



2014

Annual Activity Report

Research Executive Agency



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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 Seventh Framework Programme for research and technological development (FP7). The Agency is located in Brussels, where the parent Directorates-General (DGs)² of the REA are situated. In November 2013, the European Parliament and the Council adopted Horizon 2020 (H2020), the new Framework Programme for Research and Innovation (2014-2020), which 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 2014-2024. The initial REA Establishment Act was repealed and replaced³, complemented by a new Delegation Act⁴ defining the REA's role in the management of H2020 – for the parts it is in charge of – and predecessor actions in FP7.

The REA mission is to implement the parts of the programmes and the tasks delegated in this frame, 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.

Its role and tasks include implementing, as a funding body, the whole grant management lifecycle (i.e. publication of calls, organising evaluations of proposals, taking the lead on negotiations and conclusions of grant agreements, monitoring the implementation of grant agreements, etc.).

The REA is also tasked to assist the Commission in the management of the programmes by collecting information about the implementation and the results of the projects, by making recommendations on the future development of the programme⁵ and by playing an important role in the communication of the funding opportunities (promoting the visibility of the calls and of the Agency, organising Info Days for the calls

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 three parent DGs were DG RTD, DG EAC and DG ENTR while, under H2020 and as of 1 January 2014, there are two additional parent DGs, DG CNECT and DG AGRI. Since the reorganisation of the Juncker Commission, which took office on 1 November 2014, the REA has in total six parent DGs as of 1 January 2015. The governance of the Agency changed accordingly in 2015, as the portfolio of DG ENTR has been split between DG GROW (Space Research) and DG HOME (Security Research).

³ Commission Implementing Decision 2013/778/EU of 13 December 2013, OJ L 346, 20.12.2013, p.54.

⁴ Commission Decision C(2013) 9418 of 20 December 2013.

⁵ The REA is tasked with the implementation of the dissemination strategy for results of Horizon 2020, in cooperation with the parent DGs and the H2020 Common Support Centre (CSC). REA will work together with them under common governance to integrate information regarding project results via the H2020 Participant Portal and other similar initiatives. REA will also liaise with the CSC for the dissemination and exploitation of the programme results.

or workshop) and on project results and success stories.⁶

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)⁷.

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](#)⁸ and the [Commission decision establishing guidelines for the establishment and operation of executive agencies financed by the general budget of the Union](#)⁹, the REA is managed by a Director, who is a senior 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 the Memorandum of Understanding (MoU), a three-layer document, which establishes the modalities and procedures of interaction between all DGs and the Agency¹⁰.

At the end of 2014, the REA had 548 staff. With the enlarged portfolio of tasks delegated under H2020 and a substantially increased budget¹¹, it is envisaged that the Agency will grow to 764 staff by 2020.

The year in brief

2014 was a key period in the life of the Research Executive Agency as its mandate was

⁶ The REA works closely with the parent DGs on identifying successful projects with top communication potential; the REA ‘success stories’ account for about 25% of all success stories provided to the RTD-managed common pool and for around two thirds of the ‘gold stories’ selected for pan-European media action as part of the H2020 communication campaign. All the success stories provided by the REA were used for media or other communication purposes by parent DGs. In addition, in collaboration with the parent DGs, the REA provides on ad hoc basis the information needed by the parent DGs to reply to policy requests to ensure that the results of H2020 indirect actions are fed into policy making.

⁷ For results, please see the next sections.

⁸ Council Regulation (EC) No 58/2003 of 19 December 2002, OJ L11, 16.1.2003, p.1.

⁹ Commission Decision C(2014) 9109 of 2 December 2014.

¹⁰ While the first part of the MoU is a standard text common to all executive agencies, describing the general provisions of the document, the second part provides specific provisions for the implementation of Horizon 2020 and FP7 by the REA. In addition, the modalities for the support services provided by the Agency for H2020 and certain other programmes (‘Rules for the administrative and logistical support services’), approved by the Steering Committee, are annexed to the Memorandum. Signature of the full document by the Directors-General of the parent DGs and the Director of the REA took place by the end of the 2014 summer break.

¹¹ The operational budget delegated to the REA under H2020 is more than double (+120%) compared to FP7.

extended until 2024. Amongst the main changes stemming from this new mandate are an increased portfolio of activities and a wider range of administrative and logistical support services, extended to additional clients.

As of 1 January 2014, the Agency has continued managing most of the specific programmes it had under the Seventh Framework Programme and was formally empowered as of 1 January to manage their successors under the Horizon 2020 Framework Programme (Marie Skłodowska-Curie actions, Space research and Security research), except for the SME instrument¹². The REA also confirmed its role as a provider of support services and received an extended mandate for that. Since January 2014, the REA provides these support services¹³ to the whole research family including other bodies/executive agencies implementing Horizon 2020, and even beyond to some non-research programmes such as education and culture programmes (Erasmus, Creative Europe, Europe for Citizens, EU Aid Volunteers), COSME or Health and Consumers programmes.

The REA has also prepared for the transfer of activities newly delegated under H2020 from the parent DGs to the Agency in close cooperation with the services, and Intensified contacts with its parent DGs¹⁴ on matters concerning aspects of programme implementation, such as the actions to be delegated, the most appropriate timing for taking up these new activities and the mutual support before and after these dates.

The overall readiness exercise for the new actions to be delegated to the REA was conducted and finalised in the course of 2014, with the approval of the Steering Committee in June 2014.

According to the plan, starting from September 2014 the Agency was gradually delegated activities: the agricultural research and food safety (Societal Challenge 2), the innovative, inclusive and reflective societies (Societal Challenge 6), new parts of Societal Challenge 7 (IT Security Research) and the 'FET open' action from the Excellent Science part of H2020. The transfer of activities from the H2020 Specific Objectives 'Spreading Excellence and Widening Participation' and 'Science with and for Society' took place only in January 2015.

Although handover of most H2020 activities took place in the last months of 2014, the REA will report on these activities for the whole year (with the exception of the calls under the Specific Objectives Widening Participation and Spreading Excellence and Science with and for Society, transferred on 01 January 2015), in line with the DG BUDG 2002 Circular on the change of Directors-General and Heads of Service (Authorising

¹² However, the management of the FP7 legacy of the SME actions of the Capacities programme, remained in the REA.

¹³ These include administrative tasks relating to contracting and payment of expert evaluators, validations of legal entities, financial viability checking, etc.

¹⁴ The family of FP7 parent DGs has under H2020 been enlarged to DG CNECT, DG AGRI and, as from 01 January 2015, to DG HOME.

Officers by Delegation).¹⁵

Table 1: Handover of activities from the parent DGs to the REA (2014-2015)

Actions	Reference dates		Transfer		
	Call deadline	Evaluation phase	Before evaluation	After evaluation	Date of transfer
FET-Open	30/09/2014	13/10 - 09/01	X		1 October 2014
SC2 – Resources for food security and growth	26/06/2014	7/04 - 17/10 (2 nd stage)		X	1 November 2014
SC6 – Innovative, Inclusive and Reflective Societies					
– INSO	29/04/2014	12/05 - 13/06		X	1 September 2014
– EURO/YOUNG	3/06/2014	04/08 - 19/09		X	1 October 2014
– REFLECTIVE	30/09/2014	13/10 - 21/11	X		1 October 2014
SC7 – Secure Societies – ICT component	28/08/2014	11/09 - 17/10	X		1 September 2014
Widening & Excellence					
– Teaming	17/09/2014	6/10 - 14/11		X	1 January 2015
– ERA Chairs	15/10/2014	21/11 - 5/12		X	1 January 2015
– SwafS	2/10/2014	27/10 - 12/12		X	1 January 2015

The new mandate of the REA is supported by a new organisational structure, which entered into force on 1 May 2014. Staff redeployment exercise aiming at offering new opportunities for REA staff while ensuring that competencies are equally spread across the agency, was successfully implemented.

The take up of new tasks under a new mandate was also an occasion to take stock of the work accomplished since the creation of the Agency and to celebrate five years of its autonomy. Commissioner Geoghegan-Quinn and Commission senior officials confirmed the full achievement of REA's initial mandate and objectives as well as their confidence in the Agency's ability to deliver high standards also within the new mandate.

¹⁵ SEC(2002) 657 of 7 June 2002.


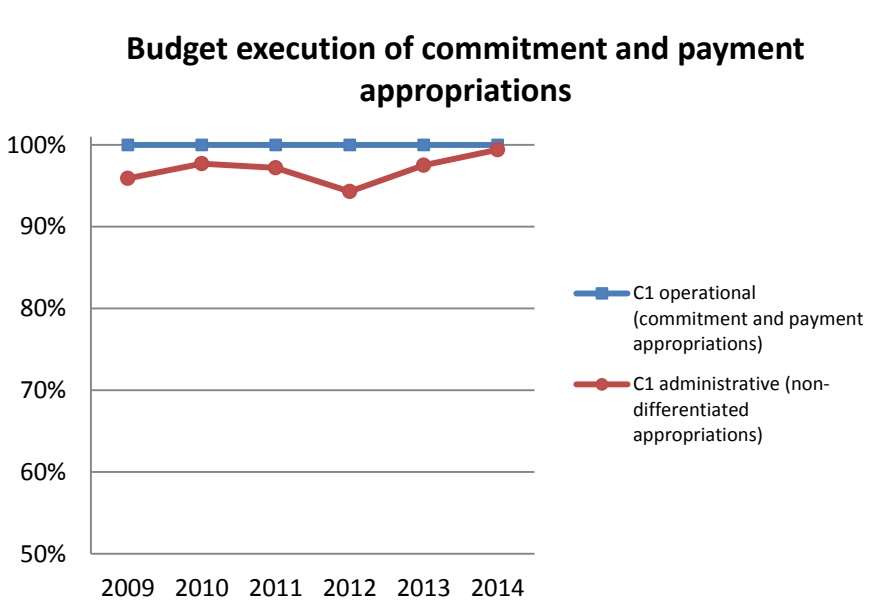
EXECUTIVE SUMMARY

The Annual Activity Report is a management report of the Director of the Research Executive Agency 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 for the management of resources by reference to the objectives set in the management plan and the efficiency and effectiveness of internal control systems, including an overall assessment of the costs and benefits of controls.

Key Performance Indicators (KPIs)

The subsection shows the five key performance indicators (KPI) most relevant for the REA as set out in the Annual Work Programme 2014, i.e. the indicators which measure the most critical aspects of its performance and gives useful insights into its most significant achievements. The fifth one is control related, reflecting one or more of the five internal control objectives (e.g. sound financial management, safeguarding assets and information, "time-to-...") which are most relevant for the REA activities. The following key performance indicators have been selected:

1. **Implementation of commitment appropriations** : This is covered by the KPI-1 of the REA AWP 2014
2. **Time-to-grant (TTG)**: This is the KPI-8 of the REA AWP 2014
3. **Share of complaints on evaluation results upheld (redress)**: this is the KPI-3 of the REA AWP 2014
4. **Share of projects that achieved all or most of their objectives**: this is the KPI-5 of the REA AWP 2014
5. **Error rate in financial transactions**: this is the KPI-4 of the REA AWP 2014

Impact indicator/target	Trend	Results in historical perspective																					
<p>KPI 1 – Full implementation of the administrative and operational budget (per call)</p> <p><u>Target</u>: 100% execution of commitment and payment appropriations</p>		<p style="text-align: center;">Budget execution of commitment and payment appropriations</p>  <table border="1" style="display: none;"> <caption>Budget execution of commitment and payment appropriations (2009-2014)</caption> <thead> <tr> <th>Year</th> <th>C1 operational (commitment and payment appropriations)</th> <th>C1 administrative (non-differentiated appropriations)</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>100%</td> <td>96%</td> </tr> <tr> <td>2010</td> <td>100%</td> <td>98%</td> </tr> <tr> <td>2011</td> <td>100%</td> <td>97%</td> </tr> <tr> <td>2012</td> <td>100%</td> <td>94%</td> </tr> <tr> <td>2013</td> <td>100%</td> <td>98%</td> </tr> <tr> <td>2014</td> <td>100%</td> <td>99%</td> </tr> </tbody> </table>	Year	C1 operational (commitment and payment appropriations)	C1 administrative (non-differentiated appropriations)	2009	100%	96%	2010	100%	98%	2011	100%	97%	2012	100%	94%	2013	100%	98%	2014	100%	99%
Year	C1 operational (commitment and payment appropriations)	C1 administrative (non-differentiated appropriations)																					
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2014	100%	99%																					

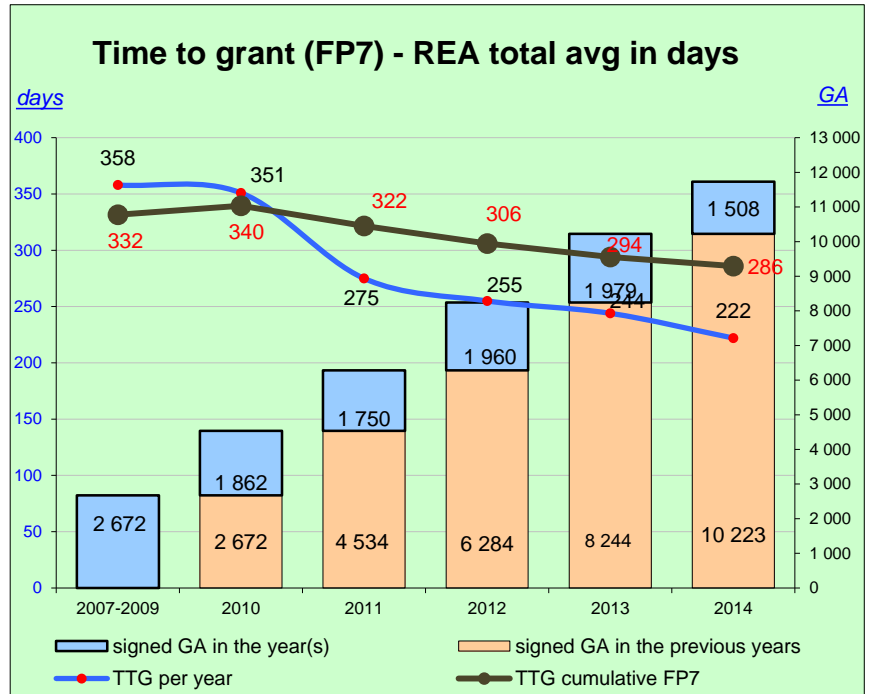
KPI 2 – Rapid conclusion of grant agreements ('Time-To-Grant' – TTG)

Targets:
 - For FP7: set by scheme, ranging from 200 to 480 days

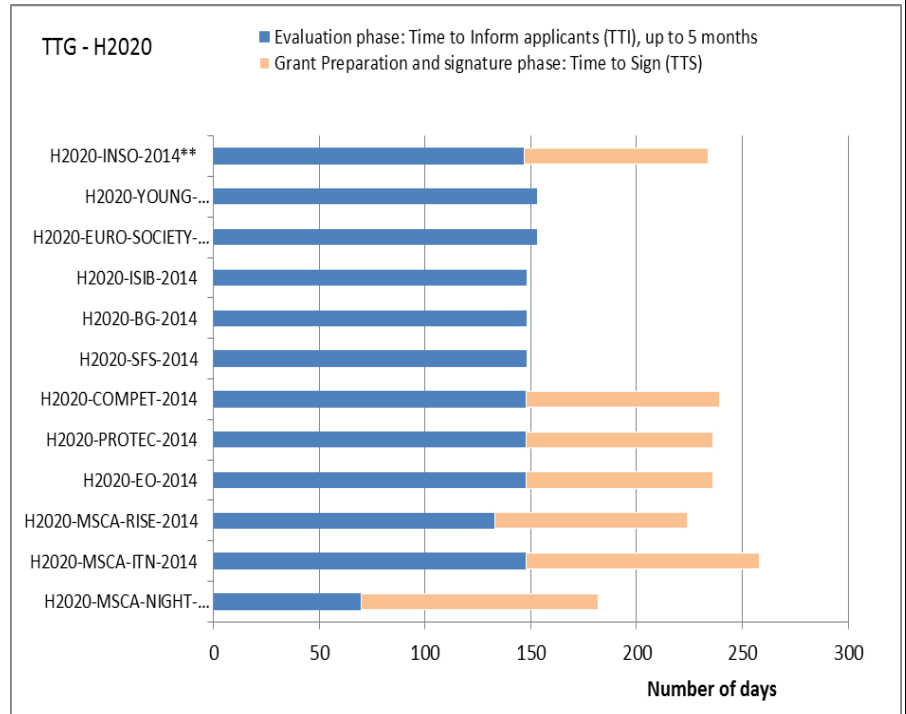
- For H2020:
 Total TTG up to max. 8 months (245 days) including a TTI up to max. 5 months (153 days)


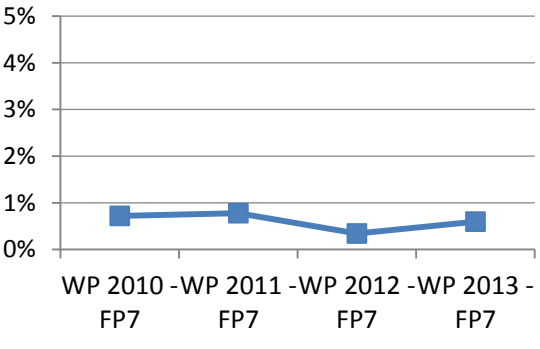

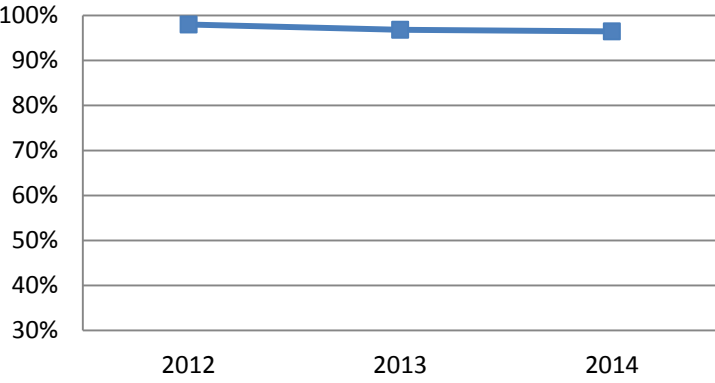


FP7:



H2020:



<p>KPI 3 - High quality of key procedures for proposal evaluation and scientific and financial grant management¹⁶</p> <p><u>Target:</u> 0% of redress procedures upheld (i.e. concluding on flaws in the evaluation process)</p>		<p style="text-align: center;">Share of redress cases (FP7) upheld in comparison with the number of proposals evaluated</p>  <table border="1"> <caption>Data for Share of redress cases (FP7) upheld in comparison with the number of proposals evaluated</caption> <thead> <tr> <th>Year</th> <th>Share (%)</th> </tr> </thead> <tbody> <tr> <td>WP 2010 -FP7</td> <td>0.8</td> </tr> <tr> <td>WP 2011 -FP7</td> <td>0.9</td> </tr> <tr> <td>WP 2012 -FP7</td> <td>0.5</td> </tr> <tr> <td>WP 2013 -FP7</td> <td>0.7</td> </tr> </tbody> </table>	Year	Share (%)	WP 2010 -FP7	0.8	WP 2011 -FP7	0.9	WP 2012 -FP7	0.5	WP 2013 -FP7	0.7
Year	Share (%)											
WP 2010 -FP7	0.8											
WP 2011 -FP7	0.9											
WP 2012 -FP7	0.5											
WP 2013 -FP7	0.7											
<p>KPI 4 – Share of closed projects that achieved all or most of their objectives¹⁷</p> <p><u>Target:</u> 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>Data for 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> <tr> <td>2014</td> <td>97</td> </tr> </tbody> </table>	Year	Percentage (%)	2012	98	2013	97	2014	97		
Year	Percentage (%)											
2012	98											
2013	97											
2014	97											

¹⁶ Call implementation for first calls was not sufficiently advanced to allow reporting on this for 2014.

¹⁷ This indicator is extracted from the Corda database, and is one of the SPP indicators of DG RTD. The statistics are based on the Project assessment reports with following detail:

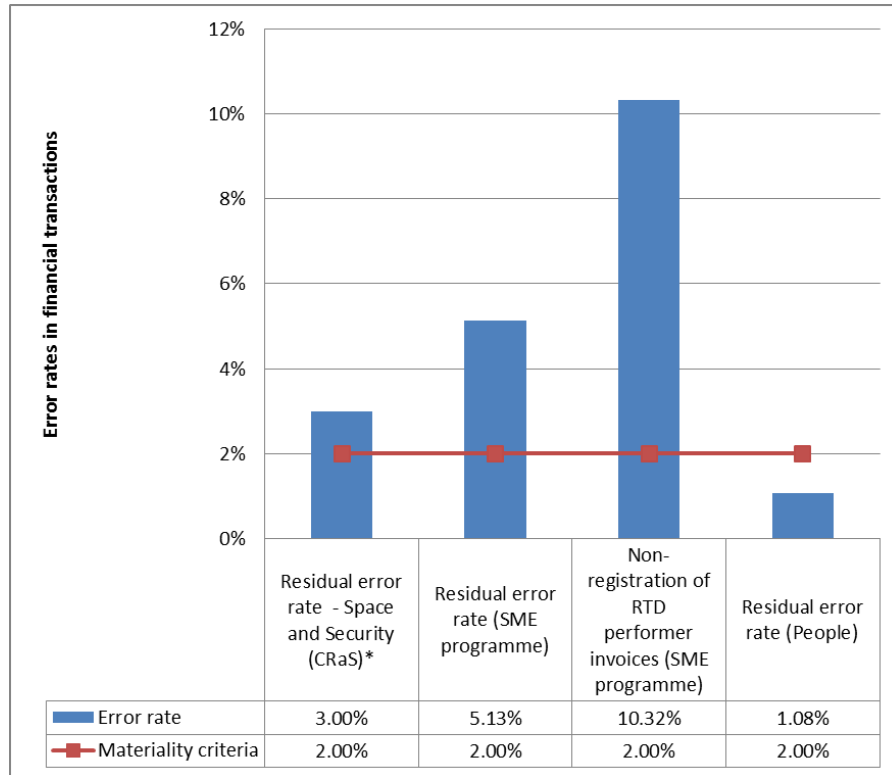
- Cat. a = number of RTD FP7 finished projects within each specific research theme for which the Project Officer has ticked the box "Project has fully achieved its objectives for the period and/or has delivered unexpected results with significant immediate or potential impact" (box 1: Overall Assessment) in the assessment report;
- Cat. b = total number of RTD FP7 finished projects within each specific research theme;
- Cat. c = same as 'a' except the PO has ticked the box "Project has achieved most of its objectives for the period with relatively minor deviations";
- Cat. d = same as 'a' except the PO has ticked the box "Project has achieved some of its objectives; however, corrective action will be required";
- Cat. e = same as 'a' except the PO has ticked the box "Project has failed to achieve critical objectives and/or is severely delayed".

The KPI-4 takes into account the Cat.a, Cat.b and Cat.c.

KPI 5 – Error rates in underlying transactions financed from the operational budget managed by the Agency



Target: below 2%



** The residual error rate is currently estimated at 3% as the calculation of the Common Representative Error Rate is not yet finalised.*

Implementation of the Agency's Annual Work Programme – Highlights of the year (executive summary of part 1)

The year 2014 was a pivotal year for the REA as it had to launch and manage the first H2020 calls and managed the FP7 legacy. It was characterised by organisational challenges and strategic developments. The Agency focused on four main areas:

- launching the first calls for proposals and signing the first grant agreements for H2020;
- handling running projects from FP7 in a context of shortages in payment appropriations, while maintaining a high level of performance;
- implementing the action plans deriving from last years' AAR reservations and from the IAS audit on the FP7 implementation and its follow-up audit;
- implementing the REA's reorganisation and taking up new tasks requiring recruitments, setting up new units and establishing collaboration structures with a new parent DG.

During the year, as regards H2020¹⁸, the REA (or the Commission before handover of the newly delegated actions) evaluated more than 10,600 proposals, signed 289 grants and paid pre-financings for an amount of €132 million. As regards FP7¹⁹, the REA managed a stock of about 6,600 running projects. In 2014, the last 1,500 grant agreements of FP7 have been signed for an amount of more than €740 million while nearly 2,000 FP7 grant agreements have been closed. The workload for managing the FP7 legacy will be decreasing over the next years.

The results achieved in terms of 'Time-To-Grant' (TTG) and 'Time-To-Pay' (TTP) are favourable. For the first H2020 calls the TTG remained below the defined target of 8 months (245 days) with an average of 217 days.

A good performance was maintained for TTP. Over the year 97% of project-related payments were made on time. For payments to experts, the REA temporarily experienced difficulties in the summer months due to high workload, staff changes induced by the reorganisations and certain delays in the recruitment of new staff. Besides, the payment team suffered over the year from the absence of an electronic workflow for payments. As large numbers of payments were made during this period, the impact on the yearly average performance is significant. As a result, only 58.16% of payments to experts were made on time. The situation was quickly addressed with new appointments and interim staff. The REA regained its excellent TTP performance for expert payments from October on (i.e. 95% of payments made within deadlines). Moreover, where expert payments could not be made on time, the delay remained

¹⁸ For details, refer to Table 2: Implementation of calls charged to the 2014 commitment budget.

¹⁹ For details, refer to Table 4: Stocktaking/activities for the management of projects launched under previous years' budgets.

limited, as demonstrated by the annual average TTP for experts of 29.9 days, close to the target of 30 days.

In terms of risk management, the REA continued to implement actions addressing last year's AAR reservations. In this context, the REA actively participated in the actions undertaken by DG RTD to provide additional guidance to coordinators and beneficiaries with specific guidance on "how to avoid errors". The REA adjusted its audit planning by shifting resources to risk-based ex-post controls. A desk audit campaign was undertaken on SME beneficiaries to check if the costs related to subcontracting to RTD performers were duly recorded in their accounts. The outcome of this campaign is extensively reported in part 4.

REA KPI 1 – Implementation of commitment appropriations (KPI-1 of the REA AWP 2014)

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 99.4%.

REA KPI 2 – Time-To-Grant (TTG) (KPI-8 of the REA AWP 2014)

The REA has been gradually reducing the 'Time-To-Grant' (TTG) since the Agency's autonomy. In the case of H2020 calls, the total TTG – from call deadline to grant signature – cannot exceed a maximum of eight months (245 days). Within this eight-month-period, the 'Time-To-Inform applicants' (TTI) may not exceed five months (153 days). The evaluation of proposals and award of grants for the first H2020 calls are still ongoing but first results²⁰ are encouraging and well within the newly defined target of 8 months with an average of 217 days.

REA KPI 3 – Share of complaints on evaluation results upheld (redress) (KPI-3 of the REA AWP 2014)

The REA continues improving the quality of the evaluation process and the Evaluation Summary Reports (ESRs). This is being reflected in a reduced share of complaints on evaluation results (fully or partially) upheld compared to the number of proposals evaluated. For FP7, the share of redress cases upheld decreased constantly over the years and final results for the FP7 2013 calls remained at the same level as for 2012 calls, with only 0.6% of complaints upheld. For the H2020 2014 calls, a relatively limited number of proposals have been evaluated and the number of complaints introduced to date does not allow for a representative overview of the review process.

REA KPI 4 – Share of projects that achieved all or most of their objectives (KPI-5 of the REA AWP 2014)

The results against this KPI are based on projects closed by the end of 2014. In total, 96.5 % of the closed projects achieved all or most of their objectives. This is comparable

²⁰ Researchers' Night, MSCA ITN and RISE, Space Research and the INSO call of Societal Challenge 6.

to the results of 2013, when 96.8 % reached all or most of their objectives.

REA KPI 5 – Error rate in financial transactions (KPI-4 of the REA AWP 2014)

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 **Space and Security** themes of the Cooperation Programme managed by the REA are implemented according to the general FP7 funding rules. As a result, the REA considers the CRaS representative error rate as a good basis for calculating the residual error rate for Space and Security research actions managed by the REA. Based on the audits completed and in progress under the first and the second CRaS, it is considered that the current Common Representative Error Rate resulting from audits of FP7 will be around 5% and that the residual error rate will rise to a maximum of 3% close to the value of 2013 (2.84%). These estimated rates will be used for the calculation of the impacts and reservations in line with DG RTD's approach. The estimated residual error rate is above the materiality criterion of 2% and thereby calls for maintaining the reservation made in the AAR 2013.

Two other Activity-Based Budgeting (ABB)²¹ activities implemented by the Agency have a different risk profile: the Research for the benefit of SMEs actions of the Capacities Programme and the People Programme. For these activities, the CRaS representative error rate alone cannot be taken as a reference and the REA is relying on detected error rates from a wider range of control data to provide indications of the likely residual error rates for each of these ABB activities. The detected error rate is currently quantified at 5.24% for the **SMEs actions** and some 1.27% for the **People Programme**. The residual error rates are estimated at 5.13% and 1.08% 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

²¹ 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.

defined in the grant agreement (namely that these costs, declared under the grant agreement, are duly recorded in their accounts) is respected.

The risk exposure in percentage of 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 is estimated at some 10.32%²². However, the 2014 desk audit campaign proved to have a positive effect as 10% of the beneficiaries regularised their accounts during the audit. As a consequence, the remaining risk exposure for those that did not regularise their situation after the audit is reduced to about 6%. As of 2015 the REA will put in place new ex-ante controls to make sure that SME beneficiaries comply with the rules.

²² The variance with the estimated risk exposure of 8% in the AAR 2013 needs to be considered in light of rough estimations made at the time of the drafting due to a lack of reference data and of the fact that the desk audit campaign was of limited size, leading to conclusions lacking statistical precisions.

Key conclusions on resources management and internal control effectiveness (executive summary of part 2 and 3)

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 policy and operational 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 policy and 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 key internal control systems during the reporting year and has concluded that the internal control standards are effectively implemented. Please refer to Part 3 for further details.

In addition, the REA has systematically examined the available control results and indicators, as well as the observations and recommendations issued by internal 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. Please refer to Part 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 and the fact that there are many beneficiaries, not all of whom can be fully controlled before payment. 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%, i.e. 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 controls and will pay particular attention to the projects with SME participations when launching its corrective risk-based audits.

For the SME costs, 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 a maximum of €22 million. To address this specific issue the REA has launched dedicated actions (as further specified in Section 4). As of 1 January 2015 additional ex-ante controls will be put in place which should allow lifting the reservation in the future.

This AAR contains, for the second time, an analysis of costs and benefits of controls. 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 the cost of control. In line with previous years, the REA's operating cost remain in the range of 3% of the operational budget. It should be highlighted that many benefits of such controls are qualitative and therefore very difficult to measure.

Information to the Commissioners

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 and to the parent DGs' Directors-General who have taken these into consideration in their reporting to Commissioner Carlos Moedas, responsible for Research, Science and Innovation, Commissioner Tibor Navracsics, responsible for Education, Culture, Youth and Sport, Commissioner Günther Oettinger, responsible for Digital Economy and Society, Commissioner Elżbieta Bieńkowska, responsible for Internal Market, Industry, Entrepreneurship and SMEs and Commissioner Phil Hogan, responsible for Agriculture and Rural Development.

1. IMPLEMENTATION OF THE AGENCY'S ANNUAL WORK PROGRAMME²³

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 part of the H2020 Leadership in Space actions, the actions of the Space theme of FP7 Cooperation Programme, as well as part of H2020 Societal Challenge 7 and the actions of the Security theme of FP7 Cooperation Programme;
- Activity 05.09 – Management of part of H2020 Societal Challenge 2;
- Activity 08.02 – Management of part of Societal Challenges 2 and 6, Specific Objectives Spreading Excellence and Widening Participation, Science with and for Society, and part of the FP7 Capacities – Research for the benefits of the SMEs;
- Activity 09.04 – Management of FET Open , parts of Societal Challenges 6 and 7;
- Activity 15.03 – Management of the H2020 Marie Skłodowska-Curie actions and the FP7 People Programme.

As regards the actions under **Activity 02.04** the REA supported DG ENTR²⁴ in reaching the following specific objectives:

- **To maintain and build global leadership through research and innovation in enabling technologies and space and to foster a cost-effective competitive and innovative space industry (incl. SMEs) and research community to develop and exploit space infrastructure to meet future Union policy and societal needs.**
- **To foster secure European societies in a context of unprecedented transformations and growing global interdependencies and threats, while strengthening the European culture of freedom and justice.**

In practice, the REA contributed to reach the targets set in the MP of DG ENTR as regards the number of patent applications (in the different enabling and industrial technologies for Space Projects and in the area of the different Societal Challenges) and the share of projects with activities on the road to innovation measured by the Technology Readiness Level (TRL) indicator

²³ See footnote 1.

²⁴ On 1 January 2015 DG ENTR has become DG Internal Market, Industry, Entrepreneurship and SMEs (DG GROW).

As regards the actions under Activity 05.09 the REA supported DG AGRI in reaching the following objective:

- **To secure sufficient supplies of safe and high quality food and other bio--based products, by developing productive and resource-efficient primary production systems, fostering related ecosystem services, alongside competitive and low carbon supply chains.**

In practice, the REA contributes to reach the targets set in the MP of DG AGRI as regards the number of publications in peer-reviewed high impact journals and the number of patent applications in the area of Societal Challenge 2.

As regards the actions under Activity 08.02, the REA supported DG RTD in reaching the objectives related to the Societal Challenges 2 and 6, the H2020 Specific objectives Programme and in the Work Programme 2014-2015

- **Societal Challenges – Bio-economy,**
- **Societal Challenges – Inclusive, innovative and reflective European societies,**
- **Specific Objective IV – Spreading Excellence and Widening Participation,**
- **Specific Objective IV – Science with and for Society.**

In practice, the REA contributed to reach the targets set in the MP of DG RTD as regards the number of publications in peer-reviewed high impact journals (in the area of bio-economy and in the area of inclusive, innovative and reflective societies), the number of patent applications in the area of bio-economy, the evolution of the publications in high impact journals in the relevant research fields and the share of research organisations funded implementing actions to promote Responsible Research and Innovation.

As regards the actions under Activity 09.04 the REA supported DG CNECT in reaching the following specific objectives:

- **Excellent Science – Future and Emerging Technologies to foster radically new technologies by exploring novel and high-risk ideas building on scientific foundations,**
- **Europe in a changing world – Inclusive, innovative and reflective societies,**
- **Secure societies – Protecting freedom and security of Europe and its citizens.**

In practice, the REA contributed to reach the targets set in the MP of DG CNECT as regards the number of publications in peer-reviewed high impact journals, the number of patent applications and patents awarded (in Future and Emerging Technologies and in the area of the various societal challenges), the number of prototypes and testing activities challenges and the number of joint public-private publications in the area of the various societal challenges.

As regards the actions under Activity 15.03, the REA supports DG EAC in reaching the following objective:

- **To foster training and career of researchers through international and cross-sector mobility and to develop the innovation capacity in Europe with a view**

to promoting a knowledge-based, innovative, sustainable and inclusive Europe.

In practice, the REA contributed to reach the targets set in the MP of DG EAC as regards the number of researchers funded through the MSCA, the percentage of MSCA fellows in employment positions two years after the end of their fellowship, the percentage of women participating in the MSCA, the number of peer-reviewed publications resulting from MSCA funded projects and the percentage of non-academic institutions and SMEs as host organisations in actions supported by MSCA.

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 2014 identifies many key performance indicators which are reported below.

1.1.1 Activity levels of the Agency – programme implementation tasks

1.1.1.1 Implementation of calls financed under the 2014 commitment budget

The following table outlines the results obtained so far in implementing the REA H2020 calls charged to the 2014 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 country receipts) and the success rate for the calls where it is already known.

Although the Agency did not manage the whole grant management cycle, the handover of activities from the parent DGs took place in the course of 2014 and the relevant calls are now fully managed by the Agency. They are included in the table below, while the project management of the calls that will be taken over by the REA in January 2015, i.e. SEWP and SWAFS, will be reported next year.

The planned call budget derives from the H2020 Work Programme 2014-15. For some calls of the Societal Challenges, the budget shows only appropriations earmarked for REA-managed projects.

Table 2: Indicator – Implementation of calls charged to the 2014 commitment budget

Action	Call deadline	Total final budget (in € million)	Number of proposals						Of which grants signed		Of which pre-financing paid € million
			Number of proposals received	Number of eligible proposals (a)	Main list	Reserve list	Retained for funding (c)	Success rate (c)/(a)	Number	€ million	
H2020 – Excellent Science											
<i>Strengthening research in FET</i>											
H2020-FETOPEN1-2014-RIA	30/09/2014	77.00	643								
H2020-FETOPEN2-2014-CSA	30/09/2014	3.00	32								
	Subtotal:	80.00	675								
<i>Marie Skłodowska-Curie Actions</i>											
H2020-MSCA-NIGHT-2014	4/03/2014	7.95	125	123	48	5	47	38.21%	47	7.95	3.96
H2020-MSCA-IF-2014	11/09/2014	243.52	7,472	7,418					0	0	0
H2020-MSCA-ITN-2014	9/04/2014	440.17	1,164	1,153	121	45	138	11.97%	117	375.42	86.62
H2020-MSCA-RISE-2014	24/04/2014	70.00	203	200	84	16	84	42.00%	82	63.00	15
H2020-MSCA-COFUND-2014	2/10/2014	80.00	103	90					0	0.00	0
	Subtotal:	841.64	9,067	8,984	253	66	269	2.99%	246	446.37	105.58
TOTAL Excellent Science		921.64	9,742	8,984	253	66	269	n/a	246	446.37	105.58
H2020 - Industrial Leadership											
<i>Leadership in Space</i>											
H2020-EO-2014	26/03/2014	24.28	67	63	6	4	7	11.11%	6	21.29	2.90
H2020-PROTEC-2014	26/03/2014	10.09	29	27	3	2	4	14.81%	3	8.99	13.20
H2020-COMPET-2014	26/03/2014	57.31	122	119	25	9	28	23.53%	24	49.40	2.40
H2020-Adhoc-2014-Space (WP other action 2)*	11/03/2014	1.00	1	1	1	0	1	n/a	1	1.00	0.60
H2020-Adhoc-2014-Space (WP other action 5 - Atmosphere)*	11/02/2014	5.00	1	1	1	0	1	n/a	1	5.00	3.00
H2020-Adhoc-2014-Space (WP other action 5 - Marine)*	12/02/2014	6.00	1	1	1	0	1	n/a	1	6.00	3.60
TOTAL Industrial Leadership		103.68	220	212	37	15	42	18.66%**	36	91.68	25.70
H2020 – Societal Challenges											
<i>Societal Challenge 2</i>											
H2020-SFS-2014	26/06/2014	139.96	415	392	27	41	27	6.89%	0	0	0
H2020-BG-2014	26/06/2014	43.91	159	151	8	14	8	5.30%	0	0	0
H2020-ISIB-2014	26/06/2014	40.52	99	93	12	36	14	15.05%	1	2.09	0.80
	Subtotal SC2:	224.39	673	636	47	91	49	7.70%	1	2.09	0.80
<i>Societal Challenge 6</i>											
H2020-EURO-SOCIETY-2014	3/06/2014	43.53	121	121	14	15	18	14.88%	0	0	0
H2020-YOUNG-SOCIETY-2014	3/06/2014	19.55	117	110	8	8	8	7.27%	0	0	0
H2020-REFLECTIVE-SOCIETY-2014	30/09/2014	12.96	94	90	4	6	4	4.44%	0	0	0
H2020-INSO-2014	29/04/2014	23.58	94	86	6	8	7	8.14%	6	17.50	0
	Subtotal SC6:	99.62	426	407	32	37	37	9.09%	6	17.50	0
<i>Societal Challenge 7</i>											
H2020-DRS-2014	28/08/2014	39.59	130	130							
H2020-FCT-2014	28/08/2014	50.36	145	145							
H2020-BES-2014	28/08/2014	10.79	26	25							
H2020-DS-2014-1	28/08/2014	46.38	111	107							
	Subtotal SC7:	147.12	412	407					0	0	0
H2020-WASTE-2014***	16/09/2014	9.00			n/a				0	0	0
TOTAL SC		480.13	1,511	1,450	79	128	86	n/a	7	19.59	0.80
GRAND TOTAL		1,505.45	11,473	10,646	369	209	397	n/a	289	557.64	132.08

* Grant to a named beneficiary

** This success rate does not include the grants to named beneficiaries (3 ad-hoc calls)

***Contributions to WASTE call - topic 2 (SC5) managed by DG RTD/REA

Under the Part I – ‘Excellent Science’, the REA is responsible for the management of the new activities ‘FET Open’ that were delegated in October 2014, straight after the call/closure, and for the Marie Skłodowska-Curie actions (MSCA), managed by the Agency since January 2014. An overview of first results of the MSCA calls is indicated. By the end of the year the evaluations were finalised for three calls, while the evaluations for MSCA COFUND and Individual Fellowships (IF) as well as for FET-Open were still ongoing.

Compared to the previous year, the number of proposals submitted has slightly decreased, except for the Researchers' Night (NIGHT), a call covering two years and replacing the annual call under FP7. As for previous years, NIGHT has a high success rate (38.2%) which may be explained by the special nature of the action, where potential beneficiaries in some countries cooperate to propose fewer but stronger projects with a

wider coverage. For the first RISE call, a high success rate should also be highlighted with some 42% of proposals retained for funding.

Under the Part II – ‘Industrial Leadership’, the REA manages the Space Research activities for which three calls are now closed. The decrease in the number of proposals received in comparison with the calls from previous years may be attributed to a much smaller call budget. As a result, the success rate (19.81%) remains at the same level as for the last FP7 call. There were also topics in the Work Programme relating to a grant to a named beneficiary.

In relation to Part III –‘Societal Challenges’, the three calls relating to the agricultural research and food safety (SC-2) closed the first-stage evaluation at the end of the first semester and the second-stage submission/evaluation phase was concluded in November. The process of grant signature for those selected for funding is planned for the first quarter of 2015. The same applies for three other calls for innovative, inclusive and reflective societies (from the SC-6) where the evaluation has been concluded and the grant preparation and signature stage is still ongoing. As far as the calls relating to the SC-7 are concerned, deadlines for applications were set in the second semester. The REA received the delegation for these calls in September 2014, before the evaluation phase, which was still ongoing at the end of the year.

By the end of the year, for H2020, 289 grant agreements had been signed on the 2014 budget for a value of €557.64 million and related pre-financing payments were made for a total amount of €132.08 million. In addition, further grant agreements were signed in relation to FP7 as shown hereafter.

1.1.1.2 Implementation of the 2013 global commitments

By the end of the year, the REA implemented 99.1% of the 2013 global commitments, with a full implementation of the commitments reached for the FP7 COFUND, IEF, IRSES, NIGHT, ITN and IAPP calls. The unused balance stems from failing project negotiation or savings during negotiations which were either too low or became known too late to be allocated to another grant from the reserve list.

Table 3: Indicator – Implementation of 2013 global commitments

CALL ID	call deadline	total call budget in € million	concluded in € million	concluded in %
COFUND	5/12/2012	126.50	126.48	100.0%
IEF	14/08/2013	147.40	147.40	100.0%
IRSES	17/01/2013	32.95	32.95	100.0%
IOF	14/08/2013	48.95	48.77	99.6%
IIF	14/08/2013	48.95	48.71	99.5%
NIGHT	10/01/2013	4.00	4.00	100.0%
CIG-1	7/03/2013	22.00	21.91	99.6%
CIG-2	18/09/2013	22.00	21.76	98.9%
ITN	22/11/2012	517.79	517.78	100.0%
IAPP	16/01/2013	89.10	89.09	100.0%
TOTAL PEOPLE		1,059.64	1,058.84	99.9%

CALL ID	call deadline	total call budget in € million	concluded in € million	concluded in %
SME	15/11/2012	195.89	189.45	96.7%
SME AG	15/11/2012	63.22	58.59	92.7%
SME DEMO	15/11/2012	31.44	29.85	94.9%
TOTAL SME		290.55	277.89	95.6%
SPACE	21/11/2012	144.44	143.97	99.7%
SECURITY	22/11/2012	246.45	245.21	99.5%
TOTAL SPACE & SECURITY		390.89	389.18	99.6%
GRAND TOTAL		1,741.07	1,725.91	99.1%

1.1.1.3 Management of calls financed under previous years' budgets (2007-2014)

The following table provides an overview on the implementation in 2014 for 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 4: Indicator – Stocktaking/activities for the management of projects launched under previous years' budgets

Acronym	Running projects as of 01/01/2014		Negotiations finalised/grants signed in 2014		Payments made in 2014		Projects closed in 2014		Running projects as of 31/12/2014	
	Nbr	Open balance - Euros	Nbr	Contr. Amount - Euros	Nbr	Euros	Nbr	Decomm. - Euros	Nbr	Open balance - Euros
COFUND	137	185.619.189	24	99.303.974	85	-88.483.570	12	-5.148.926	149	191.290.668
IAPP	305	114.882.291	10	13.295.015	90	-31.351.893	47	-5.351.463	268	91.473.950
IEF	1554	90.452.542	686	147.193.991	1.277	-129.501.518	669	-6.551.266	1.571	101.593.749
IIF	561	31.633.336	224	48.709.801	432	-45.436.219	225	-2.959.972	560	31.946.946
IOF	529	42.707.851	177	48.770.406	455	-42.373.355	158	-1.845.629	548	47.259.274
IRSES	520	63.380.251	6	1.332.600	144	-15.789.941	68	-2.920.963	458	46.001.947
ITN	622	588.089.108	12	32.541.181	233	-180.559.267	74	-12.818.950	560	427.252.073
NIGHT	55	829.859	0	0	48	-704.735	48	-22.125	7	103.000
RG/CIG	1802	59.384.583	249	24.087.500	1.042	-31.745.695	427	-1.488.389	1.624	50.238.000
TOTAL People	6085	1.176.979.011	1.388	415.234.469	3.806	-565.946.193	1.728	-39.107.681	5.745	987.159.606
CP-DEMO	50	14.314.113	8	7.581.073	39	-11.818.045	8	-91.819	50	9.985.322
SME	505	146.709.700	42	47.618.964	322	-94.377.937	141	-4.858.665	406	95.092.061
SME-AG	126	58.428.896	10	15.317.863	65	-28.706.999	28	-752.478	108	44.287.281
	2	599.671	0	0	0	0	1	-199.671	1	400.000
TOTAL SMEs	683	220.052.380	60	70.517.900	426	-134.902.981	178	-5.902.633	565	149.764.665
SEC	140	166.700.946	55	245.208.527	122	-176.407.780	29	-3.813.404	166	231.688.289
SPACE	208	136.698.575	5	10.702.297	119	-46.879.806	53	-4.153.693	160	96.367.374
TOTAL Space & Security	348	303.399.521	60	255.910.824	241	-223.287.586	82	-7.967.096	326	328.055.663
GRAND TOTAL	7.116	1.700.430.912	1.508	741.663.193	4.473	-924.136.760	1.988	-52.977.410	6.636	1.464.979.934

By the end of the year the number of FP7 running projects charged to the budgets of previous years amounted to 6,636.

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 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 5: Indicator – Amendment requests handled during the year

	Outstanding amendment requests at the beginning of 2014	Amendment requests received during 2014	Amendment requests implemented during 2014	Amendment requests outstanding at the end of 2014
People	199	840	968	71
SMEs	51	168	189	30
Space	3	33	34	2
Security	8	71	74	5
REA – all activities	261	1,112	1,265	108

The table indicates that the number of amendment requests implemented during the year is considerably higher than the number of requests received. The new monitoring framework for amendments allows supervising the process and has improved the REA's performance in implementing amendments.

1.1.2 Activity – Administrative and Logistical Support Services

Major highlights and workload indicators related to the provision of the administrative and logistical support services for H2020 and certain other programmes in 2014 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 has supervised the H2020 evaluation activities, involving almost 8,400 experts on site and around 11,800 experts working remotely. The experts assisted the Commission for the evaluation of proposals. The REA has also monitored the construction works of the evaluation building and managed the logistic upgrade of the building;
- The Horizon 2020 Helpdesk (Research Enquiry Service – RES)²⁵ handled 13,000 requests, 64% of which have been answered directly by the external service provider, EUROPE DIRECT Contact Centre;
- The REA provided support for Financial Viability Checks (FVCs), which consist of centralising financial data from coordinators and selected beneficiaries, and verifying summary financial information against supporting documents. During the year, some 1,600 requests were received and FVCs handled.

²⁵ The RES is a single entry point for questions on research, via the web or by telephone. 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 answering 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.

- In November 2014, a FVC working group was set up by the REA, with the participation of members from different DGs, other Executive Agencies and Joint Undertakings. The working group is tasked to propose changes to the current FVC assessment, and to upgrade the FVC tool in order to take into account other programmes' needs and lessons learned after several years of implementation of FVC by the REA.

1.1.2.2 Expert Contracting and Payments

With respect to the contracting and payment to experts:

- Some 11,400 expert contracts and 180 amendments were signed;
- Around 10,600 payments to experts were made.

These figures include expert evaluators and monitors for programmes delegated to the REA and expert evaluators for other parts of H2020 where the REA acts the support to other H2020 managing services.

1.1.2.3 Validation services

In total, 5,923 entities had their legal status validated by the REA Validation Services.

After the H2020 procedure for the appointment of the LEAR²⁶ was established by the Commission (end of February 2014), the REA's Validation Services launched a campaign to advance the extension of the mandate of all the LEARs already appointed under FP7. Most recurrent participants' entities were contacted and invited to send to REA the set of documents needed for the extension of their mandates. In total, 13,500 entities were targeted (out of the 28,000 existing LEARs in the PDM²⁷ database) and resulted in the receipt of around 6,000 sets of documents. In parallel, LEARs of all participants that were already involved in on-going grant preparation phases under H2020 have been appointed with the new mandate. In total, the REA's Validation Services validated 11,390 LEAR Extended Mandates.

In H2020 and further to the introduction of the SME wizard and SME self-declaration, systematic ex-ante validation of the SME status²⁸ is no longer necessary.

The REA validation services only validate the status of entities that had requested to check the output of their self-declaration as SME against the necessary financial statements. The strategy of ex-post controls on SME status will be set in place in 2015.

²⁶ LEAR Extended mandate – After being validated, every entity is required to appoint a Legal Entity Authorised Representative (LEAR) who is in charge of:

- **providing** the Commission with up-to-date legal and financial data (including — on request — supporting documents) on the entity, via the Beneficiary Register;
- **maintaining** and **updating** this data (i.e. enabling it to be used for contracting and other transactions between the entity and the Commission);
- **entering** and updating on the website the names of any persons authorised to act as **legal representatives and signatories** for their organisation through the electronic platform for interaction with beneficiaries (the H2020 Participant Portal).

²⁷ PDM – Participant Database Management.

²⁸ For details, refer to section 1.3.1.Validation of SMEs.

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

The REA is active in the governance of the IT tools supporting H2020, in particular EMPP/EMI and PDM/URF for which it has a leading role. The REA holds responsibilities as Business Process Owner for participant management, which includes control over the URF/PDM applications²⁹, and for expert contracting and payment, coordinating the development and maintenance of two interconnected IT tools supporting expert management, EMPP³⁰ and EMI³¹. Since the launch of EMPP some 40,400 active expert profiles were migrated from the previous CORDIS database and currently there are nearly 83,000 valid profiles in the database.

Conclusion

As evidenced above, the parts of the spending programmes managed by the Agency are on course to meet their multiannual objectives for these objectives and have achieved the annual performance indicators or outputs and milestones in the reporting year.

1.2 Example of EU-added value and results/impacts of projects or programme financed

EU-added value in the field of R&I

EU support to R&I is provided only when it can be more effective than national funding. This is achieved through measures to coordinate national funding and through implementing collaborative research and mobility actions. EU initiatives help coordinate funding across national borders and to restructure the R&D and innovation landscape in Europe. As a result of EU leadership, a pan-European strategy on research infrastructures is now being implemented.

When it comes to implementing R&I projects, EU actions add value by stimulating **transnational collaboration and mobility**. These actions generate a series of benefits that could not be achieved by Member States acting alone. Support for collaboration helps achieve the critical mass required for breakthroughs when research activities are of such a scale and complexity that no single Member State can provide the necessary resources (space, security, etc.).

The EU supports research which addresses **pan-European challenges** (e.g. environment,

²⁹ 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. It should be noted that external stakeholders should only know about the 'Beneficiary Register', which is part of the services offered by the Participant Portal, while the URF/PDM are acronyms to be used internally.

³⁰ 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 H2020 managing services in the performance of contracts for proposal evaluations, project reviews or various other monitoring tasks.

³¹ EMI – Expert Management Internal: back-office application for the contracting and payment of experts.

health, food safety, climate change, security) and facilitates the establishment of a common scientific base. Working in transnational consortia helps firms to lower research risks, enabling certain research to take place. Involving key EU industry players and end-users reduces commercial risks, by aiding the development of standards and interoperable solutions, and by defragmenting existing markets.

Collaborative research projects involving end-users enable the rapid and wide dissemination of results leading to better exploitation and a larger impact than would be possible only at Member State level. SME involvement in R&I at EU level improves their partnerships with other companies and laboratories across Europe and enables them to tap into Europe's creative and innovative skills potential, develop new products and services and enter new national, EU or international markets.

Companies can collaborate with foreign partners and end-users in projects tested for excellence and market impact on a scale not possible at national level. This induces them to invest more of their own funds than they would otherwise under national schemes. **Cross-border mobility and training actions** (like the MSCA) are of critical importance for providing access to complementary knowledge, attracting young people into research, encouraging top researchers to come to Europe, ensuring excellent skills for future generations of scientists, and improving career prospects for researchers in both public and private sectors. Cross-border innovation support leads to better policies and tools to help businesses bring innovation to the market.

The following examples illustrate the EU-added value and impact of programmes/projects managed by the REA. The first example is the Space research programme under FP7 and H2020. The other two examples are promising projects of the first H2020 calls. The H2020 projects are expected to be launched in 2015 – the aim is to provide a first insight into their potential future impacts.

[Space technologies and systems as enablers to help tackle societal challenges](#)

Satellites and space technology play an important role in meteorology, communication, broadcasting, natural resource and environmental management, navigation or disaster management which impact our lives every day. Hence the European space industry is considered of strategic importance and Space Research has a strong industrial dimension, reflected by its inclusion in the H2020 'Leadership in Enabling and Industrial Technologies' pillar.

The successes of EU Space research have helped putting the European Union on the global map as a major player, which could hardly have been achieved by a single EU member state. Europe develops its own satellite infrastructure through the European Space Agency (ESA) and its own system for monitoring the Earth with the COPERNICUS services.

The REA implements part of the Space Research Programme and funds major space projects such as **NEOShield** that is looking at ways to protect the Earth from natural space hazards, such as collisions with asteroids and comets (Near Earth Objects – NEO). The FP7 NEOShield project has set up an international team working on the investigation of key technologies to **mitigate threatening asteroids** and has been preparing a global response campaign roadmap that includes in-space technology demonstration. The H2020 NEOShield2 project will further increase the Technology

Readiness Level of key Guidance, Navigation and Control technologies for asteroid mitigation.

Marie Skłodowska-Curie Actions to promote a knowledge-based, innovative Europe

The number of researchers in Europe as a share of the population is well below that of our main competitors as US and Japan for instance. The EU will need at least one million new research jobs if it is to reach the R&D target of 3%. The EU and its Member States should strengthen their capacity to attract and train young people to become researchers and offer them opportunities for internationally competitive research careers to keep them in Europe and attract the best from abroad.

In this respect, the Marie Skłodowska-Curie Actions (MSCA) are playing an important role to strengthen the skills development, mobility and careers of researchers across borders. They support researchers' mobility, thereby allowing researchers acquiring new knowledge and skills on cutting edge science. Also, they sustain the career development and training of researchers – with a focus on innovation skills – in all scientific disciplines, based on trans-national and cross-sectoral mobility.

The results are there to show the success of the scheme in terms of attracting the best in Europe and funding excellent science. For example, the awardees of the 2013 and 2014 Nobel Prizes in medicine and chemistry were involved with MSCA either as mentors to MSCA fellows' or through various others research collaborations.

Outstanding researchers like the ones working with the Nobel Prizes are an exceptional example of what European research mobility can achieve, and through the outstanding results of the MSCA researchers, in fostering excellence in research in Europe. Moreover, many MSCA projects have a potential in discovering science applicable to solving society challenges as illustrated in the following two examples:

The PLIOTRANS project (H2020-MSCA-IF-2014) focuses on an innovative modelling framework to improve the **understanding of the sensitivity of the Greenland and Antarctic ice sheets** to the warmer than present day climate of the Late Pliocene, to reduce the uncertainties associated with future projections of sea-level change. An increase in sea level will have considerable impact on ecosystems, the vulnerability of the coast and on society. A better understanding of the responses of the ice sheets to a warming climate is needed to make more rigorous predictions of the impact of regional sea-level variations. The outcome of PLIOTRANS can be used as a benchmark for climate scientists and policy-makers in further reducing uncertainties in future targets for greenhouse gas emissions and the impact of ice-sheet melting within future climate projections.

In the **fight against cancer**, the **PRISAR** project (H2020-MSCA-RISE-2014) will implement a revolutionary imaging and therapeutic approach for oncology surgeons. The project's new approach will allow to clearly defining tumour margins and give surgeons a more definitive reference for resection. The expected impact will be (a) reduced recurrence rates in patients by lowering the risk of residual tumour tissue remaining after surgery and as a consequence improve survival, (b) reduced patient morbidity and hospital stay and (c) significant health cost benefits.

1.3 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:

1.3.1 Validation of Small and Medium-Sized Enterprises

The REA is in charge of the centralised Participants Management business process for the research family as a whole. Since the end of February 2014, the SME status is based on a **SME self-declaration** through a web-based questionnaire. The questionnaire, developed by DG DIGIT in cooperation with and under the steer of the REA, is accessible via the Beneficiary Register on the Participant Portal. At the end of the questionnaire, the entity obtains a result that either confirms or rejects its self-declared SME status. Entities that would like to participate in actions requiring the SME status (as an eligibility criterion) may request the REA Validation Services to validate the output of the self-declaration against the necessary financial statements. The self-declaration is considered valid unless a check, review, audit or investigation shows that the status was based on false declarations or manipulated information. During the reporting period more than 14,000 SME self-assessments have been performed.

Compared to the previous practice under FP7, this represents a major simplification and efficiency gain not only for the Validation Services but also the applicants. Under FP7, the status of every entity willing to participate as SME had to be verified against supporting documents. This was generally a time-consuming, burdensome process. By offering SMEs a tool to self-assess and by postponing the validation from an ex-ante exhaustive check on *all* SMEs to an ex-post sample-based check, the SME validation process has become faster and takes away barriers to the Grant Agreement signature. Moreover, the ex-post checks are expected to be concentrated on risky cases and/or specific applications for the SME instrument and will thus be less numerous and more focused on cases that really matter.

1.3.2 Electronic signature of expert contracts

The REA's support services handle the contracting and the payment of experts for all the Directorates-General and agencies of the 'research family'. During the reporting period, work on the Expert Area in the Participant Portal (EMPP) focused on the new

services for experts, notably the electronic signature of contracts and the online payment requests, which went into production in early 2014.

Following the correction of some bugs after the release of the tool, developed by DG DIGIT and DG RTD, experts can now sign their contracts electronically. Instead of signing the contract on paper and sending it back to the REA by post, as it was done previously, the expert signs the contract directly in the system. This significantly shortens the time for the appointment of experts and improves the efficiency of the contract management process. 11,400 expert contracts have been signed in 2014.

Further efficiency gains are expected once the electronic workflow for the payment of experts will be put in place in 2015.

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 bi-annual 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 objectives³². It is structured in three 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.

In 2014, the REA managed financial operations relating to FP7 and H2020 grants,

³² 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).

experts and administrative expenditure. To give an indication of the relative weight of each of them, table 6 presents the budget distributed per type of payments as managed over the year and in comparison with the previous reporting period.

Table 6: Indicator – Total budget managed by REA in 2014 and 2013 (in payments)

Operational and administrative expenditure (in € million)	Pre-financing	Payments against cost statements	Experts payments	Total operational expenditure	Administrative expenditure	Total
2013	1,036.18	338.45	19.34	1,374.63	45.85	1,420.48
2014	654.13	406.12	36.63	1,096.88	49.68	1,146.56

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 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.

Controls are implemented along the entire process of implementing the framework programmes for research and innovation in order to guarantee that the projects selected answer all the call conditions and that only the very best are funded by EU funds and that the costs claimed by the participants and the payments made are in line with the legal framework.

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. In consideration of this, one should highlight that the rules and the legal framework have been significantly simplified under H2020.

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 agency 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 follows 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

2.1.1.1 H2020

The Agency implements the parts of H2020 delegated to it and manages the FP7 legacy.

In 2014, H2020 calls have been launched, the first H2020 grants were signed but no costs have yet been claimed by the beneficiaries. The risks that need to be managed at this stage of the process are essentially linked to the evaluation and selection of proposals and grant agreement signature. Through the rules and procedures put in place the REA must ensure that the projects it is funding have a real impact of tackling societal challenges and boost European competitiveness (true to the motto of "research that matters") in order to achieve these goals only the very best projects must be selected and they must be run by promoters capable to carry them out up to the end.

In 2014 and the following years the REA has to ensure a smooth transition between FP7 and H2020. H2020 represents a radically new and comprehensive approach to the EU's research and innovation funding policies. Compared to FP7, H2020 has been constructed from the outset around a radical simplification in order to

- reduce the administrative burden and related costs for participants;
- speed up all processes of proposal and grant management;
- reduce the financial error rate.

The main simplification measures are: the no-negotiation approach, the reduction of different funding rates (in principle a single rate of 100% with 25% overhead) and the limitation of the mandatory ex ante financial capacity check to coordinators only and in case of funding in excess of €500,000.

Following these simplifications the target with regard to the time-to-grant has been reduced from around 12 months under FP7 to 8 months under H2020.

Since January 2014 the REA manages the Marie Skłodowska-Curie actions, H2020 Space research and parts of Societal Challenge 7 (Secure Societies). The other actions, which were previously managed by the Commission, have been transferred in 2014 or will be transferred in January 2015.

The Agency implements the parts of H2020 and FP7 delegated to it under direct management mode. For the actions that have been delegated to it the Agency manages the full scope of activities from the publication of the call for proposals up to the final payment of the grant and the implementation of the recoveries (if any). Basically the activities can be divided in two major parts: the first part spreads from the call publication up to the signature of the grant agreement and the second part from the grant agreement signature up to the final payment and the eventual recoveries after audit.

As the first H2020 calls have been launched in 2014 the activities relate mainly to the call management and selection of proposals up to the signature of the grant agreements. No costs have so far been claimed for H2020 grants. On the contrary as regards FP7 management, these activities relate mainly to the processing of costs claims and of the related payments as well as the ex post controls.

The controls built in the first phase (up to the grant signature) aim at making sure that the proposals selected answer to the conditions set in the call for proposals and that the beneficiaries are capable to complete the projects successfully and in the time set. To this end the following controls have been built into the process:

- Admissibility and eligibility check;
- Evaluation of the proposals;
- Grant agreement finalisation.

At the level of admissibility and eligibility check, controls are carried out to make sure that the proposals are submitted according to the rules and that they are in compliance with the eligibility criteria set in the work programmes. This control is carried out by the REA staff upon reception of the proposals. The admissible and eligible proposals are then evaluated by independent experts.

Under H2020, in view of simplification and to increase the attractiveness of the programme, the target time-to-grant has been significantly reduced and the proposal negotiation, as practiced in FP7, has been removed. The selected proposals will be funded as submitted and no longer on their potential. Therefore, some process and controls have been reinforced in order to ensure that:

- the very best experts in the field evaluate the proposals;
- making sure that the experts do not have any conflict of interest in evaluating proposals;
- experts evaluating proposals in a field of competence are renewed regularly by introducing rules of rotation (e.g. to make sure that individual experts do not work more than 120 days for Horizon 2020 activities). With respect to evaluations in particular, for each call at least 25% of experts included in the 'pool' should not have participated in the evaluation of the call in the previous 3 years;
- there is no bias in the evaluation by having pools of expert with a balanced composition in terms of skills, experience and knowledge, geographical diversity and

gender.

The experts evaluate the proposals against the criteria's set in the calls for proposals. The experts evaluate the operational capacity of the beneficiaries while the REA, after the evaluation stage, assess the financial capacity of the coordinators of projects in excess of €500,000.

Controls for H2020 relating to phase 2 (project management) are not detailed in this report as this activity will only kick in as of 2015.

2.1.1.2 FP7

The REA manages the FP7 legacy of the People Programme, the Space and Security themes under the Cooperation Programme and the research for the benefit of SME's under the Capacities program. The risk analysis presented in the AAR 2013 remains valid for these programs.

2.1.1.2.1 FP7 People 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.

2.1.1.2.2 Capacities Specific Programme – Research for the benefit of SMEs

The Research for the benefits of SMEs endeavours to enhance the research and innovation capacities of European SMEs which have little or no research capacity themselves to turn innovative ideas into products and services with clear future market potential in line with the aim of the innovation Union. The focus is on the outsourcing of research by SMEs to specialised RTD performers.

The main risks identified in the previous AAR in relation to this program are:

- *the risk that the transaction does not reflect normal market conditions.*

The majority of EU funding provided under this scheme relates to expenditure incurred by SMEs in outsourcing RTD work to RTD performers under a commercial contract at a price agreed between them ('the transaction'). 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. Indeed 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. To mitigate the risk of over-pricing, the explanation of the scheme and of the specificities of the transaction has been enhanced in the 2013 work programmes for SME actions, in particular stating that the price of the transaction should be according to market conditions, and the corresponding Guide for Applicants had been updated in order to require 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.

- *the risk of non-recording the RTD performance invoices in the SMEs accounts.*

In 2012 the REA discovered, through its ex-post audit activities, a high frequency of errors by SMEs who declared costs for subcontracting to RTD performers (referred to in the grant agreement as 'the transaction') without recording any invoices/payment in their accounts³³. 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 channel all funding for RTD performers through their accounts. According to the general eligibility criteria set in the grant agreement the SMEs are nevertheless obliged to record the invoices of the RTD performers in their accounts and to demonstrate that the related expenditure declared in their Form C has effectively been incurred and has been paid to the RTD performers, either directly by the SME or indirectly by the project coordinator on behalf of the SME upon written instruction. If this is not the case the respective costs are ineligible. Often this results from arrangements outlined in the consortium agreement whereby EU funds remain secured at the level of the coordinator for subsequent direct payment to the RTD performers (on behalf of the SMEs and with their agreement), without transiting via the bank account of the SMEs. While such arrangements are acceptable as such, they require special registrations in the SMEs' accounting systems in order to comply with the eligibility requirements outlined in the Grant Agreement³⁴.

This risk was identified by the REA already in 2013. In order to mitigate it, in July 2013,

³³ Any costs declared for funding need to be recorded in the accounts in accordance with the cost eligibility criteria defined the grant agreement.

³⁴ In accounting terms, the settlement of the amount payable towards the RTD performer may imply offsetting by the SME against the amount receivable from the coordinator relating to the SME's share in the EU grant.

the REA launched an information campaign to the attention of all beneficiaries under the SME actions, reminding them of the eligibility conditions for the acceptance of costs. This risk has been further underlined by the Commission Internal Audit Service in its audit carried out in 2013 on the FP7 control systems in the REA – the assurance process.

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).

Finally, the current economic climate results in many bankruptcies of SMEs. As in previous years, the REA has experienced a significant increase in bankruptcies for the SME actions (21 in 2013 and 28 in 2014). Although there is no direct financial loss for the EU 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.

2.1.1.2.3 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.

2.1.1.3 Participant Validation, Support Services and Expert Contracting and Payments

Drawing on long standing experience in the management of the evaluation platform and process, expert handling support services have been offered to REA units and gradually to 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 good.

With the extended delegation of tasks to the Executive Agencies and under the H2020, the role of REA as service provider of support services was confirmed. The Agency remains entrusted with the provision of support services to the research family for the H2020 implementation with regards to:

- call planning and call publication,
- logistical support for the evaluations,
- expert database management and contracting and payment of expert evaluators,
- validation of legal entities and preparation of the financial viability assessment.

Some of these tasks have even been extended beyond the research family to other programs, such as COSME, ERASMUS, etc. as regards the participant validation and the verification of the financial capacity.

The new delegation act of the Agency outlines the list of support services and beneficiaries of such services³⁵ that the REA will provide. In addition, the details regarding the scope and the targets for this activity are set in the 'Rules for the Administrative and logistical support services provided by the REA for H2020 and other certain programmes', which were approved by the Steering Committee in June 2014. This document is annexed to the Agency Memorandum of understanding with its parent DGs.

The Annual Activity Report 2013 some risks related to support services were listed, such as the delayed payment of experts or the reputational risk linked to the validation process. These risks have partially materialised in 2014 to some extent and have been subsequently addressed through new processes and procedures and the set-up of a taskforce. The following should be highlighted:

- The financial capacity check of H2020 participants has been limited to the coordinators of grants with an EU contribution in excess of €500,000.
- The SME validation process has been simplified as the SME status is validated based on a self-declaration through a web-based questionnaire in the beneficiary register. There is no ex-ante validation anymore. Nevertheless any entity that would like to participate in actions requiring an SME status as eligibility criterion may request the REA validation services to confirm the SME status.
- Experts contracting and payment is also streamlined under H2020. Despite some delays in payments in a 2014, due to a heavy workload and temporary

³⁵ For details, please refer to the Annex III of the REA delegation act.

understaffing, the low performance during a peak period coinciding with the summer break has been quickly addressed. In addition further improvement in the process of contracting and paying is expected when it will be fully electronic in the course of 2015.

- The validation of legal entities is also less complex than under FP7, due to the automation of the process and the simplification of funding rates (set at 100% and the overhead set at 25%), regardless the status of the beneficiary and/or funding scheme. Nevertheless, if the validation process became simpler, the validation of the LEAR extended mandate during the grant preparation is an additional complexity and may result in delays during this phase.

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

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

Effective control provides reasonable assurance to the REA management on the achievement of objectives. Control includes all the measures that the management and staff take in order 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.

Control framework for the management of the FP7 operational budget

As regards the FP7 legacy management the REA's activities for FP7 implementation are streamlined with the overall FP7 structures and processes applied within the Commission. The overall strategy defined for FP7 is fully applicable to the REA.

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 signed with external parties (research organisations, companies, experts).

At the moment when the payment is authorised, the REA is not able to fully control 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, the Common Representative Audit Sample (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 2014.

Table 7: Indicator – REA’s payments in 2014 and 2007-2014 per FP7 activity

€ million	2014			2007-2014		
	Paid	Clearing of pre-financing	Total expenditure	Paid	Clearing of pre-financing	Total expenditure
FP7 People	566.98	0.00	566.98	3,745.91	0.00	3,745.91
Prefinancing	338.36	-472.36	-134.00	3,111.89	-1,095.31	2,016.57
Cost claims	228.62	472.36	700.98	634.02	1,095.31	1,729.33
FP7 SMEs	136.22	0.00	136.22	1,152.19	0.00	1,152.19
Prefinancing	47.90	-124.94	-77.04	883.94	-451.16	432.78
Cost claims	88.32	124.94	213.26	268.25	451.16	719.42
FP7 Space	46.92	0.00	46.92	504.02	0.00	504.02
Prefinancing	8.68	-54.53	-45.85	357.17	-177.14	180.03
Cost claims	38.24	54.53	92.77	146.85	177.14	323.99
FP7 Security	177.14	0.00	177.14	657.24	0.00	657.24
Prefinancing	127.08	-52.29	74.79	478.37	-142.29	336.08
Cost claims	50.06	52.29	102.35	178.87	142.29	321.16
FP7 Expert montitors	0.88	0.00	0.88	63.18	0.00	63.18
Prefinancing	-	-	-	-	-	-
Cost claims	0.88	-	0.88	63.18	-	63.18
FP7 TOTAL	928.14	0.00	928.14	6,122.54	0.00	6,122.54
Prefinancing	522.02	-704.12	-182.10	4,831.36	-1,865.90	2,965.46
Cost claims	405.24	704.12	1,109.36	1,228.00	1,865.90	3,093.89
Expert payments	0.88	0.00	0.88	63.18	0.00	63.18

Control framework for the management of the H2020 operational budget

Under H2020 a significant part of the implementation has been delegated to the research implementing bodies, including the executive agencies, while the policy-oriented activities remained in the Commission. With an increased number of implementing bodies, there was a need for strengthened coordination and centrally managed service to ensure a consistent and equal treatment of beneficiaries and a coherent management of the framework programme.

For this purpose, the Common Support Centre (CSC) for H2020 has been set up in 2014, to provide high quality services in the areas of legal support, ex-post audit, information technology systems and operations, business processes and programme information and data to the research family (DGs, Executive Agencies and Joint Undertakings implementing Horizon 2020). Contrary to FP7, where processes, procedures and IT tools could be tailor-made to meet the specific needs of some services, the CSC set common standards for legal documents, financial circuits, ex-post audit and anti-fraud guidance, business processes and related IT tools. While the coordination of processes remains a

collaborative process in which the REA actively participates, responsibility for the overall design and set-up of the control systems remains with the Commission.

Even more than under FP7, drawing on previous experiences and lessons learnt, the H2020 control strategy is characterised by its significant investment in issuing guidance to grant beneficiaries on modalities for participating into the research framework programme. Under H2020 the information and guidance to applicants and beneficiaries are a key element. The Participant Portal is the single entry point for any information on a call, proposal submission and evaluation, grant management, eligibility of costs, etc. Compared to FP7 the emphasis has been put on providing complete and detailed information for beneficiaries through the portal. As regards grant management, each process and procedure is explained into detail in the annotated grant agreement.

The control systems in place in REA, applicable to both framework programmes, can be divided in 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 ranking of proposals

This stage concerns the proposals under H2020 only, as all proposals submitted under FP7 call closure were selected in 2013. Nevertheless some redress cases relating to 2013 calls had still to be managed in 2014 and are therefore included in this section.

This 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 admissibility and 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 evaluation³⁶ 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.

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. The list of approved proposals is then checked for legal compliance by the Authorising Officer.

³⁶ The Consensus process does not apply to the FET OPEN calls. As set out in the H2020 Work Programme, for FET, a higher number of experts evaluated each proposal. The scores are the median of the individual scores the role of the panel is reinforced.

2.1.2.1.1 Share of calls published successfully (H2020)

Table 8: Indicator - % of calls successfully published in 2014

	No. of calls planned in the AWP 2014	No. of calls successfully published** in 2014
Part I - Excellent science	7	7 (100%)
Part II - Industrial leadership	3*	3* (100%)
Part III - Societal challenges	11	11 (100%)
Legacy of SME actions	n/a	n/a
Total	21	21 (100%)

* in addition to these calls, 3 coordination and support actions planned in the Space work programme 2014 were launched for a grant to named beneficiaries

** including some calls published by the Commission

In 2014 all the calls planned by the Work Programme have been effectively launched.

2.1.2.1.2 Number of redress /evaluation review cases upheld (FP7 and H2020)

The FP7 redress procedure, referred to as the evaluation review procedure under H2020, 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 committee analyses all the 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 / evaluation review procedure provides an indication on the quality and effectiveness of the proposal evaluation process. The tables below show the results for FP7 calls financed under the WPs 2012, 2013 (table 9) and for the first H2020 calls under WP 2014 (table 10).

As indicated previously, no new FP7 calls have been published in 2014. In the table below (table 9) the redress procedures on the calls launched in the previous years have all been closed and eventually only two proposals have been funded after re-evaluation. The low share of redress requests and cases upheld for the calls of the WP 2013 – 2.56% and 0.6% respectively – provides a good indication on the robustness of the proposal evaluation process and offers assurance with respect to the effectiveness of the internal control system. In comparison with the calls of the WP 2012 where the ratio was at the record level of 0.3%, the indicator is slightly higher for calls 2013, however, still as a very low level and in the same range as for the calls of the WP 2010 and 2011.

Table 9: Indicator – number of redress complaints upheld – FP7

	WP 2012						WP 2013					
	Call deadline	Evaluated	No. of redress cases			% upheld/evaluated	Call deadline	Evaluated	No. of redress cases			% upheld/evaluated
			filed	upheld	of these funded after re-evaluation				filed	upheld	of these funded after re-evaluation	
ITN	12/01/2012	1,015	28	5	0	0.5%	22/11/2012	1,165	24	2	0	0.2%
IAPP	19/04/2012	264	2	2	0	0.8%	16/01/2013	306	11	2	0	0.7%
IEF	16/08/2012	3,708	71	5	1	0.1%	14/08/2013	4,916	121	41	1	0.8%
IOF	16/08/2012	955	29	7	0	0.7%	14/08/2013	1,207	38	12	0	1.0%
IIF+HIFR	16/08/2012	1,447	32	5	0	0.3%	14/08/2013	1,936	36	5	0	0.3%
RG/CIG-1	6/03/2012	746	26	3	0	0.4%	7/03/2013	885	28	4	0	0.5%
RG/CIG-2	18/09/2012	899	28	3	1	0.3%	18/09/2013	1,257	45	5	1	0.4%
COFUND	15/02/2012	60	4	1	0	1.7%	5/12/2012	69	0	0	0	0.0%
IRSES	18/01/2012	155	4	0	0	0.0%	17/01/2013	233	7	1	0	0.4%
NIGHT	10/01/2012	98	3	0	0	0.0%	8/01/2013	98	3	0	0	0.0%
TOTAL PEOPLE		9,347	227	31	2	0.3%		12,072	313	72	2	0.6%
SME - AG	6/12/2011	143	7	0	0	0.0%	15/11/2012	197	4	2	0	1.0%
SMEs	6/12/2011	807	19	2	1	0.2%	15/11/2012	1,063	22	7	0	0.7%
SME - DA	6/12/2011	36	1	0	0	0.0%	15/11/2012	95	4	1	0	1.1%
TOTAL SMEs		986	27	2	1	0.2%		1,355	30	10	0	0.7%
Space	23/11/2011	187	11	4	0	2.1%	21/11/2012	295	10	2	0	0.7%
Security	23/11/2011	326	8	0	0	0.0%	22/11/2012	346	7	0	0	0.0%
TOTAL SPACE & SECURITY		513	19	4	0	0.8%		641	17	2	0	0.3%
GRAND TOTAL		10,846	273	37	3	0.3%		14,068	360	84	2	0.6%

For the first H2020 calls, 29 complaints have been introduced through the review procedure. The redress committee concluded that one case should be partially upheld, however, with no consequence on the financing of grants. This must be considered in a context of a relatively limited number of proposals evaluated so far. Table 10 below presents an overview of the situation by the end of December 2014.

Table 10: Indicator – number of evaluation review cases upheld – H2020

Evaluation review for H2020 calls	WP 2014				
	Call deadline	Evaluated	No. of redress cases		
			filed	upheld	of these funded after re-evaluation
<i>Marie Skłodowska-Curie Actions</i>					
NIGHT	4/03/2014	123	6	0	0
ITN	9/04/2014	1153	10	0	0
RISE	24/04/2014	200	1	0	0
TOTAL H2020 –Excellent Science		1,476	17	0	0
EO	26/03/2014	63	1	0	0
PROTEC	26/03/2014	27	1	0	0
COMPET	26/03/2014	119	2	1	0
TOTAL H2020 - Industrial Leadership		209	4	1	0
<i>Societal Challenge 2 *</i>					
SFS	26/06/2014	162	2	n/a **	n/a **
BG	26/06/2014	31	1	n/a **	n/a **
ISIB	26/06/2014	73	1	n/a **	n/a **
<i>Societal Challenge 6 *</i>					
EURO-SOCIETY	3/06/2014	121	2	n/a **	n/a **
YOUNG-SOCIETY	3/06/2014	110	1	n/a **	n/a **
H2020-INSO-2014	29/04/2014	86	1	n/a **	n/a **
TOTAL SC		583	8	0	0
GRAND TOTAL		2,268	29	1	0

* The evaluation was performed by the Commission

** Evaluation review was not finalised by the end of the year

2.1.2.1.3 Execution of the operational budget

In this transitional year, the REA was managing appropriations for both FP7 and H2020. The section below provides details on the execution of the budget available for the management of each programme.

FP7

In 2014, there were no longer FP7-related commitments but only payments. The REA has reached full execution of the available FP7 operational appropriations by the end of the year.

Table 11: Indicator – operational budget execution rates FP7

Specific Programme	EU budget implemented – FP7 (in % of EU budget allocated – excluding earmarked revenue)
	Payment appropriations (in € million)
People	567.28 (100%)
Space and Security	224.33 (100%)
SME actions	136.53 (100%)
Total REA – all activities	928.14 (100%)

H2020

The REA's operational budget for H2020 amounted to €1,552.79 million in commitment appropriations and €168.74 million in payment appropriations. By the end of 2014 the REA had also reached a 100% execution in commitment and payment.

Table 12: Indicator – operational budget execution rates H2020

Action		EU budget implemented – H2020 (in % of EU budget allocated – excluding earmarked revenue)	
		Commitment appropriations ³⁷ (in € million)	Payment appropriations ³⁸ (in € million)
Part I – Excellent science		936.25 (100%)	116.1 (100%)
Part II – Industrial leadership		105.32 (100%)	26.9 (100%)
Part III – Societal challenges	Societal Challenge 2	235.05 (100%)	2.33 (100%)
	Societal Challenge 6	100.78 (100%)	1.1 (100%)
	Societal Challenge 7	148.86 (100%)	1.52 (100%)
"Other" experts (contracting and paying of expert evaluators for the calls not delegated to the REA) ³⁹		26.54 (100%)	20.78 (100%)
Total REA – all activities		1,552.79 (100%)	168.74 (100%)

2.1.2.1.4 Success rates by programme (H2020)

Table 13: Indicator – Success rates by programme⁴⁰

	No of eligible proposals evaluated	No. of proposals retained for funding	Success rate
Excellent Science	1,476	269	18%
Industrial Leadership	209	39	19% ⁴¹
Societal Challenge 2 – Securing sufficient supplies of safe and high quality food	636	49	8%
Societal Challenge 6 – Fostering inclusive, innovative and reflective European societies	407	37	9%
Total	2,728	394	14%

Details on success rates by call are provided in section 1.1.1.1 above, which presents only the results of the H2020 calls for which the evaluation process was completed.

³⁷ Appropriations related to grants and expert management. This refers to implementation of global commitments, for which grant agreements can be signed until 31 December 2015. The global commitment is made when the evaluation process is closed and it is based on the main list of positively evaluated proposals.

³⁸ Appropriations related to grants and expert management.

³⁹ Calls for which the REA manages no grant, only the expert evaluators.

⁴⁰ The table lists only those programmes for which the evaluation process is already closed.

⁴¹ The success rate does not include the 3 ad-hoc calls for named beneficiaries.

The success rates differ by programme. The success rate is close to 20% for the first two pillars (I-Excellent Science and II- Industrial Leadership) while it is below 10% for Societal Challenges 2 and 6.

The success rates for the two first pillars are in line with the results of 2013. The evaluation of the proposals submitted in reply to the calls launched for Societal Challenges 2 and 6 was fully managed by the parent DGs, with the exception of the call Reflective Society (SC-6) that has been transferred to the REA before the start of the evaluation. The rather low success rates of the first calls launched under the SC-2 and SC-6 may be linked to the more open and less prescriptive nature of the topics.

2.1.2.1.5 Average evaluation cost by proposal (H2020)

The table below introduces a first overview of the average cost of an evaluation for those H2020 calls for which implementation was delegated to the REA in 2014, split by pillar/objective within the framework programme. The average cost is calculated on the basis of the total amount paid for the expert evaluators involved in the evaluation divided by the number of eligible proposals evaluated.

Table 14: 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 (€)	Estimated average cost by (evaluated) proposal (€)
Excellent Science	9,742	8,984	9,960,154	1,109
Industrial Leadership	220	212	819,859	3,867
Societal Challenge 2	673	636	985,316	1,549
Societal Challenge 6	426	407	998,624	2,454
Societal Challenge 7	412	407	1,137,864	2,796
Total	11,473	10,646	13,901,817	1,306

These estimates are in line with figures from 2013. Pillar I has a relatively low evaluation cost due to a record number of proposals received while the most expensive evaluations are under Pillar II and Societal Challenge 7 evaluating more complex proposals. In addition, the REA staff cost in operating the evaluation process for the calls implemented by the REA or in support of the Commission during the evaluation, before the transfer of these activities to the agency, is estimated at €3.77 million (please refer to Table 40).

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 96.5% of all REA projects reached all or most of their objectives (as reported under KPI 4), the low 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: Selection of proposals and conclusion of grant agreements

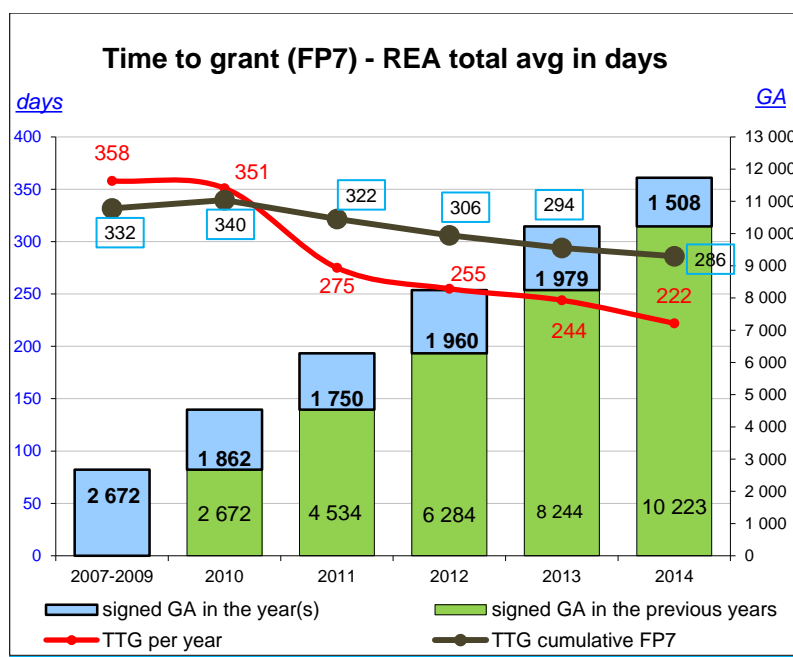
This section reports on the FP7 and on the first H2020 grant agreements and on the FP7 ones signed in the course of 2014

2.1.2.2.1 FP7 - Time-To-Grant (TTG)

In the first half of 2014, 75% of grant agreements were signed for all remaining calls where the target was not met already during 2013 (IEF, IOF, IIF, RG-CIG-2, COFUND, SME and SECURITY).

As presented in the figure 1a below, 1,508 FP7 grant agreements have been signed for a total value of €741.7 million. The TTG has constantly decreased over years, with an average TTG of 286 days during the whole FP7, and reached 222 days in 2014.

Figure 1a: Indicator – ‘Time-To-Grant’ (FP7)



2.1.2.2.2 H2020 – Time-To-Grant (TTG)

In H2020, the proposals are assessed as submitted rather than on their potential. As a result, there is no longer a negotiation with the consortium to address recommendations from expert evaluators. Consequently any identified shortcomings should be reflected in a lower score. It is also at the evaluation stage that the operational capacity of the beneficiaries is assessed by the experts.

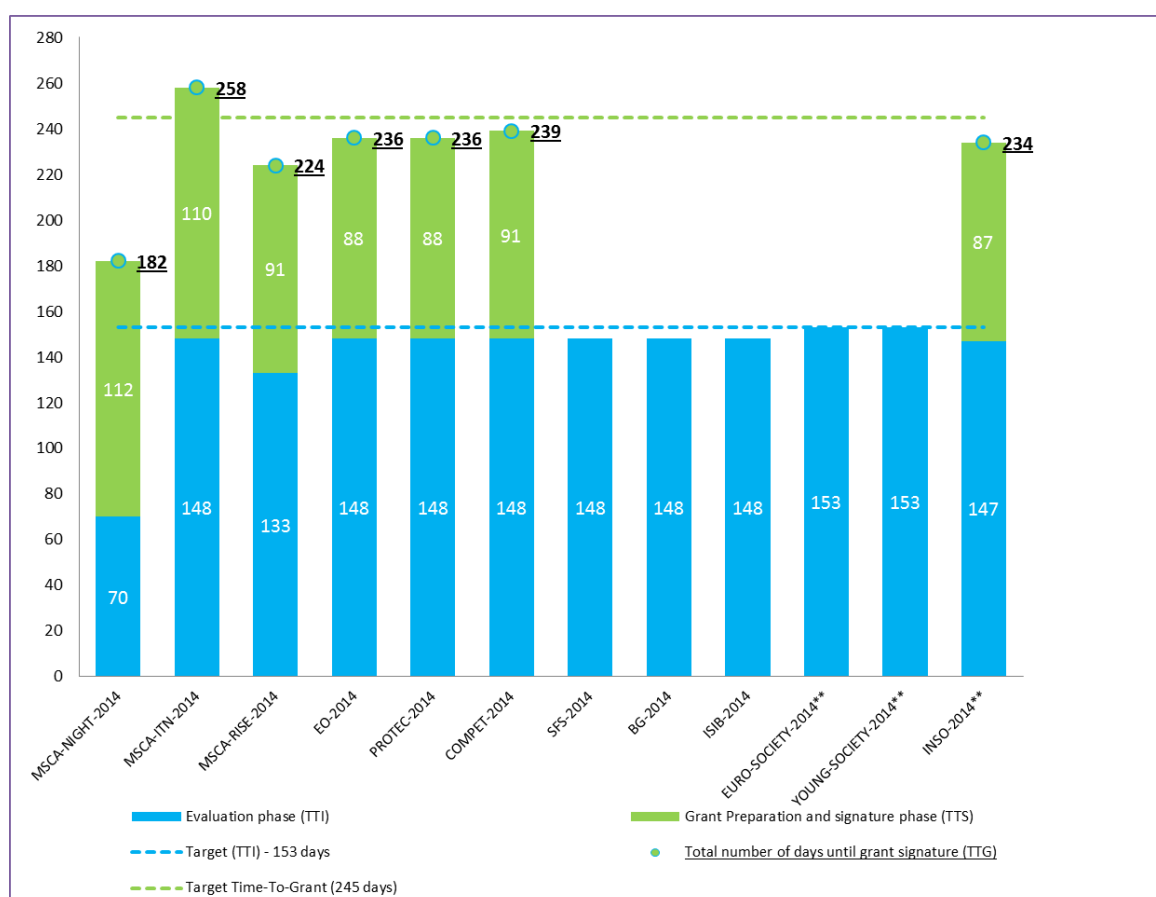
However 'no negotiation' does not mean 'no control'. One should be assured that a control is still maintained on the eligibility of the proposal, viability of the participant and in view of fraud detection. The beneficiaries must be validated, the financial capacity must be checked (if applicable) and cross-checks are performed (e.g. beneficiaries involved in serious administrative errors or fraud, or subject to pending legal or judicial proceedings for serious administrative errors or fraud; if any beneficiary is subject to a recovery order for an outstanding amount issued by the Commission or the REA on which the payment is significantly overdue, etc.).

In 2014, 289 H2020 grant agreements have been signed. The following section reports on the first results.

The Agency has eight months between the call deadline and grant signature (Art. 20(2) of the Rules for participation). This consists of two periods and two primary time limits to comply with:

- Period 1: maximum of 5 months (153 days) to inform applicants , ends when the applicants are informed of the outcome of the scientific evaluation (TTI: time to inform);
- Period 2: for grant preparation and signature within the overall maximum period of 8 months (245 days) from the call deadline, starts when the applicants are all informed (TTS: time to signature).

Figure 1b: Indicator – ‘Time-To-Grant’ (H2020)



The REA was rather successful in 2014 in reaching these targets on TTG, although full details on the performance will only be available later. The second wave of H2020 calls for 2014 closed in autumn and at the time of reporting the grant preparation phase was still ongoing. For other calls the evaluation was still ongoing at year-end.

The Researchers' Night call was the first call to have concluded the first stage of TTG with only 70 days from the closure of the call to the information being sent to the applicants. The first electronic grant agreements were signed in July, 182 days after call closure, followed by the first completely paperless grant payments, both allowed by the successful introduction of the new IT tool Sygma.

For the MSCA RISE call, the REA signed 100% of the proposals retained for funding within the time limit (under 'mode ordonnateur'). For MSCA-ITN, 66% were signed within the overall eight months target. In addition to the grants signed, several Selection Decision procedures were ongoing so that 97% could be signed by end December 2014. The average Time-To-Grant will thus be closer to the target despite teething problems with the new IT systems (Sygma and Compass). It should also be noted that for more than 80% of projects from this call, a Programme Committee consultation (with DGs RTD and EAC involved in the processing) and Selection Decision procedure was necessary which have caused some delays.

For the Space Research call, the REA signed 33 out of 34 projects within eight months (the last project being put on hold at the request of the coordinator).

For various other calls (Societal Challenge 2 and 6), the Grant Preparation was launched in November 2014. The importance that all procedures for Programme Committee consultation and Selection Decision (where necessary) are processed smoothly between the DGs should be stressed again in order to reach the target for Time-To-Grant.

2.1.2.2.3 Cost of control stage 2 – conclusion of grant agreements

Table 15: Indicator– cost of control of stage 2 – conclusion of grant agreements

Total cost of control ⁴²	€5.74 million
Number of grant agreements finalised in 2014 ⁴³	1,797
Average cost of control for one finalised grant agreement	€3,194
Cost of control as a percentage of the value of signed grant agreements	0.44%

This indicator is calculated on the basis of all the grants agreements that have been concluded in 2014 without differentiating between FP7 and H2020. In total, the REA concluded 1,797 grants agreements in the course of 2014 (respectively 1,508 for FP7 grants and 289 for H2020 were concluded).

With H2020, the negotiation phase has been removed and it is expected to use fewer resources for this stage in 2015.

While there are some financial benefits 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 are not quantifiable, being mainly related to assuring that legality and regularity is ensured before signing grant agreements.

⁴² This includes staff, overhead and IT cost.

⁴³ The number and value of the GA finalised in 2014 stems from table 2 and table 4.

2.1.2.3 Stage three: Monitoring of the grant agreement execution

The third stage covers the supervision of the management of the project and the execution of the grant agreement. For 2014, it relates to FP7. As regards H2020, the first grant agreements have been signed in 2014 but the payments that have been made relate solely to pre-financing (with the exception of one interim payment). Only one payment against costs claimed has been executed under H2020 so far. Therefore, most of this section does not apply to H2020 grants.

This stage comprises monitoring of the execution of planned project activities involving scientific expert reviewers and the ex-ante checks of participants' cost claims. The ex-ante controls focus on:

- an assessment of the progress achieved in the implementation of the project. This is often assessed with the support of external reviewers, to ensure that this implementation is on track and that the initial project objectives continue to be achievable;
- a plausibility check on the declared costs, referring in particular to justifications on the use of resources presented as part of regular reporting requirements and assessed against the initial description of work and the scientific progress made;
- the compliance with the legality and regularity requirements (such as having the financial statements duly completed and authorised, the availability and analysis of certificates on financial statements, the completeness and timeliness of submission of project deliverables, etc.).

For FP7 projects, these ex-ante checks include also the review of audit certificates on cost statements delivered by external auditors.

While the parts related to the execution of the payment appropriation and the 'Time-To-Pay' (TTP) apply both H2020 grants and FP7 grants, the other parts on the assurance from the certificates on financial statements (CFS) and on the 'Time-To-Amend' grant agreements as well as the costs of control of monitoring the execution of the grant agreement relate only to FP7 grants.

2.1.2.3.1 Execution of operational payment appropriations

Like in the previous years, the REA executed in 2014 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. The tables below give an overview of the performance of the Agency in funding grants, per programme and per type of payment.

Table 16: Indicator - Share of payments made on time

		2012	2013	2014
FP7	Research grants – pre-financing payments	97.6%	96.8%	98.9%
	Research grants – interim and final payments	90.4%	94.2%	95.5%
H2020	Research grants – pre-financing payments			100.0%
Administrative expenditures		90.9%	89.7%	92.9%

The results indicate a high compliance with the payment deadlines. For FP7 grants, the performance in 2014 for both, pre-financing and interim/final payments improved in comparison to the previous year. Also for H2020 grants the performance for pre-financing payments is excellent. For normal payments only one interim payment was made so far.

Table 17: Indicator – Average net and gross ‘Time-To-Pay’ by type of expenditure (H2020 and FP7)

Expenditure type	Number	Payments		
		Average time to pay (calendar days)		
		Net	Suspension	Gross
Research grants				
Pre-financing payments (target = 30 days)	1,786	11.9	36.6	48.5
Interim and final payments (target = 90 days)	2,963	57.0	27.9	84.9
Administrative expenditure (target = 30 days)	1,810	21.0	1.0	22.0

2.1.2.3.3 Additional assurance from Certificates on Financial Statements (CFS)

Table 18: Indicator – Share of interim and final payments made with additional assurance from Certificates on Financial Statements (CFS) – FP7

Programme/theme/action	Total amount paid in 2014	Of which covered by a CFS (%)
People	€ 705,842,655.56	19.4%
SME actions	€ 213,967,045.67	13.0%
Space and Security	€ 197,495,266.84	31.8%
Total	€ 1,117,304,968.07	20.3%

Certificates on financial statements are required for claims from the beneficiary participating in an FP7 project for more than €375,000. Experience has shown that such certificates, provided by independent auditors appointed by the beneficiary and submitted with the cost claim, do not provide a 100% guarantee on the legality and regularity of the declared costs. Nevertheless, they have a significant impact in reducing the risk of errors⁴⁴.

⁴⁴ 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.

2.1.2.3.4 Time to amend grant agreements

The following table demonstrates the average processing time for amendments for FP7 grant agreements ('Time-To-Amend' – TTA) per programme. Performance is to be measured against the contractually-defined target of 45 days (net TTA).

Table 19: Indicator – Average Time-To-Amend (in calendar days, for the year)

Programme/theme/action	net TTA ⁴⁵	gross TTA ⁴⁶
People	34	68
SME actions	39	73
Space	23	37
Security	25	71
REA – all activities	34	68

The performance in time-to-amend grant agreements has improved in 2014 with an average time to amend of 34 days, significantly below the target of 45 days.

2.1.2.3.5 Average number of projects managed by a REA staff member

Table 20: Indicator – Average number of projects managed by a REA staff member in operational programme management units

Total number of running projects on 31 December 2014 (H2020 and FP7)	6,925
Number of staff in operational programme management units	348
Average number of projects by staff member in operational units (project officers and support staff) ⁴⁷	20

In 2014 the average number of projects managed by a REA staff member in operational programme management units remains in the same range as in 2013.

⁴⁵ Net TTA: this phase lasts from the time an amendment request becomes valid to the amendment approval date ('EC signature date'). The processing in this phase is solely reflecting the performance of the REA and is subject to a contractual target of 45 days.

⁴⁶ Gross TTA: this phase encompasses all the processing steps from the amendment request date ('Coordinator signature date') until the amendment approval date ('EC signature date'). Thus, it largely shows the processing time from the beneficiary's perspective. It takes into account the interactions with the coordinator where the stop-the-clock mechanism is being applied.

⁴⁷ 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).

2.1.2.3.6 Cost of control of stage 3 – Monitoring the execution of the grant agreement

Table 21: Indicator – Cost of control of stage 3 – Monitoring of the execution of the grant agreement

Total cost of control ⁴⁸	€19 million
Number of grant agreements running on 31 December 2014	6,925
Average cost of control for one running grant agreement	€2,739

In 2014, the average cost of control for a grant monitored by a REA staff member is estimated at €2,739, close to the average cost of €2,646 calculated for last year.

2.1.2.3.7 Benefits of ex-ante controls during the project

Table 22: Indicator – Benefits of the control – Financial impact of ex-ante controls (in € million)

Total EU funding requested	€1,142.0
Total EU funding accepted after ex-ante controls	€1,109.4
Total financial impact of the restrictions imposed by the funding limits in the grant agreement	€24.0
Total financial impact of ex-ante controls during the project	€8.6

The financial benefit of the ex-ante control is difficult to quantify. Limiting the benefit to the difference between the costs claimed and the costs found eligible and accepted after the ex-ante control is too restrictive.

In the table above, the estimated financial benefit of the controls 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 the corrected cost claims, the REA is no longer able to monitor the full impact of its ex-ante controls although this bias is gradually reducing with the progressive introduction of the automatic registration of cost claims submitted through the grant management IT tool.

The financial benefit from ex-ante controls 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 preventive 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 as intended and allow the Agency to provide appropriate feedback to policy development. Such benefits are qualitative and cannot be quantified in financial terms.

⁴⁸ Including staff costs, IT, communication, mission and evaluation platform costs and costs of reviewers. For further details, please refer to Section 2.1.5.

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 (96.5%) that have met all or most of their objectives in 2014 (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. As no reimbursement of costs has yet taken place under H2020 this section relates only to the ex-post controls of FP7 payments.

The EU Research Programmes have evolved towards a reduction of the ex-ante controls and a reinforcement of the ex-post controls. 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. 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 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. The main legality and regularity indicator is the error rate detected by ex-post audits. Ex-post audits aim at controlling the accomplishment of all applicable eligibility criteria of declared costs as set in the Grant Agreements as well as in the financial guidelines and any other applicable legal basis as for instance the specific Work Programmes.

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 the Common Representative Audit Sample (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. The CRaS aims at estimating the overall level of error in FP7, across all the services involved in its management and across all support measures. 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. Resources used for ex-post controls and recoveries

The total costs of ex-post controls, including the management and support staff, and staff implementing the audit adjustments (e.g. implementing recovery orders) amounts to €2.47 million.

The internal resources for ex-post audits and supervision of outsourced ex-post audits are expected to decrease in the coming years as the REA audit team is in charge of the audits on the FP7 population only, the ex-post audits for H2020 being in the remit of the Common Support Centre.

Table 23: Indicator – Resources used by the REA for ex-post controls/audits

	2012	2013	2014
Internal resources for ex-post audits and supervision of outsourced ex-post audits	8.5 FTE / €589,211	8.5 FTE / €649,005	6.8 FTE / €551,877
Cost of externalised auditing	€1,223,100	€1,061,500	€1,188,015
Cost of collaboration by operational units in preparing ex-post audits and implementing corrections/recoveries	€ not available	€568,889	€730,893
Total cost of ex-post control	€ not available	€2,279,394	€2,470,785

2.1.2.4.1 Implementation of the audit strategies and plans

The common FP7 audit strategy agreed at the level of the research family is complemented by the REA ex-post audit approach and plan for 2014. It aimed at directing the limited resources for ex-post controls towards maximum impact by considering specificities of the actions implemented by REA as well as the experience gained in the audit activity carried out by the REA in previous years. It provided for the planning of ex-post audit resources for the year to manage 135 audits as detailed in table 24 below.

Most of the risk-based audits launched in 2014 were directed towards the SME actions for which a reservation was made in the 2013 Declaration of Assurance. 36 risk-based audits on SMEs were started by the REA which represents an increase by more than 80% compared to 2013. On top, 49 SME desk audits were carried out, targeting a specific risk of SMEs with eligibility conditions for declared costs for subcontracting to RTD performers (see section 2.1.1.2.2.).

For the Space and Security themes of the Cooperation Programme, which were also subject to a reservation in the 2013 Annual Activity Report, 11 risk-based audits were launched in addition to 6 representative audits. Table 24 gives an overview of the audit activity performed by the REA by the end of 2014.

Table 24: Indicator – Overview of ex-post audit activity for the period 2009-2014

No. of audits	No. of audits planned	Audits launched ¹⁾	of which	
			in draft	finalised
2014				
joint audits with the ECA	0	1	0	0
risk-based	57	58	1	1
of which SME	30	36		
Space & Security	12	11	1	
People	10	11		1
Other	5			
SME desk audits	50	49		49
random sample	28	29	5	7
Total	135	137	6	57
2009-2014				
joint audits with the ECA	2	10	0	9
risk-based ²⁾	206	200	4	133
random sample ³⁾	252	266	8	241
Grand Total	460	476	12	383

1) Based on the announcement letters sent to the auditees.

2) In 2014: including 50 desk audits on the SME action planned; finally 49 audits launched.

3) Random sample includes 18 transactions selected as part of the CRaS 2012 and 30 as part of the CRaS 2014. The remaining transactions belong to the group of beneficiaries in receipt of significant amounts of EU funding).

By the end of 2014, 137 audits have been launched (of which 49 desk audits on the SME scheme), thus 2 more than the target of 135 set at the beginning of the year.

In total 476 audits were launched from 2009 to 2014, relating to a total of 875 projects. This can be further detailed by programme/theme as presented in table 25 below.

The 701 projects for which the audits were finalised by the end of 2014 relate to a total of 1,237 audited cost claims.

Table 25: Indicator - ex-post audit activity undertaken for the period 2009-2014 – number of projects by programme/theme/actions

Distribution of launched audits 2009-2014	Number of projects	of which	
		in draft	finalised
People (DG EAC)			
joint audits with the ECA	4	0	4
risk-based	59	0	43
random sample	311	4	285
Total	374	4	332
SME actions (DG RTD)			
joint audits with the ECA	1	0	1
risk-based ¹⁾	146	5	82
random sample	84	6	70
Total	231	11	153
Space & Security (DG ENTR)			
joint audits with the ECA	5	0	4
risk-based	87	4	54
random sample	178	8	158
Total	270	12	216
REA Total			
joint audits with the ECA	10	0	9
risk-based	292	9	179
random sample	573	18	513
Grand Total	875	27	701

1) In 2014: including 49 projects from the 49 desk audits on the SME actions.

Table 26: 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%	77%	80%
SME actions	1%	6%	7%
Space & Security	8%	49%	57%
REA Total	4%	54%	58%

* Period requested contribution (%) audited by the REA.

**Non-audited share of participants audited by the REA and other Commission services (excl. ongoing extrapolations).

Some 58% of the population of the actions delegated to the REA were covered but a large part of the population was covered indirectly, through the extension of the audit findings.⁴⁹ This also reflects the FP7 audit strategy of the research services to reduce the audit burden for the beneficiaries and explains 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 2.1.1.2.2. Nevertheless one should give some consideration to the

⁴⁹ i.e. extrapolations of audit results.

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 27 below presents the estimated error rates of REA's programmes based on the conclusions of the final audit reports. The error rates for the CRaS have to be considered provisional as more than a third of the cases of the second sample are not finalised yet. The CRaS error rate is expected to increase once the sample is complete (see more explanations below).

Table 27: Indicator – Legality and regularity of financial spending by programme – Overview of error rates for the period 2009-2014 by 31 December 2014 (based on final audit reports¹)

Space and Security				Research for the benefit of SMEs				People				TOTALS			
	no. of audits	no. of cost claims	error rate ⁴		no. of audits	no. of cost claims	error rate ⁴		no. of audits	no. of cost claims	error rate ⁴		no. of audits	no. of cost claims	error rate ⁴
Joint-ECA audits	4	4	-4.96%	Joint-ECA audits	1	1	-0.82%	Joint-ECA audits	4	4	-1.37%	Joint-ECA audits	9	9	-2.90%
Risk-based	36	84	-8.03%	Risk-based	20	52	-19.24%	Risk-based	28	49	-19.96%	Risk-based	84	185	-14.16%
based on a random selection ²)				based on a random selection ²)				based on a random selection ²)				based on a random selection ²)			
Detected error rate ³)	76	292	-4.39%	Detected error rate ³)	49	94	-5.24%	Detected error rate ³)	116	313	-1.27%	Detected error rate ³)	241	699	-3.10%
Residual error rate			-3.38%	Residual error rate			-5.13%	Residual error rate			-1.08%	Residual error rate			-2.61%

1) only with LoC sent

2) REA MUS, CRaS and TOP

3) budgetary error rate

4) based on funding level and legality and regularity

Space and Security		
based on the Common Representative audit Sample (CRaS) - finalised audit reports*		
Representative error rate	264	CRaS 1: -4.22%
		CRaS2: -1.6%
Residual error rate		-2.08%

* CRaS 1 / CRaS 2: The results of the first representative sample were presented in the AAR for 2013. 159 out of the 162 audits are now complete with an error rate of 4.22%. For the second sample, 105 of the 162 audits have been completed. The detected error rate is 1.6%.

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

- Common Representative (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.

The results of the first representative sample were presented in the AAR for 2013. 159

out of the 162 audits are now complete with an error rate of 4.22%. If the draft audit results for the three outstanding audits are included the error rate is expected to end at around 5%. A second representative sample was audited in 2014. For this second sample, 105 of the 162 audits have been completed. The detected error rate is 1.6%. This figure has to be considered as an intermediate result (by the 31 December 2014). The remaining cases that are undergoing contradictory procedures with the beneficiaries represent 35% of the second sample. Consequently, the CRaS error rate will certainly evolve during 2015. The audits that are closed in the shortest time are those where limited or no financial correction is at stake. At this point in time, these cases will have a strong downward impact on the representative error rate. It is still expected that the representative error rate will increase therefore, to a maximum of 5%.

This CRaS error rate is in a similar range to the one referred to in the Financial Statement accompanying proposals for H2020 (between 2% and 5%), considering that H2020 will bring further simplifications to reduce exposure to errors, such as the indirect flat rate or clearer and simpler 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 rates⁵⁰ 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 can only be one element in estimating the risk exposure in terms of legality and regularity errors in the underlying transactions. Additional evidence from the nearly 400 finalised audits undertaken by the REA is also used in arriving at an overall judgement. For 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 beneficiaries⁵¹ (thus excluding risk-based audits). Although the size and

⁵⁰ 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).

⁵¹ Audits of top beneficiaries (TOP) are audits targeting the beneficiaries participating for significant amounts of EU funding. According to the common FP7 audit strategy 2009-2016, by focusing on “big spenders” a significant part of the total budget can be cleaned from systematic errors in the cost claims of these top beneficiaries and, after taking account of recoveries and corrections, the residual rate of error for FP7 may further reduce.

However, since the beginning of 2014, the TOP beneficiaries under People, Space and Security actions

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 selection⁵². As such, by excluding audits selected on the basis of a risk identification while including audits under the strand of ‘top beneficiaries’, there is no significant bias to be expected in the detected error rate to be used as an indication for error rates in the population of SME grants.

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

The error rate obtained for SME actions (5.24%) is higher than the expected CRaS error rate. Moreover, the specific design of the action needs to be taken into account as the SMEs receive EU funds to reimburse RTD performers for research and demonstration activities outsourced to them. In return, the SMEs acquire the ownership of commercially exploitable project results. About 68% of each grant is directed towards financing of the subcontracts with RTD performers (against a contractually defined fee and based on a technical review of conformity of the work performed). The remaining 32% of the funding is directed towards costs incurred by SME beneficiaries (for their own activities). As audits of SME beneficiaries have shown, one of the most frequent errors in the SME actions is that SMEs do not always properly record the invoices of RTD performers, thereby rendering the respective costs ineligible. Following the desk audit campaign ran in 2014 the risk exposure could be rated at approximately 10.32% of the budget of the SME actions. However, the desk audit campaign proved to have a positive effect as 10% of the beneficiaries regularised their accounts during the audit. In consequence, the remaining risk exposure for those that did not regularise their

have not been addressed anymore. Audits on SME grants have, on the contrary, been intensified as a result of the higher risk profile of this action.

⁵² 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.

situation after the audit is reduced to about 6%. This is explained in further detail in Section 4.1.

The detected error rate of the People Specific Programme is only 1.27% 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 of the errors 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 extension of systematic/recurrent errors⁵³ detected in audited participations to non-audit participations of these audited beneficiaries are considered clean from systematic material errors (i.e. assuming all extensions of audit findings will eventually be implemented);
- 3) the residual error rate for participations subject to extension of audit findings 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.

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.

Based on the currently available audit results of the Common Representative audit Sample (first and second samples), the residual error rate for the Space and Security schemes amounts to 2.08%. As with the representative rate, the residual error rate is expected to rise. Last year the residual error rate was estimated at around 3% (2.84%), this remains a plausible figure.

For the SME actions and for the People Specific Programme, the residual error rates are estimated at 5.13% and 1.08% respectively (both based on the detected error rates).

As demonstrated in table 31 (Extrapolation of systematic errors to non-audited participations of audited beneficiaries for the period 2009-2014 – financial benefits of the controls), the implementation of extrapolation cases is well advanced; by the end of 2014 only some 5.3% of the cases were pending implementation, while some 8.4% were

⁵³ i.e. extrapolation.

under analysis to conclude whether they at all concern systematic errors having relevance for REA managed participations (for projects financed under the People programme this is often not the case).

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

- Average weighted error rate:

According to the Standing Instructions for the 2014 Annual Activity Report⁵⁴ a weighted average of the error rates needs to be calculated. The average weighted error rate of the REA was calculated based on the estimated CRaS error rate for the Space and Security programme and on the detected error rates for the SME and People programmes. As stated before, the Representative Error Rate for 2014 is expected to develop as a significant number of cases are still subject to contradictory procedures with the beneficiaries. It may be reasonably expected that this error rate will increase. The REA follows DG RTD's approach and refers to an estimated maximum of 5% CRaS error rate, to give a more reliable picture of the error rate in the implemented expenditure. The table below relates only to the operational expenses, while table 46 in part 4 also include administrative expenditure. The result of 2.69% average weighted error rate may be explained by the relative importance of the People programme which is characterised by a relatively low risk profile.

Table 28: Average weighted error rate

FP7		
Theme/action	2014 Payments (€ million) *	Error rate
Space and Security – Representative error rate	195.12	5.00% ***
Research for the benefit of SMEs – Detected error rate **	213.26	5.24%
People – Detected error rate	700.98	1.27%
Average Weighted Error rate	1,109.36	2.69%

* Intermediate and interim payments made and EU funding accepted and cleared against pre-financing.

** Excluding the error for the non-registration of the "transaction".

*** This rate is estimation based on the fact that the level of completion for the CRaS is at 80%. It is expected that the representative error rate may increase to 5%.

2.1.2.4.2 Error rates in the context of political and policy orientations

Although the REA has an action plan to address some sources of errors, it appears that the target of a maximum residual error rate of 2% cannot be reasonably met without a massive increase in the number of audits or in the administrative burden imposed on participants through widespread ex-ante controls.

⁵⁴ Standing Instructions for 2014 Annual Activity Reports, SEC(2014) 553.

As stated in the Financial Statement accompanying the Horizon 2020 legislation, further attempts to achieve the target of a maximum residual error rate of 2% 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 was becoming excessive, increasing 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".

The European Parliament also stated, in its report on the Court of Auditors' special report in the context of the 2012 Commission discharge:

"Emphasises the necessity to strike the right balance between less administrative burden and effective financial control; notes that due to the specifics of the research field, a risk-tolerant and science-based approach should be encouraged so as to achieve research excellence and better impact of projects; believes that this approach will allow the Commission to uphold the balance between trust and control".

There seems to be, therefore, an acceptance among stakeholders and institutions that an approach solely focussed on the achievement of a target for legality and regularity may not be appropriate. 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".

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

The estimated residual error rates for the Space and Security themes (currently at 2.08% and expected to increase to a maximum of 3%) and for the Research for the benefit of SMEs actions (5.13%) are beyond the materiality criterion of 2.0%. Therefore the REA maintains the reservations made in the AAR 2013 for these two programmes.

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:

- 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 and regularity (with the exception of the issue listed below);
- the SME actions are characterised by many new beneficiaries which participate on a one-off basis; this generates a higher risk for error compared to participants with multiple participations ;
- many SMEs declare costs for subcontracting to RTD performers but fail to record these costs correctly in their accounts. The correction of this irregularity has been the subject of an information campaign in the third quarter of 2013 and the REA made additional desk-checks and ex-post audits in 2014 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 1.08% 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 REA has obtained reasonable assurance that the error rate in funding provided under the People Specific Programme remains below the 2% materiality level.

2.1.2.4.4 Expected development of error rates in the future

As was reported in the 2013 AAR, a modification of the FP7 legal framework is no longer an option. The services responsible for Research will continue to provide guidance to beneficiaries and certifying auditors, and will continue their control and audit operations, 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 'representative sample' was taken to provide another estimate of the representative error rate and a third one is planned. It is hoped that the learning effect from the first audits will have some effect, but this is unlikely to be substantial.

Overall, the representative error rate in FP7 audits can be expected to remain around 5% and the residual error rate at 3% over the course of the programme. As was noted in the 2012 AAR:

“Taking into account the FP6 experience, and the need to balance legality and regularity with other objectives such as the attractiveness and the success of research policy, international competitiveness, scientific excellence, the wish to encourage participation of SMEs and the cost of controls, it is not expected that by the end of the programming period the Residual Error Rate will be below the materiality threshold”.

In the Financial Statement accompanying the proposal for Horizon 2020, the Commission set out its analysis of the likely future trend of error rates. It stated that the simplifications introduced in Horizon 2020 could be expected to lower the representative error rate from 5% to 3.5%, with the residual error rate being as close as possible to 2% (but without necessarily being below 2%). This analysis still holds true, as the simplifications proposed were generally accepted.

However, some elements have been introduced in the legislation that will increase the risks in the programme.

Firstly, there is the target for an increased participation of SMEs.

Secondly, Horizon 2020 includes a commitment to widening the participation in the Programme, i.e. to having more new participants. As shown in 2012, new participants have an error rate nearly three times as high as recurrent participants (8.32% as opposed to 2.94%). Widening, though a positive element for the European research landscape, increases risk.

The Commission and the REA will take actions to mitigate the risk arising from these two new elements (guidance, training, ex-ante assessments for large infrastructure) but these will only mitigate, not avoid, the risks.

As regards the SME actions and the specific issue of the non-recording of RTD performer's invoices in the accounts of the SMEs: since 1 January 2015, the REA has put in place additional ex-ante controls to make sure that this irregularity is corrected prior to the final payment of the grants, as explained in Section 4.1. As a consequence, the REA expects the error rate to drop, which should allow lifting that part of the reservation specific to the SME actions in the AAR 2015.

Overall, the REA believes that residual error rates should fall slightly over the course of FP7. They should also be reduced in Horizon 2020 thanks to the simplifications introduced. Substantive spending on Horizon 2020 (other than pre-financing) will begin very slowly in 2015, pick up in 2016 and reach a significant level of 2017, at which point the level of error and the real impact of simplification can be assessed.

2.1.2.4.5 Implementation of FP7 audit results – including extrapolations

Table 29: Indicator - Implementation of the REA ex-post audit results during 2014 – adjustments in favour of the EU budget – Financial benefits of the controls

Year of audit closure	Audit adjustments for which implementation is pending on 1 January 2014		New audit adjustments during the year		Audit adjustments implemented during the year		Audit adjustments for which implementation is pending on 31 December 2014	
	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	0	0	0	0	0	0	0	0
2012	17	397,194	0	0	14	140,763	3	256,431
2013	47	2,435,239	0	0	38	2,373,568	9	61,671
2014	0	0	108	2,856,259	44	759,465	64	2,096,794
Total	64	2,832,433	108	2,856,259	96	3,273,796	76	2,414,896

The number of audit adjustments implemented in 2014 almost doubled compared to the previous years, while the number of cases pending adjustment stayed largely in the range of the previous year. Following the recommendations from the IAC audit on the REA's ex-post audit process, the REA Audit Guide, which provides instructions for the implementation of adjustments, has been reviewed in view of accelerating the implementation.

Table 30: Indicator - Extrapolation of systematic errors to non-audited participations of audited beneficiaries for the period 2009-2014 – Financial benefits of the controls

Audit closing year	No. of projects with extrapolation by the end of the year			Implemented cases with corrections 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/ applicable	No. of cases under analysis
	Deriving from REA audits	Deriving from non-REA audits	Total	No. of projects	Funding adjustments (in €)			
2009-2011	7	32	39	5	5,457	0	34	0
2012	47	219	266	29	86,635	2	233	2
2013	21	366	387	61	446,822	11	309	6
2014	162	205	367	21	652,803	43	222	81
Total as of 31/12/2014	237	822	1,059	116	1,191,717	56	798	89
Total as of 31/12/2013	105	587	692	64	451,546	50	539	39
Change compared to the previous year	132	235	367	52	740,171	6	259	50

The number of projects impacted by extrapolation is high and increased considerably during the year in comparison with 2013. By the end of 2014, 1,059 REA projects were subject to extrapolation, representing an increase by 53%.

A significant improvement in the implementation of adjustments was already noted in 2013. In 2014 the REA performed even better. In total, 52 cases were implemented during the year. For 798 cases, no corrections were required (e.g. when findings are not relevant for the action, or no cost claims were processed yet by the REA to which extrapolation would apply).

Table 31: Indicator - Adjustments for REA audits and extrapolation cases fully implemented in 2014 and over the period 2009-2014 – by implementation mode

Implemented during the year 2014	Offsetting from payments (no. of cases)	Recovery orders made (no. of cases)	Reversed clearing method (no. of cases)	Implemented in the period 2009-2014	Offsetting from payments (no. of cases)	Recovery orders made (no. of cases)	Reversed clearing method (no. of cases)
audit closing year				audit closing year			
2009-2011	1	0	0	2009-2011	43	14	1
2012	8	6	0	2012	76	14	4
2013	39	28	1	2013	81	45	6
2014	35	25	5	2014	35	25	5
Total	83	59	6	Total	235	98	16
	148				349		

Table 31 indicates the adjustments fully implemented by the end of 2014, with information on the implementation mode applied. In addition to the cases deriving from the audits (96), adjustments relating to the extension of audit findings⁵⁵ have been included (52).

2.1.2.4.6 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.

⁵⁵ 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.

Table 32: Indicator – Implementation of liquidated damages for the period 2009-2014

Implementation of liquidated damages on 31 December 2014			
Audit closing year	Cases implemented (Recovery Order) 2009-2014	Total amounts recovered 2009-2014	Estimated no. of cases undergoing assessment as of 31 December 2014
2009-2011	18	77,535	0
2012	16	77,304	4
2013	30	208,107	13
2014	10	69,705	61
Total as of 31 December 2014	74	432,651	78
Total as of 31 December 2013	32	116,550	55
Change compared to the previous year	42	316,101	23

Liquidated damages are the only deterrent against overcharging. They are applied systematically when costs are declared ineligible following an audit. They are based on a formula which imposes corrections proportional to the amount of the overcharging. However, liquidated damages have a relatively low financial impact. Under H2020 beneficiaries whose costs have been declared ineligible following to an audit will no longer be requested to pay liquidated damages. Financial penalties might be imposed but on a case by case basis.

2.1.2.5 Indicators relating to the administrative and logistical supports Services

The REA is responsible for the provision of administrative and logistical support services as set out in the Annex III of the REA Delegation Act. The Participant Validation and Support services, in particular the validation services, the financial viability checks (FVCs) and the support in expert contracts and payments, are delivered for the benefit of the programme-implementing bodies of Horizon 2020 and the programmes listed in the Delegation Act. A general outline of the support services provided by the REA and targets per service is set in a separate document, the administrative and logistical support rules, attached to the Memorandum of Understanding concluded between REA and its parent DGs.

Table 33: Indicator – Share of expert payments made on time (limited to experts supporting the REA managed programmes)

	2012	2013	2014
Experts FP7 (target = 30 days)	98%	69%	n/a
Experts H2020 (target = 30 days)	-	-	58.16%

During the summer 2014, the REA has experienced a lower performance in payments of experts due to the combination of a high workload, holiday's period, staff changes induced by the Agency's reorganisation and certain delays in the recruitment of new staff. In order to quickly address the situation and avoid additional delays, staff from other units in the Agency, as well as interim staff were strengthening the team already in place. In the last quarter of 2014, the backlog was cleared and the TTP performance returned back to its usual high quality standards.

An electronic workflow for payments will be implemented in 2015 which will simplify the process and support the staff in meeting the targets. The table 34 below provides with the average TTP for experts during 2014.

Table 34: Indicator – Average net and gross TTP by type of expenditure

Expenditure type	Payments			
	Number	Average time to pay (TTP) (calendar days)		
		Net	Suspension	Gross
Experts – 2013	5,051	26.3	1.3	27.6
Experts – 2014	10,585	29.95	0.72	30.67

The significant increase in the number of operations is to be highlighted. 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.

The table 35 below lists the indicators used for participant validation following the administrative and logistical support rules for H2020 and certain other programmes. Some indicators were newly introduced in the AWP 2014 while for others the targets have been modified in compliance with the rules. Regarding validation, the performance of the Agency is favourable and target deadlines for validations have been fully respected.

Table 35: Indicator – Time to validate URF validation requests

	2014
Degree of satisfaction of the client services in the DGs	Good (as shown by the attribution of a wider range of clients for support services)
To perform a duplicate search and contact 100% of participants within 10 working days from the moment the participants linked to a call appear in PDM with the right priority	100%
To validate participants within 10 working days after the submission of all the documents;	n/a ⁵⁶

Concerning the Horizon 2020 Helpdesk, also known as the Research Enquiry Service (RES)⁵⁷ under FP7, it should be mentioned that the volume of enquiries has increased since the launch of Horizon 2020. However, the performance in handling these enquiries in a timely manner remains excellent, as indicated in the table 36 below. The Research Enquiry Service has received and responded to 13,000 new enquiries over 2014, of which 64% were answered directly by the external service provider (EUROPE

⁵⁶ This is a new Indicator introduced in the REA AWP 2014. The performance cannot be measured with the current monitoring capacities of PDM.

⁵⁷ 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.

DIRECT Contact Centre – EDCC). Under the previous framework programme, the average of enquiries was about 6,500 per year.

A new categorisation has been implemented in the web form in order to reflect H2020 specificities and obtain reliable data for reporting purposes. All the direct questions made through the RES were answered or forwarded within 8 days, with an average of 3 working days and 94% of all questions have been answered within 15 working days.

Table 36: Indicator – Timely handling of requests to the enquiry service

	2013	2014
Direct questions through the enquiry service answered or forwarded within 8 days, with an average of 3 working days.	100% within 8 working days (97% within 3 working days)	100% within 8 working days (99% within 3 working days)
100% of questions answered within 15 working days	98%	94%

The support services assist almost all services managing H2020 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 strategy as planned in the Commission’s overall anti-fraud strategy⁵⁸ (CAFS) and in line with the 2012 Common Anti-Fraud Strategy for the research family (RAFS). The REA Anti-Fraud Approach (AFA) was adopted in October 2013.

While the CAFS and RAFS remain key strategic documents for antifraud activity in the REA, the main purpose of the REA AFA was to take concrete measures addressing risks that are particularly relevant for the actions managed by the REA. The REA AFA was accompanied by an action plan and provided for the establishment of an anti-fraud team. This team is strengthening the fraud prevention and detection activities in the REA and boosting the cooperation with the Commission services, including OLAF.

When assessing which legal measures to take, the REA is careful in ensuring, to the greatest extent possible, consistency with the positions adopted by its parent DGs and other Commission services and executive agencies. This coordination is facilitated by the use of the Early Warning System (EWS), the REA's active participation in the network of OLAF correspondents of the research family (FAIR) and the Fraud Prevention and Detection Network (FPDNet).

In August 2014, the REA asked the Director of the Common Support Centre (CSC) to coordinate the drafting of guidelines on precautionary measures and sanctions and recalled that the REA relies on the support of the CSC for the adaptation to H2020 and

⁵⁸ COM(2011) 376 of 24 June 2011.

implementation of a number of anti-fraud measures. In October, the Director of the CSC confirmed that these issues will be covered in the action plan of the new research family anti-fraud strategy which is currently drafted within the FAIR Committee and that the REA will be fully involved in its elaboration.

In parallel, the Agency has completed the implementation of the action plan of the REA's Anti-Fraud Approach of 2013. The guide on exclusion under the Financial Regulation is currently under circulation for approval following the adoption of a decision on exclusion for a case handled by the REA. A licence to use an IT tool to detect plagiarism has also been purchased by the Agency.

The anti-fraud team of the REA, created in September 2013, is now fully operational. The team is supported by a network of antifraud correspondents who operate as the focal contact points for the implementation of fraud prevention and detection activities in each unit. They are notably in charge of the follow-up on cases under investigation for suspicion of fraud, allow for an exchange of good practices and support fraud awareness-raising activities.

As in 2013, training sessions on fraud detection and prevention were organised during 2014 in cooperation with OLAF for project officers and financial officers, and for the management, to support them in the detection of anomalies at an early stage. Such training sessions will be scheduled as well throughout 2015.

The REA provides to the parent DGs and the Steering Committee quarterly updates on cases which are under OLAF investigations. The table 37 lists the number of OLAF cases relating to participations managed by Agency over the year. During 2014, 28 new OLAF cases were reported while 8 cases have been considered as closed and for which further follow up was needed.

Table 37: Indicator – Number of OLAF cases relating to participations managed by the REA

Number of OLAF cases handled by REA on 1 January 2014	23
New OLAF cases handled by REA in 2014	28
Of which the source of the case is:	
• REA	11
• OLAF	7
• Parent DGs	9
• Other	1
Cases that stopped to be followed-up and reported in 2014	8
Of which the source of the case was:	
• REA	2
• OLAF	4
• Parent DGs	2
Number of pending OLAF cases on 31 December 2014	43
New OLAF cases reported in 2014 and retained by OLAF for further investigation	8
Cases for which OLAF concluded its investigations and issues its conclusions⁵⁹	6

⁵⁹ The conclusion of an OLAF report does not prevent the REA to continue reporting on the case since the implementation of OLAF recommendations and other administrative actions would also be reported.

Selected fraud risk schemes (such as double funding and plagiarism) were addressed in collaboration with the research DGs and assessed by counteracting measures. However, 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.

Measures to be taken by the REA regarding fraud detection and prevention under H2020 will be updated with the support of the Common Audit Service of the H2020 Common Support Centre, which is coordinating the drafting of such guidelines for the new framework programme.

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

A significant part of the Agency's administrative budget for 2014 relates to costs linked to salaries (processed with the support of PMO), rent and related building charges, evaluation platform, various service level agreements for administrative support received from the Commission's horizontal services (e.g. DG DIGIT for IT network and related services, HR/PMO for salaries and security services, DG BUDG for the use of the Commission's accounting system).

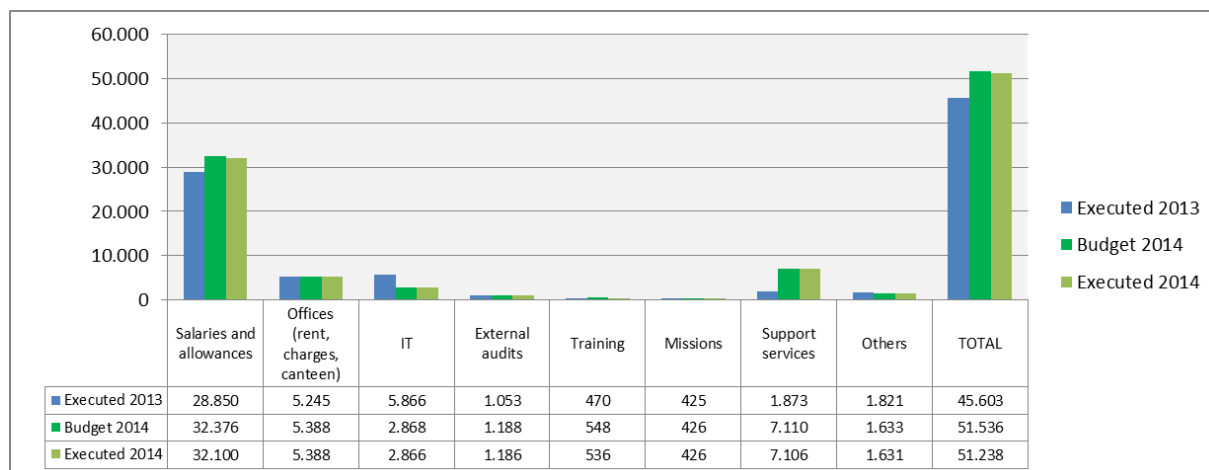
The remaining budget relates to expenditure for ex-post audits, purchase of IT equipment and services, training, etc. Most of this expenditure is incurred by using framework contracts made available by the Commission (e.g. training, audits, and IT equipment). The costs of staff going on missions are 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 European Court of Auditors (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 and 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 2014 administrative budget – commitments

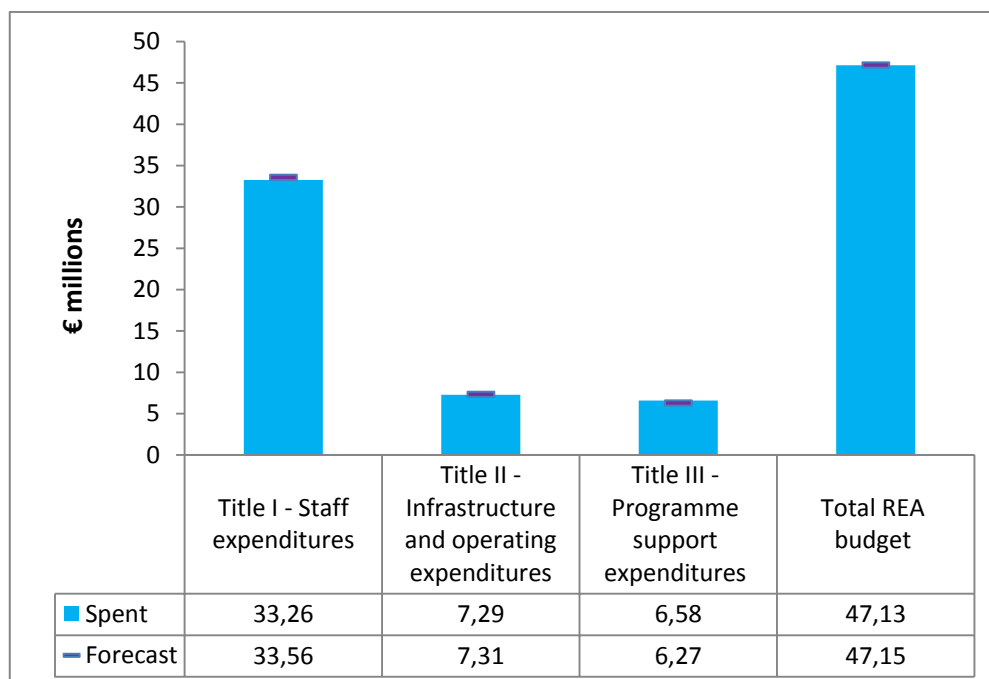
Figure 2: Indicator – Spending of the 2014 administrative budget in commitment appropriations compared with the spending in the years 2009-2014



A large part of the REA's administrative budget is earmarked for salaries and building costs. The 2014 administrative budget is considerably higher than in 2013, largely due to an increase in budget for common support services. The majority of this is related to the evaluation platform, transferred from the Commission to the REA. By the end of the year, the REA committed €51.24 million against the amended budget adopted by the REA Steering Committee in September 2014. The small non-committed budget relates predominantly to appropriations earmarked for salary and allowances.

2.1.4.3 Execution of the REA's 2014 administrative budget – payments

Figure 3: Indicator – Spending of the 2014 administrative budget in payment appropriations against forecast



Compared to the previous years, the administrative budget of 2014 was executed with a RAL of 8.02% carried forward to the following year, which remains in the range of previous years (6-9% of RAL carried over in the last three years).

2.1.4.4 Implementation of the RAL 2013

Table 38: Indicator – Implementation by 31 December 2014 of the RAL of 2013 carried forward to 2014

Budget line		Name of the budget line	RAL 2013 as of 1 January 2014 (in € million)	Paid by 31 December 2014 (in € million)	RAL 2013 as of 31 December 2014 (in € million)
Chapter 11	11	Remunerations, Allowances and Charges	0.17	0.17	0.00
Chapter 12	12	Professional Development and Social expenditure	0.31	0.28	0.03
Title 1		Title I - STAFF EXPENDITURES	0.48	0.45	0.03
Chapter 21	21	Building expenditure	0.58	0.53	0.05
Chapter 22	22	ICT expenditure	0.37	0.35	0.01
Chapter 23	23	Movable property and Current Operating expenditure	0.02	0.02	0.00
Title 2		Title II - INFRASTRUCTURE AND OPERATING EXPENDITURE	0.96	0.90	0.06
Chapter 31	31	Programme Management expenditure	1.22	1.04	0.17
Chapter 32	32	Common Support Services Expenditure	0.17	0.17	0.00
Title 3		Title III - PROGRAMME SUPPORT EXPENDITURE	1.39	1.21	0.17
TOTAL REA			2.82	2.56	0.27

The REA executed by the end of the year €2.56 million of the RAL carried forward from 2013, which accounts for approximately 91% of the total RAL that was carried forward.

The low amount of unused RAL relates mostly 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 2014. The audits were not closed in time, considering the complexity of the audit process and the contractors were not able to finalise the audits by the end of 2014.

2.1.4.5 Recoveries for the administrative budget

Table 39: Indicator – Overview of recovery orders on the administrative budget – overview of changes during 2014 and ageing balance by 31 December 2014

Breakdown by type	Open recoveries as of 31 December 2013		Recoveries established in the year		Recoveries cashed in the year		Recoveries waived in the year		Open recoveries as of 31 December 2014	
	number	in €	number	in €	number	in €	number	in €	number	in €
REA administrative budget										
operating grant	0	0.00	3	51,395,032.41	3	51,395,032.41	0	0.00	0	0.00
subletting to the JTIs	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
others	0	0.00	34	365,117.44	33	364,117.44	0	0.00	1	1,000.00
TOTAL	0	0.00	37	51,760,149.85	36	51,759,149.85	0	0.00	1	1,000.00

37 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 but one were cashed.

2.1.4.6 TTP for the administrative budget

Out of 1810 payments made in 2014, some 92.9% of the administrative payments were made on time (as a rule within 30 days from receipt of payment request), which is an improvement by 3.2 percentage points compared to 2013.

2.1.5 Overview of costs and benefits of controls

The analysis of the costs (full costs approach) and benefits of controls is detailed below. However, the benefits of the grant management control system are to be 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 40: Indicator – REA’s total cost of controls – broken down by stage of the grant management life cycle and other activities/tasks

		Total staff cost *		Total staff costs (in € million)	Other expenditure (in € million)		Total cost of control (in € million)
		Temporary staff (in € million)	Contract staff (in € million)		of which charged to the <u>admin.</u> budget (Title III – IT, communication, audits, missions, evaluation platform)	of which charged to the <u>operational</u> budget (expert evaluators and reviewers)	
ex-ante	Stage 1 – Programming, evaluation and selection	1.53	2.24	3.77	0.25	13.90	42.64
	Stage 2 – Conclusion of grant agreements	2.39	3.35	5.74	0.0	0.00	
	Stage 3 – Monitoring the GA execution	7.41	10.31	17.72	0.4	0.88	
ex-post	Stage 4 – Ex-post controls and recoveries	0.56	0.72	1.28	1.19	0.00	2.47
Total cost of control for the grant management life cycle		11.89	16.62	28.52	1.81	14.78	45.11
	Support services	1.26	4.87	6.13	6.91		
	Other tasks (coordination and administrative support)	4.22	3.68	7.90	0.26		
	REA total operating cost	17.38	25.18	51.54			

* Title I and II of the administrative budget : staff expenditures, infrastructure and operating expenditures

The REA's total operating cost amounts to € 51.54 million.

For 2014, compared to previous years, it appeared rather difficult to relate this amount to the operational expenditures as it is a pivotal year between two framework programmes. Hence the controls performed at the stage 1 relate to H2020, the controls at stage 2 to both FP7 and H2020 while the controls ensured at stages 3 and 4 are exclusively linked to FP7 expenditures. However, the total operating costs remain around 3% of the budget committed in 2014, which is in a range comparable to previous years.

When excluding the share of costs of the administrative and logistical support activities

performed for the research family and other services, the relative cost of control reduces to 2.16% , well below the maximum ceiling of 6.0% provided in the legal basis for FP7 and H2020.

Table 41: Indicator – REA's operating cost in percentage of the operational budget in 2014

H2020	Admin. budget * (in € million)	H2020 Commitment appropriation (budget implemented) (in € million)	Operating cost (in %age of the operating budget)
Part I – Excellent Science	4.88	922	0.53%
Part II – Industrial Leadership	0.53	104	0.51%
Part III – Societal Challenge 2	0.71	233	0.30%
Part III – Societal Challenge 6	0.53	100	0.53%
Part III – Societal Challenge 7	0.75	147	0.51%
Parts IV & V Widening Participation & Spreading Excellence, Science with and for Society	0.80	0	0.00%
FP7	Admin. budget * (in € million)	FP7 Payment appropriation (budget implemented) (in € million)	Operating cost (in %age of the operating budget)
People	14.45	567	2.55%
Space and Security	5.53	224	2.47%
SME actions	5.20	136	3.82%
Support Services	Admin. budget * (in € million)		
Support services	18.15	0	0.00%
Total	51.54		

** Administrative/Management costs are distributed on the activities*

Many controls have a number of non-quantifiable but undeniable benefits that cannot be measured in financial terms, in particular:

- With respect to stage one (programming, evaluation and ranking of proposals), the qualitative benefits relate to ensuring that only the very best project proposals are selected for funding;
- With regard to the second stage (selection of proposals, grant management preparation and signature), the REA ensures that grant agreements signed comply with legality and regularity requirements;
- With regard to the third stage (monitoring of the grant agreement execution), the REA ensures that the projects remain on track in terms of performance and that the budget is fully executed. Besides the controls performed by the REA at this stage ensure the legality and regularity of the transactions;
- With regard to the fourth stage (ex-post controls and recoveries), they have, amongst others, a strong dissuasive impact leading to a higher compliance with the overall legal framework / policy objectives, for which the financial impact cannot be measured. Beneficiaries will indeed take extra care over the preparation of their

costs claims knowing that on the spot audits may follow. The controls performed at this stage provide the highest level of assurance regarding the legality and regularity of payments.

Additional proof of the effectiveness of the controls is provided by the overall excellent performance of the REA which is either equivalent to the REA's last year performance or has even been improved in some fields:

- TTG: the average number of days for FP7 grants dropped from 244 in 2013 to 222 in 2014; for H2020, the average number of days for concluding grants amounted to 217 days which was significantly below the target of 245 days;
- the share of redress cases upheld in comparison with the number of proposals evaluated remains extremely low and the share of closed projects that achieved all or most of their objectives reaches 96.5% significantly above the objective of 90%. These two indicators show the effectiveness of the controls at the first stage of the process for a cost that remains below the 1% of the amount committed at the end of 2014;
- the error rate remains in the same range as in previous years but this can be attributed to a large extent to the complexity of the funding schemes and increasing the controls in order to reach the 2% materiality criteria would not prove to be cost effective;
- the TTP also improved in 2014 with 98.9% of the pre-financings performed in time from 96.8% in 2013 and 95.5% interim and final payments performed in time in 2014 from 94.2% in 2013;
- the performance in time-to-amend grant agreements has also improved in 2014 with an average time to amend of 34 days, significantly below the target of 45 days.

On top of the benefits of the controls in terms of quality of proposals, deterrent effects and improvement of performance, some savings were made in 2014 for the EU budget: rejected costs during the contract management stage (€8.6 million⁶⁰), and ex-post recoveries of irregular expenditure (€1.4 million⁶¹). These amounts offer only a partial view on the overall effectiveness and rigour of the controls carried out. Some of the benefits of controls are not easily quantifiable as they are strictly qualitative as explained above. Awareness amongst beneficiaries that there are controls can also act as a deterrent.

Considering that the total operating costs amount to 2.16% (costs of support services being excluded from the calculation) of the amount committed in 2014, that the costs of evaluating and selecting the best proposals is equal to 1% of the amount committed in 2014 and that the costs of monitoring the execution of the grant agreements and of

⁶⁰ This amount is likely to be even higher since not all corrections could be captured in the analysis.

⁶¹ Including €0.76 million of audit adjustments and €0.65 million from implemented extrapolation cases. Please refer to tables 29 and 30 on financial benefits of controls.

the ex-post controls amount to 2% of the amount paid in 2014, the REA concludes that in addition to the quantitative benefits, there are considerable qualitative benefits and that the control system is cost-effective.

2.1.6 Conclusion on the overall impact of the 2014 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..

However, this reasonable assurance is subject of a reservation for the material impact of residual errors in the SME actions financed under the FP7 Capacities Specific Programme and the Space and Security themes financed under the FP7 Cooperation Specific Programme, both exceeding the materiality level of 2% percentage points respectively.

This risk exposure is explained in more detail in Section 4.

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 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)

The Court's audit on the REA's management of its 2013 administrative budget and the 2013 annual accounts led to a clean report.

In 2014, the ECA selected a total of 9 transactions in the context of the 2014 DAS audit. For 6 transactions preliminary findings have been communicated to the REA:

- 3 transactions were free of errors;
- For one transaction (PF6446), the Court made a remark on the reliability and reasonableness of part of RTD performer costs declared by one SME beneficiary even if there is no suspicion of fraud. Some costs for the personnel as well as costs

for travel and consumable were not properly supported;

- For one transaction (PF 6740) on a Marie Curie ITN, the Court made a remark concerning the costs claimed for the organisation of events that were found to be overestimated;
- For one transaction (PF6659) on a SME, the Court identified errors in the calculation of the cost of personnel. This error resulted in a lower claim and the beneficiary will be entitled to additional funding.

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

In January 2014 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 2014 the IAS did not carry out any new audits on the REA. However, in January 2014 it concluded its 2013 audit on the implementation of FP7 control systems in the REA. 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 implementation of the audit's very important recommendations is outlined in section 2.3.4.

2.3.4 Actions resulting from IAS audits of previous years

In 2013 the IAS performed its audit on the "Implementation of FP7 Control Systems in REA – The Assurance Process". The final audit report, issued on 31 January 2014,⁶² contained five recommendations, all of which were classified as very important.

During the course of 2014, the REA developed a dedicated action plan to address the recommendations in full collaboration with the other members of the research family.

The IAS performed a follow-up audit engagement from November to December 2014 and concluded that two recommendations (number 2 and 3) were implemented.

- Recommendation No 2 (Calculation and disclosure of the representative and residual error rate (Common representative audit sample)):

In relation to part 2.1 of this recommendation, the IAS noted the progress made in providing full disclosure in the REA's AAR 2013, in particular, the definition and disclosure of an alternative assessment pattern for two programmes and the presentation of the detected error rates. However, for part 2.2 of this

⁶² *Final Audit Report on the Implementation of FP7 Control Systems in REA – The Assurance Process*, 31 January 2014.

recommendation, which concerns the calculation and disclosure of the net financial impact of errors detected in ex-post audits, the IAS noted that in line with its action plan, the REA effectively relied on the estimates provided by DG RTD as a proxy for its own estimate for the 2013 AAR and highlighted the fact that the net financial impact would be lower than the CRaS error rate, without any specific analysis of its own projects. Therefore, the IAS considered that the REA implemented the recommendation but strongly urged the REA to re-assess this assumption for the 2014 AAR exercise through an analysis of its own projects and to disclose the resulting figures in order to provide a more informed and balanced picture of the framework programme.

- Recommendation No 3 (ex-post audit control approach and plan for 2014):

The IAS noted the progress made in developing the ex-post audit strategy and approach, including the development of KPIs for monitoring the performance of its audit activities. Therefore, the IAS considered this recommendation as closed.

The other three recommendations were considered by REA management as closed by 31 December 2014. In the IAS database those recommendations were displayed as 'ready for review' and the IAS has conducted its second follow-up audit in February 2015. As explained hereafter the IAS considers following to this 2nd follow-up audit all recommendations implemented and they can therefore be closed.

- Recommendation No 1 (Research for the benefit of SMEs theme):

The first results of the desk audit campaign launched in April 2014 and targeting the specific risk of SMEs not complying with eligibility requirements for declared costs for subcontracting to RTD performers are available (see section 4.1). The outcome of this campaign gives an indication of the magnitude of the risk exposure. The financial exposure regarding this issue remains too high and proves that the information campaign of July 2013 was only partially effective. That is why the following actions are planned in agreement with DG RTD:

- For the SME beneficiaries who refused to regularise their accounting practices or failed to react to the REA's audit request the REA rejects the costs as ineligible and recovers the unduly paid amounts;
- For the SME who regularised their situation upon the launch of the desk audits the costs of the RTD performers are considered eligible but as the beneficiaries failed to react in time as requested in the information note of July 2013, the REA will apply a financial correction of 2% on the accepted costs.
- In order to improve the situation for the future, the REA will, as of 2015, strengthen its ex-ante controls by requesting SMEs to provide evidence that the RTD performers' invoices have been issued, registered and paid. This additional control will be performed at the time when final deliverables will be assessed and the final payment prepared. This strategy has the full support of DG RTD as it entails a certain reputational risk by adding additional burden on beneficiaries.

- In 2015, the REA will perform another desk audit campaign for some 25 randomly selected participations of SME beneficiaries in 2014 final payments.

The IAS noted the progress made in analysing the risk exposure associated with SME projects and in adapting the ex-post audit strategy in line with the level of risk. The IAS also noted that the methodology for conducting ex-ante checks for SME actions has been improved to reduce the future error rate. In view of the progress made, the IAS considers the recommendation is effectively implemented and can be closed.

- Recommendation No 4 (REA's corrective actions following the AAR reservations):
 - As regards recommendation 4.1 on the development of risk based on-the-spots-visits, a new version of the ICS 8.1.5.4 on the "Review of Reporting" was approved by the Director and published on the intranet.
 - As regards recommendation 4.2 on the "certified correct", the guidance provided on the new version of ICS 8.1.5.4. explains in detail the meaning and the scope of the certified correct. It stresses the key use of the Assessment report by the Project Officer when analysing the report, as it specifically addresses the completion of the beneficiary's obligations.
 - As regards recommendation 4.3 on the verification whether all eligibility criteria for costs requirements of the grant agreement are covered by the controls, the REA has developed a matrix analysing at which stage of the process each eligibility criteria is addressed.

The IAS notes the progress made with the approach of conducting on-the-spot visits and regarding the "certified correct" role, in particular, the definition of a matrix analysing at which stage of the process each eligibility criterion is addressed, and the developments in the certification of financial statements. Based on the above, the IAS considers this recommendation as implemented. Whilst noting the improvements made concerning the recourse to financial penalties, the IAS will verify their concrete implementation for cases where OLAF concluded that a fraud was committed as part of the IAS audit on the implementation of the REA anti-fraud strategy that is planned for the second quarter of 2015.

- Recommendation No 5 (Anti-Fraud Measures):
 - IT tools to assist in detecting/verifying possible double funding and plagiarisms are available. Staff is informed of the available tools and trainings are provided.
 - The CSC legal unit confirmed that a new research family anti-fraud strategy for H2020 is being drafted and that further initiatives are ongoing.

The IAS will assess the effective implementation of this recommendation in the context of its audit on the implementation of the REA anti-fraud strategy.

The controls that were put in place throughout 2014 have provided the necessary input for establishing assurance regarding the issues raised in the IAS report.

2.3.5 The REA's Internal Audit Capability (IAC)

In 2014 the IAC completed two audits launched in 2013 on (i) the implementation of ex-post audit findings and on (ii) the ex-post audit process. Both audits contributed to IAC's opinion on the state of control of 2014.⁶³ The IAC also conducted an audit of missions that was finalised in January 2015. As this audit was a performance audit it did not contribute directly to the IAC's opinion on the state of control.

Moreover, the IAC carried out five follow-up audits on (i) amendments, (ii) cost claims and payments, (iii) budgeting and (iv) the implementation of ex-post audit findings, (v) the ex-post audit process, as well as two second follow-up audits on (i) IT governance and (ii) the evaluation of proposals – use of experts. All follow-up audit engagements were completed by the end of February 2015. The IAC concluded that **all very important recommendations have been fully implemented, except for one recommendation of the audit of the implementation of ex-post audit findings that was found to have been 'partially implemented'** (see further details below).

The **audit on the implementation of ex-post audit findings** highlighted two very important issues. The auditors recommended

- harmonising implementation practices across the REA units, with respect to audit adjustments (including extrapolations, liquidated damages)⁶⁴, and
- informing the coordinators of multi-beneficiary projects of adjustments arising from audits of a participant.

In response to the first very important recommendation, the REA guide for FP7 ex-post audit follow-up was revised and an expanded module was created in PROMIS which allows the importation of data from AUDEX⁶⁵. In its follow-up audit report on the implementation of ex-post audit findings, issued on 27 February 2015, the IAC comes to the conclusion that this recommendation is 'partially implemented' and further recommends to follow-up the identified data quality and other technical issues. The REA plans to correct all data and phase out the existing excel based system by the end of 2015.

Regarding the second very important recommendation, this point was addressed in a CAR⁶⁶ meeting and it was concluded that information disclosure is not possible because of confidentiality reasons: audit findings can be disclosed (by REA or Commission DGs) only to the auditee. In its follow-up audit the IAC concludes that this recommendation is implemented.

⁶³ The audit on the implementation of ex-post audit findings also contributed to the IAC's opinion on the state of control of 2013.

⁶⁴ This issue has been included in the IAC's opinion on the state of control of 2014.

⁶⁵ AUDEX (Audit Management and Extrapolation System), run by DG RTD, is an IT tool to manage audits and their workflows.

⁶⁶ Coordination Group for External Audit in the research family.

Concerning the **audit of the ex-post audit process**, the IAC identified two very important issues (included in its 2014 opinion on the state of control):

- In relation to the audit methodologies applied by external audit firms (EAFs), EAFs should (1) be instructed that prior consultation with the REA, in case they consider it as impossible to go on the spot, and its approval are obligatory;⁶⁷ (2) should ensure a proper review of audit documents; and (3) check 100 % of RTD performers' invoices.
- In relation to the IT tools supporting the ex-post audit process, a solution for a back-up for the maintenance of the REA's internal Tool for Monitoring and Reporting (including the calculation of error rates) should be provided.

In its follow-up audit on the ex-post audit process, finalised on 27 February 2015, the IAC concluded that both very important recommendations have been **fully implemented**. Therefore the risk mentioned in the IAC opinion may be considered as mitigated.

Concerning the first issue on the audit methodologies of EAFs, the auditors stressed that all EAFs have been instructed in line with their recommendation:

- All three EAFs were instructed that in case they consider not useful or difficult to make the control of the beneficiary on the spot, prior consultation with the REA and its approval is needed;
- One audit firm was reminded that the quality of the review of the audit files has to be carried out according to the tender conditions including proper documentation/evidence of the review (the 'four eyes' principle);
- All three EAFs were reminded about the requirement to check 100 % of RTD performers' invoices.

In relation to the second issue, a manual for the REA Tool for Monitoring and Reporting (TMR) has been elaborated and technical support for TMR is being provided by the REA's ICT sector since February 2015. For the elaboration of data and the calculation of error rates, a person from the REA's ex-post audit sector has been nominated as back-up.

⁶⁷ The cases where an audit firm did not go on the spot for the fieldwork were very limited and of specific nature (two cases: in one case the beneficiary stopped project related activities and the responsible staff left; in the second case the beneficiary was bankrupt and there was already a court ruling regarding its liquidation). The issue put forward by the auditors was more about the fact that the external audit firm should have consulted the REA in time (i.e. *before* the planned fieldwork and not after) and asking for the REA's approval. The fact that the REA was only informed that the audit firm did not go on the spot when the preliminary audit report was submitted created a lot of unnecessary work for the REA's ex-post auditors (all work papers had to be double-checked etc.). However, the REA considers that the accuracy of the error rates was not endangered because all work papers of the audits in question were double-checked by the REA ex-post auditors.

For the **audit of missions**, the auditors concluded that the design and the implementation of the mission process in the REA are satisfactory. All operational units have clear mission strategies/policies and their implementation is suitably monitored. This allows ensuring that the objectives of missions performed by the REA staff are achieved. The action plan does neither contain any critical nor very important recommendations and will be implemented by the end of March 2015.

Table 42: State of play on the implementation of recommendations classified as 'very important' resulting from IAC audit reports

Audit report	Implemented	Ongoing	Delayed
Implementation of ex-post audit findings 31 January 2014	1	1*	
Ex-post audit process 3 October 2014	2	-	
Follow-up audit on amendments 4 December 2014	1	-	-
Follow-up audit on cost claims and payments 15 September 2014	1	-	-
2nd Follow-up audit on IT governance 19 December 2014	1	-	-
2nd Follow-up audit on evaluation of proposals – use of experts 27 February 2015	1		

** In its Follow-up audit report of 27 February 2015, the IAC considers very important recommendation 1.1 as 'partially implemented'.*

At the end of 2014 it was announced by the Commission, that the Internal Audit Capabilities will be discontinued as of March 2015 and internal audit services will be provided by the Commission's Internal Audit Service. This major change does not have consequences for the Declaration of Assurance of the REA Director for 2014, since the IAC can still support the Director's Declaration for 2014.

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.

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 2014

The Agency is committed to maintaining and improving effectiveness of its internal controls. For 2014, the following priorities were selected, particularly in view of the transition to the management of H2020 and the related process of change management:

- **ICS 1 – Mission** – in particular to update mission statement for REA and an enlarged number of units in the light of the new mandate;

The REA's mission statement as of 2014 was updated taking into account the new mandate and units have adapted their unit's mission statements accordingly. The mission statements are published on the REA's intranet under ICS 1 and on the respective unit's intranet pages.

- **ICS 3 – Staff allocation and mobility** – in particular with respect to fine-tuning staff allocations with real workloads that result from a new mandate;

The REA's has implemented an annual workload measurement process for the REA's new mandate 2014-2020, building further on the method developed in the context of the Cost-Benefit-Analysis. The staff resource allocations are and will be adjusted where appropriate. The REA's 2014 reorganisation process was supported by a redeployment exercise launched in 2013, aiming at an efficient and motivated workforce, capable of confronting the REA's new challenges effectively while guaranteeing business continuity.

- **ICS 7 – Operational structure** – in particular with respect to fine-tuning the organisational structures within the units;

The new mandate of the REA is supported by a new organisational structure, which entered into force on 1 May 2014. Three departments are now in charge of the portfolio of activities delegated to REA, two dedicated to the management of operational activities and one to the administrative part, including validation and management of expert services. A successful staff redeployment exercise was achieved in April, with 130 staff reassigned to new roles. New units were set up, heads of unit were nominated to new posts and recruitment panels were launched to establish reserve lists in order to be adequately staffed and to manage the

actions and tasks newly delegated to the REA.

The REA's working groups and networks are meeting on a regular basis and they report about their work plans, priorities and implemented actions directly to the Director.

- **ICS 8 – Processes and procedures** – in particular with respect to (i) updates for H2020 (in close collaboration with the guidance from the Common Support Centre on harmonized business processes) and (ii) reporting and management of exceptions and internal control weaknesses to improve awareness amongst staff.

As regards ICS 8, the REA is managing two framework programmes and for which processes and procedures may differ and, for H2020, are still under development. Completely new IT tools and workflows are used for H2020, while old FP7 tools and procedures still need to be operated and maintained. The Agency is embedded in a new governance structure and is benefitting from the central services provided by DG RTD. 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.

The REA's intranet is directly linking to the central source for H2020 information (H2020wiki) and staff is informed about updates made. For FP7 the REA's intranet is maintained and where needed, updates are published.

The guidelines on reporting exceptions, non-compliance events and weaknesses were presented to management and all staff was informed accordingly.

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 2014 an assessment on the effectiveness of the ICS according to ICS 15 with the support of the IT tool (iCAT, internal Control Assessment Tool) 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 and specific questions were asked in order to assess the awareness of anti-fraud issues. All 59 participants invited to take part in the survey completed it. The overall effectiveness rate, measured by the weighted percentage of scores is 85.2% (90.6% for managers and 79.2% for staff). The gap in rating between managers and staff can be explained by the fact that for this year's exercise a revised questionnaire was used and staff had to reply to questions asked for the first time. Considering these circumstances, the effectiveness rate for staff with about 80% is still a good overall

result.

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 internal control standards and questions with scores below the respective thresholds were discussed. Management drew the conclusion that the overall assessments on effectiveness (85.2%) can be considered as indicative of a fairly mature internal control structure. Some issues raised have already been addressed, while for others, especially the ones with a lower result than the weighted average, additional actions have been identified. The actions are listed in a dedicated action plan and implementation will be monitored regularly.

The results of this exercise served as an input to define the internal control standards in the AWP for 2015. The following ICSs were retained for priority action in 2015:

- ICS 8 Processes and procedures,
- ICS 9 Management supervision,
- ICS 12 Information and communication.

ICS 8 – Processes and procedures has been again prioritised for 2014 to ensure the smooth transition from FP7 to H2020 and settle the effective collaboration with the Common Support Centre.

Although standard ICS 9 – Management supervision was assessed by both management and staff to be very effective, the discontinuation of the Internal Audit Capacity requires particular attention to supervise legality and regularity issues and the correct implementation of procedures and processes.

ICS 12 – Information and communication was chosen with a view to improve awareness of the external communication strategy and of the information security systems policy.

The implementation of actions for the prioritised internal control standards for 2015 will be reported in the AAR 2015.

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 and H2020 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. 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 prioritised 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 reported during the reporting period;
- new risks related to the activities under their control;
- possible issues which may impact on the Annual Declaration of Assurance.

No significant issues other than those already noted in this report were signalled through the 2014 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 2014 a total of five exceptions, four non-compliance events and no internal control weakness were recorded.

Out of the four non-compliance events two were related to the signature of contracts before a budgetary commitment was made: (1) In one case the expert contracts were not prepared on time due to the late availability of commitment appropriations, while in the other case (2) a water service contract was signed before the budgetary commitment was made. The service contact had been transferred from RTD to REA and needed to be amended with retroactive effect. The third non-compliance event was about signing a corrected final version of a grant agreement not in the same year as the budgetary commitment, thereby not respecting the rules of the Financial Regulation. The fourth non-compliance event created legitimate expectations from the beneficiaries' side that the costs declared had been accepted by the REA. None of these events resulted in significant financial exposure for the REA.

The five exceptions related to (1) the recruitment of a researcher under a Marie-Curie action for a duration of less than 12 months, which was not in accordance with the work programme, (2) the renunciation to a partial recovery, (3) the attendance of a meeting by the REA at the request of DG EAC involving the reimbursement of mission costs which had to be approved by the Director after the departure of the PO, (4) the REA assessing and accepting the work by RTD performers instead of the SME, which was complying with the transaction in order to settle a terminated grant agreement and to ensure that all parties comply with their contractual obligations and (5) the

reimbursement of an expert for the work done for a review despite the fact that the contract was not valid anymore. None of these events resulted in significant financial exposure for the REA and mitigating measures have been put in place to address the non-compliance events and exceptions.

The register for exceptions, non-compliance events and weaknesses (ICS 8.4) is updated and maintained at central level. Management and staff were reminded in 2014 to report these incidents. The Authorising Officers report exceptions, non-compliance events and weaknesses regularly through their quarterly and bi-annual reports to the Director.

3.6 REA risk assessment exercise

A risk assessment exercise according to ICS 6.1 is performed at REA level on a yearly basis in preparation of the AWP of the following year. In 2014 three risks were identified for the AWP 2015, namely the critical risk of "lack of payment appropriations" and the significant risks of "lack of mitigation of fraud and irregularities" and "unplanned increase in workload". These risks have already been identified in previous risk assessment exercises, no new risk was identified. The risk register is updated and the risks for 2015 are logged in the central risk register with an accompanying action plan.

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

The REA has implemented the 16 Internal Control Standards and has a control environment fully in line with that of the Commission. Throughout 2014, the REA was in full compliance with all ICS.

The overall effectiveness rate in the 2014 internal control assessment exercise (using the ICAT tool) amounts to 85.2% which can be considered as indicative of a fairly mature internal control structure.

The efforts made to improve the effectiveness of the prioritised ICS in the REA's AWP 2014 (ICS 1, 3, 7 and 8) is a constant management commitment and the REA's Authorising Officers by Sub-Delegation (AOSD) report bi-annually about the state of play on the prioritised ICS and other relevant control issues.

Internal Control topics are regularly discussed in the Agency's management meetings or in the dedicated REA working groups and networks. The REA's internal control system has been further strengthened in 2014 by implementing the Action Plan of the IAS audit on the implementation of FP7 control systems. Improving effectiveness for all procedures and Internal Control Standards is a constant process which will remain high on the agenda of the REA's management.

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 assessment of effectiveness, internal and external audit recommendations, the internal control assessment exercise, the AOSD reports from management 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 2014 the REA's ICC supervised the implementation of the internal controls across the Agency. The ICC has provided the REA Director with a formal opinion on the state of control within the REA for 2014 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 Parts 2 and 3 and draws conclusions supporting of 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 2013, the REA raised reservations with respect to the Space and Security themes and to the Research for the benefit of SMEs actions. Both reservations relate to a high incidence of errors with impact exceeding the materiality levels set.

The reservation related to the Space and Security themes stems from the general reservation made by DG RTD for the research family based on the rate of residual errors with regard to the accuracy of cost claims in FP7 grants.

In 2014 the REA participated in the actions undertaken by DG RTD such as:

- organisation of events to give guidance involving coordinators, participants and finance specialists, for FP7 but also for Horizon 2020 (around 750 participants in 11 specific events);
- organisation of "Coordinator Day" events with a total of some 1,300 participants. They mainly aimed at presenting the new framework programme H2020, but a section on "how to avoid errors" was also included. This can have a positive impact on the ongoing FP7 cost claims, as some of the errors and most of the beneficiaries are common for the two programmes.
- use of guidance on "common errors to avoid" for FP7 grant agreements signed in 2014. This guidance is attached to the cover letter used for sending back the signed grant agreement to the beneficiary.

In addition, in 2014 the REA launched 87 audits including 17 for Space and Security projects (11 risk-based and 6 representative audits) for which the implementation of recoveries and extrapolations continues.

As regards the errors relating to the lack of proper accounting by SMEs for the costs of

subcontracting to RTD performers after having performed an information campaign to the attention of the SMEs beneficiaries, the REA undertook a desk audit campaign as detailed hereafter.

The results of the desk-audit campaign on 49 audits launched⁶⁸ can be summarised as follows:

Table 43: Indicator – Result of the desk audit campaign

	No. of audits	% of total
Invoices from RTD performers recorded and paid in due time	33	67.3%
Recording of invoices from RTD performers regularised by beneficiaries following the information campaign of July 2013	3	6.1%
Sub-total of audits with no findings⁶⁹	36	73.4%
Recording of invoices from RTD performers regularised late (i.e. only when the desk audit was announced/ongoing)	5	10.2%
Recording of invoices from RTD performers not (yet) regularised.	4	8.2%
No answers received in response to the announcement of the desk audit	4	8.2%
Sub-total of audits with findings	13	26.6%
Grand Total	49	100.0%

73.4% of audited beneficiaries comply with the requirements concerning the registration of the RTD performers' invoices in the SMEs' accounting systems.

10.2% of the audited SMEs regularised in line with the contractual obligation, however only following the launch of the audit.

Finally, 16.4% of the audit beneficiaries have not (yet) complied with the requirements or failed to respond to the desk audit announcement.

The outcome of the desk audits allows for a more targeted estimation of the EU funding that may be subject to the failure by the SMEs to register the RTD performers' invoices.

The following assumptions have been taken into account:

- The frequency of non-compliance is 26.6%, according to the audit results. This figure is based on a limited sample of 49 transactions and therefore lacks statistical precision. However, it can be used as an indication on the order of magnitude of the exposure.
- Approximately 68% of the costs claimed by SMEs relate to subcontracting to RTD performers.

⁶⁸ One beneficiary included in the initial sample of 50 audits has run bankrupt and the desk audit could therefore not be pursued.

⁶⁹ For the purpose of this statistic, abstraction is made of some minor findings, unrelated to the accounting of invoices from RTD performers (e.g. ineligible VAT, etc.).

- The error rate calculation takes into account the updated control strategy that REA will apply as of 1 January 2015. This new approach strategy consists of systematic ex-ante checks, at the time of the project final payment, to ensure full compliance with the requirement to have all declared costs for subcontracting to RTD performers recorded in the SMEs' accounts. As a result of these additional checks, delayed until the final payment claim is being processed, the risk exposure is calculated only with reference to the sub-population of final payments made during the year.

Based on the above, the exposure can be calculated as follows (2014 budget execution based on costs claimed by beneficiaries):

Table 44: Indicator – SME risk exposure

Estimated exposure SME non compliance	Payments (2014)	Clearing (2014)	Total (2014)
	(€ million)	(€ million)	(€ million)
Interim payments	68.82	22.73	91.55
Final payments	20.19	101.51	121.71
Total	89.01	124.25	213.26

Total expenditure in 2014 (€ million)	213.26
Total final payments in 2014 (€ million)	121.71
Share of subcontracting in total grant	68%
Share of audits with non-compliance findings	26.60%
of which: - regularised during audit	10.20%
- not regularised after audit	16.40%
Maximum exposure (€ million)	8.44
% of exposure in relation to total expenditure	3.96%
	10.32%

This risk exposure, estimated at 10.32%, is in line with the exposure quantified for the AAR 2013 (8%). However, as shown in table 44, out of the 49 audited SME beneficiaries 5 regularised their accounts during the audit while 8 did not. Accordingly the remaining risk exposure after the desk audit campaign can be estimated at 6.36%.

The results of the desk audits demonstrate that the information campaign of 1 July 2013, reminding all beneficiaries under this programme on the eligibility requirements for declaring costs for subcontracting to RTD performers, was only partially effective. Only 7 out of 10 audited beneficiaries complied in due time or regularised their non-compliance in response to the information campaign. It is, therefore, concluded that awareness-raising as a stand-alone tool is not sufficient.

Moreover, it should be noted that the aim of the audit was only to check the administrative obligation of the SMEs concerning the RTD performers' invoices. While sanctions are necessary for cases of non-compliance, they need to be proportional and reasonable, taking into account that the actual research work, for which EU funding is granted, has been successfully performed.

By taking the above into consideration, the REA is planning to undertake the following actions, in order to further address the high risk of legality/regularity errors:

- Concerning the audited SME beneficiaries:
 - For SME beneficiaries who either refused to regularise their accounting practices despite the desk audit or failed to react to the REA's audit requests, the REA will reject the relevant costs as ineligible, will launch the recovery order procedure and will apply liquidated damages. Where such a beneficiary is participating in other projects financed by the SME actions, the REA will ask for similar evidence for these parallel running participations and will recover any contribution not justified (or for which access to information is being refused).
 - For SME beneficiaries who regularised their accounting practices late, i.e. only upon the launch of the desk audits, the REA will accept the related costs for subcontracting. Rejecting these costs while the REA has reasonable assurance that work was effectively performed by the RTD performers concerned (as evidenced by the technical reviews) would be disproportionate. However, considering the explicit warnings that were provided in the information note of 1 July 2013 (see above), the REA will apply a financial correction of 2% on the declared costs that would have otherwise been rejected as ineligible.
 - Concerning on-going projects of the SME actions: Since the desk audits demonstrated a persisting high risk of non-compliance by the SMEs with their obligation for invoice registration, the REA will strengthen its ex-ante controls. In particular, within the framework of the final project review, the REA will request SMEs to provide evidence that the RTD performers' invoices have been issued, registered and paid. This strengthened ex-ante control will apply for all final reporting periods for which (a first version of the) deliverables are submitted as of 1 January 2015⁷⁰.
- In order to provide beneficiaries with an early reminder of the contractual requirements and to avoid imposing excessive administrative burden, the REA will inform beneficiaries of the upcoming controls already at the stage of the interim review.
- Concerning closed projects of the SME actions: In 2015 the REA will perform another desk audit campaign for some 25 randomly selected participations of SME beneficiaries in 2014 final payments.

It should be noted that the REA recognises that the proposed strategy of stepping up ex-ante controls entails a certain reputational risk, as additional corrective measures might be perceived to go against the Commission's plea for simplification. However, the REA considers that the proposed action plan was endorsed by DG RTD. It strikes a balance between the necessity for legality and regularity and the need for reducing 'red tape' and will allow dropping this reservation as of the AAR 2015.

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

⁷⁰ This may imply that some payments made early in 2015 and relating to cost claims/deliverables received in 2014 for which these strengthened controls will not yet apply, but this will account for only a limited amount of total expenditure charged to the 2015 budget for this programme.

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 H2020 projects and the underlying financial operations (legal and financial commitments);
 - H2020 pre-financings (only one interim payment for H2020 was made);
 - 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 – Legacy of the FP7 Cooperation Specific Programme, Space and Security themes; 08.02 – Legacy of the FP7 Capacities Specific Programme, Research for the benefit of SMEs. The assessment and ex-post audit results do not call for a reservation for the ABB activity 15.03 – Legacy of FP7 People Specific Programme.

4.2 Overall conclusion on assurance and reservations

This section provides a summary of how the information provided in the report allows the AOD to sign the declaration of assurance, if necessary qualified with reservations.

Table 45: 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 – Legacy of the FP7 Cooperation Specific Programme – Space and Security themes					
<i>High rate of residual errors with regard to the accuracy of cost claims impacting on granted EU funding</i>					
253	224	5.00%	Multi- annual	5.85	3.00%
2) 08.02 - Legacy of the FP7 Capacities Specific Programme – Research for the benefit of SMEs					
<i>2.1) High rate of residual errors with regard to the accuracy of cost claims impacting on granted EU funding)</i>					
<i>2.2) Non-compliance with the eligibility criteria on recording costs for subcontracting in the accounts of the beneficiary.</i>					
149	137	5.24%	Multi- annual	10.94	5.13%
		n/a		22.01	10.32%

The calculation of representative error rate from the Common Representative audit Sample (CRaS) is not yet definitive as the audits of the second sample are not yet finalised. The remaining cases that are undergoing contradictory procedures with the beneficiaries represent 35% of the second sample. Consequently, the Common Representative Error Rate will certainly evolve during 2015. The audits that are closed in

the shortest time are those where limited or no financial correction is at stake. At this point in time, these cases will have a strong downward impact on the representative error rate. It is still expected that the representative error rate will increase therefore, to a maximum of 5%. Accordingly, the Residual Error Rate for Space and Security has been corrected to an estimate of 3% from 2.84% for the first sample and 2.08% with the current results of the second representative sample included.

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 affected ('scope')	02.04 – Legacy of the FP7 Cooperation Specific Programme – Space and Security themes Payments made in 2014 (excluding expert payments): €224.06 million out of the €253 million total.
Reason for the reservation	At the end of 2014, the corrected ⁷¹ residual error rate is not below the materiality threshold foreseen for 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 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, a reservation would (still) be made.
Quantification of the impact ('exposure')	The maximum impact is calculated by multiplying the residual error rate calculated on the basis of the CRaS by the 'relevant' amount of FP7 payments (based on cost statements authorised in 2014 plus the estimated amount of the related pre-financing expenditure cleared in 2014). For 2014 €195.12 million relate to intermediate and final payments and EU funding accepted and cleared against previously paid pre-financing. The calculation of the Representative Error Rate for 2014 is not yet definitive as a significant number of cases are still subject to contradictory procedures with the beneficiaries. Based on the expected results of audits that are not yet closed, it is estimated that this error rate may finish at around 5%. The Residual Error Rate has been corrected to an estimate of 3%. The estimated impact in 2014 is around €5.85 million ⁷² .
Impact on the assurance	Legality and regularity of the affected transactions, i.e. only payments made against cost claims (interim payments and payments of balance).

⁷¹ Because of the significant impact of the partial results of the second CRAS on the residual error rate by the end of the exercise, the REA considers that the *estimated* residual error rate gives a more reliable picture of 2014's expenditure. This will be used to calculate the reservation.

⁷² Based on the corrected residual error rate, which is estimated at 3%. Moreover, 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.

Responsibility for the weakness	<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>
Responsibility for the corrective action	<p>The possibilities to simplify the FP7 rules have been exhausted, although 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 occurring; – continuing with its control and audit work in order to further reduce the FP7 residual error rate.

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 affected ('scope')	08.02 - Capacities – Research for the benefit of SMEs Payments made in 2014 (excluding expert payments): €136 million out of the 149 million total.
Reason for the reservation	<p>The reasons for the reservation is two-fold:</p> <p>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.</p> <p>Considering that the estimated residual error rate of 5.13% 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.</p> <p>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.</p> <p>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.</p>

Materiality criterion/criteria	<p>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.</p> <p>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.</p>
Quantification of the impact ('exposure')	<p>a) The maximum impact is calculated by multiplying the residual error rate by the 'relevant' amount of FP7 payments (based on cost statements authorised and the estimated amount of the pre-financing expenditure cleared in 2014). For 2014 €213.26 million relate to intermediate and final payments and EU funding accepted and cleared against previously paid pre-financing.</p> <p>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 audits selected on the basis of risk identification. The Detected Error Rate for 2014 is 5.24%, while the Residual Error Rate is 5.13%. On the basis of the 5.13% error rate the impact is estimated at €10.9 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 10.32% or some €22.01 million (of which 3.96% regularised during the audit and 6.36% not regularised after the audit, corresponding to €8.44 million and €13.57 million respectively).</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	<p>a) 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>b) 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>
Responsibility for the corrective action	<p>a) The possibilities to simplify the FP7 rules have been exhausted, although there is some evidence that the simplification measures introduced in 2011 have had a positive impact on error rate. The remaining scope to reduce errors will be addressed in particular through the following actions:</p> <ul style="list-style-type: none"> – continuing its on-going efforts to give guidance and feedback to the participants and certifying auditors to prevent errors occurring;

	<ul style="list-style-type: none">– continuing with its control and audit work in order to further reduce the FP7 residual error rate. <p>b) As regards the non-recording of the RTD performers invoice in the SMEs accounts, the REA is planning to undertake the following actions, in addition to the follow-up actions for SME beneficiaries , in order to further address the high risk of legality/regularity errors:</p> <ul style="list-style-type: none">– For on-going projects of the SME actions: the REA will strengthen its ex-ante controls. In particular, within the framework of the final project review, the REA will request SMEs to provide evidence that the RTD performers' invoices have been issued, registered and paid. This strengthened ex-ante control will apply for all final reporting periods for which (a first version of the) deliverables are submitted as of 1 January 2015⁷³. <p>The REA considers that the proposed action plan strikes a delicate balance between the necessity for legality/regularity and the need for reducing 'red tape' and will allow the REA to drop this reservation as of the AAR 2015.</p>
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⁷³ This may imply that some payments made early in 2015 and relating to cost claims/deliverables received in 2014 for which these strengthened controls will not yet apply, but this will account for only a limited amount of total expenditure charged to the 2015 budget for this programme. For these payments, one beneficiary selected on a sample basis will nevertheless be asked to submit additional evidence.

Average weighted error rate and overall conclusion on assurance

According to the Standing Instructions for the 2014 Annual Activity Report⁷⁴ a weighted average of the error rates needs to be calculated. This rate should encompass all the expenditures of the Agency.

The table below calculates this average weighted error based on all the expenditures of the Agency in 2014: pre-financings, payments and clearing against costs claims, payments of experts and administrative expenses. The average weighted error rate of the REA has calculated based on the current (provisional) CRaS error rate for the Space and Security programme and on the detected error rates for the SME and People programmes. As stated before the Representative Error Rate for 2014 is expected to develop as a significant number of cases are still subject to contradictory procedures with the beneficiaries. It may be reasonably expected that this error rate will finish around 5%.

Table 46: Average weighted error rate and overall conclusion on assurance

		Payments 2014 (€ million)	Error Rate (%)	Amount at risk (FY; €)	Average recoveries and corrections (ARC; %)	Expected recoveries and corrections, related to the FY payments made (FY; €)
H2020						
Activity 02.04	Leadership in Space actions *	25.73	0.00%	0.00		
Activity 05.09	Part of SC-2 *	0.80	0.00%	0.00		
Activity 08.02	Part of SC-2, SC-6 , Spreading Excellence & Widening Participation, Science with and for Society *	0.00	0.00%	0.00		
Activity 09.04	FET Open, part of SC-6 and SC-7 *	0.00	0.00%	0.00		
Activity 15.03	Management of H2020 MSCA *	105.60	0.00%	0.00		
FP7						
Activity 02.04	FP7 legacy – Space and Security themes **	195.12	5.00%	9.76		
Activity 15.03	FP7 legacy – People **	700.98	1.27%	8.90		
Activity 08.02	FP7 legacy – SME actions **	213.26	5.24%	11.17		
Expert management ***		36.62	0.00%	0.00		
Management of the administrative budget ****		49.68	0.00%	0.00		
Overall		1,327.79	2.25%	29.83		
Implied:	For 2014 operational budgets	1,096.88	2.25%	24.7	1.0%	11.0

* Payments are only related to new pre-financings and are considered to be error free for 2014

** Payments are intermediate and interim payments and EU funding accepted and cleared against pre-financing. Error related to non-registration of transaction under SME actions not included

*** Payments of experts are considered to be error free

⁷⁴ Standing Instructions for 2014 Annual Activity Reports, SEC (2014) 553

**** Payments made on the administrative budget are considered to be free of errors

In view of the control results and all other relevant information available, the AOD's best estimate of the risks relating to the legality and regularity for the expenditure authorised during the reporting year is 2.25%, which implies an amount at risk of about €25 million.

The internal control strategy provides for the implementation of further controls during subsequent years aimed at detecting and correcting errors in the budget. It is not possible to identify the specific errors and amounts which will be effectively corrected in the coming years, yet the implementation of the corrective controls performed since 2009 have resulted on average in recoveries and financial corrections representing 1.0% of the average payments over the same period, which would imply an amount of € 11 million for 2014. These elements provide the best indication of the corrective capacity of the ex-post control systems implemented by the Agency.

There is no reservation on the procedures relating the selection of beneficiaries or experts involved into either FP7 or H2020 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 risk⁷⁵, measured against the total expenditure in 2014 (total expenditures of the REA as displayed in table 46 average weighted error rate and overall conclusion on assurance) allows the conclusion to be drawn that the assurance can be made regarding the 97.75% of the total Agency's budget implemented in 2014.

As regards the operational budget and in particular the payments made on the basis of cost claims (excluding pre-financing) and pre-financing cleared in 2014 the assurance can be made regarding 97.31% of the FP7 budget implemented (average weighted error rate of table 28).

Taking into account the conclusions of the review of the elements supporting assurance and the expected corrective capacity of the controls to be implemented in subsequent years, it is possible to conclude that the internal control systems implemented by the REA provide sufficient assurance to adequately manage the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes and despite the reservations outlined, which concern exclusively legality and regularity risks. Furthermore, it is also possible to conclude that the internal control systems provide sufficient assurance with regard to the achievement of the other internal control objectives.

⁷⁵ Calculated on the basis of the average weighted error rate.

DECLARATION OF ASSURANCE

I, the undersigned,

Director of the Research 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 view⁷⁶.

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 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: 02.04 – Legacy of the FP7 Cooperation Specific Programme – Space and Security themes*
- For the ABB activity: 08.02 – Capacities – Research for the benefit of SMEs*

Bruxelles, 25 March 2015

Signed

Gilbert GASCARD

⁷⁶ True and fair in this context means a reliable, complete and correct view on the state of affairs in the Agency.