 2009 – 2013 has been fully implemented in accordance with the indirect centralised management mode⁵. In addition, throughout that period the ERCEA proved to be an efficient, effective and cost-effective tool for the management of the "Ideas" Specific Programme, earning an enhanced recognition as a world-class research funding agency for the quality of its operations. Indeed, its administrative budget, managed under the direct centralised management mode, was kept in 2013 to 2,27%⁶ of the operational budget. At the end of 2013, the ERCEA employed a total of 379 agents, resulting in 70% of total staff being allocated to ERCEA's operational activities, the Scientific Management Department and the Grant Management Department accounting for respectively 40% and 30% of total staff. Contract agents represented 71% of total ERCEA staff members.

The year in brief

ERCEA's main challenge during 2013 was to cope, in a context of staff restrictions and payment credits shortage, with the execution of the annual operational budget, which increased by 12,2% in 2013 and with the increased number of transactions, i.e. proposals submitted, experts appointed, contracts signed or payments made, while not compromising either the quality of provided services or the effectiveness and efficiency of processes and meeting its performance targets.

Indeed, considering all calls together, the number of submitted proposals (10.151⁷) exceeded the target set in the 2013 AWP of the Agency by 17%, which already forecast a 10% increase compared to actual 2012 submissions (7.899). Despite this rise, targets related to the scientific management were successfully met.

In order to address this increased volume of demand the evaluation system has been revised in the 2013 "Ideas" Work Programme⁸ splitting one of its core funding

⁵ As of 1st of January 2014 Article 58 of the new FR enters into force, establishing one management mode for Executive Agencies, direct management. Following DG BUDGET's advice, the Agency is already applying the Direct Management instructions and templates published in BUDGWEB.

⁶ Refer to Annex 6.6 for the administrative budget (€ 40 Mio) and Annex 6.2 for the operational budget (€ 1.762 Mio).

⁷ Representing almost a 30% increase compared to the number of proposals submitted in 2012.

⁸ Commission Decision C(2012) 4562 of 09/07/2012 adopting the 2013 Work Programme in the framework of the Specific Programme "Ideas" implementing the Seventh Framework Programme of the European Community for research, technological development and demonstration activities (2007-2013), pp. 19-20.

instrument, the "Starting Grant", into two schemes: the "ERC Starting Grant" for starters with at least two years but not more than seven years' experience after their PhD and the "ERC Consolidator Grant" for scientists who completed their PhD at least seven, but no longer than 12 years ago.

Additionally, the number of payment transactions processed throughout the year increased by 31% compared to 2012. The overall implementation of the "Ideas" programme matured from the call for proposals, evaluation and granting stages towards grant implementation process stage as shown by the increasing share of payments against cost declarations (70% in 2013 against 55% of all payments), triggering a raise in scientific projects' follow up⁹. Thanks to continuous and prudent budget forecasting, adequate allocation of resources and well-designed processes, ERCEA financial management targets were also met. Furthermore, looking ahead to 2014, the Grant Management Department prepared its major reorganization, whereby the organisation along the various phases of the project life-cycle will be replaced by a structure based on the type of grants as of 1st January 2014.

Furthermore, this year was the crucial year for the preparation for Horizon 2020 and the finalisation of the relevant legislation and guidance documents. The ERCEA significantly contributed, together with DG Research and Innovation, other Executive Agencies and DGs to the launch of Horizon 2020, leading to the adoption of the ERC establishing acts, the ERCEA Delegation Act, as well as the adoption of the ERC Work Programme, the ERC Model Grant Agreements and the H2020 model expert contract, thus allowing the first ERC 2014 calls to be timely published in December. In this context, the renewal of the membership of the ERC's Scientific Council, including a new full-time President in Brussels was announced at year end.

Finally, to attract proposals from excellent researchers from all over the world, the ERCEA continued implementing its external communication strategy, inside and outside Europe, as reflected in the results shown in the first line of the table above regarding the number of website visitors and the ERC press coverage, as well as in the increased submitted applications. For example, ERC Scientific Council members or ERCEA representatives organised or attended key-events, including scientific congresses¹⁰, meetings gathering young talents¹¹ or the well-known American Association for the Advancement of Science (AAAS) held each year in the US, all attended by research talents. In addition, to promote and widen participation in ERC calls in specific countries, targeted visits and meetings were organized (or co-organized with national authorities, NCPs or with DG RTD) like in Poland and in Lithuania. Outside Europe¹², the ERC Secretary General and together with ERCEA staff presented the ERC schemes to local audiences in carefully selected institutions, known to be centres of excellence for research, in the framework of the "ERC goes global" awareness raising campaign.

⁹ 228 scientific reports in 2012 compared to 787 in 2013.

¹⁰ "European society for Cognitive Psychology", "EMBO" and "European Sociological Association".

¹¹ "Lindau Nobel laureate meeting" and the "Young Academy of Europe".

¹² Argentina, Canada, Chile, Brazil, Mexico, India, China, Japan, Hong Kong, South Korea, Taiwan, Australia, Russia, South Africa and New Zealand.

EXECUTIVE SUMMARY

The Annual Activity Report is a management report of the Director of the ERCEA to the College of Commissioners. It is the main instrument of management accountability within the Commission and constitutes the basis on which the Commission takes its responsibility towards the Budgetary Authority for the management of resources and the achievement of objectives.

Key Performance Indicators

	AWP 2013 target	31.12.2013	Reference for detailed information
Average time to inform applicants¹³ (days)	StG, CoG, AdG 2013: 160 days SyG 2013: 180 days PoC 2013: 60 days	StG, CoG, AdG 2013: 163 SyG 2013: 113 PoC-1 2013: 96 PoC-2 2013: 77	1.1.2; 2.1.1, stage 1
Time to contract from invitation to signature of grant (days)	90 days / 105 days ¹⁴	StG 2012: 105 StG 2013: 104 AdG 2012: 119 AdG 2013: 140 SyG 2012: 197 PoC 2012: 109	1.2.1; 2.1.1, stage 2
Budget execution (Commitments and Payment Credits)¹⁵	100%	100%	1.2.2
Average time to pay	<30/90 days ¹⁶	15,1	2.1.1
Ex-post control residual error	-	1,23% ¹⁷	2.1.1, stage 4

¹³ As stated in FR Art. 128: "The authorising officer by delegation shall report in his or her annual activity report on the average time taken to inform applicants, sign grant agreements or notify grant decisions."

¹⁴ Last year's target of 105 days has been reduced to 90 days for the time to contract from invitation to signature of grants, in order to comply with the new FR which entered into force on 1 January 2013 (cf. OJ L298 of 26/10/2012 p. 61). However, this target is only binding for calls launched in 2013 under the new FR and therefore not applicable to calls reported in the present AAR, which were launched in 2012.

As a consequence, the target of "time to grant (from invitation to signature)" is 105 days, like in 2012, for all calls reported in the present AAR.

¹⁵ It concerns L1 Commitment and payments appropriations (C1 credits).

¹⁶ These targets result from the FR; ERCEA AWP 2013 related targets are 20 days for pre-financing and 90 days for interim and final payments.

Implementation of the Agency's Annual Work programme - Highlights of the year

The performance objective of the evaluation process is to strike the right balance between the quality of evaluation (time needed for experts to properly review an increasing number of proposals) and the timeliness of communication of the results to an increasing number of applicants. The historic increasing number of submitted proposals (25% increase on average since 2010) keeps challenging this delicate balance.

Despite a yearly increase of 28,5% of all submitted proposals, reaching more than 10.000 proposals received and the running of 5 calls for proposals for the first time in 2013, the core schemes' "time to inform applicants" has remained well below the Financial Regulation (FR) target of 180 days and remarkably stable at around 160 days (+/- 3%) since 2011, year in which the ERCEA departed from the 2 calls per year scheme. In particular, this deviation versus the AWP target represents only 1,8% (i.e. 3 days) to be considered in the perspective of the 2013 number of submitted proposals of 9.410, in line with 2012 results.¹⁸

As an exception, the "time to inform" of the 2013 Proof of Concept call shows a deviation from the target, due to the high number of submitted proposals in response to the call (PoC-1 and PoC-2¹⁹). Corrective measures implemented for the second deadline of the call (PoC-2) have proved to be effective, as the "time to inform" dropped from 96 to 77 days between the first and second deadline.

Considering the high increase of submitted proposals, the efficiency of the process has actually improved in 2013 as demonstrated by the stable "average time to inform applicants" over the years for all types of schemes (around 160 days). Consequently, management considers that the achieved results fulfilled ERCEA's mission statement and its operational objectives, thus positively impacting the assurance.

In the AWP 2013, the "time to contract" target (from invitation to signature) has been reduced from 105 days in 2012 to 90 in 2013, as to comply with article 128 of the new FR²⁰. However, this target is only binding for calls launched in 2013 under the new FR and therefore not applicable to calls reported in the present AAR, which were launched in 2012 (except for PoC 2013). Furthermore, looking ahead, article 20.3 of the Horizon 2020 Rules of Participation²¹ grants a derogation for actions of the ERC, as the common

¹⁷ Drawn on the basis of the ERCEA MUS sample as shown in Part 2.1.1 stage 4.

¹⁸ The related 2012 average "time to inform" was 155 days (7.045 submitted proposals).

¹⁹ The Proof of Concept call has 2 deadlines per year (in spring and autumn).

²⁰ Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council, of 25 October 2012, on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002, OJ L 298, 26.10.2012, p. 1.

²¹ Regulation (EU) No 1290/2013 of the of the European Parliament and of the Council, of 11 December 2013, laying down the rules for participation and dissemination in "Horizon 2020 - the Framework Programme for Research and Innovation (2014-2020)" and repealing Regulation (EC) No 1906/2006, OJ L 347, 20.12.2013, p 81.

"time to grant" of 90 days referred to in article 20.2 "... may be exceeded for actions of the European Research Council and in exceptional, duly justified cases, in particular for complex actions, where there is a large number of proposals or where requested by the applicants". As a consequence, the target to be retained as the "time to grant (from invitation to signature)" is 105 days, like in 2012, for all calls reported in the present AAR.

The "time to contract" deviation from the 105 days target related to the Advanced Grants 2012 and 2013 is due to their evaluation schedule, whilst the deviations of the Synergy Grants are due to the complexity of this scheme (2 to 4 Principal Investigators).

The other performance indicators (budget execution, "average time to pay" and ex-post control residual error rate), meeting the targets, do support the declaration of assurance.

Key conclusions on resource management and internal control effectiveness

In accordance with the governance statement of the European Commission, the ERCEA conducts its operations in compliance with the applicable laws and regulations, working in an open and transparent manner and meeting the expected high level of professional and ethical standards.

The Commission has adopted a set of internal control standards, based on international good practice, aimed to ensure the achievement of the operational objectives related to programme implementation. As required by the FR, the Director has put in place the organisational structure and the internal control systems suited for the achievement of the implementation of the "Ideas" programme's and control objectives, in accordance with the standards and having due regard to the risks associated with the environment in which it operates.

The ERCEA has assessed the effectiveness of its key internal control systems during the reporting year and has concluded that the internal control standards are effectively implemented²².

In addition, the ERCEA has systematically examined the available control results and indicators, as well as the observations and recommendations issued by internal auditors and the European Court of Auditors. These elements have been assessed to determine their impact on the management's assurance as regards the achievement of control objectives²³.

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and

²² Please refer to Part 3 for further details.

²³ Please refer to Part 2 for further details.

mitigated; and necessary improvements and reinforcements are being implemented. The Director, in his capacity as Authorising Officer by Delegation for the operational budget and as Authorising Officer for the administrative budget has signed the Declaration of Assurance.

Information to the Commissioner

The main elements of this report and assurance declaration have been brought to the attention of the ERCEA's Steering Committee and to the parent DG Director General, who has integrated these in his reporting to Commissioner Máire Geoghegan-Quinn, responsible for Research and Innovation.

1. IMPLEMENTATION OF THE AGENCY'S ANNUAL WORK PROGRAMME

Reflecting the two tier-structure of the European Research Council, the “Ideas” Work Programme, annually established by the ERC Scientific Council and adopted by the Commission, defines the specific objectives and result indicators disclosed below. These derive from the general targets of the FP7 as a whole and from Commission’s policy objectives in the area of research which may be found in the FP7 legal basis and in the Annual Management Plan of DG Research and Innovation. In addition, these objectives and indicators are reflected in the ERCEA Annual Work Programme, as to bridge the ERC policy and corresponding ERCEA implementation objectives, the latter being reported in detail below.

Specific objective 1	Indicators [source: AWP 2013]	Target (result)	31.12.2013
To enhance the generation of excellent, innovative ideas in frontier research in Europe	Number of international prizes and awards by grant holders	200 by 2020	ERCEA has recorded 134 ²⁴ ERC grantees who won prestigious research prizes. (For this indicator, only prizes awarded after the ERC Grant are taken into consideration. Also noteworthy is the fact that ERC counts among its grantees 8 Nobel prize winners and 3 Field Medallists).
	Number of scientific publications by grant holders	~40-60.000 by 2020	ERCEA has collected more than 20.000 ²⁵ journal articles from ERC funded projects from Thomson Reuters' Web of Knowledge. Thomson Reuters' Web of Knowledge is a bibliographic system which indexes about 23.000 peer-reviewed and high impact scholarly journals. Articles from ERC funded projects are identified as those which explicitly acknowledge ERC funding.

The fundamental activity of the ERC is to provide attractive, long-term funding to support excellent investigators and their research teams to pursue ground-breaking, high-gain/high-risk research. One indicator of whether the ERC is funding excellent investigators is the number and quality of the international scientific prizes and awards

²⁴ As of end July 2013.

²⁵ As of end October 2013.

received by ERC grant holders. An indicator of whether they are producing ground-breaking research is the number of scientific publications appearing in high impact journals. Based on the number of prizes and publications so far (see above) the ERC is well on track to meet its targets. The ERC is also developing a range of other indicators and studies to measure the impact of the research it funds.

Evidence suggests that there is already intensifying competition between Europe's universities and other research organisations to offer the most attractive conditions for ERC grant holders. Furthermore, the number of ERC grants awarded to researchers based in the different Member States has set a benchmark which has led some Member States to assess their relative strengths and weaknesses and reform their policies and practices accordingly.

Two exploratory studies looking at ways in which bibliometrics could be used to measure the extent to which ERC is reaching its mission in funding frontier research and addressing emerging research areas were completed in 2013. These studies revealed some of the difficulties with this approach but also produced some practical recommendations for the ERC to consider.

The ERCEA will be fully involved in contributing to the ex-post evaluation of FP7 to be completed by 31 December 2015.

The ERCEA Annual Work Programme, adopted by its Steering Committee further to the approval of the Commission, defines objectives and indicators related to the implementation of the scientific and financial management of the "Ideas" programme²⁶, as well as to the implementation of its administrative budget.

Scientific management of the "Ideas" Programme

The main 2013 activity of the ERCEA with regard to the scientific management of the "Ideas" programme was to successfully deliver on the 2013 ERC Calls for Proposals, and the follow-up of implementation from calls launched in earlier years. During 2013, all targets related to the Scientific management were fully achieved.

²⁶ Respectively under section 1.1 "Scientific Management of the "Ideas" Programme", section 1.2 "Financial Management of the "Ideas" Programme" and section 1.3 'Implementation of ERCEA administrative budget'.

Objectives	Performance indicators (source: AWP 2013)	Targets	31.12.2013	Reference for detailed information
To raise visibility and awareness of the European and worldwide scientific community on ERC and Its funding opportunities, key developments and results as to attract the best applications from excellent researchers.	Number of ERC website visitors	440.000	461.657	1.1.1
	ERC press coverage (number of articles or interviews mentioning ERC)	Over 2.400	4.350	
<u>Call management:</u> To provide researchers with high scientific level peer reviewed funding opportunities by implementing clear, simple, and stable application procedures and guidance allowing to attract top researchers in the world to develop high risk/high gain research in Europe.	Number of proposals submitted per call ²⁷	StG2013: 2.360 CoG2013: 3.130 AdG2013: 2.420 SyG2013: 400 PoC2013: 75	StG2013: 3.329 CoG2013: 3.673 AdG2013: 2.408 SyG2013: 449 PoC2013-1: 145 PoC2013-2: 147	1.1.1
	% of ineligible proposals/total proposals submitted	All other calls: 1,3% PoC: 13%	StG, CoG, AdG: 1,4% SyG: 4,2% PoC: 4,5%	
<u>Evaluations:</u> To provide applicants with high quality and timely evaluation results and feedback after each evaluation step by implementing and monitoring a high scientific level peer reviewed process.	Time to inform applicants ²⁸	StG, CoG, ADG 2013: 160 days SyG 2013: 180 days PoC 2013: 60 days	StG, CoG, AdG: 163 SyG: 113 PoC-1: 96 PoC-2: 77	1.1.2; 2.1.1
	% of re-evaluations out of the overall proposals submitted and following requests for redress	All calls: 0,5%	0,07%	

²⁷ This indicator serves also to measure the impact of the targeted communication activities.

²⁸ "Average time in days for informing all applicants of the outcome of the evaluation of their application from the final date for submission of complete proposals".

Objectives	Performance indicators (source: AWP 2013)	Targets	31.12.2013	Reference for detailed information
	Overall average number of remote referee reviews per proposal	StG, CoG, & AdG 2013: 2 SyG2013: 4 PoC 2013: n/a	StG2013: 2,4 CoG2013:2,9 AdG2013: 2,6 SyG2013: 4,4 PoC 2013: n/a	2.1.1
Ethical review: To efficiently ensure that the research funded by ERC grants is compliant with the provisions on ethics of the Framework Programme.	Time to ethics clearance ²⁹	66 days	52 days	2.1.1
Scientific follow up: To provide Principal Investigators with timely communication on approval of mid-term and final scientific reports by implementing economic, effective and efficient scientific follow up procedures using if necessary risk based technical audits.	% of reports which exceeded 60 days	All calls: 0%	0%	1.1.3

1.1.1 Calls for proposals

During 2013 one ERC call for proposal was launched and concluded as per the 2013 "Ideas" Work Programme³⁰ and reflected in the ERCEA 2013³¹ Annual Work Programme. In addition, 2 calls launched in 2012, based on the 2012 "Ideas" Work Programme, were concluded in 2013³².

²⁹ Data related to the pre-granting ethics review. This time span runs in parallel to the granting process.

³⁰ C(2012) 4562 of 09 July 2012.

³¹ C(2013) 1637 of 03 March 2013.

³² Please refer to table shown under 1.1.2, which shows the calls launched and concluded in 2013.

Research Family harmonised indicator	2013 Target	31.12.2013
% of calls for proposals successfully concluded / planned	3	100%

In addition, 3 calls were published mid-December 2013 (Starting Grant, Consolidators Grant and Proof of Concept Grant), further to the adoption of the H2020 legal basis, in accordance with the ERC 2014 Annual Work Programme. These are planned to be concluded throughout 2014.

1.1.2 Evaluation of proposals

During the period under review, five calls for proposals were evaluated.

A total of 10.151 proposals were submitted in response to 2013 calls, illustrating the success of the ERC funding schemes. Overall, the number of proposals submitted in 2013 represents a steady increase of more than 20%, similar to year end 2012, and a 17% above the 2013 target set in the 2013 AWP. In particular, the combined increase of Starting and Consolidator Grant schemes represents 47,7% compared to the 2012 Starting Grant.

However, despite this 2013 remarkable but unpredictable increase of the demand for ERC funding, the “time to inform” remained stable since 2011 compared to management’s target of 160 days (+/- 3%) and well below the target deriving from the FR (180 days), thanks in particular to the split of its core funding instrument, the "Starting Grant", into two schemes: the "ERC Starting Grant" and the "ERC Consolidator Grant".

From 2012 to 2013, there has been a doubling of the number of submitted proposals in response to the Proof of Concept call (PoC-1 and PoC-2). For PoC-1, the “time to inform” has gone up from 68 days (for 75 proposals submitted) to 96 days (for 145 proposals) due to this doubling of the number of proposals received and to the fact that a second reading of the proposals was needed in order to rank the successful proposals. For PoC-2, the “time to inform” has gone up from 65 days in 2012 (for 69 proposals) to 77 days (for 147 proposals) due to efficiency measures reducing by 2 weeks the allocation of proposals to experts before launching the evaluation and by reducing the time to process the final information to applicants. Even though the number of days to inform has increased in comparison to 2012, they have decreased by around 10% in comparison to 2011, considering the number of submitted proposals which was half the one of 2013.

The following table shows the results of the evaluation of the 2013 calls, including the grants signed and the pre-financing paid.

Results of the evaluation of the 2013 calls										
2013 calls	Call deadlines		Number of proposals				Grants signed		Preparation failed	Of which pre-financing paid € Mio
	Opening dates	Closing dates	Submitted proposals	Ineligible (% of submitted proposals)	Main list – invited (not reserve)	Success rate	Number	€ Mio		
			(a)	(b)	(c)	(c)/(a)				
ERC-2013-StG – Starting Grant	10/07/2012	17/10/2012	3329	1,9%	274	8,2%	247	355	n/a	121,6
ERC-2013-AdG – Advanced Grant	10/07/2012	22/11/2012	2408	0,7%	284	11,8%	156	355,6	1	72,6
ERC-2013-SyG – Synergy Grant	10/10/2012	10/01/2013	449	4,2%	13	2,9%	n/a	n/a	n/a	n/a
ERC-2013-CoG – Consolidator Grant	07/11/2012	21/02/2013	3673	1,6%	283	7,7%	28	52,6	n/a	2,4
ERC-2013-PoC - Proof of Concept	10/01/2013	1) 24/04/2013 2) 03/10/2013	1) 145 2) 147	1) 4,1% 2) 4,8%	1) 33 2) 34	1) 22,7% 2) 23,1%	15	2.2	n/a	1,3

The 2013 evaluation process resulted overall in 921 (plus 70 reserve list) proposals retained for funding within the call budget and in line with the 2013 AWP target of 966. Following the split in 2013 of the Starting Grant scheme into 2 schemes (Starting and Consolidator Grants) and their cumulated significant increase by 47,7% of submitted proposals, the cumulated success rate of the 3 core ERC calls³³ has fallen from 12,1% in 2012 to 9,8% in 2013.

The increase in proposals submitted under the Proof of concept scheme by 103% compared to 2012, resulted in a success rate of 22,9% in 2013 against 41,6% in 2012 on average (for the 2 deadlines).

The Synergy Grant scheme shows an increasing success rate from 1,5% in 2012 to 2,9% in 2013, along with a significant decrease of 36% in submitted proposals.

1.1.3 Scientific follow-up

In 2013, the target of no scientific follow up report exceeding 60 review days has been achieved mainly thanks to the reorganisation of the Scientific Management Department that took place in October 2012. The latter resulted in entrusting the scientific follow-up to the "Project Follow-up Team", as part of the "Call and Project Follow-up Coordination" Unit. In addition, the introduction of the new reporting application "Sesam" also contributed achieving the target by performing the whole scientific review process electronically.

Throughout the reporting year a total of 787 scientific monitoring reports were performed, representing an increase of 53% compared to 2012.

Finally, one technical review was carried out in 2013 which resulted in a grant suspension.

Financial management of the "Ideas" Work Programme

1.1.4 Overview of the achievement of the 2013 key targets

The following results were achieved in the light of the key performance objectives and indicators of the Annual Work Programme 2013:

³³ Starting Grant, Consolidator Grant and Advanced Grant. Proof of Concept and Synergy Grant success rates are presented separately due to their different structure.

Operational budget				
Objective	Performance indicator	2013 Target	31/12/2013	References for detailed information
<p>To maximise execution of the operational commitment credits delegated to ERCEA by the European Commission.</p> <p>To ensure full yearly execution of payments credits (operational budget) through careful planning and monitoring.</p>	% execution of L1 commitment	100%	100%	1.2.2
	% execution of L2/L1 commitment ³⁴	40%	42,7%	1.2.2
	% execution of payment credits	100%	100%	1.2.2
	Accounting errors % of all transactions	<2%	1,5%	Annex 7.4
<p>Minimise financial and legal transaction time for ERC beneficiaries and ensure legality and regularity of underlying transactions to support ERCEA's positive Declaration of Assurance.</p>	a) time to invoice (% within 5 days)	90%	98,4%	-
	b) time to pay (% according to milestones and budget table specified in the Description of Work ³⁵ and processing payments, i.e. economic target days)	<p>Pre-financing: 100% within 20 days</p> <p>Interim payment: 100% within 90 days</p> <p>Final payment: 100% within 90 days</p>	<p>93,1%³⁶ within 20 days with an average TTP of 10,5 days</p> <p>100% within 90 days with an average TTP of 16,2 days</p> <p>100% within 90 days with an average TTP of 30,9 days</p>	1.2.2

³⁴ The indicator for the percentage execution L2/L1 is dependent on the timing of the evaluation process.

³⁵ Description of Work is Annex 1 to the grant agreement which describes activities to be carried out as well as the budget allocation per cost category and per reporting period.

³⁶ The reason for a few late pre-financings occurred at the beginning of the reporting year lies on the late information received (only in January) that all Grant agreements had to be amended by Decision to follow the new FR and therefore the new time-limits were to be applied in line with the new FR. Certain payments were delayed to early January due to a lack of payment credits at the end of 2012 and the start-up of payment transactions in ABAC occurred only after mid-January 2013, which caused few cases of pre-financings due for more than 30 days.

Time to contract: To minimise the duration of the granting process aiming at ensuring a prompt implementation of the Grant Agreements through a simple and transparent grant preparation process.	c) time to amend (% approved or rejected within 45 days upon receipt of valid request)	100%	98,2% ³⁷ with an average TTA of 18,9 days	1.2.2
	Time to contract measured (median values) from call deadline to signature of grants³⁸	270 days / 365 days ³⁹	StG 2012: 351 StG 2013: 363 AdG 2012: 359 AdG 2013: 390 SyG 2012: 550 PoC 2012: 194	1.2.1
	Time to contract measured (median values) from invitation to signature of grants	90 days / 105 days ³⁹	StG 2012: 105 StG 2013: 104 AdG 2012: 119 AdG 2013: 140 SyG 2012: 197 PoC 2012: 109	1.2.1
Expert management: To promote experts satisfaction by ensuring a fast and easy appointment and a fair, timely and accurate payment processes.	a) time to appoint⁴⁰	30 days	16 days	2.1.1, stage 1
	b) time to pay	21 days	16,7 days	2.1.1, stage 1
	c) % of experts payments budget execution	100%	100%	1.2.2

The "time to grant" target introduced by the new FR applies to calls launched in 2013. Grants signed in 2013 refer to calls launched in 2012, therefore the new FR target does not apply for the calls reported in this AAR. Instead, the 2012 target should be retained: target of 365 days for the "time to contract from call deadline to signature of grants" and target of 105 days for the "time to contract from invitation to signature of grants". The

³⁷ The number of amendments signed in 2013 increased by 159% compared to 2012; the overall TTA did not increase in analogy and was kept well below the contractual limit.

³⁸ The indicator for the TTG from call deadline to signature of grants is dependent on the timeline of the evaluation process.

³⁹ Last year's target of 365 days has been reduced to 270 days for the time to contract from call deadline to signature of grants) and from 105 to 90 days as regards the time to contract from invitation to signature of grants, in order to comply with the new FR which entered into force on 1 January 2013 (cf. OJ L298 of 26/10/2012 p. 61). However, this target is only binding for calls launched in 2013 under the new FR and therefore not applicable to calls reported in the present AAR, which were launched in 2012. As a consequence, the target of the "time to grant from call deadline to signature" is 365 and the target of "time to grant from invitation to signature" is 105 days, like in 2012, for all calls reported in the present AAR.

⁴⁰ From sending the appointment letter to signature of the contract by the Authorising Officer by Delegation.

preparation of the Synergy grant agreements, which were introduced this year, revealed to be very demanding in terms of the coordination of 2 to 4 different Principal Investigators, located in sometimes many different Host Institutions, and reflected in the corresponding "time to contract from invitation to signature" results.

The "time to grant" for Advanced Grants was slightly longer (by 2 to 4 weeks) than for Starting Grants due to the scheduling of the evaluation. Indeed, as the evaluation results of the Advanced Grant 2012 call were only available in December 2013, additional time over the year-end break was given to the beneficiaries to submit the documents necessary for the grant preparation process. A similar scenario was observed for the Advanced Grant 2013 call, with evaluation results available only shortly before the summer break. However, the grant preparation time has remained broadly stable over the last years despite the significant growth in number of grants and the increase in complexity due to the introduction of new instruments (Proof of concept and Synergy grants).

As regards "time to pay" and "time to amend", excellent results have been achieved despite the significant rise in number of both financial transactions and amendments in 2013 thanks to the well trained staff, a strict use and verification of the applicable legal framework, the open and timely communication to the Unit of new developments (financial rules, guidelines from the parent DG and IT tools) as well as a regular review and update – where necessary – of internal model documents, procedures and checklists. Moreover, thanks to a close supervision and a performing follow-up system by the hierarchy – also supported by IT tools – financial transactions and amendments to grant agreements were processed within a "time to pay" and a "time to amend" which are significantly lower than the contractual limits.

1.1.5 Implementation of the 2013 operational budget appropriations

The ERCEA managed in 2013 one of the biggest operational budgets of the Research family. The commitment credits for 2013 amounted to € 1,8 billion and the payment credits to € 1,02 billion. The draft amending budget and the later Global transfer increased the payment credits by € 76,8 Mio. A further increase of € 2,3 Mio in payment credits resulted from the Croatian accession and a transfer from DG RTD. Consequently, the total amount of payment credits was € 1,1 billion. Both payment and commitment credits were fully consumed at the end of 2013.

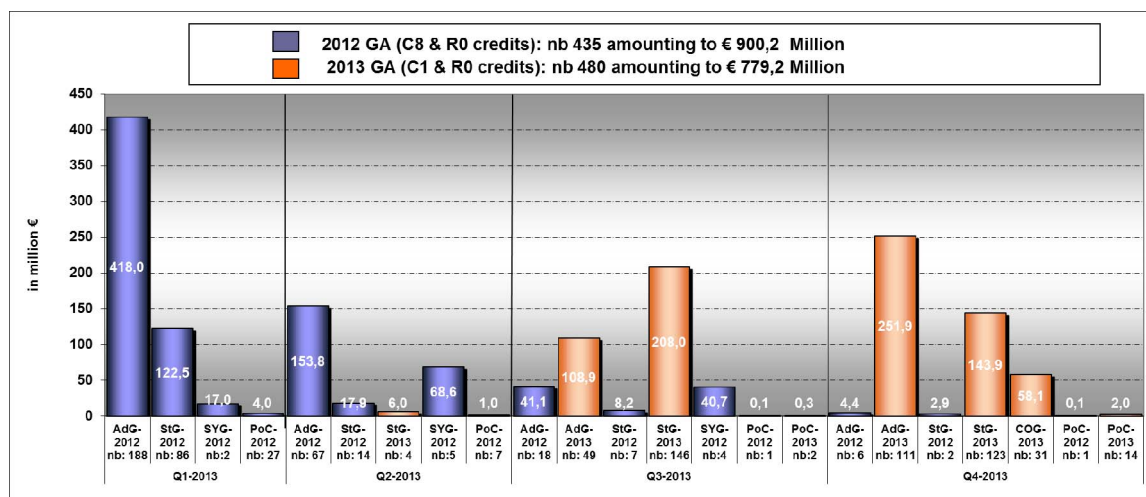
Commitment appropriations execution

As shown in Annex 6.2, the commitment credits (C1) voted for 2013 amounting to € 1,8 billion have been implemented through global commitments⁴¹ created after the end of

⁴¹ The global commitments correspond to L1 commitments created at the end of each call, while L2

the evaluation of each call on the basis of ranked lists of proposals positively evaluated, and resulted in the full execution of the 2013 voted credits.

Also, the execution of commitment credits for C1 (current year credits) and C8 (credits transferred from previous years) reached 100%, the majority relating to ERC Grants, and some 0,5% to experts management. The execution of C8 credits linked to L1 (global) commitments for 2012 calls reached 100%, by means of L2 (individual) commitments.



Overall, 875 Grant Agreements were signed throughout the year, totalling € 1,7 billion, out of which 446⁴² resulted from 2013 calls and 429 from 2012 calls. In line with the timing for the call for proposals which is "bridging" 2 calendar years, the commitment activity focused during the first semester on finalising the 2012 calls, whereas in the second semester mainly 2013 calls were processed.

At 2013 year end, 4.024 grant agreements were signed cumulatively since the start of FP7.

Payment appropriations execution

The total voted payment credits for the operational budget amounted to € 1,1 billion, of which € 9,2 million were made available for the payments of the experts management, as shown in Annex 6.3.

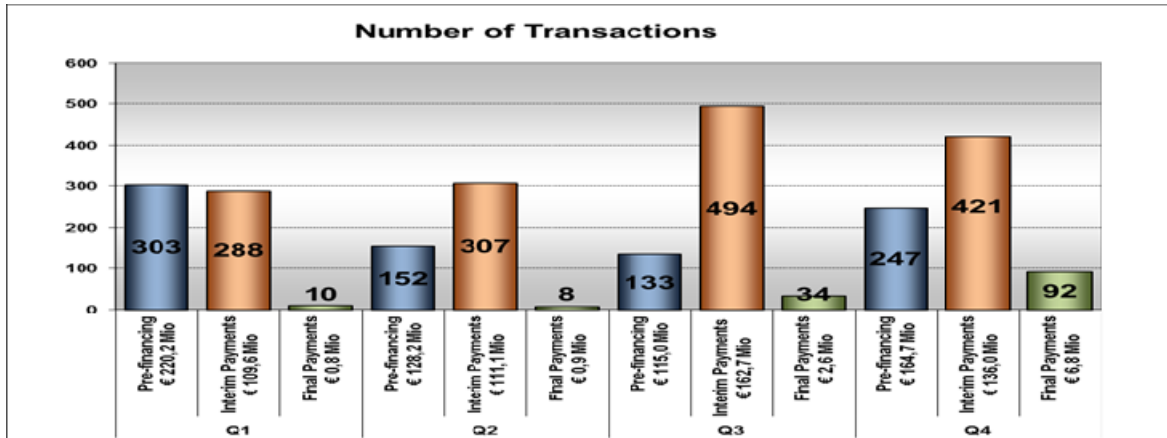
Payments and time to pay related to Grants

At the end of 2013, the target of 100% payment credits (C1) execution was achieved⁴³.

commitments correspond to individual commitment created for the maximal EC contribution in view of the signature of the individual grant agreement.

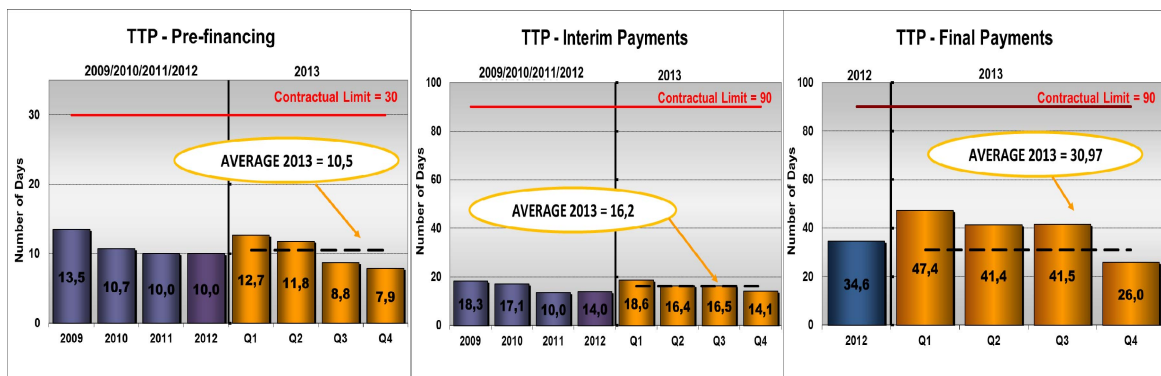
⁴² According to the FR the budgetary commitment precedes the signature of the contract. Therefore, it is inherent to the business that the number of GA signed does not reconcile the number of L2 commitments done within one budget year.

⁴³ For details on the execution per quarter, see Annex 6.3.



A total of 2.489 transactions related to ERC Grants were carried out in 2013 (versus 1.903 in 2012), representing an increase of 31% compared to 2012. Out of these transactions, 835 related to pre-financings (882 in 2012), representing € 628,2 million, 1.510 to interim payments (1.004 in 2012) for € 517,5 million and 144 to final payments (17 in 2012), worth a total of € 11,1 million.

Despite the overall significant 31% rise in the number of transactions processed in 2013 as compared to 2012, the Agency managed to keep its very good performance to a comparable level against 2012, as shown by its **time to pay** indicators with an average time to pay of 10,5 days for pre-financing (10 days in 2012) and 16,2 days for interim payments (14 days in 2012). Final payments were paid on average within 30,9 days. The average time to pay for interim and final payments is 17,5 days was significantly below the corresponding AWP targets and contractual time limit of 90 days.



In addition, Interim and final payments were all executed on time, when compared to ERCEA AWP target of 90 days, which is aligned with the contractual time limits⁴⁴ of the ERC Grant Agreements. As to pre-financing, 95,8% were executed on time, when compared with the 30 days contractual time limit and 93,1% were executed in time when compared to ERCEA target of 20 days. The slight deviation observed in regard to the 2013 ERCEA AWP target (100% payments in 20 days) was caused by few payments being delayed to early January 2013 due to a lack of payment credits at the end of 2012 and by

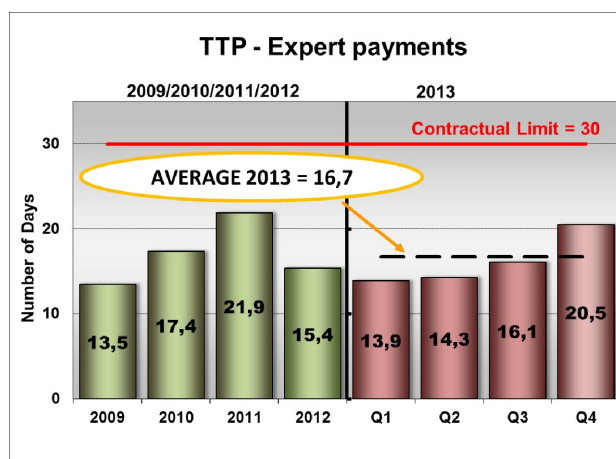
⁴⁴ As defined in art. II.6.1.a and art. II.5.1 of the General Conditions.

the delay of the start-up of payment transactions in ABAC beyond mid-January 2013.

These results were achieved thanks to a careful planning (based on the screened “behaviour” of the grant implementation in the years before) and the consequent correct allocation of resources where required, a well-designed workflow and procedures and tailor made or hands-on training sessions without compromising the necessary level and/or number of controls. This resulted in ensuring a high level of coordination among control actors as regards processing time and parallelism of controls carried out by FIA and OIA.

Payments and time to pay related to experts

Throughout 2013, 5.608 expert payments were processed (versus 3.996 in 2012), totalling to € 10,1 million and representing an increase in volume of 40,3% compared to 2012. The 2013 yearly time to pay is on average 16,7 days, consistent with the 2012 result of 15,4 days. The figure below shows the average time to pay for experts for each quarter of the reporting period, indicating the contractual limit of 30 days:

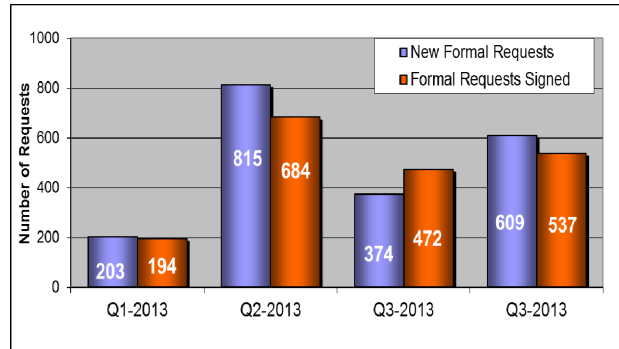
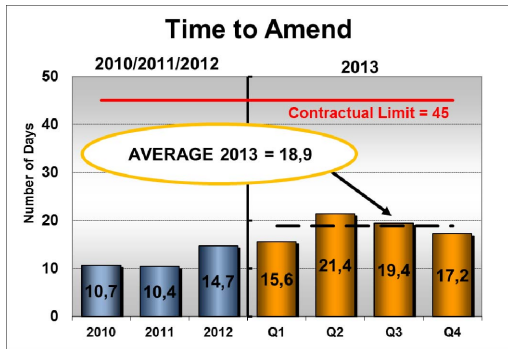


Recovery Orders

A total of 59 recovery orders were issued during the reporting period, amounting to € 3,1 million and 45 recovery orders for an amount of € 2,7 million have been cashed. 50% of the recovery orders were due to external audit outcomes (22 cases) and 15,2% to early terminations (7 cases). For 10 external audits outcomes liquidated damages were applied. For further details please see Annex 6.4.

Grant amendments and termination – De commitments

During 2013, 2.001 new requests for amendments by beneficiaries were received and 1.887 signed. So far, half of the grant portfolio has been amended at least once, out of which 72% were amended in 2013. In 2013, the average time to amend was 18,9 days, which is significantly lower than the time limit of 45 days contractually foreseen.



Whereas the number of amendments signed in 2013 increased by 159% compared to 2012, the overall time to amend was safeguarded (2013: 18,9 versus 14,7 days in 2012) thanks in particular to the regular and close monitoring by management of the incoming informal and formal amendment requests and of swift processing of the outgoing replies. Also thanks to the regular review and reshuffling of assigned staff's responsibilities as necessary which ensured an adequate workload distribution and the timely conclusion of the amendment process.

As in the previous budget year, amendments remained also in 2013 more common for Starting Grants, due to the fact that beneficiaries for Starting Grants form young/new teams⁴⁵.

A large share of amendments were due to the transition of on-going grant agreements to electronic submission of financial reports (35,6%), whilst changes of Host Institutions and modification of the Annex I of the grant agreement (Description of Work) represented only 6,3% of the amendment cases, a 50% decrease compared to 2012 (for further details, refer to related table in Annex 6.4).

Finally, in 2013, three grant agreements were terminated upon the request of the beneficiary for a cumulative amount of € 3,8 million EC contribution. One of the three grantees decided to accept a position at a private company requiring his full attention which prevented him from complying with the minimum commitment required by the relevant ERC Work Programme. The other two grantees moved to a non-EU country.

⁴⁵ For further details, refer to related graph in Annex 6.5.

Implementation of ERCEA administrative budget

Objective	Performance indicator	2013 Target	Latest known results 31/12/2013
To maintain a high level of credibility in the eyes of the budgetary authority, Steering Committee and parent DG by establishing a realistic yearly budget proposals which is line with the administrative costs < 5% of the operational budget, and continuously monitoring and reporting on its execution (commitments and payments) in line with sound financial management principles.	% budget execution commitments	100%	96,6%
	% budget execution payments	90%	91,35%
	Number of accounting adjustments (exceptions)	<5 adjustments	0
	Number (and % of total) of late payments for the administrative budget	<80 (<3%)	19 (0,9%)
	Accounting errors % of transactions	<2%	1,45%

At year end, the commitment execution rate related to the administrative budget reached 96,6%, slightly below the target of 100%. However, without considering the provision for the salary adjustment of € 1 Mio related to the 2011 adjustment, representing 2,5% of the budget, as recommended by DG BUDG⁴⁶, the commitment execution rate would have reached 99,1%.

For the remaining 0,9%, the main not committed amounts related to unspent "External meetings" (€ 43.109), due to less experts having attended an ERCEA workshop than expected and to participants to an event in China in the context of the "ERC goes global" strategy who did not introduced any cost claim, "staff intérimaires" (€ 42.022) and building charges (€ 36.147; SLA with the Commission).

The payment rate is of 91,3% (€ 36.623.256), to be compared to 93,5% in 2012 and 92,5% in 2011.

The main appropriations that have been carried forward to 2014 (€ 2.091.333 or 5,2% of the budget) concern mainly building charges (€ 618.168), IT services (€ 560.613), communication (€ 255.721) and external audits (€ 224.299).

During the period under review, the ERCEA launched a number of public procurements, including 61 "negotiated procedures" for low value contracts (max € 15.000 - 1 candidate), 1 open procedure resulting in a service contract (operational credit) and 4 Service Level Agreements/Memorandum of Understanding and addendum were signed by the ERCEA with Commission services.

⁴⁶ Ref. Ares(2013)2579252, of 05/07/2013.

ERCEA applies several Inter-institutional framework contracts, in particular with DIGIT, HR, OIB and signed 184 specific contracts/order forms under these inter-institutional Framework Contracts.

Finally, the error rate calculated in terms of relevant accounting observations is kept below the limit of 2%, at 1,45%. The slight increase of the rate in comparison to last year (<1%) is mainly due to some supporting documents available in the local system MIPS for management and mission monitoring, without being attached at a later stage to the payment transaction in the accounting system (ABAC). The controls carried out did not spot errors of a sufficient materiality to impair the true and fair view of the accounts.

Specific efforts to improve 'economy' and 'efficiency' of spending and non-spending activities.

According to the FR (art 30), the principle of economy requires that the resources used by the institution in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and the best price. The principle of efficiency concerns the best relationship between resources employed and results achieved.

The respect of these principles is continuously pursued through the implementation of internal procedures and predefined practices. These procedures ensure that activities are executed in an efficient manner (e.g. the different workflows contribute to the efficient cooperation between staff, units, etc...) and according to the principle of economy (e.g. the procurement rules ensure procurement in optimal conditions).

The ERCEA is continuously fine-tuning its internal arrangements in order to improve the efficiency and economy of its operations. The following two initiatives show how these principles were implemented in our Agency:

1.1.6 Example 1

In view of the further increasing workload and the restrictions in recruiting staff, the Grant Management Department has put a lot of emphasis on steadily improving its efficiency, for example, by partially performing the financial, legal and administrative analysis before the invitation to grant is sent out. Also, the time to pay indicator could be maintained or even improved thanks to the revision of workflows and partial integration into a local IT system and the further development of local IT tools allowing the continuous monitoring of the transactions' status by different internal actors (project officer, managers) and the automatic processing of some repetitive operations. The IT tool also contains a "back up functionality", which enables users backing up absent colleagues to ensure a proper follow-up of payments and amendments, aiming at maintaining a high level of performance without any disruption.

1.1.7 Example 2

Finally, a number of training sessions given to stakeholders (Principal Investigators, Host Institutions and National Contact Points) to increase their understanding of ERC procedures and requirements resulting in a higher quality of documents and responses submitted to the Agency, thus favourably impacting the processing time.

2. MANAGEMENT OF RESOURCES

Assurance is an objective examination of evidence for the purpose of providing an assessment of the effectiveness of risk management, control and governance processes. This examination is carried out by management, who monitors the functioning of the internal control systems on a continuous basis, and by internal and external auditors. Its results are explicitly documented and reported to the Director. The reports produced in 2013 are:

- o Management reports on control results;
- o The contribution of the Internal Control Coordinator, including the results of internal control monitoring at the Agency level⁴⁷;
- o The opinion and the observations of the Internal Audit Office (IAO);
- o The observations and the recommendations reported by the European Court of Auditors (ECA).

This section reports the control results and other relevant elements that support managements' assurance on the achievement of the internal control objectives⁴⁸. It is structured in two separate sections: (1) the ERCEA's assessment of its own activities for the management of its resources and (2) the assessment of the results of internal and external audits, including the implementation of audit recommendations.

In 2013, the ERCEA managed an operational budget for the implementation of the Seventh Framework Programme and an operating (administrative) budget for the functioning of the Agency. Following Article 53 of the former FR⁴⁹ (still applicable as to the EU management modes), the ERCEA currently executes its operational budget under the indirect centralised management mode and its operating (administrative) budget under the direct centralised management mode⁵⁰.

⁴⁷ For further details, please refer to Part 3.

⁴⁸ Effectiveness, efficiency and economy of operations; reliability of reporting; safeguarding of assets and information; prevention, detection, correction and follow-up of fraud and irregularities; and adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments (FR Art 32).

⁴⁹ Council Regulation (EC, Euratom) No 1605/2002, of 25 June 2002, on the FR applicable to the general budget of the European Communities, as amended by Regulation (EU, Euratom) No 1081/2010 of the European Parliament and of the Council of 24 November 2010.

⁵⁰ As per 1st of January 2014 Article 58 of the new FR enters into force, establishing one management mode for Executive Agencies, direct management. Following DG BUDGET's advice, the Agency is already applying the Direct Management instructions and templates published in BUDGWEB.

Operational and administrative expenditure						
	Operational expenditure ⁵¹				Total administrative expenditure	% of total (administrative / operational)
	Pre-financing	Payments against cost statements	Experts' payments	Total operational expenditure		
2013	628.160.217,84	530.580.507,28	10.078.449,78	1.168.819.174,90	36.623.256	3%
2009 - 2013	1.734.299.990,11	707.751.553,57	15.285.725,02	2.457.337.268,70	144.192.459	

The operational appropriations are dissociated appropriations, meaning that the ERCEA manages a budget for commitment and a separate one for payment. In 2013, the commitment budget of € 1.753.940.754,52⁵² was fully committed. The payment budget of € 1.087.289.932,89⁵³ was fully paid. Transactions for operational expenditures have to be distinguished between pre-financings, interim and final payments. After signing the grant agreement a pre-financing is paid to the beneficiary at the start of the project. This is followed on average by 3 interim payments and 1 final payment.

The administrative budget is managed with non-dissociated appropriations, meaning that there is only one budget that has to be committed during the year and the same budget must be paid during the current year (C1) and the following one (C8). In 2013, the administrative budget of the ERCEA was of € 40.092.000⁵⁴ and it was committed at 96,56% and paid at 91,35%. The difference between the commitments and the payments (€ 2.091.332) represent the carry-forward in C8 to be paid by 31/12/2014.

The ERCEA relies for the purpose of its declaration of assurance essentially on the results of its ex-ante and ex-post controls and defines its materiality threshold at 2% of the ABB activity line, in line with Annex 4. Consequently, ERCEA declaration of assurance should be qualified in the event an amount at risk would exceed the materiality threshold of € 23 million⁵⁵, the latter representing 4,5% of 2013 payments against cost statements. Similarly, a materiality threshold of 2% is applied for the administrative budget, representing € 0,732⁵⁶ million.

⁵¹ The figures in this table include all types of credits (fund sources), like the voted credits and assigned revenue – refer to Annex 6.3.

⁵² Referring only to 2013 C1 grant payments committed - refer to Annex 6.2.

⁵³ Referring only to 2013 C1 grant payments executed – refer to Annex 6.3.

⁵⁴ Refer to Annex 6.6.

⁵⁵ Representing 2% of the 2013 total operational expenditure, i.e. € 1.168,8 Mio - refer to above table.

⁵⁶ Representing 2% of € 36,6 Mio- refer to above table.

Management of human and financial resources by ERCEA

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives. More specifically, this section covers the AOD's obligation to include in the AAR information on "the efficiency and effectiveness of the internal control systems, including an overall assessment of the costs and benefits of controls" (FR art. 66.9). Annex 5 outlines the main risks together with the control processes aimed to mitigate them and the indicators used to measure the performance of the control systems.

The ERCEA has set up internal control processes aimed to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments concerned. The control objective is to ensure that the ERCEA specific residual error rate does not exceed 2% on a cumulative basis by the end of the programme implementation.

The principle of efficiency concerns the best relationship between resources employed and results achieved. The principle of economy requires that the resources used by the institution in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and at the best price.

The following sub-sections outline, per stage of the "Ideas" programme implementation, the indicators used to monitor the effectiveness as regards legality and regularity and efficiency of the internal control systems, including an overall assessment of the costs and benefits of controls.

2.1.1 Operational budget's underlying transactions

The implementation of the "Ideas" programme is organised along 4 distinct stages, with specific control mechanisms in place. Detailed descriptions of the controls in place are shown in the Internal Control template related to the operational budget (Annex 5.1)

Stage one: Scientific management processes

The scientific management processes encompass the implementation of the peer review process for the selection of ERC grants, the management of calls for proposals, the evaluation and selection of proposals as well as the scientific follow up of grants.

Control effectiveness as regards legality and regularity:

The legality and regularity of transactions related to the scientific management process is underpinned by the following 2013 results of related key controls:

ERCEA specific control indicators– Source: AWP 2013		
Ineligible proposals (not withdrawn)		
Call	Target	31/12/2013
ERC-2013StG – Starting Grant ERC-2013AdG – Advanced Grant ERC-2013-CoG – Consolidator Grant	1,3%	1,4%
ERC-2013-SyG – Synergy Grant	1,3% (target will be revisited when SyG Calls resume in the future)	4,2%
ERC-2013-PoC - Proof of Concept	13% ⁵⁷	4,5%

The ambitious target for SyG of 1,3% was set in 2013 based on 2012 results (1,1%) compared to a target of 5%. It should be noted that this target will be revisited when SyG call will resume in future⁵⁸.

Redress procedure⁵⁹	31/12/2013
Redress requests % of the proposals received	2,6%
Redress cases which led to re-evaluation (% of proposals received)	0,07%
Number of re-evaluations being successful	2

The percentage of redress cases number compared to submitted proposals introduced in 2013 remained stable compared to 2012 (2,58%). Although 2 redress cases were successfully re-evaluated in 2013, these do not reveal any systemic weakness of the evaluation process, thus do not have any bearing on the assurance.

Ethics review – Source: AWP 2013		
Indicator	Target	31/12/2013
% of proposals not granted compliance with ethical rules / proposals invited to the granting process ⁶⁰	0%	0%

⁵⁷ This target has been revised in the Annual Work Programme 2013 following a high result of ineligible proposals experienced in 2012 (20% for PoC 1 and 11,6% for PoC 2). Further to the related 2013, this target has been revised in the AWP 2014 to 6%.

⁵⁸ The draft AWP 2014 does not foresee a Synergy Grant call.

⁵⁹ Please refer to Annex 7.1.

⁶⁰ For details related to the ethics review, please refer to Annex 7.2.

Research Family harmonised KPIs	31/12/2013
% of number of calls successfully concluded / number of calls planned in MP/WP	100%
% of budget value implemented / budget allocated (commitments from calls) ⁶¹	100%
% of number of successful redress challenges / total number of evaluated proposals ⁶²	0,02%

Overall, the control results shown above do not reveal any systemic weakness of the process, thus positively support the declaration of assurance.

Control efficiency and cost-effectiveness of controls:

The efficiency and cost-effectiveness of transactions related to the scientific management process is underpinned by the following 2013 results of related key controls:

ERCEA specific control indicators	Target (AWP 2013)	31.12.2013
Average time to inform applicants (FR 128.2)	160 days (AWP) <180 days (FR)	163 days
Time to appoint experts	30 days	16 days
Time to pay experts	21 days	16,7 days
Time to ethics clearance	66 days	2012 calls: 52 days 2013 calls: on-going (23 days)
Overall average number of remote referee reviews per proposal	StG, CoG, & AdG 2013: 2 SyG2013: 4 PoC 2013: n/a	StG2013: 2,4 CoG2013:2,9 AdG2013: 2,6 SyG2013:4,4 PoC 2013: n/a

The above shown “average time to inform” covers the 3 core calls⁶³ as they have a similar scheme, characterised by a 2 step evaluation, a remote phase and panel meetings, whilst the PoC call has a very different scheme structure with 2 deadlines, 1 remote step and no panel meeting. Finally, the Synergy call presents also a different scheme structure (2

⁶¹ Defined as the % of execution of L1 commitments (see Annex 6.1: indirect L2 (B) + direct L2 (G)/ Total credits (A)).

⁶² For further details please refer to Annex 7.1.

⁶³ Core calls are the Starting, Consolidator and Advanced Grant.

steps with 2 sub-steps); furthermore, this call will be discontinued in H2020 until further decision of the Scientific Council.

As explained above in the executive summary⁶⁴, the “average time to inform” slight deviation does not adversely impact the declaration of assurance, as it represents only 1,8% (i.e. 3 days) to be considered in the perspective of the 2013 number of submitted proposals of 9.410, which increased by 33,5% in 2013 compared to 2012.

Research Family harmonised KPI	31/12/2013
Average evaluation cost per proposal (external experts paid/ total number of proposals evaluated)	€ 994,97

Overall, the control results shown above do not reveal any systemic weakness of the process, thus positively support the declaration of assurance.

Average evaluation benefit per proposal:

In terms of costs/benefits analysis of certain controls, it has to be kept in mind that while most costs of controls are quantifiable in monetary terms, most of their undeniable benefits are not. The controls related to the scientific evaluation ensure that the most meriting projects are funded, following the sole criterion of “excellence” and allowing ERCEA to fulfil its mission statement and operational objectives.

Stage two: Grant preparation and signature

Stage two encompasses the preparation of grant agreements up till the time of signature of those agreements. In addition to the Internal Control and Management Control Systems in place for the entire Framework Programme 7, controls are implemented by the ERCEA taking into account the specificity of the "Ideas" Specific Programme, namely the fact that the projects are driven by Principal Investigators, in the majority of cases mono-beneficiary grants. Moreover, it should be underlined that the grant preparation and signature process does not entail any negotiation on the maximum financial contribution, as this is part of the grant award decision. Starting Grants may be awarded up to € 2,0 Mio per grant (normally up to € 1,5 Mio per grant) and Advanced Grants up to a maximum of € 3,5 Mio per grant (normally up to € 2,5 Mio).

Control effectiveness as regards legality and regularity:

The legality and regularity of transactions related to the grant preparation and signature process is underpinned by the following 2013 results of related key controls:

ERCEA specific control indicators	31/12/2013
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⁶⁴ Refer to p. 8.

% of exclusion from granting process following financial viability checks	0,0%
% of weak financial viability checks / total financial viability checks	9,1%

The financial viability of beneficiaries (Host Institutions which are non-public bodies and non-higher education establishments, as well as any such other beneficiary which applies for a financial contribution in excess of € 500.000) is checked according to the common FP7 procedure.

In 2013, 110 financial viability checks were performed which concerned 55 beneficiaries, none of which resulted in an exclusion from the granting process. In five cases, the result was "weak" and these were flagged for an ex-post control audit.

Furthermore, the EWS check is formally signed off during the preparation of the individual commitment, in accordance with Art. 77.1 FR. In case of warning, the individual commitment file includes due justification. One beneficiary was flagged in the EW, but not at a level deemed to suspend commitments.

Control efficiency and cost-effectiveness of controls:

The efficiency and cost-effectiveness of transactions related to the grant preparation and signature process is underpinned by the following 2013 results of related key controls:

Research Family harmonised KPIs⁶⁵	31/12/2013
Average "time to grant" (FR 128.2: <90 / AWP 2013: 105 days)	117 days

The "time to grant" targets introduced by the new FR only apply to calls launched in 2013. Grants signed in 2013 refer to calls launched in 2012, therefore the new FR target does not apply for the calls reported in this AAR. Instead the 2012 target should be retained: target of 365 days for the "time to contract from call deadline to signature of grants" and target of 105 days for the "time to contract from invitation to signature of grants". "Time to grant" results are explained above under Part 1.2.1.

The above reported average "time to grant" covers the stages of negotiation to grant signature, as defined in the Research family system CPM. Considering the time from call deadline to signature of grants, the overall average "time to grant" is 348 days on a multiannual basis and 358 days on a yearly basis (2013), benchmarked against a target of 365 days.

Benefits of controls embedded in ERCEA grant preparation and signature process are not

⁶⁵ As a specificity of the "Ideas" Programme, the level of the maximum EU contribution is set as a result of the evaluation process and proposals retained for funding do not subsequently go through a negotiation process. Therefore, the % of reduction in the EU contribution as a result of a negotiation process is not retained by the ERC as a meaningful indicator.

quantifiable, as the latter does not entail any negotiation on the EU contribution to the contrary of other Research family entities. However, it is undeniable that these controls are necessary to ensure the process complies with rules and regulations and that researchers are provided on time with a sound legal framework to conduct their research projects.

Stage three: Grant implementation

Key Controls are in place to ensure sound financial management of the grant implementation from pre-financing, subsequent interim payments through the life-time of the projects, to the final payment, follow-up of ex-post control audits and the implementation of audit results including extrapolation cases. The controls performed under this stage are carried out at the level of each operation and are described in more detail as follows:

Control effectiveness as regards legality and regularity:

The legality and regularity of transactions related to the Grant implementation process is underpinned by the following 2013 results of related key controls:

ERCEA specific control indicators			
Rejection of interim and final payment costs	Number of Invoices	Amount	% of ineligible costs on total declared costs⁶⁶
Total declared cost	1.761 ⁶⁷	705.366.296,24	n/a
Of which Ineligible costs declared⁶⁸	245 ⁶⁹	4.642.541,34 ⁷⁰	0,7%

The volume of the Certificate on Financial Statements (CFS) submitted in 2013 reached a coverage of 53% (968) on the total number of transactions (1.833)⁷¹ and covering 67% of the accepted amount.

⁶⁶ Covering ex-ante rejections by Financial Officers and independent certified auditors (CFS).

⁶⁷ The number of invoices refers to the invoices validated in step 2 (Fin100). As not all of them have been paid in 2013, this number cannot be directly compared with the 1654 payments done as shown in Part 1.2.2.

⁶⁸ Ineligible costs as identified in the recovery context of the respective cost claim (e.g. independent controls, community controls/desk checks and on the spot).

⁶⁹ Including 13 cost claims received in 2013, but not yet paid declaring in total ineligible costs of € 1.330.523,02.

⁷⁰ 4.638.470,94 € (242 invoices) according to table 8 of the Annex 3: the difference is due to corrections on three invoices done in January 2014 and taken into account in the table 8.

⁷¹ The coverage provided by the CFS refers to Interim and Final payments paid in 2013, including the payments, which have been cleared (zero-payments) and therefore it deviates neither from the total transactions reported nor with number of invoices reported.

The ERCEA applies as all other FP7 DGs **liquidated damages** on detected overstatements in paid cost claims. This practice has a dissuasive effect on the beneficiaries and contributes to more care put into the preparation of Financial Statements. In 2013, for 10 projects liquidated damages amounting to € 48.318,07 have been imposed.

By the end of December 2013, 2 pre-financings, showing a low EWS warning level, were executed as indicated in the notes to the accounting officer of DG BUDG.

In addition to the above controls, the local IT tool (CPAY), which is “managing” the Grant Implementation process, is providing additional controls in line with the established checklists for each type of transaction. Furthermore, the application is synchronised with the ABAC workflow and thus provides a reliable database, allowing for comparable and monitoring reports to be drawn.

<u>Research Family harmonised KPIs</u>	31/12/2013
% and value of errors detected through the ex-ante desk checks ⁷² / total value of cost claims	0,12% (€ 867.059,89)

Control efficiency and cost-effectiveness of controls:

The efficiency and cost-effectiveness of transactions related to the Grant implementation process is underpinned by the following 2013 results of related key controls:

<u>ERCEA specific indicators – Source: AWP 2013</u>	Target	31.12.2013
Time to pay Pre-financing	100% within 20 days	93,1%
Time to pay interim payments	100% within 90 days	100%
Time to pay final payments	100% within 90 days	100%

As explained under Part 1.2.1 above, the slight deviation of the "time to pay" regarding pre-financing concerned only few transactions and did not result from inefficiencies in the related payment process. Therefore, the deviation has no adverse impact on the declaration of assurance.

<u>Research Family harmonised KPIs</u>	31/12/2013
Average time to pay (% on time) (FR 92.1) ⁷³	15,1 days (98,6% on time [<30/90])
Average project mngt cost per running* project (staff FTE * standard staff cost) ⁷⁴	2.003,96

⁷² Resulting from ex-ante checks performed by Financial Officers (in-house) only.

⁷³ Average time to pay for pre-financings, interim and final payments. For details per payment type, please refer to section 1.2.2 above.

(ALL projects - Range of € 5.000 – 10.000)	
Average number (Range of 15 – 35) & value of running projects managed 'per' staff FTE⁷⁴ (Range of € 1 Mio – 50 Mio)	56,86 € 98,89 Mio

Average project management benefit per project:

As stated above, the main aim of this stage is to ensure the sound financial management of the grant implementation throughout the life-time of the projects, as well as to monitor their scientific progress. Although some benefits are quantifiable (as shown by the low error rate presented in the table above), these are affected by the deliberate limitation of the depth of the ex-ante controls as part of the overall control framework, as established by FP7, as well as by efforts to simplify and minimise the administrative burden on beneficiaries. Finally, the necessity of these controls is undeniable as they provide assurance as regards the sound financial management of the operational budget and the timely provision of financial means to beneficiaries allowing them to conduct their research in line with the grant agreements' provisions.

Stage four: Ex-post controls⁷⁵

Control effectiveness as regards legality and regularity:

The ERCEA implements and reports on both its own ex-post control approach and on the FP7 Common Representative audit Sample (CRaS), in line with the FP7 Common Audit strategy.

The ERCEA implements its own ex-post controls approach – so-called “corrective strand” – as to provide assurance to the Authorising Officer by Delegation on the ERC specific population on the legality and regularity of underlying transactions. The FP7 CRaS serves a different purpose and is designed to give assurance at the level of the whole FP7.

ERCEA specific ex-post control approach: “Corrective strand”

The ERCEA specific error rate resulting from the “corrective strand” derives from the results of two ERCEA specific samples. First, the MUS sample (former representative sample) is selected on the basis of a statistical sampling method (Monetary Unit Sampling) and consists on auditing 162 sampled items.

Second, the risk based sample derives from Top 100 beneficiaries (representing around 70% of the contracted budget so far) and a risk analysis considering beneficiaries with a higher risk profile⁷⁶.

⁷⁴ FTE's accounted for are the staff intervening in the grant execution and monitoring process taking into account their contribution to the process and their work pattern. Running projects are those related to commitments with completion flag set to “no” in ABAC.

⁷⁵ Details on the ex-post controls audit plan execution are shown in Annex 7.3.

⁷⁶ Targeting the financial management of the Host Institutions and their management of EU grants.

Indicators related to ERCEA specific ex-post control strategy "Corrective strand"				
Financial Statements audited⁷⁷	2013		2009-2013	
	Amount in €	Number	Amount in €	Number
Total cost accepted by Financial officers (€) on audited FS – Audited amount	€ 68.714.586,02	189	€ 144.627.228,13	429
Thereof audited as part of the representative MUS sample (MUS)	€ 5.988.308,94	17	€ 37.348.944,23	96
Thereof audited as part of the risk based sample	€ 62.726.277,08	172	€ 107.432.485,34	333
Total adjustments⁷⁸ in favour of the ERCEA (€, only negative)	€ 574.345,78	56	€ 1.981.911,49	141
On the representative MUS sample	€ 27.459,78	2	€ 478.875,03	28
On the risk based sample	€ 546.886,20	54	€ 1.503.036,45	113
ERCEA Specific Error rate⁷⁹ (%)	1,16%	189	1,83%	429
Of the MUS sample ⁸⁰	0,54%	17	1,35%	96
Of the Risk based sample	1,22%	172	1,96%	333
ERCEA Specific Residual Error rate (%)⁸¹	-	-	1,23%	-

The most common errors are usually found in personnel costs, namely incorrect methodology used to calculate the hourly rate and incorrect productive hours or incorrect reported hours devoted to ERC projects. Other common errors include lack of supporting documents (invoices, timesheets...), costs claimed outside of the eligibility period, VAT included, costs not relevant to the project and non-compliance with EU public procurement principles.

FP7 Common Representative audit Sample (CRaS)

Since the adoption of the Common Representative audit sample (CRaS) by the

⁷⁷ One audit can consist of one or several financial statements, depending on different audit strategies and samples (based on cost-effectiveness and risk). As we report on the basis of those audit strategies & samples, we have to report on the basis of the number of financial statements audited.

⁷⁸ Adjustments correspond to findings from auditors against costs accepted by the financial officers. Implementation of these findings may lead to different figures (offsetting, extrapolation, materiality threshold...).

⁷⁹ Defined as the sum of all negative detected error rates of closed corrective audited financial statements, divided by the number of closed corrective audited financial statements.

⁸⁰ This MUS sample consists of 162 items of the ERCEA population. We have closed 96 items by 31/12/2013. It is defined as the sum of all negative detected error rates of closed MUS sample audited financial statements divided by the number of closed MUS sample audited financial statements.

⁸¹ This error rate is calculated on the basis of the formula detailed in Annex 4.

Commission's ABM Steering Committee in 2012, the sampling and co-ordination of results is done under the control of DG R&I and related audits are performed by the various FP7 managing bodies, including the ERCEA.

As well as giving a harmonised picture across the services, this Research family strategy has allowed the services to avoid repeat visits to the same beneficiary, meaning a significant reduction in the audit burden, especially for large beneficiaries.

The FP7 Common Representative Error Rate drawn at the level of the FP7 programme for all financial statements submitted until 31/10/2011 included 5 ERC financial statements out of 162 sampled items:

Research Family harmonised indicators	31/12/2013
Detected error rate from a representative sample (CRaS) ⁸²	4,14%
Residual error rate (CRaS) ⁸³ – (including 5 ERC Financial statement)	2,52%
Value of corrections 'made', by implementing and extending audit results, by recoveries (ABAC) or offsetting (local PM system)	€ 1.751.633,44
Value of recoveries as per the "Comm. on the Protection of EU financial interests"	€ 4.638.470,94

Overall, on a cumulative basis until 31/12/2013, audit findings resulting from in-house and external ex-post controls have been implemented to 96,6%, either by offsetting or recovery orders.

ERCEA specific representative MUS Sample

To conclude on the legality and regularity of transactions, ERCEA cannot rely only on the common approach of the CRaS, since our share of 5 items in this common representative sample of 162 represents 3%. Thus, ERCEA has implemented its own ex-post controls representative indicators to provide assurance to the Authorising Officer by Delegation on the ERC specific population, using a ERCEA specific MUS sample.

Although the completion of this specific ERCEA MUS sample is not yet fully statistically representative to draw the final conclusion, because only 96 out of 162 items of ERCEA

⁸² The FP7 Common Representative audit sample Error Rate (CRaS Error rate) is the sum of all negative detected error rates of closed representative audited financial statements in the Common sample drawn from the whole FP7 population amongst the Research family (162 items in total, only 5 from ERC), divided by the number of closed representative audited financial statements (156 results by the end of December 2013).

⁸³ The FP7 Residual error rate, specific to each DG/EA, is calculated on the basis of the Common Representative audit Sample error rate (CRaS Error rate) and it is defined as the level of errors which remain undetected and uncorrected at the end of the FP7. Please refer to Annex 4 for formulas and explanations.

population only are closed as of 31/12/2013 (with a representative error rate of 1,35%), it is nevertheless reasonable to expect that the final residual error rate based on ERCEA MUS sampling would stay below the 2% materiality threshold. As of 31/12/2013, this ERCEA-MUS-based residual error rate amounts to 1,23%⁸⁴.

Moreover, ERCEA specific error rate is lower than the FP7 Common Representative Error Rate. This confirms the lower inherent risk profile of ERC grants, as compared to the rest of the FP7. This is due to some specificities in the "Ideas" programme, such as ERC grants being mono-beneficiary, beneficiaries being mostly large research institutes with well-established internal controls on financial reporting (e.g. no SMEs, few newcomers to the programme, mostly public bodies), and simplification inherent in the programme design (e.g. flat-rate overheads), as well as reinforced ex-ante controls. Moreover, an analysis of 10 most recurring errors identified for mainstream FP7 spending demonstrates that many of them have no relevance to the ERC grants which are subject to different financing modalities (e.g. use of flat rate of 20% for indirect costs, which contribute to 31,7% of errors found in FP7). In addition, the analysis on FP7 errors by beneficiaries shows that financial statements from SMEs and newcomers (the number of which is very limited in the ERC population) are more error-prone with an error rate more than double compared with other categories of beneficiaries.

Control efficiency and cost-effectiveness of controls:

The efficiency and cost-effectiveness of transactions related to ex-post control is underpinned by the following 2013 results of related key controls:

Research Family harmonised indicators	31/12/2013
Number of audits performed⁸⁵ (+ % of beneficiaries & value coverage⁸⁶ – cumulative figures)	- 72 - So far, 31,68% of our beneficiaries have been audited at least once for a value coverage of 8,77% ⁸⁷ .
Total & Average ex-post audit cost in-house (FTE * standard staff cost) and/or outsourced (audit fees paid)	€ 1.574.177,07 - total € 21.863,57 - average

The non-quantifiable benefit of ex-post control auditing is its inherent deterrent effect, as beneficiaries will take extra care over the preparation of their cost claims knowing that

⁸⁴ We use the formula described in Annex 4 to calculate this residual error rate, based on our specific representative MUS sample error rate of 1,35%.

⁸⁵ This number refers to the total number of audits closed in 2013 by the ERCEA Ex-Post Controls Unit, stemming from the corrective strand (ERCEA "CRaS" audits were closed at the end of 2012).

⁸⁶ Only on the basis of the financial statements submitted by the Host Institutions and accepted by ERCEA.

⁸⁷ Closed audited amount out of the total submitted amount (€ 144.627.228,13/€ 1.647.983.023,97).

on the spot audits may follow. Ex-post control audits also result in reducing the exposure to future errors, thanks to guidance provided to audited beneficiaries. Furthermore, results of ex-post control provide a valuable feedback regarding the effectiveness of ex-ante controls. Finally, the experience of ex-post control auditors on the ground has been important in many improvements proposed in the legislation and rules for Horizon 2020. For example, one of the drivers for a flat rate of indirect costs was the regular identification of errors in the use of real indirect costs, and the understanding of the complexities of real indirect costs for participants.

Overall conclusion on the cost-effectiveness of controls

Research Family harmonised indicators (all stages combined)	31/12/2013
Total cost of fin. management & control⁸⁸ / total value of operational payments made	3%

Based on the analysis of the controls' cost-effectiveness an overall positive conclusion can be reached.

Indeed, during the reporting year, the total cost of financial management and control (i.e. operating budget) compared to the operational cost represented 3%, which is very low.

However it is more accurate to consider administrative and operational commitments rather than payments, which results in a **2.27%**, as the administrative budget is executed over two years. Moreover operational payments appropriations were not made available up to the level of what the ERCEA could have spent and some provisions needed to be taken in order to report year end operational payments to the following years⁸⁹.

In addition, there are a number of non-quantifiable benefits resulting from the controls operated during the each of the control stages. As regards the scientific evaluation (stage 1), the controls ensure that the most meriting projects are funded, following the sole criterion of "excellence" and allowing, together with the 3 further stages ERCEA to fulfil its mission statement and operational objectives. The controls of the grant preparation and signature (stage 2) and of the grant implementation (stage 3) ensure the full budget execution as well as the legality and regularity of transactions of respectively grants and payments. Also, ex-post controls (stage 4) measure the effectiveness of ex-ante controls, provide the highest level of assurance regarding the legality and regularity of payments and has an inherent deterrent effect, as beneficiaries will take extra care over the preparation of their cost claims knowing that on the spot audits may follow.

To further support the efficiency of its internal control system ERCEA has defined efficiency indicators for the controls associated with the main core processes, which all

⁸⁸ For a nearly 'pure' grant management DG/EA, this is approximated by comparing the administrative/operating budget (€ 40.092.000, see Annex 6.6) to the total operational budget (€ 1.762.521.533, see Annex 6.2).

⁸⁹ Refer to Annex 6.7

ensure that applicants benefit of being swiftly informed about the outcome of their submitted proposal and grantees of being rapidly provided with the legal and financial means to conduct their research project.

Finally, ERCEA considers that the necessity of all these controls is undeniable, as the totality of the appropriations would be at risk in case they would not be in place.

2.1.2 Administrative budget's underlying transactions

All transactions on the administrative budget are verified by a financial verifying agent and all errors detected are corrected. In 2013, 3,5% of the payments and 4,9% of the commitments have been rejected for correction (SC – Refusal for correction' visa in ABAC).

The errors were mainly of three types: calculation mistake (mainly due to exchange rates), user reference or message to beneficiary not precise enough (transaction correct but insufficiently explained) and incorrect bank account (mostly when the supplier has several bank accounts).

Financial errors: only exchange rate errors on experts or candidates cost claims: + or -, only € cents. No reputational errors. Even though the impact of the errors detected is very limited, the control is imposed by the FR for payments where we have only the two actors (IA+VA/AO) for most of the transactions.

The ERCEA has issued 29 recovery orders in 2013, for a total amount of € 40,4 Mio⁹⁰, all of them except 3 have been cashed. Out of these 29 RO, 3 were for the cash paid by the EC, 4 for interests paid by the bank and 16 for salary regularization with other EU institutions. In 2013, 2.175 payments were made on the administrative budget (compared to 2.647 in 2012), out of which 19 were paid late (24 in 2012). This represents a rate of 0,9% as in 2012 (2,2% in 2011). The "average time to pay" was of 11,3 days (13,3 days in 2012).

As regards procurement, the files initiated in 2013 by operational and horizontal units, representing 519 "transactions", were all verified by the ERCEA procurement cell which gives ex-ante VISA for the main transactions related to public procurement procedures in order to provide the necessary guarantees regarding their legality and regularity.

Although a number of compliance errors (estimated to 144) were identified during the ex-ante checks (such as erroneous templates used, missing supporting documents, errors in contracts and annexes not in line with tender specifications, etc.), all were corrected during the ex-ante verification phase. No reputational issue- the materialization thereof would have seriously impaired the application of the principles of "open, fair, transparent competition" and "award to the best qualified bidder"⁹¹ – was identified. The correction

⁹⁰ 40,3 Mio according to table 7 of the Annex 3: the difference (0,1 Mio) is due to the 'hors' budget recovery orders (salary regularization) not taken into account in this budgetary table.

⁹¹ Serious infringements, considered by ECA as 100% errors, are: (i) no or restricted tendering for main or

of these errors allowed ensuring the legality and regularity of procurement operations. Finally, it should be noted that so far no complaint, or litigation case was received by the ERCEA and no tender cancellations were recorded.

In order to avoid the recurrence of such mistakes, corrective actions have been implemented, including the close cooperation with and assistance to operational and horizontal units for the preparation of the tender documents, the provision of legal and financial advice in the preparation of tender specifications.

The results of the accounting quality checks showing an error rate of 1,45%⁹² in 2013, which is immaterial considering their nature, thus does not impair the true and fair view of the accounts⁹³.

2.1.3 Fraud prevention and detection

ERCEA has developed in 2011 its anti-fraud strategy as foreseen in the Commission's overall anti-fraud strategy⁹⁴, which has been revised in 2013 as to align to OLAF methodology. Resulting measures with year-end 2013 as target date have been implemented, but one.

The revised strategy provides a framework for addressing fraud and defines key objectives, reflecting the priorities established by the ERCEA and complemented by an action plan. To establish its revised strategy, the ERCEA has implemented OLAF's "Methodology and guidance for DGs' anti-fraud strategies"⁹⁵, thus covering all stages of the anti-fraud cycle (prevention, detection, investigation and corrective measures), and all ERCEA operations related to its operational and operating budgets, including operations without any direct financial impact. Furthermore, the revised strategy reflects the results of ERCEA's fraud risk analysis⁹⁶ which resulted in the identification of specific ERCEA fraud patterns and of mitigating measures in place, allowing drawing five objectives to focus on as to mitigate ERCEA exposure to fraud.

Further to the revision of the strategy, 4 resulting measures with target date year end 2013 have been implemented, including the setup of a fraud reporting channel on the ERC website. The planned measure regarding the design of an ERCEA comprehensive fraud and irregularities register has been postponed to 2014. However, various

supplementary contracts (except where explicitly allowed by the legal framework); (ii) inappropriate assessment of bids affecting the outcome of the tender; (iii) substantial change of the contract scope; (iv) splitting of contracts in order to bring projects below the thresholds although they are related to the same economical objective(s).

⁹² Please refer to Part 1.3.

⁹³ Please refer to Annex 7.4.

⁹⁴ COM(2011) 376 24.06.2011.

⁹⁵ Ref. Ares(2013)859571 – 13/07/2012, see [Methodology and guidance for DGs' anti-fraud strategies](#).

⁹⁶ Embedded in ERCEA risk management process.

alternative mechanisms are in place to report and monitor potential fraud and irregularities, as to support the declaration of assurance. Finally, no case was reported to and from OLAF/IDOC during this reporting year.

Budget implementation tasks entrusted to other services and entities

Not applicable to the ERCEA in 2013.

Assessment of audit results and follow up of audit recommendations

This section reports and assesses the observations and conclusions reported by auditors which could have a material impact on the achievement of the internal control objectives, and therefore on assurance, together with any management measures taken in response to the audit recommendations.

The **European Court of Auditors** performed an audit on the ERCEA's 2012 accounts in February 2013. The final report of the auditors was received in November 2013 giving a favourable opinion on the legality and regularity of transactions and on the true and fair view of the accounts. In the same report, ECA challenged the low number of ex-post control audits closed under the "common ex-post audit strategy". This was due to the fact that audit campaigns for agencies started a little later than foreseen in the audit strategy and resulted in targets for closing audits not being met at the end of 2012. However, as the number of audits launched is in line with the targets, ERCEA is confident that those related to the closure of audits will be met by the end of FP7.

IAO issued a **final audit report on the FP7 payments** on 18th December 2013 concluding that the internal control system in place allows giving reasonable assurance. Ten audit recommendations were issued, three of which assessed as "very important"⁹⁷ but requiring only actions for improvements. Moreover, these do not raise any assurance implication, as related risks have not materialised during the reporting year. The ERCEA has finalised the action plan end of January 2014. Moreover, a **final audit report on the business continuity planning** was issued on 30th January 2014.

As to recommendations resulting from IAO audits performed in 2012, significant progress has been made, as the **follow-up of audits on the assurance process, the grant management, the ethical review management and the administrative budget were considered closed by IAO at year end 2013**. In addition, the follow-up of the

⁹⁷ Concerning the ex-post control strategy – corrective strand 2010, the scientific follow up objectives' clarification and improvements to strengthen the anti-fraud strategy.

communications audit assessed all recommendations as completed, except one “important” audit recommendation related to the improvement of the reporting on communication’s objectives and KPIs in the AAR. According to management, the recommendation has been addressed at year end. The follow-up audit performed in 2013 **on the evaluation of proposals audit of 2012** is considered closed except for two recommendations (out of 12 issued), including one “very important”. The latter concerns the controls of the panel’s work (e.g. IT checks) and it is expected to be fully implemented by the second quarter of 2014.

The **IT governance** (2011) audit was subject to a follow-up audit in 2013. In its conclusions issued on 12 December 2013, IAO confirmed the three audit recommendations previously classified as “very important” as open while downgrading two out of three recommendations to “important”. The open audit recommendation rated as “very important” relates to the IT project management methodology (e.g. the RUP@methodology). Regarding this last recommendation, it should be noted that diverging views arose between ERCEA management and the auditors about the level of detail with which the project management methodology should be implemented. The auditors and ERCEA IT Department will work together closely in 2014 to reach an agreement on the appropriate level of implementation of the recommendation.

Overall, based on the above reported 2013 internal audit results, no serious weakness has been identified which would adversely impact the 2013 declaration of assurance.

3. ASSESSMENT OF THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEMS

The Commission has adopted a set of internal control standards, based on international good practice, aimed to ensure the achievement of policy and operational objectives. In addition, as regards financial management, compliance with these standards is a compulsory requirement.

ERCEA has put in place the organisational structure and the internal control systems suited to the achievement of its operational and its control objectives, in accordance with the standards and having due regard to the risks associated with the environment in which it operates.

The 2013 management assessment of the effectiveness of the internal control systems has been performed early 2014 using a questionnaire covering all internal control standards. Furthermore, the assessment questionnaire also required management's confirmation of the completeness of the register of exceptions and non-compliance events, of the reporting on internal control weakness register and of unreported potential irregularities or fraud. Management assessed ERCEA internal control systems to be highly effective and the registers of exceptions & non-compliance and of internal control weaknesses did not reveal anything impairing the assurance.

In addition, the effectiveness of the internal control system's was monitored throughout the year by the monthly internal scorecard, the risk management process – including the bi-update of the related action plan and the quarterly monitoring of the implementation of audit recommendations. To note that full compliance was achieved thanks to the adoption in December 2013 of ERCEA Guidelines on Sensitive functions, as reflected in the latest quarterly update of the Internal Control Standards action plan.

In 2013, the ERCEA continued his efforts to reinforce its internal control system in place, in line with its 2013 prioritised ICS, which targeted the strengthening of ERCEA internal control environment⁹⁸, which sets the “tone” for an organisation, thus being the foundation of any internal control system.

In this respect, the ERCEA organisational values (ICS 2) have been identified⁹⁹, reflecting the results of the ERCEA-wide survey launched in September (participation rate of 77%), the discussions of dedicated staff members¹⁰⁰ from all Departments and Management team votes. Further to these inputs, the ERCEA organisational values are: Commitment,

⁹⁸ The internal control environment reflects management's attitude, awareness and actions as regards the importance given to risk management, internal control and governance. Control environment factors include ethical and organisational values (ICS 2), competence and development of personnel (ICS 4), management's risk management philosophy (ICS 6) and the way management assigns authority and responsibility (ICS 7).

⁹⁹ In line with ERCEA AWP 2013 prioritised ICS 2.

¹⁰⁰ About 70 staff members participated.

Continuous Improvement and Integrity. It should be noted that, as voiced by staff, “Continuous Improvement” encompasses the additional dimensions of Efficiency & Creativity and “Integrity” includes those of Honesty & Respect. Looking ahead, actions to bring these core values alive will be designed together with all staff.

Also, the ERCEA Inventory of the sensitive functions (ICS 7) has been established in compliance with ERCEA Guidelines on sensitive functions and both were adopted on 19 December 2013, thus lifting the outstanding partial compliance of ICS 7 “operational structure”. Furthermore, the inventory describes for each function the risk of staff misusing its power for personal gains due to a high degree of autonomy and/or decision-making influence. It also reflects for each function measures in place to mitigate the risk, thus ensuring the effective management of sensitive functions identified. This analysis resulted in qualifying as sensitive the functions of ERCEA Director and Heads of Department.

Finally, awareness raising actions targeting ERCEA’s internal control correspondents’ network and management were performed as to further clarify the reporting of internal control weaknesses (ICS 12).

In conclusion, the internal control standards were effectively implemented in 2013. Despite the level of compliance and effective implementation achieved in 2013, management takes the view that additional measures are necessary as to complement the focused progress made to date. This includes the strengthening of deputising and back up arrangements in certain areas as to ensure the continuous effectiveness of the decision making process and of the internal control system (ICS 7 "Operational structure") and where appropriate the revision of processes and procedures in the light of the implementation of Horizon 2020, of process simplification required by the new FR and the reorganisation of Departments and workflows (ICS 8 "Processes and procedures").

4. MANAGEMENT ASSURANCE

This section reviews the assessment of the elements reported in Parts 1, 2 and 3 and draw conclusions supporting of the Declaration of Assurance and namely, whether it should be qualified with reservations.

Review of the elements supporting assurance

The information reported in Part 1, 2 and 3 above covers both the operational and operating budgets managed by the ERCEA in 2013 and supports the five statements of the Declaration of Assurance.

Indeed, management's assessment provides the results of key indicators related to the budget execution addressing the statement on the "use of resources for the intended purpose"¹⁰¹. It further assesses using control indicators the "sound financial management" and the "legality and regularity of underlying transactions" per process stages¹⁰² and reports on measures implemented to prevent, detect and correct fraud¹⁰³.

As demonstrated throughout the report, the results of performance and control indicators positively support the 5 statements of the declaration of assurance. Although few indicators¹⁰⁴, relating to the efficiency component of the sound financial management¹⁰⁵ and to the legality and regularity of underlying transactions¹⁰⁶, show slight deviations from targets, these do not impair the declaration of assurance. Indeed, the observed deviations, caused by few occurrences, are mainly explained by the very high increase in volume of transactions. Also, the assessment of the internal control system, as well as the overall assessment of the cost benefit of controls, resulted both in a positive conclusion. Last but not least, fraud prevention and detection mechanisms in place did not reveal anything that would adversely impair the declaration of assurance.

In addition, the report has been prepared with the objective of providing the reader with reliable, complete and correct information on ERCEA state of affairs for the reporting period ("true and fair view"). Finally, it does not knowingly contain any material inaccuracy or omit any significant information. Management confirms the non-occurrence in 2013 of any significant weakness or reputational event that would have adversely impacted the assurance provided below.

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated;

¹⁰¹ Part 1.2 and 1.3.

¹⁰² Part 2.1.1 and 2.1.2.

¹⁰³ Part 2.1.3.

¹⁰⁴ Out of the 34 performance and control indicators reported, only 5 slightly deviated from related targets.

¹⁰⁵ Refer to Part 1 for details on following indicators: time to inform, time to contract, time to pay and time to amend.

¹⁰⁶ Refer to Part 2 for the "ineligible proposals" indicator.

and necessary improvements and reinforcements are being implemented. The Director, in his capacity as Authorising Officer by Delegation for the operational budget and as Authorising Officer for the operating budget, has signed the Declaration of Assurance.

Reservations and overall conclusion on assurance (if applicable)

None.

Declaration of Assurance

I, the undersigned,

Director of the European Research Council Executive Agency

In my capacity as authorising officer for the operating (administrative) budget and authorising officer by delegation for the operational budget

Declare that the information contained in this report gives a true and fair view¹⁰⁷.

State that I have reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex-post controls, the work of the internal audit capability for years prior to the year of this declaration.

Confirm that I am not aware of anything not reported here which could harm the interests of the European Research Council Executive Agency or those of the Commission.

Brussels, 28 March 2014

[Signed in ARES]

Pablo Amor

¹⁰⁷ True and fair in this context means a reliable, complete and correct view on the state of affairs in the service.

ERCEA AAR 2014 – ANNEXES

ANNEX 1: Statement of the Head of Resources and Support

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 ERC 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.

Date , 28 March 2014

[signed in ARES]

Georges Eric Te Kolste

Head of Department D Resources and Support

Internal Control Coordinator

¹ SEC(2003)59 of 21.01.2003.

ANNEX 2: Human and Financial resources

2.1. Human resources by ABB activity

Human Resources by ABB activity				
Code ABB Activity	ABB Activity	Establishment Plan posts	External Personnel	Total
08.10	Management of the Ideas Programme	99	280	379

2.2. Financial resources – Implementation of the ERCEA's operating (administrative) budget

Budget line	Budget line description	APPROPRIATIONS 2013 (C1)			APPROPRIATIONS carried forward (C8)	
		Available appropriations 2013	Commitments 2013	Payments 2013	Amount of appropriations carried forward from 2012	% implementation on appropriations carried forward from 2012
Title 1	Staff expenditure	26.474.660,00	25.304.197,37	25.011.765,80	245.526,68	90,17 %
Title 2	Infrastructure and operating expenditure	13.617.640,00	13.410.390,94	11.611.489,77	1.965.772,98	93,93 %
	TOTAL	40.092.000,00	38.714.588,31	36.623.255,57	2.211.299,66	93,51 %

ANNEX 3: Draft annual accounts and financial reports

3.1. Financial reports – Operational Budget

Annex 3 Financial Reports - DG ERC - Financial Year 2013

Table 1 : Commitments

Table 2 : Payments

Table 3 : Commitments to be settled

Table 4 : Balance Sheet

Table 5 : Economic Outturn Account

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 Contracts (excluding Building Contracts)

Table 13 : Building Contracts

Table 14 : Contracts declared Secret

TABLE 1 : OUTTURN ON COMMITMENT APPROPRIATIONS IN 2013 (in Mio €)					
			Commitment appropriations authorised	Commitments made	%
			1	2	3=2/1
Title 08 Research					
08	08 10	Ideas	1.766,85	1.766,68	99,99 %
	08 22	Completion of previous framework programmes and other activities	93,85	93,85	100,00 %
Total Title 08			1.860,70	1.860,53	99,99%
Total DG ERC			1.860,70	1.860,53	99,99 %

* 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).

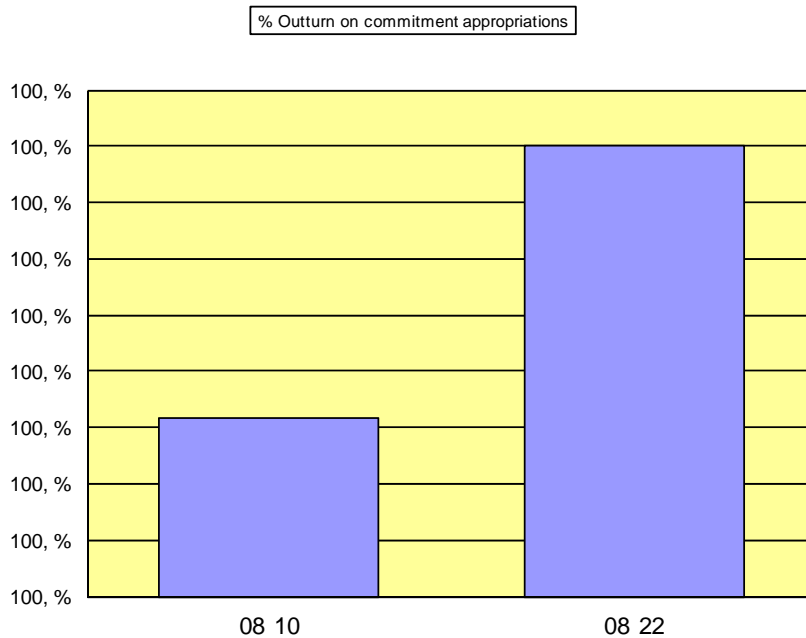


TABLE 2: OUTTURN ON PAYMENT APPROPRIATIONS IN 2013 (in Mio €)					
Chapter			Payment appropriations authorised *	Payments made	%
			1	2	3=2/1
Title 08 Research					
08	08 10	Ideas	1.100,61	1.100,42	99,98 %
	08 22	Completion of previous framework programmes and other activities	257,14	68,40	26,60 %
Total Title 08			1.357,75	1.168,82	86,08%
Total DG ERC			1.357,75	1.168,82	86,08 %

* 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).

= "% Outturn on payment appropriations"

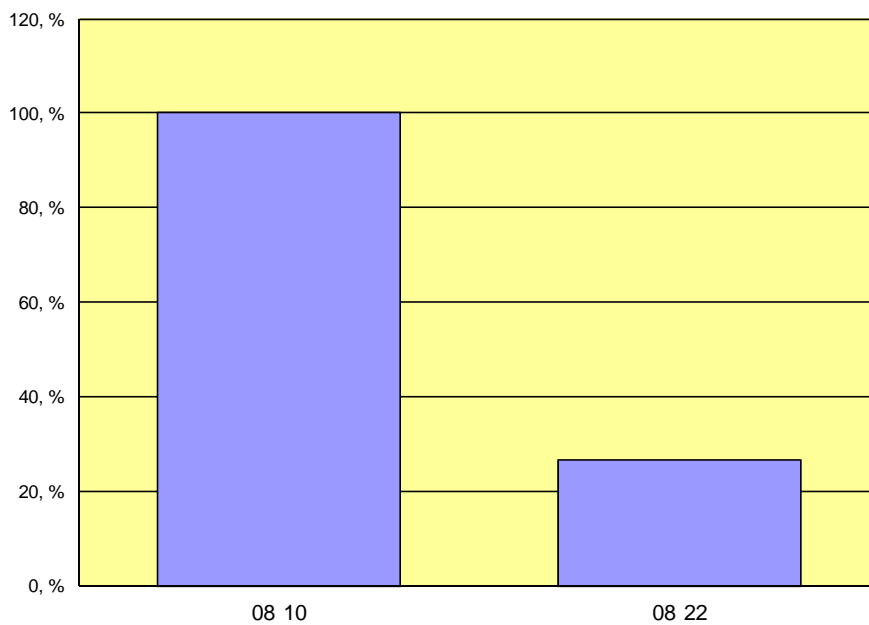


TABLE 3 : BREAKDOWN OF COMMITMENTS TO BE SETTLED AT 31/12/2013 (in Mio €)									
Chapter			2013 Commitments to be settled				Commitments to be settled from financial years previous to 2013	Total of commitments to be settled at end of financial year 2013 (incl corrections)	Total of commitments to be settled at end of financial year 2012 (incl. corrections)
			Commitments 2013	Payments 2013	RAL 2013	% to be settled			
			1	2	3=12	4=12/1	5	6=3+5	7
Title 08 : Research									
08	08 10	Ideas	1.766,68	193,05	1.573,63	89,07 %	2.157,27	3.730,90	3.064,88
	08 22	Completion of previous framework programmes and other activities	93,85	17,80	76,05	81,03 %	112,69	188,74	163,84
Total Title 08			1.860,53	210,85	1.649,68	88,67%	2.269,96	3.919,64	3.228,73
Total DG ERC			1.860,53	210,85	1.649,68	88,67 %	2.269,96	3.919,64	3.228,73

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

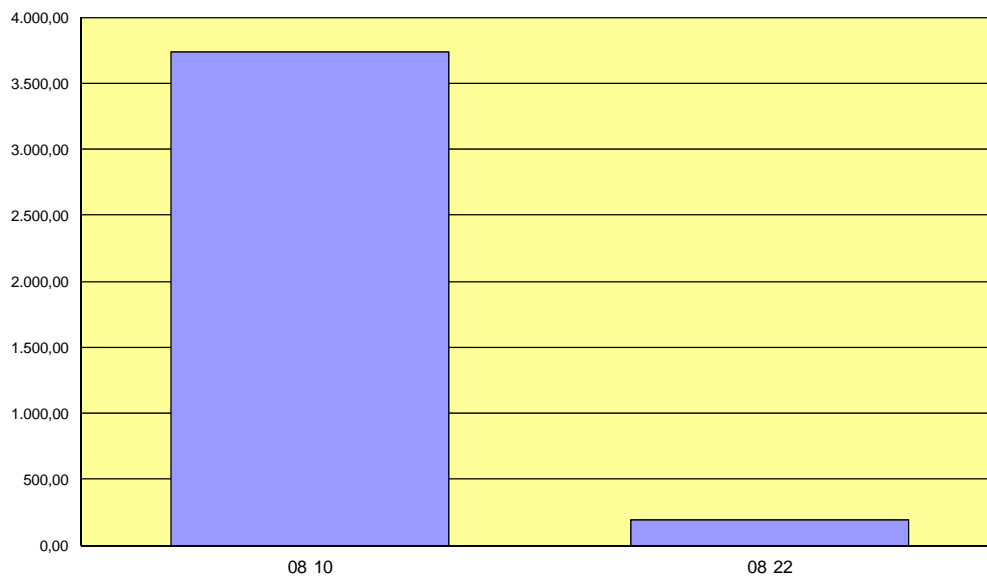


TABLE 4 : BALANCE SHEET

BALANCE SHEET	2013	2012
A.I. NON CURRENT ASSETS	22.129.288,05	294.340.370,82
A.I.5. LT Pre-Financing	22.129.288,05	294.340.370,82
A.II. CURRENT ASSETS	1.301.991.989,06	804.856.370,23
A.II.2. Short-term Pre-Financing	1.301.430.543,41	802.785.048,81
A.II.3.2. Current Receivables and Recove	561.445,65	2.071.321,42
ASSETS	1.324.121.277,11	1.099.196.741,05
P.III. CURRENT LIABILITIES	-132.020.658,00	-38.608.208,03
P.III.4. Accounts Payable	-132.020.658,00	-38.608.208,03
LIABILITIES	-132.020.658,00	-38.608.208,03
NET ASSETS (ASSETS less LIABILITIES)	1.192.100.619,11	1.060.588.533,02

P.I.2. Accumulated Surplus / Deficit		0
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Non-allocated central (surplus)/deficit*	-1.192.100.619,11	-1.060.588.533,02
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TOTAL	0,00	0,00
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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 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 : ECONOMIC OUTTURN ACCOUNT

ECONOMIC OUTTURN ACCOUNT	2013	2012
II.1 SURPLUS/ DEF. FROM OPERATING ACTIVIT	1.033.409.980,91	551.902.612,09
II.1.1. OPERATING REVENUES	-712.470,24	-718.758,96
II.1.1.2. Other operating revenue	-712.470,24	-718.758,96
II.1.2. OPERATING EXPENSES	1.034.122.451,15	552.621.371,05
II.1.2.1. Administrative Expenses	0,00	0,00
II.1.2.2. Operating Expenses	1.034.122.451,15	552.621.371,05
II.2. SURPLUS/DEF. NON OPERATING ACTIVIT	-263.871,68	-3.778.512,15
II.2.1. FINANCIAL OPERATIONS	-263.871,68	-3.778.512,15
II.2.1.1. Financial revenue	-264.360,72	-3.778.512,15
II.2.1.2. Financial expenses	489,04	
ECONOMIC OUTTURN ACCOUNT	1.033.146.109,23	548.124.099,94

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 2013 - DG ERC

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	6447	6072	94,18 %	14,14	375	5,82 %	44,352
45	3	3	100,00 %	23			
90	1637	1636	99,94 %	17,26	1	0,06 %	194
105	6	6	100,00 %	28,17			

Total Number of Payments	8093	7717	95,35 %		376	4,65 %	
Average Payment Time	16,21			14,81			44,75

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	829	772	93,12 %	8,88	57	6,88 %	29,61
30	4145	3900	94,09 %	14,97	245	5,91 %	45,27
90	6	6	100,00 %	28,17			

Total Number of Payments	4980	4678	93,94 %		302	6,06 %	
Average Payment Time	15,70			13,98			42,31

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	30	1566	19,35 %	8093	351.189.967,06	32,38 %	1.084.622.309,01

Late Interest paid in 2013

DG	GL Account	Description	Amount (Eur)
ERCEA	65010000	Interest expense on late payment of charges	489,04
			489,04

TABLE 7 : SITUATION ON REVENUE AND INCOME IN 2013

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		
52	REVENUE FROM INVESTMENTS OR LOANS GRANTED, BANK AND OTHER INTEREST	2.156.717,93	0,00	2.156.717,93	2.147.950,98	0,00	2.147.950,98	8.766,95
66	OTHER CONTRIBUTIONS AND REFUNDS	2.988.005,81	186.417,05	3.174.422,86	2.449.403,54	186.417,05	2.635.820,59	538.602,27
90	MISCELLANEOUS REVENUE	62.394,50	0,00	62.394,50	48.318,07	0,00	48.318,07	14.076,43
Total DG ERC		5.207.118,24	186.417,05	5.393.535,29	4.645.672,59	186.417,05	4.832.089,64	561.445,65

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

INCOME BUDGET RECOVERY ORDERS ISSUED IN 2013 Year of Origin (commitment)	Error		Irregularity		TOTAL Qualified		TOTAL RC(incl. non-qualified)		% Qualified/Total RC	
	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount
	2008	11	138.306,62	16	345.584,16	27	483.890,78	37	950.812,55	72,97%
2009	4	76.277,66	9	146.022,22	13	222.299,88	17	860.365,28	76,47%	25,84%
2010	3	40.174,14	5	50.493,87	8	90.668,01	8	90.668,01	100,00%	100,00%
2011			1	3.248,00	1	3.248,00	3	326.933,53	33,33%	0,99%
No Link			2	17.435,52	2	17.435,52	2	17.435,52	100,00%	100,00%
Sub-Total	18	254.758,42	33	562.783,77	51	817.542,19	72	3.081.720,51	70,83%	26,53%

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	108	752.471,02	51	408.190,98			159	1.160.662,00	242	4.638.470,94	65,70%	25,02%
CREDIT NOTES												
Sub-Total	108	752.471,02	51	408.190,98			159	1.160.662,00	242	4.638.470,94	65,70%	25,02%
GRAND TOTAL	126	1.007.229,44	84	970.974,75			210	1.978.204,19	314	7.720.191,45	66,88%	15,03%

TABLE 9: AGEING BALANCE OF RECOVERY ORDERS AT 31/12/2013 FOR ERC

	Number at 01/01/2013	Number at 31/12/2013	Evolution	Open Amount (Eur) at 01/01/2013	Open Amount (Eur) at 31/12/2013	Evolution
2012	3		-100,00 %	186.417,05		-100,00 %
2013		12			561.445,65	
	3	12	300,00 %	186.417,05	561.445,65	201,18 %

TABLE 10 : RECOVERY ORDER WAIVERS IN 2013 >= EUR 100.000

Waiver Central Key	Linked RO Central Key	RO Accepted Amount (Eur)	LE Account Group	Commission Decision	Comments

Total DG

Number of RO waivers

No data to be reported

TABLE 11 : CENSUS OF NEGOTIATED PROCEDURES - DG ERC - 2013

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

No data to be reported

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

Internal Procedures > €60,000		
Procedure Type	Count	Amount (€)
Open Procedure (Art. 127.2 RAP)	1	195.000,00
TOTAL	1	195.000,00

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

3.2. Financial Reports – Administrative Budget

Annex 3 Financial Reports - ERCEA - Financial Year 2013

Administrative Budget

Table 1 : Commitments

Table 2 : Payments

Table 3 : Commitments to be settled

Table 4 : Balance Sheet

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Table 11 : Negotiated Procedures (excluding Building Contracts)

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Table 14 : Contracts declared Secret

TABLE 1: OUTTURN ON COMMITMENT APPROPRIATIONS IN 2013 (in Mio €)				
Chapter		Commitment appropriations authorised *	Commitments made	%
		1	2	3=2/1
Title A-1 FRAIS DE PERSONNEL				
A-11	Personnel en activité	24,80	23,71	95,57 %
A-12	Frais divers de recrutement, de prise de fonction	0,13	0,11	85,23 %
A-13	Frais de missions, de déplacements et autres dépen	0,39	0,38	96,84 %
A-14	Infrastructure à caractère socio-médical	0,59	0,56	94,74 %
A-16	Service Social, autres interventions	0,56	0,55	98,29 %
A-17	Frais de réception et de représentation	0,00	0,00	95,97 %
Total Title A-1		26,47	25,30	95,58%
Title A-2 FRAIS DE FONCTIONNEMENT				
A-20	Immeubles et frais accessoires	4,38	4,35	99,18 %
A-21	Traitement des données	6,54	6,50	99,47 %
A-22	Biens, meubles et frais accessoires	0,08	0,08	94,97 %
A-23	Dépenses de fonctionnement administratif courant	0,08	0,07	79,28 %
A-24	Affranchissement et Télécommunications	0,79	0,79	99,97 %
A-25	Frais de réunions internes	0,01	0,01	75,02 %
A-26	Frais administratifs liés aux activités opérationn	1,43	1,35	94,26 %
A-27	Dépenses avec les entités consolidées	0,29	0,26	90,10 %
Total Title A-2		13,62	13,41	98,48%
TOTAL ERC		40,09	38,71	96,56 %

* 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).

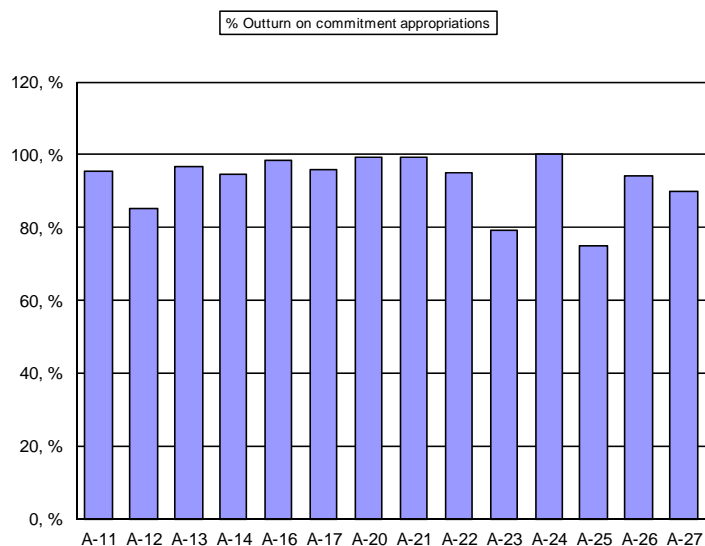


TABLE 2: OUTTURN ON PAYMENT APPROPRIATIONS IN 2013 (in Mio €)

Chapter		Payment appropriations authorised *	Payments made	%
		1	2	3=2/1
Title A-1 FRAIS DE PERSONNEL				
A-11	Personnel en activité	24,85	23,71	95,39 %
A-12	Frais divers de recrutement, de prise de fonction	0,13	0,07	56,12 %
A-13	Frais de missions, de déplacements et autres dépen	0,42	0,36	85,66 %
A-14	Infrastructure à caractère socio-médical	0,75	0,54	71,31 %
A-16	Service Social, autres interventions	0,56	0,56	98,31 %
A-17	Frais de réception et de représentation	0,01	0,01	87,52 %
Total A-1		26,72	25,23	94,43%
Title A-2 FRAIS DE FONCTIONNEMENT				
A-20	Immeubles et frais accessoires	4,65	3,94	84,85 %
A-21	Traitement des données	7,49	6,81	90,90 %
A-22	Biens, meubles et frais accessoires	0,09	0,06	70,02 %
A-23	Dépenses de fonctionnement administratif courant	0,09	0,07	77,23 %
A-24	Affranchissement et Télécommunications	0,80	0,79	98,91 %
A-25	Frais de réunions internes	0,01	0,01	65,96 %
A-26	Frais administratifs liés aux activités opérationn	2,14	1,50	70,32 %
A-27	Dépenses avec les entités consolidées	0,31	0,27	85,97 %
Total A-2		15,58	13,46	86,36%
TOTAL ERC		42,30	38,69	91,46 %

* 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).

=% Outturn on payment appropriations*

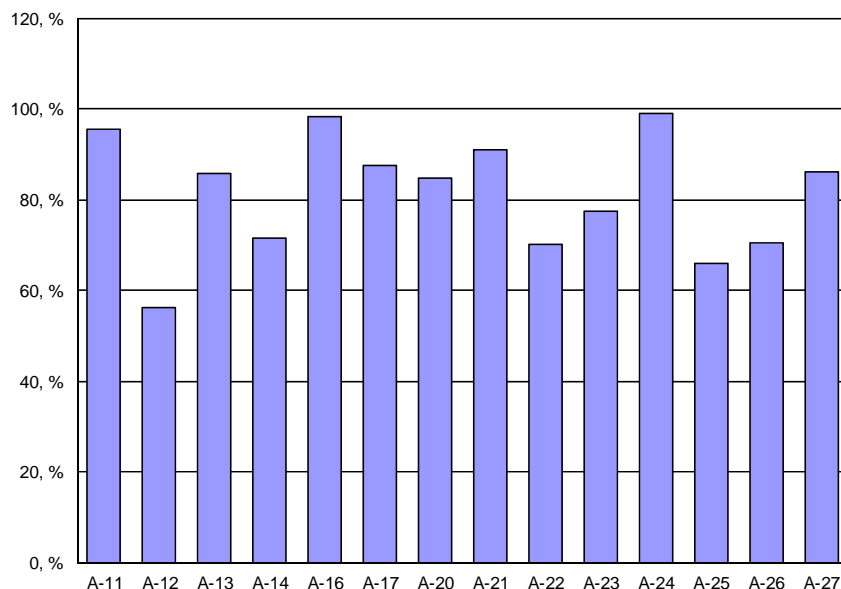


TABLE 3 : BREAKDOWN OF COMMITMENTS TO BE SETTLED AT 31/12/2013 (in Mio €)					
Chapter		2013 Commitments to be settled			
		Commitments 2013	Payments 2013	RAL 2013	% to be settled
		1	2	3=1-2	4=1-2/1
Title A-1 FRAIS DE PERSONNEL					
A-11	Personnel en activité	23,71	-23,66	0,04	0,17 %
A-12	Frais divers de recrutement, de prise de fonction	0,11	-0,07	0,04	34,14 %
A-13	Frais de missions, de déplacements et autres dépen	0,38	-0,34	0,04	10,93 %
A-14	Infrastructure à caractère socio-médical	0,56	-0,39	0,17	30,82 %
A-16	Service Social, autres interventions	0,55	-0,55	0,00	0,00 %
A-17	Frais de réception et de représentation	0,00	0,00	0,00	3,12 %
Total A-1		25,30	-25,01	0,29	1,16%
Title A-2 FRAIS DE FONCTIONNEMENT					
A-20	Immeubles et frais accessoires	4,35	-3,73	0,62	14,22 %
A-21	Traitement des données	6,50	-5,88	0,63	9,63 %
A-22	Biens, meubles et frais accessoires	0,08	-0,06	0,02	28,87 %
A-23	Dépenses de fonctionnement administratif courant	0,07	-0,06	0,00	4,37 %
A-24	Affranchissement et Télécommunications	0,79	-0,79	0,01	1,02 %
A-25	Frais de réunions internes	0,01	-0,01	0,00	11,56 %
A-26	Frais administratifs liés aux activités opérationn	1,35	-0,84	0,51	37,55 %
A-27	Dépenses avec les entités consolidées	0,26	-0,25	0,01	4,92 %
Total A-2		13,41	-11,61	1,80	13,41%
TOTAL ERC		38,71	-36,62	2,09	5,40 %

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

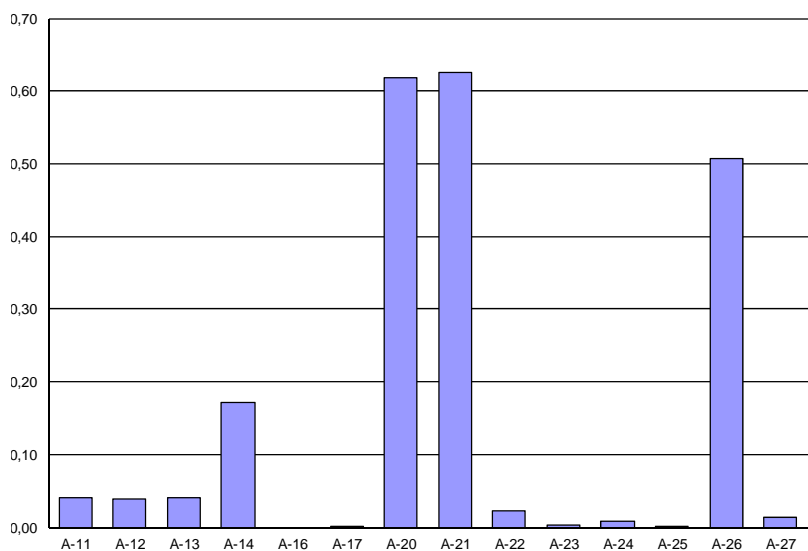


TABLE 4 : BALANCE SHEET ERCEA

BALANCE SHEET	2013	2012
A.I. NON CURRENT ASSETS	8.995.736,59	8.617.704,08
A.I.1. Intangible Assets	4.728.797,55	3.615.223,18
A.I.2. Property, plant and equipment	4.266.939,04	5.002.480,90
A.II. CURRENT ASSETS	5.925.337,10	4.905.222,05
A.II.2. Short-term Pre-Financing	0,00	0,00
A.II.3.2. Current Receivables and Recove	2.394.561,50	2.260.165,43
A.II.5. Cash and Cash Equivalents	3.530.775,60	2.645.056,62
ASSETS	14.921.073,69	13.522.926,13
P.II. NON CURRENT LIABILITIES	0,00	
P.II.2. Long-term provisions	0,00	
P.III. CURRENT LIABILITIES	-4.620.430,28	-3.023.152,99
P.III.2. Short-term provisions	-803.513,44	-709.038,29
P.III.4. Accounts Payable	-3.816.916,84	-2.314.114,70
LIABILITIES	-4.620.430,28	-3.023.152,99
NET ASSETS (ASSETS less LIABILITIES)	10.300.643,41	10.499.773,14
Non-allocated central (surplus)/deficit*	199.129,73	-815.134,01
P.I.2. Accumulated Surplus / Deficit	-10.499.773,14	-9.684.639,13
TOTAL	0,00	0,00

* This figure is a balancing amount presented here so as to reflect the fact that the accumulated result of the Commission is not attributed to each DG

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 ERCEA

ECONOMIC OUTTURN ACCOUNT	2013	2012
II.1 SURPLUS/ DEF. FROM OPERATING ACTIVIT	199.129,73	-815.164,26
II.1.1. OPERATING REVENUES	-39.096.826,43	-38.332.678,45
II.1.1.2. Other operating revenue	-39.096.826,43	-38.332.678,45
II.1.2. OPERATING EXPENSES	39.295.956,16	37.517.514,19
II.1.2.1. Administrative Expenses	38.878.019,44	36.978.041,08
II.1.2.2. Operating Expenses	417.936,72	539.473,11
II.2. SURPLUS/DEF. NON OPERATING ACTIVIT		30,25
II.2.1. FINANCIAL OPERATIONS		30,25
II.2.1.2. Financial expenses		30,25
III.2. Extraordinary Gains	0,00	
III.2. Extraordinary Gains	0,00	
III.2. Extraordinary Gains	0,00	
III.3. Extraordinary Losses	0,00	
III.3. Extraordinary Losses	0,00	
III.3. Extraordinary Losses	0,00	
ECONOMIC OUTTURN ACCOUNT	199.129,73	-815.134,01

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 2013 - ERCEA

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	2031	2012	99,06 %	10,85	19	0,94 %	50,26
45	65	65	100,00 %	15,66			
60	79	79	100,00 %	9,65			

Total Number of Payments	2175	2156	99,13 %		19	0,87 %	
Average Payment Time	11,30			10,96			50,26

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	486	476	97,94 %	13,04	10	2,06 %	50,1

Total Number of Payments	486	476	97,94 %		10	2,06 %	
Average Payment Time	13,80			13,04			50,1

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	34	28,	1,29 %	2.175,	213.299,08	1,32 %	16.141.089,49

Late Interest paid in 2013

Agency	GL Account	Description	Amount (Eur)

TABLE 7 : SITUATION ON REVENUE AND INCOME IN 2013

Title	Description	Year of Origin	Revenue and Income recognized	Revenue and Income cashed	Outstanding Balance
20-0	Subsidy from the Commission	2013	40.131.814,25	40.131.814,25	0,00
91-0	Recuperation of expenses	2012	66,02	0,00	66,02
91-0	Recuperation of expenses	2013	133.577,81	132.828,48	749,33
TOTAL ERC			40.265.458,08	40.264.642,73	815,35

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

INCOME BUDGET RECOVERY ORDERS ISSUED IN 2013 Year of Origin (commitment)	Follow Up		No error / irregularity		Not specified		TOTAL Qualified		TOTAL RC (incl. non-qualified)		% Qualified/Total RC	
	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount
2012			1,	4.129,95			1,	4.129,95	1	4.129,95	1	
2013	1,	550,00					1,	550,00	1	550,00	1	
No Link			28,	8.723.898,12	9,	26.637,39	37,	8.750.535,51	37	8.750.535,51	1	
Sub-Total	1,	550,00	29,	8.728.028,07	9,	26.637,39	39,	8.755.215,46	39	8.755.215,46	1	

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									39	8.755.215,46		

TABLE 9: AGEING BALANCE OF RECOVERY ORDERS AT 31/12/2013 FOR ERCEA

Year of Origin	Number at 01/01/2013	Number at 31/12/2013	Evolution	Open Amount (Eur) at 01/01/2013	Open Amount (Eur) at 31/12/2013	Evolution
2012	5	1	-80,00 %	40.844,62	66,02	-99,84 %
2013		3			1.444,16	
Totals	5	4	-20,00 %	40.844,62	1.510,18	-96,30 %

TABLE 10 : RECOVERY ORDER WAIVERS IN 2013 >= EUR 100.000

	Waiver Central Key	Linked RO Central Key	RO Accepted amount (Eur)	LE Account Group	Commission Decision	Comments
1,						

Total ERCEA

Number of RO waivers

No data to be reported

TABLE 11 : CENSUS OF NEGOTIATED PROCEDURES - DG - YEAR 2012

Contracts > 60.000

Negotiated Procedure Legal base	Number of Procedures	Amount (€)
Total		0,00

No data to be reported

TABLE 12 : SUMMARY OF PROCEDURES OF DG EXCLUDING BUILDING CONTRACTS

Internal Procedures > €60,000		
Procedure Type	Count	Amount (€)
TOTAL		

No data to be reported

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

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 for the reporting year 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 (and the Coal and Steel Research Fund for DG RTD), 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 Generals of the Research DGs (and the Directors of ERCEA and REA) are 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 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 DG or service, 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:

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

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 €, of all non-audited received cost statements for all audited beneficiaries (whether extrapolation has been launched or not).

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 as a whole. Nevertheless, the Director-General (or Director for the Executive Agencies) 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.

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 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-General (or Director for the Executive Agencies) 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 2013, the Research services managed financial operations under the sixth and seventh framework programmes, and the Coal and Steel Research Fund. Each is 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.

However, given that the expenditure for the 6th Framework Programme is now a very small part of operations, and given the full disclosure on the results for this FP in the AAR 2012, information on the 6th FP should only be reported if there are exceptional elements, the non-disclosure of which would result in the reader being misled.

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.

ANNEX 5: Internal Control Template(s) for budget implementation (ICTs)

5.1. ERCEA operational budget

The ICT relates to the implementation by the ERCEA of the operational budget, which is implemented according to Article 53 the 2002 FR by “grant indirect management” mode. However, Article 58 of the revised FR of 2012, provides that as from 01.01.2014 the ERCEA will implement its operational budget in line with the “direct management” mode.

Stage 1: Programming, evaluation and selection of proposals

A. Preparation, adoption and publication of Calls of proposals aligned to the ERC / "Ideas" Work Programme.

Main control objectives: Ensure that the ERCEA calls for proposals are effectively launched and concluded according "Ideas"/ERC Programme objectives' effectiveness, in compliance with rules and regulations.

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
WP and subsequent calls for proposals are inadequate to ensure the evaluation of proposals	Hierarchy of legal texts (legal basis, decisions, rules...) Scientific Council (ScC) support and Call Coordination	All calls	Cost: FTEs involved Benefit: total WP budget	Effectiveness: % of planned Calls successfully concluded Efficiency: FTEs standard costs / operational budget

B. Evaluation, ranking and selection of proposals

Main control objectives: Ensure that only proposals meeting the "Ideas" Work Programme objectives' are selected for funding, while complying with rules and regulation and preventing / deterring 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
Eligible proposals are excluded from the evaluation or ineligible proposals are proposed for funding	<p>Automatic IT-based eligibility checks</p> <p>Eligibility checks and decision for clear cut cases by scientific officers and call coordinators</p> <p>In depth double-check of special cases at Step 2 by call coordinators</p> <p>Eligibility decision for pending cases (not clear cut) by Eligibility Committee</p>	100% applicants and all aspects of eligibility criteria	<p>Cost: FTEs involved</p> <p>Benefit: % ineligible proposal x average awarded grant</p>	<p>Effectiveness: % of ineligible proposals over total proposals submitted per call</p> <p>% of redress cases concerning eligibility issues</p> <p>Efficiency: FTEs standard costs / operational budget</p>
The evaluation, ranking and selection of proposals is not carried out in accordance with the established procedures	<p>ScC selection and appointment of panel members</p> <p>Panel coordination by scientific officers making sure procedures are followed (panel checklists</p>	<p>100% of panel members and experts</p> <p>100% of proposals</p> <p>100% of complaints received are analysed by</p>	<p>Cost: FTEs involved + expert budget</p> <p>Benefit: Compliant, fair and reliable evaluation based on sole criterion of excellence</p>	<p>Effectiveness:</p> <p>Number of experts participated/invited</p> <p>% of expert payment execution</p> <p>Number of experts (remote</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>and standard deliverables)</p> <p>Assignment of proposals to panel members by panel chairs</p> <p>Conflict of interest procedure</p> <p>Selection of experts (remote referees) by panel chairs</p> <p>Assessment of proposals by panel members and experts (remote referees)</p> <p>ScC President's approval and ERCEA Director's final adoption of ranking lists.</p> <p>Redress procedure</p>	<p>the Redress Committee.</p> <p>100% exclusion from evaluation of experts having a conflict of interest</p>		<p>referees) reviews per proposals</p> <p>Time to appoint experts</p> <p>Time to pay experts</p> <p>% of successful redress cases</p> <p>Expert budget / number of evaluated proposals</p> <p>Efficiency: FTEs standard costs + expert budget / operational budget</p>

Stage 3: Title Grant implementation

Main control objectives: To ensure the financial and legal transaction time is minimised for ERC beneficiaries and underlying transactions are legal and regular.

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 grant agreement is not or partially carried out in compliance with the Description of Work and/or amounts claimed by beneficiaries are not complying with the contractual and regulatory framework.</p>	<p>Financial Officers perform check-list-based financial controls based on the Periodic Financial Management Report, which provides an explanation of financial resources claimed versus the Description of Work, in particular its budgetary annex.</p> <p>Certificate on the Financial Statements delivered by an independent qualified auditor.</p> <p>EWS screening</p> <p>Final payments are subject to the approval of the Scientific reports.</p>	<p>100% of transactions</p> <p>100% of transactions with cumulative costs claims exceeding € 350.000.</p> <p>100% of transactions</p> <p>100% of transactions</p>	<p>Cost/benefit:</p> <p>Average project management cost/running grant agreement</p> <p>Average number & value of running grant agreement managed/staff FTE.</p> <p>Detected error rate ex-ante desk checks</p>	<p><u>Effectiveness:</u></p> <p>% of payment credit execution.</p> <p>% of ineligible costs identified by Financial Officers</p> <p>% of total number of financial transactions and accepted costs covered by Certificate on Financial Statements (CFS).</p> <p>Research Family indicator:</p> <p>% and values of errors detected through ex-ante desk checks / total value of cost claims.</p> <p>% of final payments suspended due to results of Scientific reports</p> <p><u>Efficiency:</u></p> <p>Time to pay (pre-financing / interim and final payments)</p> <p>Research Family indicator:</p> <p>Average time to pay (% on time)</p>

Stage 4: Ex-post controls

Main control objectives: Measuring the effectiveness of ex-ante controls by performing on-the spot ex-post controls aiming at detecting errors, irregularities or fraud in cost statements.

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>Ex-ante controls fail to prevent, detect and correct erroneous, irregular or fraudulent payments.</p>	<p>Common and multi-annual FP7 ex-post control strategy - representative sample of transactions (CRaS)</p> <p>ERCEA specific ex-post control strategy (2007-2013) – representative sample (MUS) and risk-based audits.</p>	<p>Representative sample allows drawing conclusions on the effectiveness of ex-ante controls.</p> <p>The FP7 audit strategy sets the audit method for the Research Family.</p>	<p>Cost:</p> <p>Total & average ex-post audit cost in –house (FTE*standard staff cost) and outsourced (audit fees paid).</p> <p>Non-monetary benefits: To be aligned with text provided by RTD mid-January</p>	<p><u>Effectiveness:</u></p> <p>ERCEA specific error rate (global activity)</p> <p>ERCEA residual error rate (drawn from ERCEA MUS sample)</p> <p>FP7 - CRaS error rate (representative sample)</p> <p>FP7 – CRaS residual error rate</p> <p><u>Efficiency:</u></p> <p>Number of audits performed (+% of beneficiaries & value coverage?)</p>

5.2. ERCEA Operating budget

Name the type of expenditure to which the ICT applies³ (procurement direct management).

Stage 1: Administrative budget

Main control objectives: To ensure compliance with financial and accounting rules as well as regularity, effectiveness, efficiency and cost benefit of financial transactions processed and monitor the quality of budget planning and of payment workflows.

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
Credibility of the draft budget (= request for EC contribution in N+1) is questioned by the Budget authority against the ERCEA ability to reach a high level of execution	Monitoring of the quality of the budget planning	100% of operating budget	Cost: FTE Benefit: respect of commitment towards the budgetary authority to limit administrative costs	<u>Effectiveness:</u> % Commitment rate % Payment rate
Late payments give a negative image of the Agency (reputational risk) and may lead to the payment of late interests	Monitoring of the quality of payment workflows	100% of operating budget	Cost: FTE Benefit: Respect of the payment target imposed by budgetary authority	<u>Effectiveness:</u> % of late payments <u>Efficiency:</u> Time to pay

³ One ICT is required per type of expenditure managed by the DG. As regards cost benefits indicators for the external aid policy area, the aid delivery methods (procurement and grants, contribution agreements, budget support etc.), the management modes or distinct internal control systems or alternatively the different cooperation instruments could be used, as long as the relevant indicators are reported accordingly in the AAR under sections 2.1 and 2.2.

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
A high rate of errors in the transactions on the administrative budget lead to remarks in the final report of the court of auditors	Compliance & regularity checks of financial transactions	100% of transactions	Cost: FTE Benefit: optimisation of budget execution in line with financial and accounting rules.	<u>Effectiveness:</u> % Residual number of accounting errors/total number of transactions (<2%) % Residual accounting errors (<2% of total balance sheet or economic outturn account)

Stage 2: Procurement: The procurement cell provides financial and procedural information to the management on the public procurement procedures. It further assists operational units with advising on compliance with the FR and its Rules of application concerning public procurement procedures of the Agency, sharing best practices/problems detected; launching centralized initiatives (e.g. workshop) concerning the management of public procurement within the Agency and disseminating regularly all related information to the units and especially to staff members involved in public procurement, assisting and supporting the operational units in the choice of the correct procedure; and in the preparation of the tender documents and providing an ex-ante verification on all public procurement procedures of the Agency, including low value contracts (above € 1.000).

Main control objectives: To ensure the legality & regularity of procurement 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
A lack of competition amongst tenderers may lead to restriction of market	Regular follow-up and update of the contract register	100% checked	Costs: estimation of cost of staff involved Benefits: widest competition (increase the choice of potential	Effectiveness: Reduced n° of splitting of a purchase

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
	step", guidelines)			
Due conflict of interest during the award process, contract awarded may be contested	<p>Members of the evaluation committee sign a declaration of absence of conflict of interest and of confidentiality</p> <p>Tenderers sign declaration of honour on exclusion criteria and on absence of conflict of interest</p>	100% checked	<p>Benefits:</p> <ul style="list-style-type: none"> - awarded contract are awarded and services/goods delivered (needs satisfied) - limit number of litigations & complaints - fair competition 	<p>Effectiveness:</p> <ul style="list-style-type: none"> - reduced n° of errors detected - n° of complaints or litigation cases filed

ANNEX 6: Implementation of the ERCEA AWP 2013

6.1. ERC funding instruments

Two grant schemes designed by the Scientific Council form the core of the ERC activities: Starting Grants (StG) support researchers at the early stage of their careers, with the aim of providing working conditions that enable them to become independent research leaders. Since 2013, this scheme is split in two: the "ERC Starting Grant" for starters with at least two years but not more than seven years' experience after their PhD and the "ERC Consolidator Grant" for scientists who completed their PhD at least seven, but no longer than 12 years before the cut date.

The Advanced Grants (AdG) are designed to support outstanding and established research leaders by providing the resources necessary to enable them to continue the work of their teams in expanding the frontiers of scientific knowledge.

In addition, since 2011 a funding opportunity, the Proof of Concept, is offered to existing ERC grant holders the possibility to establish the innovation potential of ideas stemming from their existing ERC grants. This funding instrument is aimed at covering the funding gap known as "the valley of death" which occurs in the very early stages of the commercialisation process of potentially innovative ideas.

Finally, the ERC Synergy, introduced in 2012, aims at groups of 2-4 exceptional researchers combining their expertise, knowledge and resources to make scientific breakthroughs that would not be possible for any of them working alone.

6.2. Details of the 2013 commitments execution by main fund sources

Operational Budget: Commitments execution		Commitments - Fund Source ⁴				
		C1	C8	C4	C5	R0
	TOTAL Credits (€)	1.762.521.533,00	3.064.883.359,30	3.822.909,44 ⁵	508.931,89	257.144.054,20
Available Commitment Appropriations 2013						
A	Grants	1.753.940.754,52	878.508.968,04	3.642.974,64	508.931,89	102.820.718,46
	Experts	8.580.778,48	N/A	0,00	0,00	829.313,00
B	L1 Commitments (C1)	1.753.724.193,59	878.508.968,04	3.204.907,85	118.446,89	102.620.718,46
C	Indirect L2 Commitments	748.167.209,77	878.508.968,04	1.758.973,47	118.446,89	50.892.613,88
D	Available for Indirect L2 Commitments (Grants) For C1, C4 and R0 = (B-C) For C8= (C/A)	1.005.556.983,82	0,00	1.445.934,38	0,00	51.728.104,58
E	% Consumption of L2 Indirect against the L1 Commitments (Grants) For C1, C4 and R0 = $R0 = (C/B)$ For C8 = (C/A)	42,66%	100,00%	54,88%	100,00%	49,59%
F	Available Commitment appropriations = A – B – G	0,00	N/A	26.080,13	0,00	N/A
G	Direct L2 Commitments Grants	216.560,93	N/A	411.986,66	390.485,00	200.000,00
	Direct L2 Commitments Experts	8.580.778,48	N/A	0,00	0,00	829.313,00

⁴ Explanation of Fund Sources: C1 = voted credits of the current year; C8 = carried-forward credits of last year C1 credits; R0 = contribution from Third Countries; C4 = credits of income generated mainly from interest on pre-financing; C5 = carried-forward of C4 credits of last year.

⁵ Including € 179.934,80 on the mother line.

Operational Budget: Commitments execution		Commitments - Fund Source ⁶				
		C1	C8	C4	C5	R0
H	% consumption of L1 and L2 Direct against the Commitment Appropriations = (G+B) / A	100,00%	N/A	99,28%	100,00%	100,00%

The granting process of the 2013 Synergy Grants Call was launched towards the end of the year. Consequently, the corresponding L1 commitments were made during the fourth quarter of 2013, leading at year end to 100% execution of voted credits for 2013.

⁶ Explanation of Fund Sources: C1 = voted credits of the current year; C8 = carried-forward credits of last year C1 credits; RO = contribution from Third Countries; C4 = credits of income generated mainly from interest on pre-financing; C5 = carried-forward of C4 credits of last year.

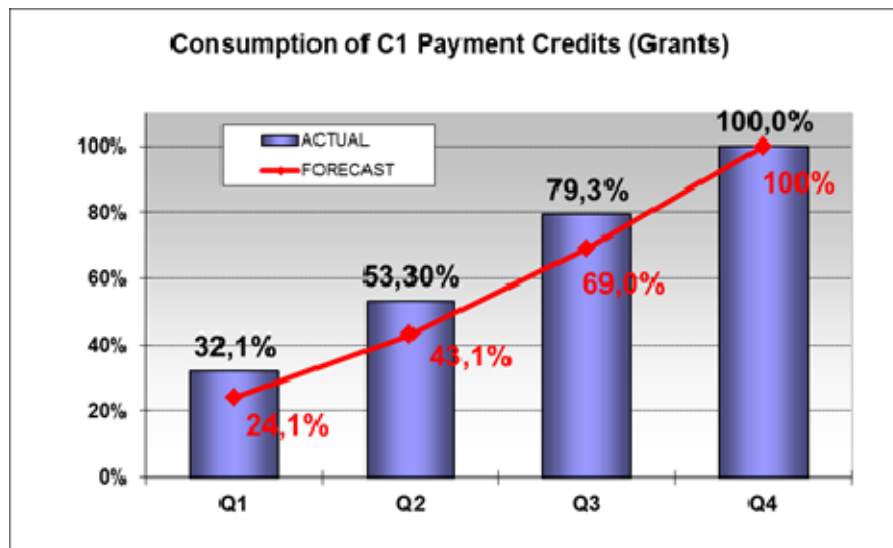
6.3. Payment appropriation execution

The table shows the consumption of the year per fund source, including the revenue assigned from third countries (R0):

Operational Budget: Payments execution	Payment Execution – Fund Source					
		C1	C4	C5	R0 ⁷	TOTAL
Payments Appropriations 2013	Appropriations main line (€)	0,00	179.934,80	0,00	0,00	179.934,80
	Grants (€)	1.087.289.932,89	3.642.974,64	246.385,59	256.314.927,26	1.347.494.220,38
	Experts (€)	9.249.322,86	0,00	0,00	829.126,92	10.078.449,78
	Total	1.096.539.255,75	3.822.909,44	246.385,59	257.144.054,18	1.357.752.604,96
Payments in 2013	Appropriations main line (€)	0,00	14.206,55	0,00	0,00	14.206,55
	Grants (€)	1.087.289.932,89	3.616.894,51	246.385,59	67.573.305,58	1.158.726.518,57
	Experts (€)	9.249.322,86	0,00	0,00	829.126,92	10.078.449,78
	Total	1.096.539.255,75	3.631.101,06	246.385,59	68.402.432,50	1.168.819.174,90
% Payment Consumption	Appropriations main line	N/A	7,90%	N/A	N/A	N/A
	Grants	100,00%	99,28%	100,00%	26,36%	N/A
	Experts	100,00%	N/A	N/A	100,00%	N/A
	Total	100,00%	94,98%	100,00%	26,60%	N/A

⁷ For Assigned Revenue 100% yearly consumption is not obligatory.

The graph below illustrates the evolution of the payment activity per quarter against forecast:



The graph reflects the overconsumption observed throughout the 3 quarters that proved the need for additional funds. This overconsumption was the result of the budget cut received in the initial foreseen payment appropriations. With the transfers occurred during the Global Transfer and the Amending budget, the situation towards of the year since most obligations for payments were met.

6.4. Recovery orders

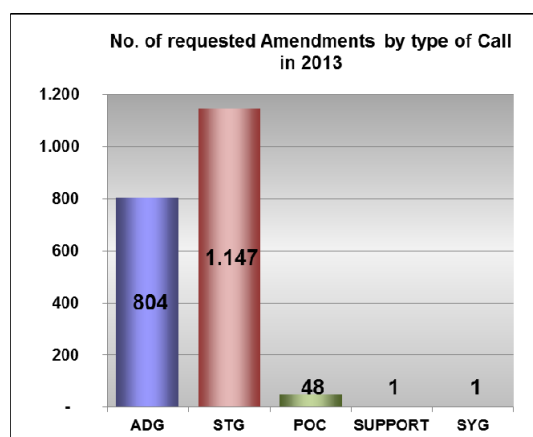
Reason for recovery	Number of recoveries cashed in 2013	Amount recovered €
Recovery due to termination by beneficiary	7	1.692.885,68
Recovery due to results of external audits	22	592.783,96
out of which included recovery due to liquidated damages	10	48.318,07
Other (recovery of pre-financing payments and experts) ⁸	16	405.669,36
Total RO cashed/offset in 2013⁹	45	2.691.339,00
Total RO cancelled in 2013	1	40.539,58
Total RO issued 2013	59	3.066.367,60
Total RO open on 31/12/2013	15	561.445,65

⁸ Income generated from pre-financing above € 750.000 is offset via the budget line BGUE-B2012-08.100100-C4-ERC.

⁹ Including 3 RO issued in 2012, but only cashed in 2013. Recovery order SI2.440627 due to external audits and including liquidated damages has been cancelled by RO SI2.441040 and not been included in the count.

6.5. Grant amendments

The below table shows 2013 requested grant amendments per types of call:



The table below shows the distribution of amendment requests by type (one amendment may include more than one reason):

Reason for Amendment	Number of cases	As a % of Total
Electronic submission SINGLE + MULTI	941	35,58%
Change Authorised Representative (INFO)+(AMDT)	612	23,14%
Change Contact details (Art 8)	331	12,51%
Modification duration	216	8,17%
Change banking details	140	5,29%
Modification Annex I	88	3,33%
Others	317	11,99%
TOTAL	2645	100%

6.6. Administrative budget

Administrative budget	31/12/2013
Final adopted budget	€ 40.092.000,00
Committed amount	€ 38.714.588,31
Paid amount	€ 36.623.255,57

6.7. Administrative budget versus operational budget

	Administrative budget	Operational Commitment	%	Operational Payment	%
Final appropriation	40.092.000,00	1.762.521.533,00	2,27%	1.357.752.604	2,95%
Total committed	38.714.588,31	1.762.521.533,00	2,20%	-	-
Total paid	36.623.255,57	-	-	1.168.804.966	3,13%

ANNEX 7: Specific annexes related to "Management of Resources" (Part 2)

7.1. Redress procedure

Redress procedure	31/12/2013
Total number of grant proposals received (eligible and non-eligible)	10.171
Number of redress requests received	261
Redress requests % of the proposals received	2,6%
Number of redress requests treated	254
Number of redress requests pending	7
Number of redress cases which led to re-evaluation	7
Redress cases which led to re-evaluation (% of proposals received)	0,07%
Number of re-evaluations being successful	2
Number of re-evaluations pending	0

7.2. Ethics review

The screening and ethics review of retained proposals aims at ensuring compliance with ethical principles and relevant legislation. In 2013, only 4 proposals (2 StG 2012 and 2 AdG 2012) involving research on Human Embryonic Stem Cells were cleared following the ethics review and the regulatory comitology executed by DG RTD.

In addition, one proposal (AdG 2013) involving research on Human Embryonic Stem Cells (HESC) underwent the Ethics Review by DG RTD and the related dossiers are being prepared for comitology and another one (AdG 2008) involving research on HESC¹⁰ underwent the ethics review following the introduction by the Principal Investigator of an amendment to insert one new HESC line in the experiments and their dossier.

As regards the monitoring of ethics aspects in running grants, the internal control system has been reinforced in 2013 by a procedure which is implemented in collaboration between the scientific and grant management departments and results in Ethic Monitoring Clearance. It ensures that the proposed research complies with the ethical principles referred to in the rules for submission and that the number of errors in the ethics review process is kept very low. Around 270 Ethic Monitoring Clearance Notes were issued in 2013.

¹⁰ Which underwent ethics review by DG RTD in 2008.

7.3. Ex-post controls – Use of resources and execution of ex-post control audit plan

Use of resources on implementing the ex-post control strategy (input indicator)	2013	2012
Internal resources– own resources audits	8,5 FTE ¹¹	7 FTE
Cost of outsourced audits (€) – representative sample	€ 517.217,00 (37 audits)	€ 452.500,00 (31 audits)

Execution of the ex-post control strategy (output indicator) - AUDIT PROGRAMME 2013			
Status	By own resources	By framework contractor	Total
TOTAL Audits foreseen (AWP 2013)	30	35	65
Identified (officially entrusted to contractor or in-house)	2	0	2
Launched in 2013 (Letter of Announcement sent)	24	12	36
Launched in previous years	7	0	7
TOTAL On-going as of end of 2013	31	12	43
Closed in 2013 from audits launched in 2013 (Letter of Conclusion sent)	5	25	30
Closed in 2013 from audits launched in previous years	16	26	42
TOTAL Closed in 2013	21	51	72
TOTAL Closed in previous years (2009-2013)	80	112	192

¹¹ In 2012, long leaves were taken into account.

7.4. Results of accounting quality controls

Following the EC Accounting Rule 14 “Economic result of the year, fundamental errors and changes in accounting policies”, “Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements”. However, according to the same rule, “Potential current period errors discovered in that period are corrected before the financial statements are authorised for issue”.

Operational budget

In line with this principle, the accounting quality programme of the Agency aims to proceed over the last quarter 2013 and at the time of the cut-off, with a certain number of checks (19) performed on mass accounting figures. Those bulk checks are complemented by checks on files selected randomly throughout the year (14,5% of the total number of transactions in grant interim and final payments and recoveries). The controls aim to spot the possible errors or malpractices that may impair the reliability of the accounts, if material. Due to the very low number of accounting errors on expert payments, random selection was not supposed to be part of the accounting quality programme for 2013, only bulk checks.

The question of materiality is addressed in Accounting Rule 14, whereas, “Material Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor”.

The result of all the checks performed in 2013 did not lead to material errors. The rate calculated in terms of relevant accounting observations is 1,5% at end 2013 for the operational budget.

Operating budget

In line with the above mentioned principle, the accounting quality programme of the Agency for the administrative budget in 2013 was established in threefold

- revising on a full population basis all transaction files in commitments, recoveries and non-recurrent payments;
- revising on a statistical sample basis payments of a recurrent nature and of small amounts (experts, missions, etc);
- revising the accounts through financial and accounting reports on which are performed bulk checks (contracts, assets).

The controls aim to spot the possible errors or malpractices that may impair the reliability of the accounts, if material.

The question of materiality is addressed in Accounting Rule 14, whereas, “Material Omissions or misstatements of items are material if they could, individually or

collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor”.

The result of the checks performed is the corner stone for the certification of the accounts and the validation of the financial processes by the accounting officer. It is also the base for the signature of the Representation Management Letter that accompanies the Financial Statements and Budgetary Implementation reports addressed to the Court of Auditors. The Letter is signed by the Director for the aspects of Legality and Regularity of transactions and by the accounting officer for the Reliability and True and Fair view of the accounts.

ANNEX 8: Decentralised Agencies - not applicable

ANNEX 9: Performance information included in evaluations

The following are evaluations¹ foreseen in the MP 2013 have been actually carried out in 2013.

Title of the Evaluation:	Review of S&T cooperation between the European Union and Russia
ABB activity:	08 17 Capacities – Activities of International Cooperation
Type of evaluation:	Expenditure programme (E)
Summary of performance-related findings and recommendations:	<p>This evaluation took into account the objectives and prescriptions defined in the S&T Agreement, the functioning of the Joint S&T Steering Committee, the evolution of S&T policies on both sides, the potential for cooperation, the scale and scope of cooperation activities and their added value and bilateral cooperation between EU Member States and Russia. It also identified problems and difficulties related to the Agreement's implementation and, where appropriate, made recommendations.</p> <p>The evaluation concludes that S&T cooperation is one of the most successful and promising areas in EU-Russia relations which provides strong positive signals to the general relationship. Strengthening of S&T and innovation cooperation between the EU and Russia is an essential element of the Strategic Partnership and substantially contributes to the Partnership for Modernization.</p> <p>EU-Russia S&T cooperation is very intensive, mostly well-balanced and efficient and – so far – successful. Many of the thematic priorities in S&T policies of the EU and Russia are compatible, and each of the partners have high level and potential of S&T knowledge and expertise. Russia has been the most active and successful third country as a non-associated partner in the EU's FP, both in terms of the total number of participations and in terms of the total amount of the EU financial contribution received. Similarly, Russia is increasingly providing opportunities for EU scientists to participate in its S&T programs through initiatives based on general openness of its programmes.</p> <p>However, there still exist a number of administrative obstacles and fundamental barriers which are hampering more efficient cooperation. There are technical and administrative barriers such as customs and visa issues and differences in administrative procedures of funding organisations which complicate the S&T cooperation in practice.</p>
Availability of the report on Europa:	http://ec.europa.eu/research/iscp/index.cfm?lg=en&pg=russia

¹ Surveys, rolling reviews, data collection, public consultations, legal implementation reports or other types of studies do not qualify as evaluations and not included in this Annex.

Title of the Evaluation:	Review of S&T cooperation between the European Union and South Africa
ABB activity:	08 17 Capacities – Activities of International Cooperation
Type of evaluation:	Expenditure programme (E)
Summary of performance-related findings and recommendations:	<p>The aim of this evaluation was to conduct a review of EU-South-Africa cooperation in the field of research, assessing in particular the implementation and impact of the S&T Cooperation Agreement concluded between the European Community and South Africa ("EU-South-Africa S&T Agreement").</p> <p>The experts concluded that the Agreement has led to a higher participation of South African researchers and students in the various networks and projects of the EU. Participation has led to knowledge exchange and technology transfer, mutual learning and stronger international visibility for South African researchers.</p> <p>South Africa's relative success in the FP can be attributed to the fact that the country has played to its traditional strength both in terms of scientific fields (e.g. health, environment) and scientific institutions (mainly CSIR). The Brussels office of the South African Minister-Counsellor has performed an invaluable role in supporting these developments, as has the extensive network of National Contact Points and the ESASTAP and CAAST-Net projects. Access to closed calls was an additional factor in promoting collaboration.</p> <p>The evaluation concludes that for the EU, South Africa is an important collaborator and an interlocutor for relations with the rest of Africa; indeed it is a strategic partner. Regional impact has been limited in FP while the ACP S&T programme has reinforced South Africa's leadership role on the continent. CAAST-Net has served to build the associated networks.</p>
Availability of the report on Europa:	Not yet

Title of the Evaluation:	Second interim evaluation of the Risk-Sharing Finance Facility (RSFF)
ABB activity:	08 09 Cooperation – Risk-Sharing Finance Facility – RSFF 08 18 Capacities – Risk-Sharing Finance Facility – RSFF
Type of evaluation:	Expenditure programme (E)
Summary of performance-related findings and recommendations:	<p>The aim of this evaluation was to assess the implementation of the RSFF since its start in 2007 until the end of 2012 with a view to drawing lessons for the design of the proposed debt facility under Horizon 2020.</p> <p>The evaluation was based on an assessment of the extent to which the RSFF has operated in accordance with the Cooperation Agreement, a review of RSFF portfolios and an assessment of the current RSFF product offering, risk spectrum and value proposition.</p> <p>The RSFF has proved to be attractive to RDI companies and has met or exceeded its loan volume targets, improved its geographic coverage, and enabled EIB to increase the bank's capacity to make riskier loans.</p> <p>The experts supported the demand-driven approach taken in implementing the RSFF, and underlined the importance of the Commission's and EIB Group's ability to quickly adapt the design of the instrument to changing circumstances.</p> <p>The expert group's recommendations included the better targeting of innovative midcaps with specific financing products, including higher-risk finance (such as mezzanine); strengthening the pilot advisory activity; strengthening the governance system; carrying out more awareness-raising; and better defining objectives.</p>
Availability of the report on Europa:	Not yet

Title of the Evaluation:	EURAXESS Evaluation study
ABB activity:	08 AWBL 03: European Research Area Development
Type of evaluation:	Expenditure programme (E)
Summary of performance-related findings and recommendations:	<p>The aim of this study was to assess the overall progress achieved after the re-branding and regrouping of EURAXESS activities in 2008 and to evaluate the impact of the functioning of EURAXESS Links in the US, Japan and China on the networking of European researchers</p> <p>The evaluation was divided into two parts. Part I assessed the overall progress achieved after the re-branding and re-grouping of EURAXESS activities in 2008 while Part II evaluated the impact of EURAXESS Links in the US, Japan and China on the networking of European researchers.</p> <p>Coordination of information and communication activities within national EURAXESS networks and within the EU is considered to be effective. Training provided at European level within the current framework is considered of good quality and relevant but frequency should be increased.</p> <p>The main risk identified for the EURAXESS network is the sustainability of the network. Stronger political support at European and national level are considered crucial for ensuring the sustainability of the initiative.</p> <p>A stronger involvement of industry partners in EURAXESS Jobs (the third proposition) was very much praised by the stakeholders encountered. In particular, allowing industry partners to publish their vacancies on the portal was deemed as a good way to increase opportunities for researchers and to strengthen cooperation with private sector.</p> <p>Good practices worth implementing across the EURAXESS Links network include the high level of collaboration especially with China and in Japan. Networking events have also received nearly universal praise, as has the European Funding Guide, which has already been adopted elsewhere after its initial success in Japan.</p>
Availability of the report on Europa:	The study is available on the EURAXESS Extranet (an internal communication platform)

Title of the Evaluation:	External Evaluation of the REA (RTD-R4-2011-EERE)
ABB activity:	0810 "Ideas" -Coop People - R.4
Type of evaluation:	Expenditure programme (E)
Summary of performance-related findings and recommendations:	<p>This external evaluation of the first 3 years of operation of the REA (i.e. June 2009 – June 2012) was required by the Council Regulation (EC) No 58/2003 of 19 December 2002 laying down the statute for executive agencies to be entrusted with certain tasks in the management of Community programmes. REA has been efficient and effective in managing the SME-related actions under the FP7 Capacities SP, the Marie Curie Actions under the FP7 People SP the Space and Security research actions under the FP7 Cooperation SP and in providing administrative and logistical support services to all programme areas of the People, Capacities and Cooperation SPs.</p> <p>The initial challenges faced were multiple. Apart from setting up an EA from scratch, it had to take over from the Commission the running programmes in a context of unstable procedures and IT tools for part of the activities. The REA successfully addressed these challenges. Although there is scope for further improvement, feedback from key stakeholders and grant beneficiaries is generally positive with regard to the REA's performance. Savings resulting from delegating tasks to the REA have been estimated at € 106.4 million over the period 2009-2013.</p>
Availability of the report on Europa:	N/A

Title of the Evaluation:	External Evaluation of the ERCEA (RTD-R4-2011-EERE)
ABB activity:	08 10 Ideas
Type of evaluation:	Expenditure programme (E)
Summary of performance-related findings and recommendations:	<p>The aim of the evaluation study was to conduct an external evaluation of the first 3 years of operation of the ERCEA (i.e. July 2009 – July 2012), as provided for in the Council Regulation (EC) No 58/2003 of 19 December 2002 laying down the statute for executive agencies to be entrusted with certain tasks in the management of Community programmes.</p> <p>The set-up of an EA has been beneficial as a result of its scientific specialisation and ability to provide a better service in terms of proximity to beneficiaries, communication and visibility of the programme and lower payments delays.</p> <p>There are a number of mechanisms designed to ensure that there is effective coordination between the ERCEA and Commission services, and these mechanisms are working satisfactorily. The ERCEA has also made significant efforts to simplify its procedures and grant schemes in order to streamline the internal organisation and alleviate the administrative burden on its beneficiaries.</p> <p>Savings resulting from the delegation of tasks to the ERCEA have been estimated at €45m over the period 2009-2012. Despite the initial uncertainty with respect to the distribution of roles and responsibilities, the “dual leadership” between the European Commission and the ERC Scientific Council has proven to be quite successful.</p> <p>Moreover after three years of autonomous operation, the ERC as a whole has attained a significant reputation within the scientific community across Europe and worldwide, due also to a dedicated external communication strategy. It has established itself as an essential component of the EU's research funding landscape with good visibility and external perception by stakeholders to the extent that some national funding organisations at Member State level are copying the organisational set-up of the ERC / ERCEA.</p>
Availability of the report on Europa:	N/A

Title of the Evaluation:	Evaluation of research intensive clusters as potential vehicles for smart specialisation in the European Regions
ABB activity:	08 19 Capacities – Coherent Development of Research Policies
Type of evaluation:	Expenditure programme (E)
Summary of performance-related findings and recommendations:	<p>The aim of this evaluation was to examine the portfolio of on-going Regions of Knowledge projects in order to explore the potential of the clusters involved to promote smart specialisation of their parent regions from a sectorial point of view. The study took into account different types of clusters in terms of maturity and innovation capability. However, considerations on the topic, going beyond the specific experience of “Regions of Knowledge” were considered as well.</p> <p>The report investigates the potential contribution of clusters and cluster policies in the design and implementation of Smart Specialisation Strategies. With regions across Europe currently working on their Smart Specialisation Strategies, the question whether and how clusters and cluster policies can be used in this endeavour is highly relevant. The report concludes that lessons learnt from the rich history of cluster policies can provide concrete inputs into the development of Smart Specialisation Strategies (S3).</p> <p>A key finding is that clusters and cluster policies are for many regions likely to be among the key building blocks in developing and implementing S3. Main contributions are expected for the tasks of defining priority domains and engaging stakeholders, but other contributions are possible too.</p> <p>The cluster-based analysis and the type of cluster policies implemented in S3s move beyond the current cluster policy practice, i.e. they are adapted to the regional environment, to the level of maturity of the cluster, and they comply with a list of good practices rules, including the capacity to address emerging new domains cutting across sectors.</p>
Availability of the report on Europa:	Not Yet

FP7 implementation in 2013 – DG RTD

FP7 IMPLEMENTATION IN 2013 - DG RTD*

		Health	Food, Agriculture and	Nanosciences, Nanotechnologies, Materials and new Production Technologies - NMP	Energy	Environment (including Climate Change)	Transport (including Aeronautics)	Socio-economic sciences and Humanities	General Activities	Research Infrastructures	Research for the benefit of SMEs	Regions of Knowledge	Research Potential	Science in Society	Support for the coherent development of research policies	Activities of International Cooperation	Nuclear Fission and Radiation Protection	TOTAL	Average per Grant Agreement
Collaborative project	Grant Agreements	141	73	144	36	64	65	41	0	0	0	0	0	5	0	0	2	571	
	Participations	1437	1167	1903	466	1067	849	516	0	0	0	0	0	38	0	0	51	7 494	13
	EC Contribution (in Mio €)	866.48	376.8	719.74	168.21	342.42	259.52	131.04	0	0	0	0	0	10.89	0	0	8.11	2 883.21	5.05
Combination of CP & CSA	Grant Agreements	0	0	0	4	0	0	0	0	14	0	0	0	0	0	0	6	24	
	Participations	0	0	0	119	0	0	0	0	327	0	0	0	0	0	0	143	589	25
	EC Contribution (in Mio €)	0	0	0	39.51	0	0	0	0	99.98	0	0	0	0	0	0	34.02	173.51	7.23
Coordination and support action	Grant Agreements	19	17	18	5	17	19	6	1	1	1	13	24	31	2	29	11	214	
	Participations	151	309	182	33	200	236	61	1	1	7	172	24	354	21	333	177	2262	11
	EC Contribution (in Mio €)	14.08	30.63	17.27	10.36	22.04	22.49	12.1	5	0.25	0.74	28.76	79.88	79.9	2	39.63	17.57	382.70	1.79
TOTAL	Grant Agreements	160	90	162	45	81	84	47	1	15	1	13	24	36	2	29	19	809	
	Participations	1588	1476	2085	618	1267	1085	577	1	328	7	172	24	392	21	333	371	10 345	13
	EC Contribution (in Mio €)	880.56	407.43	737.01	218.08	364.46	282.01	143.14	5.00	100.23	0.74	28.76	79.88	90.79	2.00	39.63	59.70	3 439.42	4.25

Number of proposals received (with call deadlines in 2013)	218	553	132	24	360	135	392	3	4	2	8	112	95	9	2	3	2 052
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Number of experts invited to proposal evaluations (evaluations concluded in 2013)	283	283	488	20	389	45	171	0	0	0	5	43	52	0	58	0	1837
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*excluding EUROATOM Fusion, SECURITY and SPACE Topics

Cross sub-delegations implemented in the year 2013 for DG RTD

The DG RTD activities covered by crossed sub-delegation in 2013 are the following:

- Sub-delegation in favour of the Director of the Office for Administration and Payment of Individual Entitlements (PMO) for the payment of salaries, payments to experts, and travel and meeting expenditure. The sub-delegation requires annual reporting on the use of funds by 31 January of the following year.
- Sub-delegation in favour of the Director-General of DG Development and Cooperation - EuropeAid (DEVCO) for authorising expenditure related to DG Research and Innovation staff posted in Commission Delegations in third countries. The sub-delegation requires twice-yearly reporting on the use of funds by 31 August and 31 January each year.
- Sub-delegation in favour of the Director-General of DG for Communications Networks, Content and Technology (CNECT) for authorising expenditure related to the management of the call 'ICT & Energy' (Cooperation - Energy) FP7-ICT-ENERGY-2009-1. The sub-delegation requires annual reporting on the use of funds by 31 January of the following year.
- Sub-delegation in favour of the Director of the Publications Office (OP) for authorising expenditure related to CORDIS and related to the contributions from (non-European Economic Area) third parties to research and technological development. The sub-delegation requires quarterly and monthly reporting on the use of funds.
- Sub-delegation in favour of the Director-General of the DG for Informatics (DIGIT) for authorising expenditure related to IT services provided for the management of FP7. The sub-delegation requires annual reporting on the use of funds by 31 January of the following year.
- Sub-delegation in favour of the Director of the Office for Infrastructures and Logistics (OIB) in Brussels for authorising expenditure related to the management of the COVE building. The sub-delegation requires annual reporting on the use of funds by 31 January of the following year.
- Sub-delegation in favour of the Director-General of the DG for Energy (ENER) for authorising expenditure related to the management of the CCS network and the management of the Work Programme FP7-ENERGY-2010-2 (Cooperation – Energy). The sub-delegation requires annual reporting on the use of funds by 31 January of the following year.
- Sub-delegation in favour of the Director-General of DG for Interpretation (SCIC) for authorising expenditure related to EURATOM programme. The sub-delegation requires annual reporting on the use of funds by 31 January of the following year.
- Sub-delegation in favour of the Director-General of DG Eurostat (ESTAT) for authorising expenditure related to the management of 'Coherent Development of Research Policies'. The sub-delegation requires annual reporting on the use of funds by 31 January of the following year.
- Sub-delegation in favour of the Director-General of DG MOVE for authorising expenditure related to the management of Transport (including Aeronautics). The sub-delegation requires annual reporting on the use of funds by 31 January of the following year.
- Sub-delegation in favour of the Director-General of DG Enterprise and Industry (ENTR) for authorising expenditure related to 'Other management expenditure for research'. The sub-delegation requires annual reporting on the use of funds by 31 January of the following year.
- Sub-delegation in favour of the Director-General of the Joint Research Centre (JRC) for authorising expenditure related to the management of 'Coherent Development of Research Policies'. The sub-delegation requires annual reporting on the use of funds by 31 January of the following year.