European Commission

2013

Annual Activity Report

Directorate-General for Enterprise and Industry

Foreword

In 2013, fostering the growth and competitiveness of the European economy remained our top priority. Through the debate created by the 2012 Commission's communication on Industrial Policy, we succeeded in putting the real economy back in the centre of political debate: while the European Council recognised the "vital importance of a strong European industrial base as an essential building block of the EU's growth and competitiveness agenda", the European Parliament equally welcomed the Commission's focus on industrial policy and "strongly supported the 20 % target" of industry share of EU GDP by 2020.

Beyond the declarations, DG ENTR aimed at making words a reality. And this starts by new and better financial programmes to support the growth and creation of jobs. After almost two years of inter-institutional negotiations, 2013 saw successful political agreements on the 4 new financial programmes for which DG ENTR is fully or partially responsible, namely the new Programme for the Competitiveness of Enterprises and SMEs "COSME", Copernicus, Galileo and the new Programme for Research and Innovation "Horizon 2020". It required a lot of efforts, in particular in preparing the ground for the successful delegation to and close cooperation with the bodies entrusted with the operational management of the programmes. But we can be proud that 2014 starts on a good basis to implement well these programmes.

Indeed, the EU dedicated programme for the competitiveness of enterprises and SMEs reaches a EUR 2.3 billion budget, while the SME participation to Horizon 2020 will amount to more than EUR 8 billion, including a dedicated SME instrument worth at least EUR 3 billion.

We also pursued our work to ease access to finance for enterprises. For example, the entry into application of the Late Payments Directive means that all public administrations in Europe now have to pay their suppliers within 30 days and business within 60 days. This can only be achieved if the regulatory environment is made smarter, access to finance easier, and access to foreign markets a reality to all companies. I would like to highlight three priorities:

- DG ENTR aims at promoting a growth-friendly environment for businesses, in particular SMEs. Our goal is not only to create an environment in which entrepreneurs can flourish and grow, but to change and re-ignite the culture of entrepreneurship in Europe in the long term, as presented in the Entrepreneurship Action Plan of January 2013.
- In 2013, DG ENTR contributed again to EU efforts for smarter regulation, for instance by cutting red tape through the Regulatory Fitness and Performance Programme (REFIT), developing a methodology for "competitiveness proofing" of Commission proposals having a significant impact on competitiveness, and presenting solutions regarding the 10 most burdensome pieces of legislation for SMEs.
- With an estimated 90% of global growth coming from overseas by 2015, foreign markets will remain a key source of growth for European companies. Improving access to these markets and encouraging the internationalisation of European companies, in particular SMEs is one of our top priorities. In 2013, we organised 11 Missions for Growth to emerging or important trading partners outside Europe such

as Russia, China, or Latin America. Many companies which participated in these missions have found commercial partners and secured new contracts and a number of issues faced by European companies in the host countries have been resolved

This also translates in a strong participation in the unprecedented negotiations between the EU and the United States on the Transatlantic Trade and Investment Partnership (TTIP). A successful deal has potential to shape global rules on trade and strengthen Europe's place in the global economy. DG ENTR got actively involved in this process and is in charge of improving regulatory compatibility in several sectors.

But if we want to reverse the current trend and reach a target of 20% of industry share in the GDP, we must also concentrate on the implementation of the Industrial Policy Flagship Initiative towards reindustrialisation and modernisation of the European economy, in particular through action plans fostering the future competitiveness of key sectors (for instance cars, chemicals, construction, but also the promotion of key enabling technologies…). It is in this context that, for the first time since the Davignon Plan of 1977, the Commission adopted an Action plan for the European steel industry, which was welcomed by most stakeholders including at the highest level by the European Council.

This new impetus given to favour the competitiveness of European Industry is a major achievement and will have to be maintained in the coming year, in particular through the implementation of Commission's initiatives to control better the energy costs impact and secure better and more affordable supply in both energy and raw materials.

Last but not least, DG ENTR continued the ambitious work to provide the EU with independent infrastructure for satellite navigation and earth observation. Indeed, Space policy is of strategic importance for the EU's economic and political independence, and a source of future growth. It also has societal benefits, as shown by the use of Copernicus to provide information to the rescue teams during the floods in the Philippines and Sardinia. The new Galileo and Copernicus programmes have been provided with budgets of respectively EUR 6.3 billion and EUR 3.8 billion. Besides, we proposed to create a European capability for the monitoring and surveillance of space infrastructure and space debris and got an agreement on the Space Surveillance and Tracking Support Framework.

Besides, we cannot forget the great success of the Commission's communication on Defence, which promotes a strong defence industry as a prerequisite for a strong security and defence policy. The European Council welcomed in December the Commission's approach through ambitious conclusions with a clear commitment to develop a genuine internal market for defence.

Indeed, 2013 was a year full of challenges and DG ENTR contributed to deliver concrete tangible results at EU level for European citizens and businesses. 2014 will have to be a year of consolidation.

Daniel Calleja
Director-General

List of acronyms

AAR	Annual Activity Report
ABB	Activity Based Budgeting
CIP	Competitiveness and Innovation Framework Programme
CORDIS	Community Research and Development Information Service
COSME	EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises
CRAS	Common Research Audit Sample (FP7)
CSC	Common Support Centre (FP7 and H2020)
DA	Delegation Agreement
DG	Directorate-General
DG ENTR	Enterprise and Industry Directorate-General
EACI	Executive Agency for Competitiveness and Innovation (EASME)
ECA	European Court of Auditors
ECHA	European Chemicals Agency
EE	Entrusted Entity
EEA	European Environment Agency
ESA	European Space Agency
FP7	7^{TH} Research Framework Programme
FTE	Full Time Equivalent
GMES	Global Monitoring for Environment and Security (COPERNICUS)
GNSS	Global Navigation Satellite System
GSA	GNSS Supervisory Agency
H2020	Horizon 2020, current EU Framework Programme for Research and Innovation
IAC	Internal Audit Capability of the DG
IAS	Internal Audit Service of the Commission
KETs	Key Enabling Technologies
MFF	Multiannual Financial Framework
REA	Research Executive Agency
SME	Small and Medium-sized Enterprise

Table of Contents

INTRODUCTION:

The DG in brief

The Directorate-General for Enterprise and Industry (DG ENTR) works to ensure that EU policies contribute to the sustainable competitiveness of EU enterprises and facilitate job creation and sustainable economic growth. Its mission is to create a business friendly environment, which underpins the competitiveness of EU enterprises and industry. DG ENTR aims at ensuring a fair level playing field for businesses in exploiting opportunities of the EU single market for goods and at supporting the expansion of their economic activities outside the EU.

The DG's resources are deployed in three main areas of activity:

(1) Management of policy aspects of competitiveness, industrial policy, innovation, entrepreneurship, tourism, space and security.

(2) Management of legislation and standardization, which includes a range of technically complex areas, many of which have an impact on the free movement of goods, fair competition, consumer safety, public health and the environment.

(3) Programme management (Competitiveness and Innovation, Research, GMES, EGNOS and Galileo).

DG ENTR develops policies and actions for the re-industrialisation of Europe aiming at an innovative, modern and sustainable economy. It aims to improve the business environment for SMEs allowing them to realise their full potential in the global economy.

DG ENTR is in charge of developing and managing legislation for a number of sectors (among them chemicals, automotive, tourism, textiles, defence, fashion, design, creative industries, raw materials, metals, minerals and forest-based industries, engineering industries, food and healthcare industries, biotechnology, aeronautic and maritime industries). The DG applies and promotes smart regulation principles.

The DG is also responsible for the high growth potential sectors of space, satellite navigation, earth monitoring and promising industrial technologies (including Key Enabling Technologies).

In order to achieve our policy goals and promote innovation and entrepreneurship we developed the following EU support programmes for the next financing period 2014-2020: COSME (Competitiveness for Small and Medium size enterprises, successor to the CIP programme), Horizon 2020 (for space, secure societies, innovation in SMEs and raw materials), Galileo, EGNOS and Copernicus (formerly GMES).

The DG delegates part of its programme management to two executive agencies: the Executive Agency for Competitiveness and Innovation (EACI) and the Research Executive Agency (REA). These two agencies respectively manage actions under the Entrepreneurship and Innovation Programme (EIP) and the Space and Security Themes of the Seventh Framework Programme for Research (FP7).

For the implementation of the EU Space Programmes (Copernicus, Galileo and EGNOS), DG ENTR cooperates with the European Space Agency (ESA), an EU independent intergovernmental organisation. ESA acts under the supervision and with the assistance of the Commission both in the contractual and technical fields.

The achievement of the DG's objectives is made possible by its efficient organisational structure. The DG has 992 permanent and non-permanent staff members working in one horizontal and eight operational directorates supervised by two Deputy Directors-General and the Director-General, Daniel Calleja Crespo. Mr Calleja reports to Mr Antonio Tajani, European Commission Vice-President and Commissioner in charge of Industry and Entrepreneurship.

Being a relatively big spending DG with a budget due to increase significantly in the coming years, a strong and efficient fraud risk management environment was put in place. DG ENTR has a "zero tolerance" towards any type of fraud and puts a strong emphasis on creating a workplace that promotes ethical behaviour.

The year in brief

The consequences of the crisis can still be felt in the European economy. The share of manufacturing in GDP declined again in 2013 to a historical low of 15.1%. The most worrying indicator may be the continued decline in business investment in equipment and fixed capital, far below our 2020 targets.

However, indicators also suggest an emerging economic recovery which should gain speed in 2014. Although job and value creation by SMEs remained negative in 2013, there was some improvement in comparison to 2012, and substantial improvement is expected in 2014.

Much is being done to pave the way for future economic recovery: most Member States have increased their innovation performance despite the crisis, and the share of innovative enterprises is higher today in the EU than it was before the crisis. The EU is making more research and developing more applications than ever in a range of advanced technologies, such as earth observation satellites, thus also ensuring its future geostrategic independence. The EU market share in global navigation satellite systems has steadily increased since 2010 and makes it likely that our 2020 target (33%) will be achieved.

But there is no room for complacency. The share of innovative enterprises is still lower than our 2014 target. And although the trade of goods in the internal market only slightly decreased during the crisis, it remains well below our 2020 target.

As a DG responsible for providing enterprises with a growth-friendly business environment, our first objective is to set the right framework conditions to foster **competitiveness, innovation and entrepreneurship**, and implement our **industrial policy** so that the share of manufacturing in GDP reaches 20% by 2020.

In 2013, DG ENTR focused on implementing the Communication on industrial policy of 2010. Over 70% of the actions announced in the Communication were completed or initiated by end 2013.

DG ENTR's approach to industrial policy relies on a combination of horizontal and sectorial instruments. Horizontal priorities, such as the need to foster structural change towards a more sustainable and resource efficient economy, are translated into sectorial actions where necessary. For example, by end 2013, 25 product categories had been addressed under the Ecodesign Directive, thus fostering the manufacturing of resource efficient products, and 122 destinations had joined the European Destinations of Excellence Network aimed at promoting sustainable tourism.

Entrepreneurs are the driving force for growth and jobs. **SMEs create 85% of all jobs in Europe**. More than 4 million new jobs every year are created by newly founded businesses. Yet the regulatory environment for SMEs in Europe still needs to be improved.

Promoting **entrepreneurship and SME growth** is an integral part of industrial policy. In 2013, the DG reaped the benefits of several years of efforts on start-up conditions, with a continued and marked decrease in time and costs for starting up a business in the EU. However, more will need to be done to make the regulatory environment more SME-friendly, for example to encourage Member States to assess the impacts of new regulation on SMEs ("SME test"). Moreover, important efforts will be needed to foster international activities by SMEs, including exports outside the EU and exchanges and partnerships within the EU.

A major obstacle for SMEs to invest, innovate and export is the lack of **access to finance**. The financial instruments under the Competitiveness and Innovation programme (CIP) aim at giving guarantees for SMEs and helping innovative firms by providing venture capital.

By September 2013, the financial instruments were successful in providing loans to 275,113 companies (guarantee SME facility – SMEG), and 340 SMEs had used the high growth and innovative SME facility (GIF) provided also by EIF. Thus the targets set at the beginning of the programme are likely to be reached once the final funds have been committed. According to the Report on Evaluations of CIP, the Financial Instrument has been found as achieving the objectives of facilitating access to finance for the start-up and growth of SMEs. In detail, the GIF facility and SMEG loan and micro credit windows are found relevant to the needs of European SMEs since they fulfil a demand for finance which otherwise would not have been met and contribute to the start up and growth of SMEs. One of the most noticeable effects found in the report for what concerns the instruments is the leverage effect.

DG ENTR is the DG responsible for ensuring the free movement of goods in the internal market, thus enabling consumers and businesses to buy and sell products in the 28 EU Member States and the 3 EFTA/European Economic Area countries with a total population of more than 515 million. In its Industrial Policy Communication of October 2012, the Commission set a target for 2020 namely that trade in goods in the internal market should account for 25% of GDP. The latest figures suggest that this trade declined slightly (from 22.2% in 2012 to 21.7% in 2013) due to the economic crisis.

Our aim is to ensure that the **internal market** regulatory framework is conducive to trade and competitiveness. The first priority is to provide a smart regulatory framework in the internal market, avoiding unnecessary administrative burden. In 2013 the

Commission further developed its regulatory fitness programme (**REFIT**) with the aim to withdraw a number of inappropriate legislation and to screen further pieces of legislation for their “fitness for purpose”. DG ENTR contributed to this programme in 2013 by conducting 1 "Fitness check" and 2 "cumulative cost assessments" in the internal market area. The Commission also reviewed the REACH legislation on chemicals, making it less costly to SMEs.

Enforcement of internal market rules is crucial to ensure a level playing field for all enterprises while protecting consumer safety and other public interests. In 2013, DG ENTR continued to reinforce its role in this area, as shown by the increased stakeholder awareness of our notifications database and by the increase in the number of new infringement cases.

In addition, our success to promote the development and use of **European standards** is shown by the rate of their national transposition, currently close to 100%, which points to the highest level of acceptance of the European work on standards.

In 2013, DG ENTR also pursued its work to promote the competitiveness and growth of the **space and security** sectors, including through research and through the deployment of **satellite infrastructures and services**.

By end 2013, DG ENTR ensured that 2 out 6 GMES-Copernicus services were operational for earth monitoring (3 more were pre-operational) and that 4 Galileo satellites were operational.

While the Galileo ground segment continued to be deployed as planned, difficulties were experienced in the production of satellites. Technical difficulties were encountered by the private constructor and the 2 launches foreseen in 2013 had to be postponed (ie. a total of 4 satellites). This points to the importance of good risk management and better governance of all parties involved. The future launch schedule is being consolidated following the resolution of satellite-specific technical issues.

Nevertheless, the four operational Galileo satellites achieved their first autonomous position fix in March 2013. Several ground stations were deployed worldwide. The validation phase of Galileo ended successfully in 2013.

GMES already delivers valuable services in cases of natural disasters by helping the rescue teams. In 2013, the system was activated in the June floods in Germany, the Czech Republic and Hungary, in the forest fires around Braganza, Portugal and in locating the refugee camps in Myanmar in July.

Work progressed on developing the governance structures for Galileo: in February 2013, the European GNSS Agency was set up by a Regulation. Furthermore, work progressed on preparing a better market uptake of the system. Additional satellites will be launched to reach Initial Operational Capability around mid-decade. Full completion is expected by 2019.

Finally, DG ENTR pursued its work related to research in space and security under FP7, and prepared the new calls under Horizon 2020.

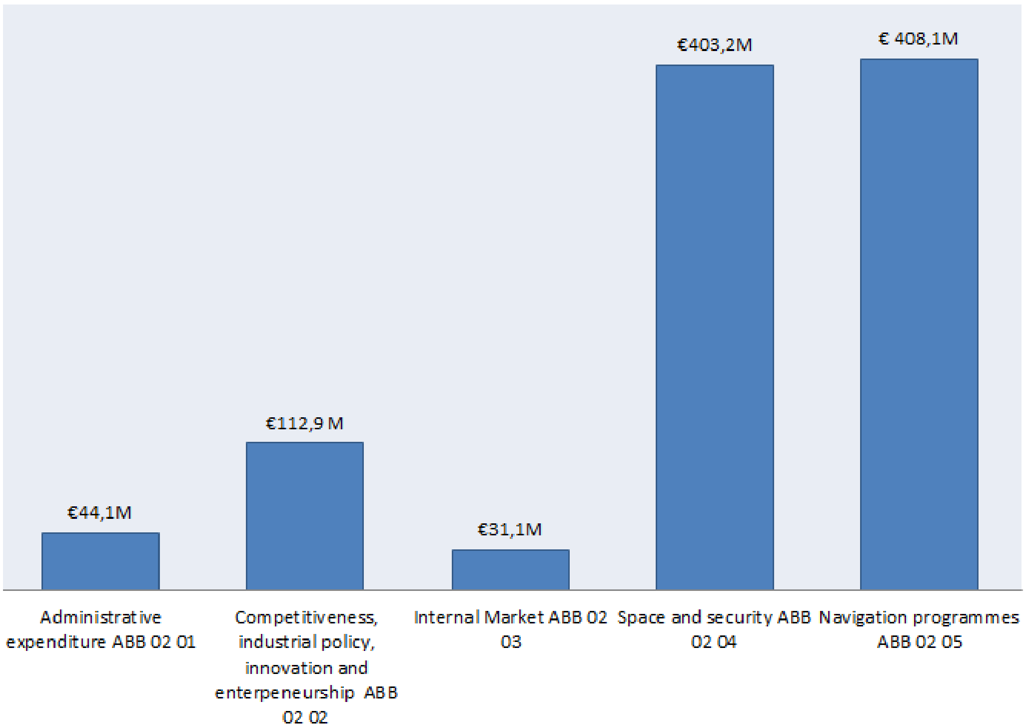
2013 budgetary and financial management

The 2013 Budget was adopted with insufficient payment appropriations to pay all expected invoices of DG ENTR and the other entities using this budget. This budgetary constraint put at risk the ability of DG ENTR to pay beneficiaries and endangered the successful implementation of our programmes under the MFF 2007-2013. Only at end-November the Budgetary Authority approved the last additional payment appropriations.

At the same time, financial management was further challenged as it had to be performed simultaneously with the preparation of the new MFF 2014-2020, its legal bases and the externalisation of those new programmes to the executive agencies.

The graph below gives on overview of the payments outturn per Activity Based Budget (ABB) line for the enterprise policy area.

Payments outturn in 2013 per activity:



Total amount paid in 2013 – €1billion

Despite the combination of a more challenging agenda and budgetary constraints, the DG succeeded in making the financial management for the last year of our 2007-2013 programmes a success. With a budget implementation of 100%[1] in commitments and 99%[1] in payments and as little as 2.19 % of payments made outside legal deadlines, DG ENTR achieved its best result ever recorded.

[1] Based on the final voted budget appropriations (C1) for the 2013 exercise.

Executive Summary

The Annual Activity Report is a management report of the Director-General of DG ENTR 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 and the achievement of objectives.

Key Performance Indicators (5 most relevant)

Result/Impact indicator (description)	Trend	Target (or milestones)	Latest known results as per Annual Activity Report
Most relevant **KPI 1**: Number of SMEs receiving new financing through the CIP financial instruments SMEG and GIF facilities (Source: European Investment Fund)	J	315,750 SME beneficiaries by 30 September 2017 (the end date of the longest availability period of the last guarantee agreements approved in December 2013). 1,350 GIF beneficiaries by 2019 (based on the last CIP contracts having been approved in December 2013, allowing up to 6 months for the VC funds to reach their 'first closing', followed by the usual investment period of 5 years)	30 September 2013: 275,113 SME beneficiaries under SMEG 340 under GIF (of which 325 were in CIP participating countries)
Most relevant **KPI 2**: Delivery of the actions of the Regulatory Fitness Communication (Source: COM(2013)685 final)	J	7 Fitness Checks, Evaluations and Cumulative Cost Assessments to be delivered by 2016	1 Fitness Check and 2 Cumulative Cost Assessments delivered in 2013
Most relevant **KPI 3**: Number of operational GMES-Copernicus services for earth monitoring (Source: Internal monitoring)	J	The final target by 2020 is to make the following 6 services operational: 1. Emergency management 2. Land monitoring 3. Atmosphere monitoring 4. Climate change monitoring 5. Marine environment monitoring 6. Security	By the end of 2013, 2 of the 6 services have become operational: 1. Emergency management 2. Land monitoring
Most relevant **KPI 4**: Number of operational Galileo satellites (Source: Internal monitoring)	K	2020: 30 2014: 10 (OSSR 3) 2013: 6 (IOV-R and OSSR 1)	4 satellites are operational in 2013 (2 had to be postponed due to technical difficulties encountered by the contractor)

Most relevant **KPI 5**: The error rate is below the materiality threshold set for each spending programme	J K	Yearly quantifiable error per ABB activity[2] below materiality level of 2% The residual error rate is below the materiality threshold of 2%	ABB 01–non material error ABB 02-non material error ABB 03-non material error ABB 04-non material[3]error ABB 05-non material error FP7 2.92%

Policy highlights of the year

New programmes for growth and competitiveness

2013 was the year for successful political agreements for the new programmes under the Multi-annual Financial Framework for 2014-2020. DG ENTR prepared the ground for the successful delegation to and close cooperation with the bodies entrusted with the operational management of the programmes.

For the first time the EU has a programme fully dedicated to competitiveness and SMEs: COSME, with a budget of EUR 2.3 billion. The programme will be managed in close cooperation with EACI for which DG ENTR is responsible. DG ENTR will also closely collaborate with the European Investment Fund to implement the financial instruments under COSME and provide better access to finance for European SMEs.

DG ENTR contributed to the political negotiation for the new EU programme for Research and Innovation, Horizon 2020. Compared to its predecessor FP7, Horizon 2020 will put much greater emphasis on industrial technological leadership, close-to-market research and SME participation, which will account for more than EUR 8 billion, including a dedicated SMEs instrument, worth at least EUR 3 billion.

2013 also saw the finalisation of the new Galileo and Copernicus programmes, with respectively EUR 6.3 and 3.786 billion. DG ENTR will have the political responsibility for steering the success of the Copernicus programme by closely cooperating with the new GNSS Agency, the European Space Agency and the European Environment Agency.

---

2 The five Activity Based Budgeting lines of DG ENTR are:

ABB 01: Administrative expenditure
ABB 02: Competitiveness, industrial policy, innovation and entrepreneurship
ABB 03: Internal Market for goods and sectoral policies
ABB 04: Cooperation - Space and Security
ABB 05: European satellite navigation programmes (EGNOS and Galileo)

3 ABB 04 is affected by the residual error rate under FP7 but the quantifiable error for the ABB activity is below the 2% materiality threshold.

Towards Industrial Renaissance

In 2013, DG ENTR continued pushing for the **re-industrialisation and modernisation of the European economy**, with the aim of reversing the declining role of industry and increasing the share of manufacturing in the GDP from 15.1% in 2013 to 20% in 2020. DG ENTR pursued its work on the **implementation** of the Industrial Policy Flagship, with over 70% of the actions announced in the 2010 Communication completed or initiated by end 2013. In parallel, the DG prepared an ambitious policy vision on industrial policy, leading to the adoption of the Communication **"For a European Industrial Renaissance**"[4] in January 2014, for which DG ENTR will seek the highest political endorsement and guidance at the March 2014 European Council.

DG ENTR pursued its work on the **European Semester** to foster a growth-friendly business environment at national level, including a modern public administration. The Competitiveness Report and the Report on Member States' competitiveness performance and policies were published in September 2013.

In a context where it was still necessary to sustain economic recovery and business investment, several key actions were taken to ease **access to finance** for enterprises:

- In March 2013, the Commission adopted a **Green paper on long-term financing of the economy** on how to foster the supply of long-term financing and improve the system of financial intermediation for long-term investment in Europe.

- Member States had to integrate the revised **Late Payments** Directive into their national law by March 2013. DG ENTR organised a campaign on late payments in Member States during 2013. This facilitated paying outstanding debts worth up to EUR 180 billion, and, in addition to reduced payment duration by public administration (30 days) and business (60 days), provided essential support to SMEs.

- The new **EU venture capital framework** adopted in April 2013 creates a genuine internal market for venture capital funds. This legislation enables venture capitals to operate more efficiently within the European Union Fund.

- The EU continued to provide support to SMEs' access to both credit and equity through **the financial instruments** under the Competitiveness and Innovation Framework Programme (CIP). In the January 2013 Report (COM(2013)02) on CIP Evaluations, it was confirmed that the financial instruments have been considered highly efficient instruments 'by design' for assisting SMEs.

Finally, new action was taken to boost the competitiveness of several important **industrial sectors**:

- In February, the review of the chemicals legislation **REACH** was adopted. The

[4] COM(2014)14

report acknowledged the costs related to the administration of REACH and their impact on SMEs, but industry also recognized the positive economic effects. Overall, REACH was seen as a key driver for growth and competitiveness for the chemicals industry.

- In June, the Commission adopted an Action Plan for the EU **steel industry** which should lay the foundations of the future competitiveness of this sector and help it confront today's challenges, by fostering innovation, supporting the demand for EU-produced steel both at home and abroad, cutting costs for the industry (including those from EU regulation) and by acting to ensure that EU steel producers have fair access to third markets.

- In July, the Commission adopted the Communication on the European **Defence and Security Sector**, which aims at supporting the competitiveness of the defence and security industries, in particular by strengthening the internal market for defence and fostering synergies between civil and military research.

A growth-friendly business environment, in particular for SMEs

The DG is responsible for providing European enterprises with a growth-friendly business environment. DG ENTR significantly contributed to the implementation of the Communication on EU **Regulatory Fitness** of December 2012. In particular, DG ENTR concluded the **cumulative cost assessment** on the steel sector to assess the cost burden coming from EU legislation. The results fed into the Action plan for the steel industry adopted in June. In addition, DG ENTR elaborated a new methodology to assess the impacts of EU legislative proposals on competitiveness ("competitiveness proofing").

Following the public consultation of 2012 to identify the **10 most burdensome pieces of legislation for SMEs**, the Communication of June 2013 presented solutions to improve the situation. One piece of legislation from the internal market for goods - the chemicals legislation REACH - was listed among the Top 10. As a reaction to this, the registration fees for chemical products from SMEs were reduced.

DG ENTR pursued its work to reach the target of reducing the time and cost to start up a business in all Member States below 3 days and € 100. The EU is on the right track. The latest figure available for 2012 shows that on average it takes 5.4 days and costs € 372 to start a business (against 12 days and € 485 in 2007).

In May 2013, the Commission adopted the **Entrepreneurship2020** Action Plan, which aimed at reigniting the entrepreneurial spirit in Europe. This new Action Plan followed up to the Small Business Act review of April 2011 and the Industrial Policy Communication Review of October 2012, and set out a renewed vision and a number of actions to be taken at EU and Member States' level to support entrepreneurship in Europe.

In order to help SMEs to expand their activities outside the EU DG ENTR successfully completed its ambitious calendar of **Missions for Growth**. 11 Missions were organised in countries outside Europe, including two important missions in Russia (June) and China (July). Other missions took place in Israel (October), Vietnam, Myanmar and Thailand (November). Missions for Growth increase the chances of success for European companies on foreign markets by opening doors with the local authorities, organising business-to-business meetings, and providing an insight into the local regulatory environment. These Missions also give the opportunity to sign political agreements which deepen industrial relations between the EU and third countries.

The **Enterprise Europe Network** pursued its activities to help SMEs to make the most of the internal market. The EEN is in contact with 2.2 million SMEs every year, and is most active on EU advice and information. It will continue its activities in 2014-2020 under the new COSME programme.

Space

In 2013, **Galileo and GMES-Copernicus** started their switch from the development phase to an operational phase which means that certified information is being provided. This is a major achievement as it will provide the EU with the strategic infrastructure that it needs to exploit the huge economic potential of downstream services and applications.

Galileo is a global navigation satellite system currently being built by the EU to provide a high-precision positioning system, independently from other systems. By the end of 2013, 4 satellites were operational, and the Galileo system is now in its In-Orbit Validation phase. The Galileo signal was tested with positive results beyond initial expectations.

GMES-Copernicus (Global Monitoring for Environment and Security), is the programme establishing a European capacity for Earth Observation. In 2013, 2 services became fully operational (emergency management and land monitoring) and four more are planned (monitoring of atmosphere, climate change, marine environment and security).

The European Geostationary Navigation Overlay Service (**EGNOS**) is a satellite based augmentation system supplementing navigation systems by reporting on the accuracy of the positioning data. In 2013, the Commission took a number of steps forward to **foster the market uptake of the European satellite navigation systems**: the EGNOS Data Access Service was declared operational in July 2013. It is aimed at market applications wanting to benefit from EGNOS data via terrestrial networks.

DG ENTR also pursued its work to **foster the growth and global competitiveness of the Europe space industry** by improving framework conditions and preparing the groundwork for future Commission initiatives. The Communication on the "**EU Space industrial policy**" was adopted in February 2013. It proposed a series of actions to increase industry's skills levels, to support research and innovation, to make finance and investment more readily available, and to reshape the EU's legislative framework for the space sector in order to make it more competitive.

Also in 2013, budget was committed to the projects of the 6th call for proposals under the current Research Framework Programme, focussing on **space-based applications** at the service of the European society.

The internal market

In early 2013, DG ENTR launched a **comprehensive evaluation** on the internal market for industrial products which provides crucial elements concerning legislative consolidation, simplification and regulatory burden reduction. The results were published in the Communication 'A vision for the internal market for products' adopted on 22 January 2014.

EU product safety rules and the market surveillance of national authorities are the basis for a safe internal market. In February 2013, the Commission adopted a major **Product Safety and Market Surveillance Package**, which will contribute to eliminate unfair competition from dishonest or criminal rogue operators and thus increase protection for 500 million European consumers. It aims at enabling better coherence of the rules regulating consumer products identification and traceability and improved coordination of the way authorities check products and enforce product safety rules across the EU.

For the first time, the Commission adopted in July a Strategic Union **Work Programme for standardisation**, which aims at speeding up the standardisation process in support of re-industrialisation and addressing different societal challenges. It identifies strategic priorities for European standardisation, taking into account the Union's long-term strategies for growth and sets out the objectives for the international dimension of European standardisation in support of Union legislation and policies.

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

In accordance with the governance statement of the European Commission, the staff of DG ENTR 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 Director-General 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.

DG ENTR 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. DG ENTR is continuously working towards improving the efficiency of its internal control systems.

In addition, DG ENTR has systematically examined the available control results and indicators, including those aimed to supervise entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by internal auditors and the European Court of Auditors. These elements have been assessed to determine their impact on the management's assurance as regards the achievement of control objectives. Please refer to Part 2 for further details.

In conclusion, 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 General, in his capacity as Authorising Officer by Delegation signed his Declaration of Assurance, albeit qualified by a reservation concerning the 7th Research Framework Programme.

Information to the Commissioner

The main elements of this report and assurance declaration, including the reservation envisaged, have been brought to the attention of Vice-President Antonio Tajani, responsible for Industry and Entrepreneurship.

1. POLICY ACHIEVEMENTS

The general and specific objectives below mirror the mid-term review of the Management Plan 2013. In this review the DG streamlined the presentation of the objectives and indicators to better reflect the performance of the DG's work.

In order to improve the performance management of the DG, the indicators were scrutinised for their relevance, data availability and reliability. The results of this exercise reduced the number of indicators from 122 to 103. The DG is now in a better position to accurately report on its priorities and objectives following this streamlining.

1.1 Achievement of general and specific objectives

1.1.1 Enterprise and Industrial policy: general achievements

<table>
<tr><th colspan="3">Policy Area: Enterprise and Industrial Policy</th><th colspan="2">x Spending programme (CIP)</th></tr>
<tr><td>General objectives</td><td>Indicator</td><td>Target</td><td colspan="2">Current Situation</td></tr>
<tr><td rowspan="3">I. To strengthen the sustainable competitiveness of Europe's industrial base and promote the transition to a resource efficient economy</td><td>Share of manufacturing as % of GDP
(Source: Eurostat)</td><td>20% by 2020</td><td colspan="2">Mar 2013: 15.1%
Mar 2012: 15.5%</td></tr>
<tr><td>Gross fixed capital investment as % of GDP
(Source: Eurostat)</td><td>23% by 2020</td><td colspan="2">Mar 2013: 17.4%
Mar 2012: 18.5%</td></tr>
<tr><td>Investment in equipment as % of GDP
(Source: Eurostat)</td><td>9% by 2020</td><td colspan="2">Mar 2013: 4.5%
Mar 2012: 4.8%</td></tr>
<tr><td colspan="5">The deterioration in the main indicators has to do with the number of structural weaknesses hampering growth: internal demand remains weak; business environment has improved overall but progress remains uneven; investment in R&D remains low; EU firms face higher energy prices and have difficulties accessing basic inputs (e.g. raw materials, qualified labour and labour in affordable conditions).

During 2013, DG ENTR prepared the Communication on Europe's industrial renaissance (COM(2014) 14) proposing actions to foster the re-industrialisation of Europe.</td></tr>
</table>

Policy Area: Enterprise and Industrial Policy			x Spending programme (CIP & FP7)
General objectives	Indicator	Target	Current Situation

II. To promote innovation as a means to generate new sources of growth and meet societal needs	Innovation performance of the EU as a whole and of Member States (Source: Innovation Union Scoreboard 2013)	Growth in innovation performance in all 28 Member States	2010-2013: 19 of 28 MS have had a positive growth in innovation performance
	Share of innovative enterprise of total number of all enterprises (Source: Community Innovation Survey)	60% by 2014	Latest available data: 2011: 53% 2008: 52%

There is a marked difference in the change in five year growth performance in the 2006-2010 period as captured in the Innovation Union Scoreboard (IUS) 2010 and that in 2008-2012. Where the Innovation leaders and Innovation followers have managed to sustain their growth performance, five-year growth for the Moderate innovators has declined on average by 1.7%-points and for the Modest innovators by 4.5%-points. But within these performance groups we also observe remarkable differences. Within the Modest innovators growth has plummeted from almost 11% to just 0.6% for Bulgaria and also for Romania growth has dropped more than 3%-points. Within the Moderate innovators five-year growth has dropped significantly for Greece, Malta and Portugal. Only the Czech Republic, Lithuania and Slovakia have managed to increase their growth rates for 2008-2012 as compared to 2006-2010. Half of the Innovation followers have experienced a slowdown in their growth performance, in particular Cyprus and Slovenia. For Belgium, the UK and in particular Estonia, Ireland and the Netherlands growth performance has improved. Slower growth is also observed for two of the Innovation leaders: Finland and Germany. For Sweden growth has remained the same but Denmark has managed to more than triple its growth. Overall for 15 Member States growth in 2008-2012 has been slowing down compared to growth in 2006-2010 clearly contributing to slower growth for the EU27 at large dropping from 1.8% for 2006-2010 to 1.6% for 2008-2012.

Policy Area: Enterprise and Industrial Policy			**x Spending programme (CIP)**
General objectives	Indicator	Target	Current Situation
III. To encourage entrepreneurship and the creation and growth of SMEs	Net jobs created in SMEs in industry (Estimations by London Economics Ltd.)	3 million jobs by 2020 compared with pre-crisis level of 2008	Estimate 2014: + 1.3 m(annual) Estimate 2013: - 1.3 m(annual) Estimate 2012: - 2.3 m (annual)
	SME growth in terms of added-value (Estimations by London Economics Ltd.)	Increase of SME output (value added) compared to the pre-crisis level of 2008: 3.566.083 million €	(in million €) Estimate 2014: - 89.733 (annual) Estimate 2013: - 183.230 (annual) Estimate 2012: - 222.468 (annual)

Employment by SMEs proved to be much more resilient to the 2008 crisis than employment by large firms, although the period 2010-2012 proved rather challenging. At the EU-27 level, employment in SMEs did not exhibit a particularly pronounced swing, but during the whole period of 2008-2012, it showed a declining trend.

In 2009, the gross value added declined on average by 10% across all class sizes and in 2012, the output lost in 2009 was not recovered. Since 2008, the value added produced by SMEs mirrored closely that of the overall European economy: it dropped sharply in 2009, picked up in 2011 without reaching its previous level and declined again in

2012.

Following the 2014 estimations of the London Economics Ltd., Europe is half way to reaching the target of recreating the pre-crises level of employment generated by industry. The EU is emerging from its longest-ever recession and EU28 GDP grew by 0.2% in the third quarter of 2013. Negative SME growth is also expected in terms of added-values and employees in 2014, but the Commission forecasts a 1.4% GDP growth for EU28 in 2014 and unemployment rates close to 11% for the next two years, therefore it is crucial to continue fostering growth and competitiveness: industry has a great role to play in the recovery.

Policy Area: Enterprise and Industrial Policy			**x Non-Spending programme**
General objectives	Indicator	Target	Current Situation
IV. To ensure an open internal market for goods	Trade in goods in the internal market as % of GDP(source: Eurostat)	25% by 2020	Mar 2013: 21.7% Mar 2012: 22.2%

Trade in goods in the internal market has not increased in the past year, as a whole Europe has not adapted enough to changing circumstances following the globalisation of our economy and the financial crisis that held back further investment and fresh credit to business. Administrative burdens and regulatory complexity are being tackled slowly and some labour markets are not sufficiently flexible. However, the Commission continues to promote the Internal Market for goods, as its review (COM (2014) 25 final of 22.01.2014) has shown that it is fit for purpose and industry has benefited from its development, but the regulatory framework needs to be rationalised.
Evaluation of the Internal market legislation for industrial products has shown that the Internal market legislation for industrial products is regarded as having been an effective mechanism for achieving the harmonisation objectives set out in Article 114 of the TFEU. Overall, it demonstrates a high degree of "fitness for purpose" and has successfully addressed the need for the free circulation of industrial products within the internal market, while ensuring minimum levels of product safety, eliminating existing barriers to trade. The setting of essential requirements, while leaving industry to determine how conformity with these requirements might be met is seen as a highly effective and flexible mechanism.

Policy Area: Enterprise and Industrial Policy			**x Spending programme (GMES-Copernicus, Galileo & FP7)**
General objectives	Indicator	Target	Current Situation
V. To support an autonomous European space capacity	**Earth Observation Systems (GMES-Copernicus)**		
	Number of new applications based on satellite systems in market, thereby supporting Europe 2020.	By 2020: provision of diversified services covering all relevant fields in earth observation	43 FP7 service projects running, which generate new applications (corresponding to at least 43 new applications). 4 of these are pre-operational projects in the field of Atmosphere (MACC II), Marine (MyOcean2), Security (Sagres and Lobos) and several related projects in the field of Climate Change

	Number of operational services achieved (out of six). - availability of operational products offered which monitor environment, and support civil protection and security, and - verified user uptake thereof.	By 2020: all six Copernicus services operational	2 operational services (Land and Emergency) operational
	Data volumes available to GMES users on a full and open and free of charge basis.	By 2020: provide data stemming out of all services free of charge	Data from emergency service and land monitoring is available free of charge
	European autonomous Earth Observation satellites providing space data as public service (non-dependence on other data sources).	By 2020: Have satellite constellation in place to secure non-dependence	2013: readiness GMES-Copernicus relies on data coming from contributing missions (missions from ESA, their Member States, Eumetsat and other European and international third party mission operators).

The interim evaluation of GMES Initial Operations (GIO) Programme, 2011-2013 concluded that the GIO was highly relevant to the identified needs of users. It is also coherent with the Europe 2020 aims of promoting smart, sustainable and inclusive growth as GMES-Copernicus contributes to the flagship actions of innovation and industrial policy. The GIO is likely to be an effective mechanism for developing fully operational Copernicus services (Note. GMES was renamed "Copernicus" in 2012).

Budgetary limitations meant that only two services out of the eventual six could be developed under GIO, which could be seen as a risk to the overall coherence of Copernicus in terms of programmatic structure and the development of services in parallel. Regarding efficiency, GIO and the follow-on Copernicus programme should deliver value for money, because lessons have been learned from previous projects, and user needs have been incorporated into the procurement of service contractors and into service design and implementation. The EU added value is evident and it appears clear that GIO outputs could not be continued without public funding, which means that uncertainty about future funding could act as a barrier to future development.

Based on those findings, the evaluation proposed a number of recommendations in the fields of management and governance, monitoring, development of GMES/Copernicus services, strengthening quality of and access to data, data and information policy, user service uptake, development of downstream GMES services and applications. These recommendations have served to inform the process of defining a new Copernicus Regulation, as the legal base for the future full operational phase, and will continue to provide useful guidance to its implementation.

Policy Area: Enterprise and Industrial Policy			**x Spending programme (Galileo)**
General objectives	Indicator	Target	Current Situation
VI. To support the development of satellite-based services	**Global Navigation Satellite Systems (GNSS: EGNOS+Galileo)**		
	Market share of EU GNSS industry in worldwide GNSS downstream market (Source: GNSS Agency (GSA))	2020: 33%	2012: 30% 2011: 24% 2010: 24%

An estimated 6–7 % of Europe's GDP, or €800 billion, is already used for satellite navigation applications. Moreover, the global market for global navigation satellite products and services is currently valued at €124 billion per year and is expected to grow to €244 billion by 2020. The overall economic impact will be around €90 billion over the next 20 years. European satellite navigation has already made aeroplane landing safer and helped reduce flight delays, diversions and cancellations. The Safety-of-Life Service enables precision landing approaches and renders air navigation safer as well reducing delays, diversions and cancellations of flights. EGNOS also enables the planning of shorter, more fuel-efficient routes which reduce the CO2 emissions of the aviation industry. EGNOS is currently available over more than 80 airports.

Overall, the European space manufacturing and launch industry has performed well in the global commercial markets over the course of the past years, with a growing market share for satellites and a stable market share of around 50% for commercial launches. Two EU players have together 40% of the commercialised satellites. EU 27 had a market share of 30% for the space–related patents in the world for the period 2000-2008 against a market share of 50% for the US.

1.1.2 ABB activity 02: competitiveness, industrial policy, innovation and entrepreneurship

ABB activity: competitiveness, industrial policy, innovation and entrepreneurship			**x Spending programme (CIP)**
	Result indicator (description + source)	Target	Current Situation
Specific objective 1: To promote favourable framework conditions for European industry	Progress on implementation and follow-up of ENTR measures announced in the: 2010 Industrial Policy Communication (43 adopted actions); 2012 Industrial Policy Review Communication	2015: 43 actions to be implemented	2012: Around 60% of the actions fully implemented 2013: Over 70% of the actions have been completed or initiated

The DG is generally on track in achieving the goal, with 70% of the recommendations already implemented. The fact that Member States are currently working on an additional 20% of the proposed measures points to the fact that full achievement could be reached in relation to the 2015 target. In the new Communication for a European industrial renaissance, the Commission took stock of the achievements and sets out the Commission key priorities for industrial policy for the future.

ABB activity: competitiveness, industrial policy, innovation and entrepreneurship			**x Spending programme (CIP)**
	Result indicator (description + source)	Target	Current Situation
Specific objective 2: To assist structural change and sustainable development in specific manufacturing sectors and tourism	Number of adopted implementing measures of the Eco-design Directive and related energy savings	2015: 6 new measures adopted and 1 more Voluntary Agreement	2013: 23 new measures are adopted (including ENER proposals) 2 Voluntary Agreements operational by the end of 2013
	Number of destinations joining the European Destinations of Excellence Network for the promotion of sustainable tourism development	2015: 148 2013: 122 More than 200 in 2020	2013: 122 2012: 103 2011: 98 2010: 77

	models		2009: 52

Eco-design is widely recognised as one of the most effective policy tools in the area of energy efficiency. It aims at improving the energy and environmental performance of products throughout their life cycle. The Eco-design Directive establishes a framework for the setting of eco-design requirements for energy-related products and is a key element of the Community strategy on Integrated Product Policy. The first indicator shows that a structural change towards a more sustainable industry is on-the-go and Member States are positively integrating such vision into their national policies.

For EDEN the target was met. The key feature of the selected destinations is their commitment to social, cultural and environmental sustainability. The recipients of the award are emerging; little known European destinations located in the 28 Member States and candidate countries. The EDEN project helps to spread the sustainable practices used in the chosen destinations across the Union and to turn these places into all-year-round venues.

In early 2014, the proposal for a Council Recommendation on European Tourism Quality Principles should be adopted to achieve a better consistency of the quality of tourism services across the EU. The Commission should also adopt early 2014 a Communication entitled "A European Strategy for more Growth and Jobs in Coastal and Maritime Tourism

ABB activity: competitiveness, industrial policy, innovation and entrepreneurship			**x Spending programme (CIP)**
	Result indicator (description + source)	Target	Current Situation
Specific objective 3: To open up opportunities for European businesses in Third Country markets	Number of concluded Free Trade Agreements	2014: up to 10	2013: Singapore, 8 Latin American countries (Colombia, Peru, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama) , 2 Deep and Comprehensive Free Trade Areas (DCFTA) in Eastern Partnership initialled (Moldova, Georgia)
	Number of countries with which regulatory/industrial policy dialogues are conducted	2014: 8 dialogues	2013: idem but a new dialogue with south Korea agreed in principle 2012: idem 2010: 6 (USA, Canada, Japan, Russia, China and Brazil)

We are on track in achieving our goals as concern the free trade agreements and the regulatory/industrial policy dialogues.

2013: Report on Free Trade Agreements (FTA's):

Eastern Partnership: Deep and Comprehensive Free Trade Areas (DCFTA's) were initialled with Georgia and Moldova. DCFTA's foreseen with Ukraine and Armenia abandoned by the countries concerned. It is hoped that the Georgia and Moldova ones will be signed in 2014. Note difficult issue vis-à-vis Russia.

Mediterranean: DCFTA negotiations are on-going with Morocco (3rd round in January 2014). Egypt, Jordan, and Tunisia: Commission has a mandate to open negotiations but these have not yet started. Note difficult political

situations in these countries. Asia: India negotiations in pause mode. Awaiting elections in summer 2014. Malaysia: negotiations paused. Thailand: stalled in view of difficult political situation in country. Vietnam: objective is to finalise negotiations by October 2014. Japan: negotiations launched April 2013, 4 rounds held. China: investment negotiations launched in November 2013. Singapore: negotiations concluded in December 2012 agreement initialled in September 2013. America: US (TTIP) negotiations launched last year (July 2013). Canada: political agreement on the key elements of the Comprehensive Economic and Trade Agreement (CETA) reached in October 2013, not signed yet. Latin America: FTA signed with Colombia and Peru in June 2012 and provisionally applied with Peru in March 2013 and Colombia in August 2013. Central America Free Trade Agreement (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama) approved by EP in 2012 and trade provisions have started applying with all these countries in 2013. Negotiations re EPA (Economic Partnership Agreements) and Mercosur on-going.

ABB activity: competitiveness, industrial policy, innovation and entrepreneurship			**x Spending programme (CIP)**
	Result indicator (description + source)	Target	Current Situation
Specific objective 4: To promote innovation through improved framework conditions and support measures	Progress on implementation and follow-up of ENTR measures announced in the 2010 Innovation Union Communication (12 adopted measures)	2020: 12 measures to be implemented	2013: 10 2011: 4 2010: 1 adopted measure
	Take-up of new tools and instruments developed by the EU in support of SMEs	2014: 21 2015: 3	2013: 84 2012: 13 2011: 17 2010: 8. 2009: 9
	Estimation of leverage effect of projects in terms of additional innovation support funding mobilised by pilot projects	2014: € 0	2013: € 6.96 million 2012: € 0 2011: € 35 million 2010: € 25 million
The progress on implementation and follow-up of ENTR measures is positive with a large number of Innovation Union commitments completed in 2013 (e.g. setting up new financial instruments for innovative start-ups and SMEs, stimulating social innovation, action plan for design-driven innovation). This shows that the way towards setting up the policy framework for an Innovation Union is on track. Indeed, the EU has improved its innovation performance and has significantly reduced the performance gap towards the US and Japan but the gap with South Korea has increased. The EU27 has increased its performance lead over Australia and Canada and has kept its lead over Brazil, India, Russia and South Africa. Of the BRICS countries only the performance lead over China has decreased. In 2008 the US was performing 36% better than EU 27, this decreased to 20% in 2012. Japan performed 31% better than EU 27 in 2008 and has decreased to 15% in 2012. Concerning the second and third indicators, the increase in 2013 take-up of tools and instrument of EU-funded pilot projects is encouraging. It is above the target because it is closely linked to end of a project cycle with projects finalising that develop the new tools. The new project cycle will have different focus so this indicator and the one on leverage effect will need to be revised.			

ABB activity: competitiveness, industrial policy, innovation and entrepreneurship			**x Spending programme (CIP)**
	Result indicator (description + source)	Target	Current Situation

Specific objective 5: To promote a business environment favourable to SMEs and entrepreneurship	Reduction of number of days to set-up a new SME	Marked reduction	Working days on average in all Member States: 2013: (data are currently collected from Member States to be made available in Q1 2014) 2012: 5.4 2011: 6.5 2010: 7 2009: 8
	Reduction in the average start-up cost in the Union	Marked reduction	2013: (data are currently collected from Member States to be made available in Q1 2014) 2012: €372 2011: €397 2010: €399 2009: €417
	Number of Member States that improve procedures in relation to SMEs	Marked increase	Number of Member States: 2

In order to start-up a business, the start-up costs and the average time are crucial indicators showing how business-friendly the administrative environment is. The Competitiveness Council in 2011 already set a target of 3 days and 100 euros. The evolution of these sets in the past year shows a clear tendency to ease the burden on SMEs. Nevertheless, more efforts are needed in order to reach the set target. Member States are responsible to introduce the necessary measures into their legal frameworks.

ABB activity: competitiveness, industrial policy, innovation and entrepreneurship			**x Spending programme (CIP)**
	Result indicator (description + source)	Target	Current Situation
Specific objective 6: To open up opportunities for European SMEs in Third Country markets	Percentage of SMEs active outside the EU	2020: 18% 2014: 14%	2011: 13%
	Share of SME-dominated sectors in EU exports to twelve target markets, including China, Japan, Russia, India and Brazil	No target available	2011: 51%

The last available data as to this objective dates back to the study on “internationalisation of European SMEs” (2010) and the study on “the internationalisation opportunities for European SMEs in third countries” (2011). The data used for these studies comprise the years 2006-2009, respectively 2009-2010. In addition, given that in the first study micro companies are overrepresented, there is a clear need of a new analysis of this matter with a continuous annual observation of adequate parameters.

The two studies found that the internationalisation of SMEs could be improved. The Commission in its Communication on ‘Small Business, Big World — a new partnership to help SMEs seize global opportunities’ proposed a strategy to increase SME internationalisation. In 2013 DG ENTR continued to implement the actions of this Communication. Furthermore, the Missions for Growth undertaken by the DG also aimed at opening access to global markets for SMEs.

ABB activity: competitiveness, industrial policy, innovation and entrepreneurship	**x Spending programme (CIP)**

	Result indicator (description + source)	Target	Current Situation
Specific objective 7: To ease the exchange of experience and information among SMEs and the creation of new business partnerships	N° of young entrepreneurs participating in the ERASMUS for Entrepreneurs programme	Targets for 2014: 700 exchanges. Targets for end of 2020: around 10.000 exchanges will have been financed since the launch of the project.	Approximately 2100 exchanges have been financed so far.
	Number of business, technology and research partnership agreements concluded with the assistance of the Enterprise Europe Network(Source: activity reporting data from the Network organisations)	Targets for 2014 and 2013: 2,000 per year	2011-2012 (24 months): 4,718 agreements 2008-2010 (36 months): 4,320 agreements
	Individual SMEs reached by Enterprise Europe Network promotion (Source: activity reporting data from the Network organisations)	Targets for 2014 and 2013: 2.3 million SMEs per year	2011-2012: 2.2 million SMEs per year 2008-2010: 2.1 million SMEs per year

The Erasmus for Young Entrepreneurs programme has proved to be very successful in coping with the issue of skills mismatches. That is why the Commission is developing a new generation of this programme to make available traineeships in firms on a cross-border basis through the active involvement of industry and SMEs. Since the launch of the programme, around 8.000 entrepreneurs have registered to take part in it which highlights the fact that the demand is greater than the available financing.

Enterprise Europe Network is functioning well and is likely to meet the targets for business, technology and research partnership agreements concluded. The ENN is increasing its reputation, thus reaching a growing number of enterprises within and outside the EU. One of the most important features of the Network's structure is that it allows enterprises to easily find business partners and the IPR Helpdesks (China, Asean, Mercosur) are becoming a point of reference for European SMEs that want to internationalise.

ABB activity: competitiveness, industrial policy, innovation and entrepreneurship			x Spending programme (CIP)
	Result indicator (description + source)	Target	Current Situation
Specific objective 8: To facilitate access to finance for SMEs	Number of SME receiving new financing through the CIP financial instruments SMEG and GIF facilities (Source: European Investment Fund)	315,750 SME beneficiaries by 30 September 2017 (the end date of the longest availability period of the last guarantee agreements approved in December 2013). 1,350 GIF beneficiaries by 2019 (based on the last CIP contracts having been approved in December 2013, allowing up to 6 months for the VC funds to reach their 'first closing', followed by the usual investment period of 5 years	30 September 2013: 275 113 SME beneficiaries under SMEG and 340 under GIF (of which 325 were in CIP participating countries)
Demand for the CIP financial instruments has been strong from the very start of the programme and the allocated budget has been fully utilised. Under SMEG, it seems likely that the target of 315 750 SME beneficiaries will be exceeded, perhaps substantially, by the time the last availability periods have ended. This performance underlines the importance of the instrument in facilitating access to debt finance for SMEs, all the more so against the background of the 2008 financial crisis. Under GIF, we are still some way from the target but it is too early to predict the final outcome, since VC is a long term activity and many of the supported VC funds are still in their investment periods, so the number of beneficiary SMEs will continue to grow for at least another 5 years. Nonetheless, the GIF instrument is already considered to have had a particularly strong catalytic effect in helping VC funds to reach viable sizes, since fund-raising has been especially difficult for them since the onset of the financial crisis in 2008.			

ABB activity: competitiveness, industrial policy, innovation and entrepreneurship			x Spending programme (GMES – Galileo)
	Result indicator (description + source)	Target	Current Situation
Specific objective 9: To promote the operational use of EU Earth observation-based services (GMES-Copernicus)	Number of operational GMES-Copernicus services for earth monitoring	The final target is to make the rest of the services operational. These are: 1. Emergency management (operational) 2. Land monitoring (operational) 3. Atmosphere monitoring 4. Climate change monitoring 5. Marine environment monitoring 6. Security GMES-Copernicus service requirements consolidated and validated by Commission for operation of permanent services in six thematic areas. 2013: Implementation of the global land monitoring service and support of services take up by users. Preparation of funding modalities to be used in 2014 for implementation of services under the new Copernicus Regulation. 2014: Strengthening of Emergency and Land services. Operationalisation of Marine, Atmosphere and Security services, developed earlier under FP7. Finalisation of the definition of Climate Change service for gradual implementation of the service in 2015-2016.	Since mid-2012, two of the six services have become operational and delivered results. These are: • Emergency management, and • Land monitoring
The GMES-Copernicus precursor services are developed under the 7th Research Framework. Running of contracts for pan-EU Land monitoring and Emergency services (Early Flood Awareness System) occurred since 2012 as foreseen in the GMES Regulation (GMES initial operations 2011-2013) and Work Programme 2012 & 2013. Part of the Land Monitoring service is currently run by the European Environment Agency, the other by the Joint Research Centre. Publication of a second EMMIA call for GMES/EGNSS application promotion. The four remaining services will be closer to the operational status, a major step towards it selecting delegated entities for each (EU agencies and Intergovernmental organisations). The take-up by users has progressed, with specific events, workshops, seminars, etc. that were organised in 2013 throughout Europe. The funding modalities to be used in 2014 for the implementation of the services under the new Copernicus Regulation have been identified.			

1.1.3 ABB activity 03: Internal Market for Goods and sectorial policies

ABB activity: Internal Market for Goods and sectorial policies			x Non-spending
	Result indicator (description + source)	Target	Current Situation
Specific objective 1: To regularly review existing internal market legislation and propose new initiatives whenever appropriate	Implementation of any actions arising from the 2013 evaluation and public consultation on the internal market legislation for industrial products (Source: Commission Communication 'A vision for the internal market for industrial products' COM (2014) 25 final)	Targets: - possibly legislative actions on sanctions; - simplification of the legal framework for the marketing of industrial products; - launch an initiative on e-Compliance; - examine the interface between manufacturing products and services; - Switching from Directives to Regulations; - regrouping sectorial legislation when feasible; - promote international convergence in legislation and technical standards for industrial products	The evaluation of the Internal Market was adopted on the 22nd of January 2014. The DG starts implementing the recommendations as of 2014.
	Timely delivery of the actions announced in the Regulatory Fitness Communication possibly leading to amendments in the legislation (Source: COM(2013)685 final)	The target is to deliver all 10 ENTR initiatives mentioned in the REFIT Communication of October 2013. 2 were delivered, 8 are still to be delivered by 2016.	Completed items up to 31 July 2013: - Cumulative cost assessment of the steel sector; - Fitness check of the cars type approval system

The evaluation's scope was defined as Union harmonisation legislation for industrial products under Article 114 of the Treaty (TFEU), covering the majority of the more than 30 internal market directives and regulations concerned, as well as the workings of the regulatory regime, including European and national implementation structures.
On relevance and coherence, the conclusion is that the need for such legislation is accepted. The periodic recasting of IM directives and regulations has helped to ensure that Union harmonisation legislation remains coherent and relevant. The New Legislative Framework and Alignment Package of 9 Directives have begun to strengthen the coherence of the legislative framework for Union harmonisation legislation and promoted its modernisation. There are a number of areas where greater clarity would help to strengthen coherence such as in relation to spare parts and components. Furthermore, the more widespread use of regulations and an umbrella regulation which streamlines the existing common legal framework for the marketing of industrial products is suggested.
Implementation mechanisms are generally judged effective as far as the Commission, Administrative Cooperation Groups, Notified Bodies Groups, National Competent Authorities and Product contact points are concerned. However there are concerns regarding the effectiveness and consistency of market surveillance, despite first steps taken by the Commission through the NLF and the PSMSP. The quality and consistency of the services provided by notified bodies could potentially be further improved through more rigorous accreditation.

ABB activity: Internal Market for Goods and sectorial policies			x Non-spending
	Result indicator (description + source)	Target	Current Situation
Specific objective 2: To ensure the correct enforcement of EU law	Number of "Detailed opinions" by the Commission and the Member States stating that draft national technical regulations notified by Member States (according to Directive 98/34) may create obstacles to the functioning of the Internal Market (free movement of goods or Information Society Services) (Source: TRIS database)	Reduction of "Detailed opinions" stating possible obstacles to the functioning of the internal market	2013: 165 2012: 125 2011: 109 2010: 104 2009: 130
	Number of consultations of the 98/34 and TBT notifications database measuring the awareness among stakeholders (Source: Commission TRIS and TBT databases)	Yearly increase	2013: 172 (equalling ca. 605,000 consultations/informa tion) 2012: 166 2011: 141 2010: 118 2009: 100 2008 : 100 (baseline index)
	New infringement cases for the policy area Enterprise and Industry (including cases based on complaints, own-initiative cases and non-communication cases, excluding cases transferred into ENTR by other DGs)	Reduction of new infringement cases Targets for new infringement cases for 2013 and 2014 cannot currently be estimated due to the present transition to a new infringement data system.	2013 63[5] 2012: 39[6] 2011: 56 2010: 63 2009: 148
	Chemicals (REACH Regulation with support of ECHA)		
	Adoption of Commission Regulations adding restrictions to Annex XVII of REACH	ECHA to continue process of updating the candidate list and recommending substances for inclusion in Annex XIV 4th amendment of Annex XIV expected in 2nd quarter 2014 based on ECHA's fourth	151 substances on the candidate list for substances of very high concern (December 2013) Third amendment of Annex XIV was adopted on 17 April 2013 with inclusion of 8 substances. The list contains 22

5 This figure corresponds to infringement cases opened in the NIF database. However, it should be noted that 187 new complaints were registered in the CHAP system and 87 EU Pilot files were also opened during 2013.

		recommendation to include new substances.	substances
	Adoption of Commission Regulations adding restrictions to Annex XVII of REACH	Increasing number of restrictions added or adapted to technical progress, to Annex XVII to REACH. ECHA expected to transmit scientific opinions for 3 restriction proposals (1 in early 2014 and 2 in late 2014).	1 Commission Regulation amending REACH was adopted 2 Commission Regulations are pending before the legislator (see details below)

DG ENTR is responsible for managing EU legislation governing the internal market for products. The DG is committed to keeping the internal market legislation modern and up to date to ensure the free flow of goods. The DG is also committed to the principles of smart regulation so as to avoid unnecessary burdens on businesses and citizens. This is why the DG is a major contributor to the Commission programme on regulatory fitness (REFIT).

The number of detailed opinions and infringement cases has increased, showing the systematic activity of the DG in tackling the issue of potential infringements of the Treaties, thus ensuring the correct functioning of the Internal Market. This can be seen as fundamental action of the Commission services which are gaining reputation and growing importance among stakeholders, as shown by the increased number of consultations of the 98/34 and TBT notifications database. The increase in the number of detailed opinions demonstrates that the Member States have notified more draft national regulations that do not respect the Treaty and the related provisions and that the Commission has efficiently identified those problems and reacted with detailed opinions. A detailed opinion brings a dialogue which in 95% of cases resolves the issues and removes the need for heavy infringement procedures. The increase thus reflects a combination of a deteriorated respect for the internal market by the Member States and efficient management by the Commission services.

Concerning REACH, there is no final target in terms of final numbers of substances on candidate lists, Annex XIV or restricted in Annex XVII. It is expected that the numbers will increase over time. Draft Commission Regulation for amending Annex XVII to REACH concerning restrictions on PAHs in certain consumer goods was adopted as Regulation (EU) N° 1272/2013 on 7 December 2013. Draft Commission Regulation for amending Annex XVII to REACH concerning restrictions on Chromium VI in leather articles obtained a positive vote of the REACH Committee in written procedure in November 2013 and is under scrutiny of the Council and EP until 7 February 2014. Draft Commission Regulation for amending Annex XVII to REACH concerning restriction on Dichlorobenzene received a positive vote in the REACH Committee of 17 December 2013 and is under scrutiny of the Council and EP until 7 April 2014.

It is a continuous process, based on proposals by actors which the DG cannot control, i.e. Member States, or can control only partially (ECHA). If amendments are continued at the same rhythm (1 for annex XIV, 3 for annex XVII), it can be said that performance is on track.

ABB activity: Internal Market for Goods and sectorial policies			**x Non-spending**
	Result indicator (description + source)	Target	Current Situation

Specific objective 3: To promote the development and use of innovative European standards	Rate of national transposition of European standards (ENs in support of EU legislation & policies and other ENs)	Close to 100% implementation rate of European standards at national level	Implementation rates reported by the three European standardisation organisations : - ENs in support of EU legislation & policies: CEN: 99%, CENELEC: 98% (December 2013) ETSI: 94% (December 2013) - Other ENs: CEN: 99%, CENELEC: 98% (December 2013) ETSI: 94% (December 2013)

Concerning the national transposition of EU standards we are very close to the target. Indeed, in 2013, the Standardisation Regulation (EU) No 1025/2012 entered into force and the Commission launched a Communication on the annual Union Work Programme for European Standardisation. An Independent Review on the European Standardisation System (Process) has been launched end of 2013; the implementation of the results will be tabled in 2014.

1.1.4 ABB activity 04: Space and Security

ABB activity: Space and Security			**x Spending programme (FP7)**
	Result indicator (description + source)	Target	Current Situation
Specific objective 1: To support research and innovative applications in the space sector	**FP7 contribution to Space research in general, including GMES-Copernicus**		
	Number of projects generated in new topic/thematic areas through FP7 space R&D.	2014: The Space Research activities in H2020 were launched with 5 calls and 20 topics for 2014, and 5 calls and 13 topics for 2015 (161.5 M€ + 181.75 M€) 2013: 56 projected proposals (53+3 reserve list – 51 signed and 5 under negotiations)	2013: 53 (6th call – 53 in Space) 2012: 50 (5th call – 50 in Space) 2011: 33 (4th call – 33 in Space) 2010: 77 (3rd call – 77 in Space) 2009: 27 (2nd call – 27 in Space) 2007: 19 (1st call – 19 in Space)
	Progress made in development of GMES-Copernicus space infrastructure: i.e. towards completion and launch of Sentinel 1, 2 and 3 A and B satellites	Completion of Sentinel 1, 2 and 3 A and B satellites and launch of 1, 2 and 3 A by end 2014	Remaining procurement contracts placed for development and construction of the satellites and ground segment. Preliminary and critical

			design reviews conducted and launch providers selected for Satellite A systems and their ground segments. Completion of Sentinel 1
	Satellite data provision in response to Copernicus service requests	Space data provision for GMES-Copernicus service development and geo-information R&D activities.	Preliminary Coordinated Data Access System deployed and providing space data from national and commercial satellites.
	Number of GMES-Copernicus services made pre-operational for earth monitoring	2014 The H2020/Space WP foreseen pre-defined activities for continuing the 'Atmosphere' and 'Marine' Services before the COPERNICUS regulation is adopted The final target is to make the rest of the services operational. These are: 1.Atmosphere monitoring 2.Climate change monitoring 3.Marine environment monitoring 4. Security 2013: R&D aiming at preparation of the sixth thematic area of Climate Change.	Since mid-2012, three of the six services have become pre-operational to support the full operationalization of the Copernicus services. These are: • Atmosphere monitoring • Marine environment monitoring • Security Components for the Climate Change monitoring service are still being developed separately in order to integrate into a comprehensive service in the post FP7 period. Further evolution of the two operational services (Emergency and Land) is supported with several R&D actions.
	FP 7 contribution to GNSS (EGNOS and Galileo] (Source: GNSS Agency (GSA) and European Commission)		
	Number of projects funded	FP7 3rd call (2011): 42 FP7 2nd call (2009): 50 FP7 1st call (2008): 23 FP6: 77	
	Number of companies and organisations involved	FP7 3rd call (2011): 218 FP7 2nd call (2009): 166 FP7 1st call (2008): 119 FP6: 428	
	Amount spent by EC + amount put in by industry (EUR mio)	FP7 3rd call (2011): 36.2 + 20.3 FP7 2nd call (2009): 39.6 + 14.2 FP7 1st call (2008): 42.5 + 9.4 FP6: 110 + 60	

	Share of SME participation	FP7 3rd call (2011): 35% FP7 2nd call (2009): 37% FP7 1st call (2008): 50% FP6: 33%

Three components of the Land Monitoring Service within GMES Initial Operations were implemented: (i) pan-European land cover - land cover change and land cover characteristics; (ii) a 'local' component providing very high resolution information on specific areas of interest and (iii) the 'global' component - producing biophysical variables at global scale and contributing to GEOSS. Feeding into all three components there is a cross-cutting theme of access to reference data, which builds on the INSPIRE architecture.

Regarding the Emergency Management Service (EMS) Mapping, the transition from the FP7 funded SAFER project has generally been effective and maintained continuity. The service meets identified user needs for the timely provision of reference data and 'before and after' reference maps. It incorporates the cumulative practical experiences and knowledge built up over several years about user needs. There remains a challenge in the timeliness of data products availability in Rush Mode for civil protection agencies. There is some room for improvement at National Focal Points level in putting in place mechanisms to structure the user community. The level of satisfaction is globally high among service users with final image products. The EMS-Mapping Service could be made more effective if the space component were to be supplemented where appropriate in Rush Mode with very high resolution in-situ data for specific types of emergencies.

1.1.5 ABB activity 05: EU Satellite Navigation programmes

ABB activity: EU Satellite Navigation programmes			**x Spending programme (Galileo)**
	Result indicator (description + source)	Target	Current Situation
Specific objective 1: To provide satellite-based services improving the performance of GPS over Europe (EGNOS)	**A) EGNOS services** (Source: EGNOS monthly performance report 12/2013)		
	Open service [OS]	Continuity of OS Transfer to GSA in 2014	In 2013, availability rates for the EGNOS OS consistently exceeded 99%. The horizontal accuracy results were within 1.3 meter for 95% of the time and the vertical accuracy within 2.4 meters (95%), which represents a very good level of accuracy. As of 1 January 2014 the European GNSS Agency is in charge of the operational management of EGNOS programme.
	Safety of Life Service [SoL]	Continuity of SoL Transfer to GSA in 2014	The SoL service achieved an excellent availability close to 100% at airports with EGNOS procedures.
	EGNOS Data Access Service [EDAS]	2013: Additional features + Establish pricing policy 2014: Transfer to GSA	The continuous operation of the EDAS was assured throughout 2013. The EDAS Service Definition Document

			with additional features was published in July 2013. Following a discussion on the establishment of pricing policy, the European GNSS Agency will propose a roadmap of a commercial EDAS through external service providers in 2014.
	B) EGNOS geographical coverage extension		
	Number of operational Ranging and Integrity Monitoring Stations (RIMS) (Source: European Commission)	2013: 39 (+2) 2014: 39 2015: 40 (+1)	At the end of 2013: 39 RIMS are in operation

The performances of EGNOS services were fully compliant with specifications in 2013. New versions of Service Definition Documents (SDD) were released for all three EGNOS services in 2013. Particularly the EGNOS SoL SDD published in June 2013 had a major impact as it significantly increased the EGNOS coverage area. The continuation of EGNOS services was secured for the period of 2014-2020 following a signature of contract between the European GNSS Agency and ESSP, the European Satellite Services Provider in June 2013.

The new EGNOS system release (v2.3.2) was deployed in November 2013, bringing considerable improvements for the users, enhancing the robustness of EGNOS to specific ionospheric events and GPS outages as well as reliability of EGNOS mainly thanks to the solution of obsolescence for several EGNOS elements.

In 2013 there were 83 airports with LPV (Localiser Performance with Vertical Guidance) approaches and 71 with vertical guidance with APV Baro-VNAV procedures (Approach Procedure with Vertical guidance). This is a total of 154 airports with EGNOS landing procedures.

ABB activity: EU Satellite Navigation programmes			**x Spending programme (Galileo)**
Specific objective 2: To develop and provide global satellite-based radio navigation infrastructures and services (Galileo)	**A) Galileo infrastructure** (Source: European Commission)		
	Cumulative number of launched satellites (IOV +IOC satellites)	Continuity of OS Transfer to GSA in 2014	While the Galileo ground segment continued to be deployed as planned, difficulties were experienced in the production of satellites. The testing of the first two satellites of a new series took longer than expected, and the launches foreseen in 2013 had to be postponed. The future launch schedule was consolidated in December 2013.
	Number of operational satellites	2014: 10 (OSSR 3) 2013: 4 (IOV-R and OSSR 1)	The four operational Galileo satellites achieved their first autonomous position fix in March 2013. Several ground stations

			were deployed worldwide. The validation phase of Galileo ended successfully in 2013.
	B) Galileo services (Source: European Commission)		
	Open Service [OS]	2014: early service (in combination with American GPS and Russian GLONASS)	The preparations for declaring the initial Galileo open service were on-going in 2013.
	Search and Rescue Service [SAR]	2014: early service (first contribution to COSPAS SARSAT MEOSAR service) 2013: have a SAR service provider in place	In 2013 a contract with CNES was signed regarding SAR service provision. The preparations for initial Galileo SAR service in 2014 were on-going.
	Public Regulated Service [PRS]	2014: early service 2013: demonstrator capability - pilot projects with Member States	The PRS test campaigns in Belgium, France, Italy and Britain were conducted by the participants of the PRS in-orbit validation. The PRS tests have demonstrated a current autonomous positioning accuracy below 10 m when in the correct geometrical configuration. This is an impressive result considering the small number of Galileo satellites in orbit and the limited ground infrastructure so far deployed.
	Commercial Service [CS]	2014: demonstrator capability	In 2013 the preparations for the Galileo commercial service demonstrator were on-going.

The most important achievement of 2013 for the Galileo programme was the successful autonomous position fix with four Galileo satellites in March 2013 and a successful completion of the in-orbit validation phase by the end of 2013.
The future governance and financing of the Galileo and EGNOS programmes was secured by the adoption of Regulation (EC) 1285/2013 on implementation and exploitation of these programmes. An overall budget of 7071.73 million EUR is available for financing the activities of these programmes for the period from 1 January 2014 to 31 December 2020.

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

The respect of the principles of economy and efficiency is continuously pursued through the implementation of internal procedures and predefined practices.

DG ENTR is continuously fine-tuning its internal procedures in order to improve the efficiency and economy of its operations. The following two initiatives show how these principles are implemented in our DG:

1.2.1 Human resources assessment

In the context of reducing resources, the management of DG ENTR, together with the support of the Internal Audit Unit, performed an in-depth analysis aimed at establishing a robust approach for the identification and implementation of potential efficiency gains in the area of Human Resources.

The results of this assessment were particularly relevant and value adding in the framework of the implementation of the staff reduction exercise and allowed DG ENTR to adopt the best possible strategy to manage staff taxation and redeployment and to achieve a significant reduction of staff overhead rates. These measures, implemented in 2013, concerned a total of 70 posts which were redefined, redeployed or suppressed.

In a continuous effort to further optimize its operations, DG ENTR created working groups composed of management staff with the aim of proposing solutions for further improving efficiency in the DG.

1.2.2 Electronic submission of grant proposals

Following a pilot project started in 2012, with the exception of ad hoc grants (e.g. in the case of standardisation), all DG ENTR grant proposals are now submitted electronically using an existing research family IT tool. Proposals arriving at DG ENTR by any other means are regarded as not submitted, and are not evaluated. The data uploaded are securely stored on a server to which only the applicants participating in the proposal have access until the deadline. This data is encrypted until the close of the call. This is an important step towards a reduction of the burden for the participants avoiding a paper submission of documents. In addition, it allows a quicker treatment of files and the building of a single repository of all DG ENTR grant beneficiaries.

2. MANAGEMENT OF RESOURCES

Assurance is an objective examination of evidence for the purpose of providing an independent 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-General. The reports produced are:

- the AOSD reports submitted by the Directors, which include the outcome of internal control monitoring within each Directorate;
- the reports from Authorising Officers in other DGs managing budget appropriations in cross-delegation;
- the reports on control results from entrusted entities in indirect management as well as the result of the Commission supervisory controls on the activities of these bodies;
- the contribution of the Internal Control Coordinator (ICC), including the results of internal control monitoring at DG level;
- the results of ex-ante and ex-post controls;
- the analysis of reported weaknesses and exceptions of the internal control;
- the opinion and the observations of the Internal Audit Capability (IAC);
- the observations and the recommendations reported by the Internal Audit Service (IAS);
- the observations and the recommendations reported by the European Court of Auditors (ECA).

This section reports the control results and other relevant elements that support managements' assurance on the achievement of the internal control objectives[7]. It is structured in three separate sections: (1) the DG's assessment of its own activities for the management of its resources; (2) the assessment of the activities carried out by other entities to which the DG has entrusted budget implementation tasks; and (3) the assessment of the results of internal and external audits, including the implementation of audit recommendations.

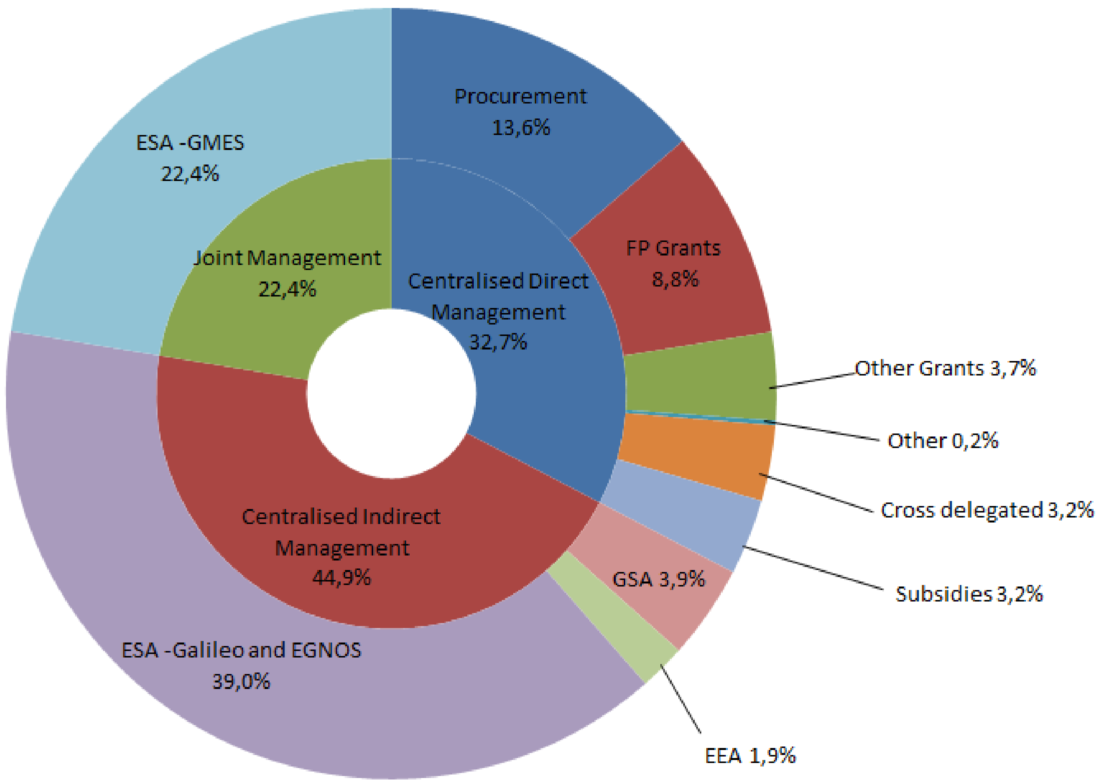
DG ENTR transactions are carried out under three different management modes: centralised direct, centralised indirect and joint management.

In 2013, the biggest part of ENTR expenditure was implemented by the European Space Agency (ESA). The budget of the GNSS programmes (Galileo and EGNOS) is implemented under centralised indirect management. Furthermore, ESA was implementing the Space Component of the Global Monitoring for Environment and Security (GMES) partly funded by DG ENTR under joint management.

[7] 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).

In addition, the European GNSS Agency (GSA) and the European Environment Agency (EEA) implement delegated budget under centralised indirect management. DG ENTR implements its other expenditure under centralised direct management (e.g. CIP, FP7, EACI subsidy, etc.).

The following chart gives an overview of the types of payments made in 2013[8]:



The above chart does not include the amount of € 403,031 related to payments executed by DG ENTR under cross-delegations received from other authorising officers by delegation.

As shown above, a substantial share (more than 61.4 %) of DG ENTR's budget is managed through cooperation with the ESA under two different management modes. The DG also awards numerous grants which in total represent 12.5 % of the expenditure for 2013.

2.1 Management of human and financial resources by DG ENTR

This section reports and assesses the elements identified by management that support

8 This chart represents the outturn on payment appropriations made in 2013 – (see Annex 3 table 2) including the administrative expenditure and expenditure under cross-delegation executed by other DGs.

the assurance on the achievement of the internal control objectives. 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 systems and procedures for data collection available at DG ENTR in 2013 are historically based on financial accounting and do not allow precise cost accounting reporting. As a result, information related to efficiency and cost-effectiveness of controls provided below is based on the best available information complemented by reasonable yet rough estimations. DG ENTR manages a large portfolio of heterogeneous activities in various domains, involving different ways of financial intervention. In view of this operations' array, the information on effectiveness, efficiency and cost-effectiveness of controls is presented to eloquently cover an activity by merging and generalising the information for several sub-activities. As a consequence, this information should be treated with caution and particularly in an attempt to compare it with other services and/or programmes.

DG ENTR will further explore ways for enhancement of collection, classification and recording of data related to the cost and benefits of its individual control activities.

2.1.1 Grants (12.5% of 2013 payments)

Control effectiveness as regards legality and regularity

DG ENTR 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. In 2013, 12.5% of DG ENTR budget was implemented through grants under the 7th Framework Programme for Research (8.8%) as well as through other grants (3.7% - CIP, Standardisation, Internal Market).

Key indicators on control effectiveness	**Results for the reporting year**
Percentage of calls for proposals successfully concluded within the year following their publication in the DG's Management Plan/Work Programme	81 % (the evaluation of calls launched at the end of the year is still on-going but is in the envisaged time frame)
Percentage of proposals evaluated within the year as compared to all proposals received	82 % (90 % taking into account the results from 1 call with evaluations concluded in Q1 2014)
Ratio of proposals received to proposals selected	3.5

Percentage of evaluated proposals for which a redress procedures[9] was initiated	0%
Budget execution rate: total grant amount committed/paid compared to the original commitment/payment budget envelope	Commitments 100 % [1] Payments 99 % [1]
Percentage and value of reductions made to EC contribution paid out, through targeted (non random) in-depth ex-ante desk checks / total value of cost claims desk checked	2.66% € 663,198
Number of ex-post audits finalised: FP7 Research grants **(multiannual cumulative results)** % of population covered: € value coverage: Representative Error Rate from the common research audit sample (CRaS): DG ENTR Residual Error Rate (RER)[10]: Other grants **(multiannual cumulative results)** % of population covered: € value coverage: Most Likely Error Rate:	38 51 % € 63.6 million 4.14 % 2.92 % CIP: 21% Standardisation: 44% CIP: €14.1 million Standardisation: €34.8 million CIP: 7.82 % Standardisation: 1.04 %
Value of corrections 'made', by implementing audit results, by recoveries or offsetting in next payments	Recoveries orders issued: € 0.9 million Offsetting: € 1.4 million

9 A redress procedure provides applicants with the possibility of filing a complaint if they think that there were shortcomings in the handling of their proposal during the evaluation.

10 This includes the DG ENTR own corrections and the extrapolation of systematic error to non-audited projects of the same beneficiary

Conclusion:

The above indicators show that the majority of the calls for the year were performed as planned. In addition, on average calls are 3.5 times oversubscribed, which demonstrates, on the one hand, the attractiveness of the EU grant schemes and, on the other hand, the considerable competiveness of the process. It can therefore be concluded that the evaluation process adds high value by selecting from a large portfolio of proposals only those which will add the most value to the EU goals.

In 2013, neither DG ENTR nor the Ombudsman received any complaints from unsuccessful call applicants regarding the evaluation of the proposals. There were no legal proceedings initiated in this respect. This provides a good indication of the robustness of the grant award process and assurance with respect to the internal control system.

Despite the combination of a particularly challenging agenda and budgetary constraints, the DG succeeded in making the financial management for the last year of our 2007-2013 programmes a success. With a budget implementation of 100 % [1] in commitments and 99 % [1] in payments and as little as 2.19% of payments made outside legal deadlines, our DG obtained its best result ever.

In 2013, the ex-post Control Team finalised 38 audits of projects managed by DG ENTR related to Space, FP7, CIP and Standardisation programmes, reaching significant audit coverage. In general, audits have a strong deterrent effect within the programmes as the beneficiaries are aware of the possibility to be selected for an in-depth financial verification.

(A) Research Grants (8.8% of 2013 payments)

The Research Framework Programmes are implemented mainly through 'centralised management', which implies direct financial contributions through co-financed contracts signed with external parties (research organisations, companies). In 2013, € 88 M was paid in relation to grant agreements signed in 2013 or earlier. At the moment when the payment is authorised, the Commission does not intend and is not able to fully control, for every payment, that the amount paid is accurate and in compliance with the applicable legal and contractual provisions. That would require the Research DGs to add a huge administrative burden onto participants, and would be impossible with the human resources available. Instead, and in line with recommendations by the European Parliament and the Council, the Research DGs operate a trust-based system of controls before payment, with limited substantive controls. Instead it bases its main assurance on in-depth checks carried out on a sample of beneficiaries after costs have been incurred and declared.

The Research DGs have defined and implemented a common strategy, the key elements of which are the ex-post audit strategy and the recovery of any amounts found to have been paid in excess of the amount due. 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. They complement the ex-ante controls embedded in the Research FPs' management processes.

Since 2012, a Common Representative audit Sample (CRaS) is used by the Research Family DGs to identify the common errors across the whole of FP7 operations. This sample was instrumental in lowering the audit burden on large beneficiaries who, before the implementation of this new approach, would have been audited by several Commission services.

For FP7, materiality is assessed in accordance with Annex 4. The objective is to ensure that the estimated residual risk of error is less than 2% cumulative by the end of the programme implementation.

Applying the above mentioned common representative error rate (4.1%, based on 156 completed audits which represents 96% out of a sample of 162) on DG ENTR's own audit population and considering the corrected amounts, the estimated residual error rate is 2.92%. The analysis of the errors found during the controls shows that nearly all significant errors relate to staff costs and indirect costs incorrectly declared by grant beneficiaries as eligible. As a consequence, the FP7 reservation is maintained for 2013 (please see point 4.2)

In order to prevent the repetition of these errors in future cost declarations, beneficiaries are informed about the correct way to calculate these costs and about the most frequent errors committed when calculating them. In addition, exhaustive guidance is publicly available on the CORDIS website. Certifying auditors who are found to have signed unqualified audit certificates for erroneous amounts of eligible costs are also directly informed about their errors and are invited to consult the available information in order to avoid similar errors in the future.

In complement to the audits of the CRaS, DG ENTR finalised 22 corrective and risk-based audits. In addition, the GSA carried out ex-post audits on the budget delegated to it by DG ENTR for FP grants.

Based on the results of these ex-post audits, forecasts of revenue are issued to follow up the implementation of the audit results. This implementation is monitored by senior management on a quarterly basis. In addition, liquidated damages are applied and the systematic errors detected during the audits are extrapolated to the other non-audited projects of the beneficiaries concerned.

The implementation rate (recoveries, offsetting, waivers) of audit results stemming from audits finalised before 2013 is 95%. If we include the audits finalised in 2013, this rate is 32 % with a cumulative amount of € 682 thousand recovered. This much lower rate is due to a significant increase in the number of audits completed during the year, and the fact that the recovery process takes on average 9 months to be completed. In addition, liquidated damages totalling € 590 thousand were applied.

In 2013, DG ENTR also managed financial operations under FP6 but given their non-material amount and the fact that these are the residual payments for a programme which is now closed, this AAR no longer includes details about these transactions.

Details on the Research services' common control strategy and on the expected evolution of the common representative error rate can be found in the AAR of DG

Research and Innovation.

(B) Other Grants (3.7% of 2013 payments)

As part of its political objectives in the area of standardisation, the European Commission concludes operating and action grants with European standardisation bodies which function in a monopoly situation (e.g. CEN, CENELEC and ETSI). In 2013, five audits of standardisation agreements were finalised bringing the total number of audited standardisation agreements to 28. The number of audits performed, however, is too low to provide statistically representative information.

The total adjustments show a detected cumulative average error of 1.04%. Typical errors concern personnel and indirect costs categories. The error is immaterial compared to the standard materiality criterion, which is used for the ABB activity. The low error rate is a result of, on the one hand, the correct application of the Framework Partnership Agreement provisions, which clearly define eligible costs, and on the other hand, the application of the related control strategy.

DG ENTR also provides grants to beneficiaries in the area of Competitiveness, Innovation and Entrepreneurship. The indicative detected error rate for the cost statements provided by the beneficiaries under such grant agreements is 7.82%. Typical errors concern personnel (in-house consultants and owner manager costs) and subcontracting. Although this error rate is rather high, considering the small amount of payments made in 2013 under such grant agreements, the overall detected error rate remains below the standard materiality threshold for the concerned ABB activity.

Although its audit results are not representative, DG ENTR recognises the upward trend of the error rate detected under innovation grant agreements. It has therefore revised and strengthened the ex-ante control strategy to be applied to these cost claims.

Control efficiency and cost-effectiveness

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

This section outlines the indicators used to monitor the efficiency of the control systems, including an overall assessment of the costs and benefits of controls of all grants managed in DG ENTR under different programmes.

Key indicators on control efficiency	Results for the reporting year

Average Time-To-Grant[11]	180 days
Average Time-To-Pay % on time Average days of suspension % of payments suspended	15.5 days 98% on time 36 days 15.9%
Average Time-To-Recover	74 days

Key indicators on control cost-effectiveness	**Results for the reporting year**
Average number of running grants managed per financial management and control FTE Average value of running grants managed per financial management and control FTE	8 € 9.3 million
Total cost of ex-post audits Average cost of an ex-post audit	€ 1 million (38 audits in total) € 26,461
Overall cost of management and control of grants versus total value of grant payments made in the year Average cost of management and control per grant	5.4 % € 15,735
Conclusion: The ex-ante and ex-post controls materially reduced errors in the beneficiaries' cost claims. In terms of costs, it should be considered that a significant part of them is related to the legal requirements for performing payments, namely to ensure a minimum set of controls for each transaction. In addition, the evaluation of the proposals provides assurance that only the most excellent projects, which will best contribute to the achievement of the policy objectives of the call for proposals, are selected within the respective legal framework. The oversubscription of some calls	

[11] The new Financial Regulation entered into application on 1 January 2013 set out new time limits for time to grant. The time to grant is split in (i) average time to publication of selection results targeted at 6 months and (ii) the average time from the publication till the signature of grant agreements targeted at 3 months (FR 128.2). These new targets apply to the calls published after 1 January 2013. The calls launched by the ENTR in 2013 are currently on-going and the selection results are not yet published for all the calls. As a result the average time to grant is measured for the calls launched in 2012, versus the targets set out in the 2012 Work Programme. Due to the particular nature of the "Security" FP7 grants managed directly by DG ENTR, the Time-To-Grant (591 days) is higher than the average of the Research DGs. This is explained by the additional delay needed to obtain security clearance.

underlines the importance of this stage of the process, and justifies the costs of the evaluations.

The financial controls carried out contribute to the compliance with the legality and regularity of the transactions and to the protection of the EU financial interests as any error detected will be corrected. In addition, they produce an important learning effect both for the beneficiary and for the Commission as they provide essential knowledge and understanding of any potential risks related to grant management. It has a significant deterrent effect on beneficiaries with fraudulent intentions and contributes to the continuous review and improvement of internal control processes.

The process also enables the Commission staff to identify areas of potential policy issues and implementation issues, which can feed into the elaboration of future policies in the same domain.

It is considered that the audit and recovery processes are cost-effective. The limitation to the number of audits is justified by policy considerations, namely to ensure a good balance between trust and control and to minimise the administrative burden for participants.

Audits have an overall deterrent effect as many beneficiaries will take extra care over the preparation of their cost claims knowing that audits may follow. The auditors can also avoid future errors by providing guidance to participants. In addition, the experience of auditors on the ground has been important in many improvements proposed in the legislation and rules for the new generation of grant programmes, such as COSME and Horizon 2020. For example, one of the drivers for a flat rate for indirect costs was the regular identification of errors in the use of real indirect costs, and the lack of understanding of the complex real indirect cost rules by the participants.

DG ENTR quantified the costs of resources and inputs required for carrying out the controls described in annex 5 and estimates, insofar as possible, their benefits in terms of the amount of errors and irregularities prevented, detected and corrected by these controls.

DG ENTR considers that the necessity of these controls is undeniable, as they are imposed by the Financial Regulation and the totality of the funds would be at risk in case they would not be in place.

Given that the overall cost of management and control of grants is only 5.4% of the grants value concerned, this is considered to be cost-effective, both overall and also when taking into account the relative number and size of the grants to be processed.

Further controls would not add significant value to the quality of the delivered results. Therefore, DG ENTR does not intend to increase them, as this would adversely affect the other objectives of the programmes (attractiveness, reduction of administrative burden, etc.) and the overall result would be less cost-effective.

2.1.2 Procurement (13.6% of 2013 payments)

Procurement represents 13.6 % of the total 2013 DG ENTR expenditure under direct centralised management. The Internal Control Template (ICT) n°3 for procurement in Annex 5 demonstrates how the control system in place in the DG addresses the risks related to this type of expenditure. In 2013, 43 contracts with a value exceeding €60,000 were awarded directly by DG ENTR, representing a total contract value of € 69 million (see Annex 3, tables 11 and 12). Only 1.38 % of this amount was awarded following a negotiated procedure.

This does not include, however, contracts signed by the European Space Agency (ESA) in the name and on behalf of the Commission under ESA Delegation Agreements. As mentioned in 2.2, the EGNOS and Galileo programmes are executed principally by ESA as delegated procurement agent, signing contracts on behalf of the Commission, under indirect centralised management. For these procurements ICT n°3 in Annex 5 is also valid with the exception that the verifying agents of DG ENTR do not see the tender documents before publication. In 2013, ESA finalised 7 such procurement procedures (negotiated procedures), with a total contract value of € 24.8 million.

In addition, ESA requested and obtained approval for the signature of 17 further commitments implementing or amending existing (framework) contracts, amounting to total of € 47.7 million (specific contracts, activation of contractual options and other contract changes).

The risks related to public procurement are effectively mitigated by means of independent ex-ante verifications. Tender documents need approval by the independent experts of the Financial Resources and Internal Control Unit before they are allowed to be published. Tenders are evaluated by evaluation committees, as foreseen by the Financial Regulation. The absence of conflicts of interest of the evaluators is ensured. Evaluation reports also need approval by the independent experts of the Financial Resources and Internal Control unit before the authorising officer takes the award decision. For high value procurements, an ad hoc committee of senior officials examines the evaluation report before the award decision can be taken. All procedures are documented in detail in the DG ENTR Manual of Budgetary and Financial Procedures. Before any payment is completed, the timely execution of the contract is checked and a financial verification is performed. All errors detected are corrected. Materiality is defined as 2% of the payment appropriations of the ABB activity. For the contracts signed by ESA on behalf of the Commission tender documents are not checked ex-ante but the verification of the evaluation report and the award decision is done in the same way as for contracts signed directly by DG ENTR.

The following indicators demonstrate the effectiveness and efficiency of the internal control system in relation to procurement:

Key indicators on control effectiveness	**Results for the reporting year**
Percentage of calls successfully concluded versus calls planned	100 %

Complaints received from unsuccessful economic providers as percentage of the number of tenders	0 %
Number of cases received by the Ombudsman per year relating to procurement procedures	0
Number of legal proceedings initiated by contractors or economic providers against the Commission relating to procurement procedures	0
Number of instances of overriding of controls in relation to procurement procedures	0
Budget execution rate - total amount committed/ paid compared to the total budget envelope	Commitments: 100 % [1] Payments: 99 % [1]
Percentage of contract for which their objectives were achieved	100 %
Open critical and/or very important audit recommendations	0

Key indicators on control efficiency	**Results for the reporting year**
Average Time-To-Publication of selection results	146 days
Coverage of first level ex-ante controls:	100% of all commitments and payments, 100% of all tender documents and evaluation reports
Coverage of second level ex-ante controls:	11.58 %[12] of all payments, 100% of all tender documents and evaluation reports
Number of positive/ suspensive /negative opinions issued on the launch and evaluation of procurement procedures:	282/41/0

12 This is the percentage of all transactions (including procurement and grants) that are subject to an extended workflow.

Key indicators on control cost-effectiveness	Results for the reporting year
Average number of contracts per management and control FTE	9
Overall cost of control of procurement as cost of management and control FTEs	€ 6.2 million [13] (50 FTEs)
Overall cost of control of procurement as percentage of overall own DG ENTR procurement expenditure	4.6 %

Conclusion:

The procurement procedures applied in DG ENTR involve a number of specific controls, which are fully in line with the applicable regulatory requirements. The benefit of these specific controls provides assurance on legality and regularity, transparency, equal treatment and proportionality of the public procurement and mitigates the risk of reputational damage. Furthermore, these controls effectively contribute to assure excellence in the quality of the selected tenders and in the quality of the delivered goods and services. Seen the significant overall value of procurement managed by DG ENTR under direct and indirect management, DG ENTR is of the opinion that the level of efficiency and cost-effectiveness of the controls operated is adequate.

Given the low error rate there are no indications that a higher level of checks and controls would produce any supplementary benefits.

Fraud prevention and detection

As foreseen in the Commission's overall Anti-Fraud Strategy (AFS)[14], DG ENTR has developed its own AFS. On 9 July 2013 DG ENTR adopted a revised version of its first AFS, initially adopted on 7 November 2011. It describes the specific DG ENTR context, makes an assessment of the anti-fraud measures already in place and reports on the results of the anti-fraud actions implemented in 2012. The scope of the revised strategy has been widened, containing revised objectives and a well-focused action plan. The AFS is an essential element in the development of a strong anti-fraud culture within the DG. It draws on existing best practices and uses existing procedures and tools as much as possible so as to avoid any new or additional burden for the services. By the end of the year good progress had already been achieved on the new AFS Action Plan.

13 A portion of these FTEs is related to the control of the industrial procurement performed by ESA on behalf of DG ENTR.

14 COM(2011) 376 24.06.2011.

DG ENTR puts a strong emphasis on fraud prevention by encouraging proportionate and targeted preventive ex-ante controls. Customised fraud-awareness trainings were provided to ENTR staff throughout the year, requesting that participants disseminate the know-how from the courses within their respective units, thus achieving a leverage effect. A dedicated intranet page provides relevant guidance and tools to staff, including a list of red flags for detecting potential fraud. An anti-fraud desk was established in the financial resources and internal control unit.

By extending the use of the Research family IT-tools to also monitor grants awarded under the other programmes managed, the DG has set the first steps towards creating a register of all its beneficiaries and their cost claims. This will create the basis for improved risk analysis. As a parallel pilot project, DG ENTR now has the possibility to check documents against plagiarism.

In 2013, the DG ENTR Consultative Group on Irregularities (CGI) met three times and informed the Director-General of three potential fraud cases brought to its attention either as the result of ex-post audits or upon direct notification by DG ENTR operational services. The Director-General decided to transmit the three cases to OLAF for examination and possible investigation. In addition, four CGI light procedures were concluded, resulting in the reinforced monitoring of these beneficiaries.

DG ENTR is an active member of OLAF's Fraud Prevention and Detection Network (FPDNet) and of the Research DG family's Fraud and Irregularities in Research Committee (FAIR).

Anti-Fraud Effectiveness Indicators (2013)	
n° of cases processed by the CGI:	7
n° of cases transferred to OLAF:	3
n° of risk-based audits finalised:	12
average detected error rate[15]:	38.52 %
total amount to recover:	€ 1.8 million
n° of fraud-awareness and ethics trainings provided:	10
n° of overriding decisions taken by the Director-General:	0
n° of contracts terminated:	1
% of DG ENTR staff participation:	20% (+ cascade effect)
Total amount of liquidated damages claimed to beneficiaries:	€ 590,392

Overall, it can be concluded that the DG has a solid fraud-risk management environment in place, which improved continuously over the past year. In 2013 the fraud risk assessment was integrated in the annual risk assessment exercise. The current AFS and Action Plan will be updated at least every other year.

[15] This average excludes 1 audit of a € 46.4 million cost claim with no error rate, which would skew the results

Other control objectives: use of resources for their intended purpose, reliability of reporting, safeguarding of assets and information

Reliability of reporting

As the result of the significant efforts deployed by the DG, the reliability of the data provided by ESA for the 2013 accounting closure has significantly improved. A dedicated ESA - EC task force on financial reporting was set up and the implementation by ESA of the recommendations made by its external auditor on its 2012 accounts was closely monitored. So was the submission of data by ESA in time for the accounting closure and extensive checks were performed on this data.

Details on the reliability of ESA reporting are provided under points 2.2. and 4.1.

Safeguarding of assets

The EGNOS and Galileo assets are included in the Commission's accounting system since 2009 and 2011 respectively. The accounting treatment of these assets is a complex task requiring tailored procedures and systems to ensure proper valuation and control. During 2013 the controls performed on the data provided by the ESA for the valuation of the EGNOS and Galileo assets were further reinforced. In November two asset valuation workshops were organised with the participation of DG ENTR, DG BUDG and ESA, during which detailed explanations were obtained on contract level allowing for in-depth analysis of the data provided for the closure bookings. At end 2013, the Galileo system under construction is recognised on the DG ENTR balance sheet at the value of € 1 041 million, representing the current stage of development of the Galileo system space and ground components.

With regard to the registration of EGNOS assets, an enhancement of the current accounting system was developed by DG BUDG in order to automatically upload the inventory into the EC accounting system and to make the asset bookings. This system is now working as intended and provides assurance as to the correct registration and valuation of EGNOS assets. The current controls and reporting requirements are sufficient to ensure accurate, complete and timely accounting data. DG ENTR considers it as a best practice that the Commission is able to perform this exercise on such a level of detail and accuracy.

In parallel, throughout the year 11 on-the-spot physical inspection missions of Galileo and EGNOS assets hosted by industry were performed by the DG ENTR accounting team, both within and outside the EU. The results of these inspections are positive and allow providing reasonable assurance as to the existence and satisfactory safeguarding of the assets.

In conclusion, the current control arrangements for accounting and financial reporting are sufficient and work in practice as intended. Resources were used for their intended purpose.

2.2 Budget implementation tasks entrusted to other services and entities (71.3 % of 2013 payments)

This section reports and assesses the elements that support the assurance on the achievement of the internal control objectives as regards the results of the DG's supervisory controls on the budget implementation tasks carried out by other Commission services and entrusted entities distinct from the Commission.

2.2.1 Budget implemented by the European Space Agency (ESA) Control effectiveness, efficiency and economy (61.4% of 2013 payments)

Indirect centralised management mode (39% of 2013 payments)

For the management of the EGNOS and Galileo programmes, the European Commission and the European Space Agency (ESA) signed Delegation Agreements under article 54 of the Financial Regulation[16] (as applicable before the 2012 revision) as foreseen by Regulation 683/2008 on the implementation of the European satellite navigation programmes.

The agreements delegate procurement activities, project management, system prime activities and design tasks to ESA. For procurement, the European Commission is represented by ESA who acts as its procurement agent by delegation. The Internal Control Template (ICT) for centralised indirect management in Annex 5 demonstrates how the control system in place in the DG addresses the risks related to this type of expenditure.

Both EGNOS and Galileo are mainly implemented through procurement procedures (more than 80% for the whole duration of the contract) delegated to ESA for which, however, the European Commission remains the contracting authority. In 2013, an amount representing 39 % (€ 390.6 M) of the total payments of the DG was transferred to ESA under this management mode. In implementing the tasks delegated to it under this agreement, ESA applies the EU procurement rules and its own audit, accounting and internal control rules and procedures which offer guarantees equivalent to internationally accepted standards. This was confirmed by the positive results of an externalised re-assessment of ESA's control systems finalised in May 2012 and confirmed by a new assessment performed in 2013 following the entry into force of the Commission's new Financial Regulation and ESA's financial reform. The risks related to public procurement are effectively mitigated by means of independent ex-ante verification of the procurement procedures by DG ENTR verifying agents. The award decision is taken by the competent Authorising Officer by Sub delegation (AOSD) in DG ENTR.

16 Article 54 of the Financial Regulation enables the European Commission to entrust tasks of public authority and in particular budget implementation tasks to, inter alia, national public sector bodies or bodies governed by private law with a public service mission.

Transfers of funds to ESA are based on annual and quarterly reports submitted by ESA together with forecasts of cash-flow needs for the next period, all of which are checked before payments are made. In addition, on a yearly basis, all costs reported by ESA are verified by means of on-the-spot checks. In view of the multiannual perspective, the annual implementation reports of ESA for 2013, received at the end of March 2014, will only be considered for the clearing of the related pre-financing once the ex-post audit will be finalised. They will be covered in the 2014 Annual Activity Report.

Joint management (22.4% of 2013 payments)

An amount representing approximately 22.4 % (€ 224.1 M) of all the payments of the DG in 2013 was paid to the European Space Agency (ESA) under Joint Management. In the framework of the FP7 Specific Programme "Cooperation" and its theme "Space" and of the GMES Space Component (GSC) Programme, the Commission delegates to ESA the execution of jointly funded tasks, namely the implementation of the Space Component of the GMES.

The GMES Delegation Agreement with ESA was established on the basis of articles 53.d of the Financial Regulation and 43 of the Implementing Rules (as applicable before the 2012 revision). In implementing the tasks delegated to it under this agreement, ESA applies its own audit, accounting, internal control and procurement rules and procedures which offer guarantees equivalent to internationally accepted standards. This was confirmed by the positive results of an externalised re-assessment of ESA's control systems finalised in May 2012 confirmed by a new assessment performed in 2013 following the entry into force of the Commission’s new Financial Regulation and the ESA’s financial reform.

The yearly amounts paid to ESA were not calculated on the basis of actual cost incurred in that period, but were determined in the Delegation Agreement and a subsequent transfer agreed as cash advance for 2013. On a yearly basis, actual expenditure on own costs reported by ESA, is verified by means of on-the-spot checks. At the end of the implementation of the Delegation Agreement the total amount paid to ESA will correspond to the funding rate agreed for the cost incurred.

Following previously observed weaknesses in ESA’s financial reporting and in its application of procurement procedures, DG ENTR strengthened its monitoring and control framework.

The ESA’s external Audit Commission gave an unqualified opinion on the Agency's 2012 financial statements, as ESA made significant improvements and achieved full compliance with the International Public Sector Accounting Standards (IPSAS). This allowed DG ENTR to lift the reservation concerning the reliability of ESA's financial reporting, expressed in its 2010, 2011 and 2012 AARs.

In 2013, DG ENTR launched its audit of the ESA GMES 2012 Annual Financial Report. It was finalised in the first quarter of 2014 (see Annex 6 for details).

Key indicators on control effectiveness and cost-efficiency under Centralised Indirect and Joint management modes

Key indicators on control effectiveness and efficiency	Results for the reporting year
Total amount delegated to the European Space Agency under Centralised Indirect and Joint management modes	**€ 614.7 million**
ESA's control results and/or assurance: - Opinion of the external auditor	An Audit Commission acting as ESA's independent external auditor acknowledged the significant progress made by the Agency in addressing previous audit recommendations stemming from the qualified audit opinions on the 2010 and 2011 financial statements. The Audit Commission concluded that the 2012 financial statements comply with the requirements of the International Public Sector Accounting Standards (IPSAS) in all material aspects and thus provided a first clean audit opinion on ESA's accounts following the profound financial reform that started in 2010.
- Statement of Internal Control of the Director-General	A Statement of Internal Control has been produced by ESA's Director-General confirming that the internal control system in place during 2012 provides reasonable assurance of achieving its operation, reporting and compliance objectives.
- Reporting quality control at ESA	In order to minimise any potential errors in the Annual Financial Reports submitted to the European Commission, the Agency developed a quality control on its reporting. All reports are verified by the Agency's Compliance Office before submission. Following several audits performed by the European Commission and the European Court of Auditors the quality of the reports was significantly enhanced.
AOD's own monitoring/supervision results on the ESA's operations:	The DG ENTR ex-post control team continued to audit all annual financial reports (AFRs) submitted by ESA. In 2013, the audits on the 2011 financial reports have been finalised and the audits on the 2012 reports were closed in early 2014.
- Results of the audits of the 2012 reports	Overall detected error rate for indirect centralised and joint management: **0.85 %**

- Monitoring	(see Annex 6 for a breakdown per programme) Errors detected in the AFRs have **no impact** on the legality and regularity of the amounts paid to ESA, because amounts paid depend both on costs declared and on cash-flows forecasts. In the framework of the regular working arrangement and top level meetings between the DG and ESA, DG ENTR closely monitored ESA's progress with the implementation of the programmes and the related reporting. In addition, the Director General of ESA asked an independent Commission composed of experts form leading Space Agencies to perform an analysis and to provide recommendations on plausible further improvements in the operational management of Galileo. The five recommendations will be addressed in 2014.
Implementation of corrections	The results of the previous audits have been implemented through a reduction of the total eligible amount. With the exception of one particular recharge, for which the audit results still need to be implemented, all errors detected during audits have been corrected. It can be concluded that the residual error rate is at a level far below the 2% materiality threshold.
DG ENTR follow-up of ESA operations under centralised indirect and joint management with regard to monitoring, supervision, reporting.	The estimated overall supervision cost for 2013 is € 3.2 million

Costs and benefits of (supervision) controls under centralised indirect management mode	
Total supervision cost / total value of entrusted budget	0.63%
Total supervision benefit	The above mentioned cost is highly outweighed by the benefits of the applied controls. The European satellite navigation programmes are major industrial programmes of significant size and complexity. It is the first time that the European Union, in particular the Commission, implements such programmes. In its capacity of programme manager the European Commission is responsible for the management and coordination of the European satellite navigation programmes and bears the overall responsibility for their implementation and operation to schedule, cost and performance.

	Furthermore, the European Commission owns the assets of the EGNOS and GNSS programmes on behalf of the European Union. Considering the above responsibilities, the European Commission implemented controls at governance, technical, operational and financial levels. Acting as programme manager it applies control mechanisms to ensure that the technical and security requirements are fully respected. Where Galileo and EGNOS are concerned, ESA has the role of prime contractor and procurement agent. In this role the ESA signs contracts under the EU procurement rules in the name and on behalf of the European Commission. Therefore the European Commission being the contracting authority and bearing the ultimate responsibility for the legality and regularity of the procurement procedures, applies the necessary supervisory controls.

More information on control indicators for procurements made by ESA on behalf of the Commission is provided in section 2.1.2.

2.2.2 Cross Subdelegations (3.2% of 2013 payments)

3.2 % of the amounts paid in 2013 from DG ENTR budget lines were authorised under co-delegation and cross subdelegation to other DGs (see a detailed list in Annex 10).

The amounts co-delegated (1.65 %) relate to administrative costs and are covered in the AARs of the DGs to which the funds were co-delegated. Hence, such payments are mentioned but not reported on in detail in this AAR.

The Director-General of DG ENTR remains ultimately accountable, however, for the amounts sub-delegated by him (1.52 %) to six other Commission services, even though the legality and regularity of the transactions implementing this budget is ensured by the management and internal control systems put in place by the authorising officers to whom the funds were sub-delegated.

The conditions for granting a cross subdelegation of powers are set out in Article 12 of the Internal Rules on the implementation of the general budget of the EU. Each year the delegatee must report to the delegator on the projects and activities for which s/he received a subdelegation. These reports include a description of the work programme, the objectives for the period and the results achieved; the utilisation of the financial resources; the risks linked to the management of these activities (signalling any relevant issues); and the operation and application of their internal control system.

For 2013, the reports received by DG ENTR from the DGs to which it subdelegated funds provided reasonable assurance on the regularity and legality of transactions.

The report from DG RTD contains information related to an FP7 project, concerning which prior ECA audits resulted in a material detected error rate. After having consulted the Legal Service on this matter, DG RTD disagreed with the Court on this particular issue. For reasons of prudence, however, the amount subdelegated has been included in the calculation of the amount covered by the reservation on FP7 in this AAR.

As mentioned under point 2 this report does not cover the amount of € 403,031 related to payments executed by DG ENTR under cross-delegations received from other authorising officers by delegation.

2.2.3 Agencies (6.7% of 2013 payments)

Traditional Agencies (5.9% of 2013 payments)

Besides the Delegation Agreements signed with ESA, DG ENTR also delegates the implementation of FP6 and FP7 funds to the **GNSS Supervisory Agency (GSA)**. In 2011 and 2012, DG ENTR concluded additional Delegation Agreements with GSA in the area of GNSS exploitation activities.

In complement to the above, DG ENTR also pays a subsidy to the GSA to cover the administrative costs (€ 13.9 million in 2013) incurred by the agency for the management of the delegated operational budget. Accountability for the legality and regularity of this expenditure resides ultimately with the agency itself, which is audited separately by the ECA.

As mentioned in the 2012 DG ENTR AAR, during the first part of its annual audit of the GSA's supervisory and control systems in February 2013 the ECA identified weaknesses in the GSA's ex-ante and ex-post controls of research grants. The GSA managed, however, to provide sufficient supporting evidence to obtain a clean opinion on their 2012 accounts and on their supervisory and control systems from the Court in December 2013.

In 2011, DG ENTR also signed a 4-year Delegation Agreement with the **European Environment Agency (EEA)** for the implementation of the GMES land monitoring service.

Based on the declarations of assurance provided by the executive directors of both the GSA and the EEA, DG ENTR considers the implementation of these delegated funds to be legal and regular. The supervision of these agencies is described in detail in Annex 8, together with that of the European Chemicals Agency (ECHA) of which DG ENTR is also parent DG, but which did not receive a subsidy in 2013 as it generated sufficient own income.

Executive Agencies (0.8% of 2013 payments)

Part of the DG's programme management is delegated to two executive agencies: the Executive Agency for Competitiveness and Innovation (EACI) and the Research Executive Agency (REA). These two agencies respectively manage actions under the Entrepreneurship and Innovation Programme (EIP) and the Space and Security Themes of the Seventh Framework Programme for Research (FP7).

In terms of supervision, the control systems of these agencies are similar to those of their parent DGs. In the case of REA, its ex-post audits are performed in the context of a common audit strategy. The executive agencies' control results are either in line with those within the policy family or are slightly modified to correspond to the different profile of its sub-population of beneficiaries. EACI and REA produce their own AARs which are annexed to this report (Annex 7). EACI's 2013 AAR does not contain any reservations. REA made reservations in two areas of their operational budget, one of which is in line with the reservation made by DG ENTR, namely the reservation on the accuracy of FP7 grant cost claims. This is based on the results obtained in the context of the Common Representative audit Sample (CRaS) the error rate of which exceeds the 2% materiality threshold.

In its capacity of parent DG, DG ENTR contributes to EASME's administrative budget. The consumption of this administrative budget is duly monitored, and after the final closure of EACI's accounts, any surplus will be recovered pro-rata by the agency's parent DGs.

The subsidy to REA is paid fully by DG RTD and therefore it is not covered in this report.

The supervision of the Executive Agencies continued throughout 2013. The preparation of the Annual Activity Reports of these Agencies was coordinated and reviewed by DG ENTR and the Steering Committees of the Agencies. No unexpected issues arose which would need to be raised in this report.

Overall, DG ENTR considers that its supervision of Executive Agencies is effective and appropriate.

2.2.4 Financial Instruments (no payments in 2013)

On behalf of the Commission (DG ECFIN and DG ENTR), the European Investment Fund (EIF) manages the financial instruments established under the Entrepreneurship and Innovation Programme (EIP): the SME Guarantee facility (SMEG), which provides guarantees for loans to SMEs, and the High Growth and Innovative SME facility (GIF), which provides venture capital for SMEs.

An initial budget of € 1.1 billion was foreseen for these instruments for the period 2007-2013. Up to September 2013, there were 275,113 SME beneficiaries under SMEG and 340 under GIF. The budget line for the financial instruments is executed by DG ECFIN, which receives regular reporting on implementation from the EIF and carries out monitoring. The Commission also has two nominees on the Board of Directors of the EIF. As at 31 December 2013, these were Mr Thomas (Director of DG ECFIN/L) and Mr Calleja Crespo (Director-General of DG ENTR).

DG ENTR considers that the operational and financial reporting (quarterly and annual reports) is sufficient and provides relevant information and figures to ensure sound and efficient management of the policy aspects of these financial instruments. The legality and regularity of the financial transactions implementing the financial instruments does not fall under the responsibility of the Director-General of DG ENTR and is not covered by this report.

The legal basis for the COSME programme was published on 20 December 2013. Since September 2012, negotiations have been underway with the EIF with a view to engaging it as Entrusted Entity for the new COSME financial instruments. It is anticipated that these negotiations should be finished in the second quarter of 2014, following which a

Delegation Agreement will be signed. DG ECFIN, on behalf of all operational DGs that intend to work with the EIF, is in discussion with DG BUDG concerning the use of the 2007 6-pillar assessment (updated in 2010) as the basis for formally assessing the EIF's financial and control framework.

2.2.5 Conclusion

For the 2013 reporting year, the cross subdelegated AODs, Traditional and Executive Agencies have all reported reasonable assurance on the delegated budget managed by them on behalf of DG ENTR. No serious control issues were signalled. From the monitoring and supervision work done, which includes regular contacts and monitoring of relevant management reports and audit reports, as a Parent DG we have no indications that their reporting would not be reliable. In terms of supervision of those entities described in points 2.2.2 and 2.2.3, the control cost is fairly limited (a few partial FTE on yearly basis).

With regard to the ESA, the Commission has reasonable assurance that the control mechanisms supporting the Agency's financial reporting about the joint implementation of the space component of the Global Monitoring for Environment and Security (GMES) and about the implementation of the EU satellite navigation programmes (EGNOS and Galileo) is reliable. Overall, the cost of monitoring and supervision controls of ESA represents 0.63% of the total budget amount entrusted to the Agency under centralised indirect management.

In 2013, DG ENTR continued the application of its monitoring and control strategy towards ESA and continued auditing all financial reports provided by the Agency. In addition, the DG encouraged and supported ESA in the implementation of its action plan developed to address the recommendations of the ESA's external auditor who provided a clean audit opinion on the Agency's 2012 financial statements.

The performance of the DG in terms of supervision cost-effectiveness is considered adequate.

Consequently, in view of our residual responsibility as “Parent DG” for the indirect management of parts of our budget sub delegated to the AODs, Executive Agencies and Entrusted Entities mentioned above, we can conclude that there are no control weaknesses affecting assurance in terms of the 5 Internal Control Objectives.

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.

The DG is audited by both internal and external independent auditors: its internal audit capability (IAC), the Commission's Internal Audit Service (IAS) and the European Court of Auditors (ECA).

The Directorate-General has not received any critical recommendations arising from the IAC and IAS audits. Action plans have been agreed for all recommendations. The various management measures outlined in these action plans are aimed at effectively addressing the identified risks, and are implemented in accordance with the set deadlines.

The Director General is informed on the conclusions and the main recommendations stemming from the work of the internal and external auditors. The timely implementation of all recommendations is ensured by a regular monitoring, performed by the Internal Control Coordinator during the year.

At the year-end, there were no critical or very important recommendations. The target set in the Management Plan, aimed at implementing 100% of the recommendations within the deadlines was fully achieved.

Based on the assessment of the risks underlying the auditors' observations combined with the management measures taken in response, the management of DG ENTR is confident that the recommendations issued do not raise any assurance implications.

As regards the implementation of recommendations issued in previous years, the relevant action plans were implemented in full as planned. Therefore, the current state of play does not lead to any assurance related concerns.

2.3.1 Audits from the Internal Audit Capability (IAC)

The IAC carried out a total of 6 audit assignments: four audits of the management of missions, impact assessment, framework contracts and Enterprise Europe Network and two follow-up verifications in the areas of risk management and pilot projects and preparatory actions. In addition, the IAC by provided consultancy services to the DG ENTR management.

The IAC expressed the opinion that overall the internal control system in place provides reasonable assurance regarding the achievement of the objectives set up for the audited processes.

2.3.2 Audits from the Internal Audit Service (IAS)

During the reporting year, DG ENTR closed all the due IAS recommendations. The IAS completed two follow-up audits on the Global Navigation Satellite System[17] (GNSS) and the Entrepreneurship and Innovation Programme (EIP). DG ENTR management enhanced the stability in the GNSS programmes and their governance structure by means of legislative measures and interactions with ESA. As regards EIP, DG ENTR management streamlined the actions in the subsequent programme (COSME) and defined the modality of their application.

[17] This 2nd IAS audit follow-up on GNSS encompasses three audits on: GNSS, financial management and grants and procurement.

The adequate and effective implementation of all recommendations (stemming from the two above mentioned audits) was confirmed by the IAS.

In addition, an IAS audit on GMES was finalised in December 2013. This audit engagement aimed at assessing effectiveness of the governance arrangements, risk management and internal control systems put in place by DG ENTR to support the management of GMES. The auditors concluded that the GMES-Copernicus governance arrangements and internal control systems in DG ENTR need to be significantly strengthened to correspond to the increased role of the Commission in Copernicus development and ensure that the overall objectives of the programme will be achieved.

While respective mitigation actions were undergoing at the beginning of 2014, DG ENTR already started addressing the main risks. These findings do not impact the 2013 assurance.

2.3.3 ECA

ECA's Annual Report

On 5 November 2013, the Court presented its Annual Report on the execution of the Commission's 2012 budget. The assessment of the legality and regularity of DG ENTR transactions and the effectiveness of its supervisory and control systems are treated in Chapter 8 - Research and other Internal Policies - of the Court's Report.

As the 2012 DG ENTR transactions audited by the Court were found to be free from material error, it can be said that the DG had a positive impact on the Commission's error rate. For the first time in three years their report did not contain a single criticism related to the implementation of EU budget by DG ENTR.

For all payments covered by this chapter, the Court concluded that the most likely error rate is 3.9 % (3% in 2011) and therefore material, as it exceeds the 2 % materiality threshold set by the Court. The supervisory and control systems for the policy group in general were assessed as partially effective.

Chapter 8 of the 2012 Annual Report of the ECA also covers the payments made to the European Space Agency (ESA). Due to the significant progress been made by ESA regarding its financial reporting, the transactions sampled by the Court in this area were free of material error. ESA submitted its Annual Implementation Reports on time in 2013 and obtained a clean audit opinion on their accounts from their external auditor. The reinforced monitoring of ESA by DG ENTR is reported on in 2.2.

In an annex of Chapter 1 – Statement of Assurance - of its Annual Report, the Court positively reports on the transfer of the Galileo assets and indicates that the Commission is working with ESA to ensure that, at the time of the transfer, all necessary accounting and technical information will be available.

In Chapter 10 – Getting results from the EU budget – the Court highlights the main themes covered in its 2012 Special Reports. Reference is made to Special Report 15/2012 on the Management of conflict of interest in selected EU Agencies[18]. DG ENTR was associated in the implementation of the actions addressing the observations made by the Court in this report due to its supervisory role with regard to the European Chemicals Agency (ECHA).

The Court's overall recommendations to the Commission for the future are:

- to ensure that there is a focus on performance in the forthcoming programming period (2014-20). This requires that a limited number of sufficiently specific objectives with relevant indicators, expected results and impacts are laid down in the sector specific regulations or in some other binding manner;
- to ensure that there is a clear link between the annual activities and objectives of each DGs.

ECA's 2013 audits

For the Declaration of Assurance (DAS) on the year 2013, nine DG ENTR transactions were sampled by the Court. The three transactions for which the Court's preliminary results were received, the ECA confirms that they are free of material error. The preliminary results of the remaining audits were not available at the time of drafting this report.

In the framework of a systems audit of the accounting procedures for 2012, the European Court of Auditors identified weaknesses in the accounting closure process. These findings were not quantified. All the findings were effectively addressed, most of them already before the final closure 2012. Ex-post testing of the 2012 cut-off was performed at year-end with no impact on the methodology. The improvements have become DG ENTR standard practices and were applied in the closure of the 2013 accounts. The observations of the Court do not impact the 2013 assurance.

ECA Special Reports

No Special Reports were published by the Court in 2012 for which DG ENTR is a leading DG. However, DG ENTR was associated in the implementation of the actions addressing the Court's observations in the Special Report on the efficiency of FP7 implementation[19] published in early 2013.

This report presented a balanced view of the strong and weak points in the management of the FP7 Programme, and will allow the research family DGs to improve their processes, partly for FP7 but even more for Horizon 2020.

One of the major actions already implemented is the creation of a Common Support Centre (CSC) for all research services. This Centre brings together legal advice, audit, IT, business processes and information services for the whole of Horizon 2020. This should

---

18 SR 15/2012 - http://eca.europa.eu/portal/pls/portal/docs/1/17190743.PDF

19 SR 2/2013 - http://www.eca.europa.eu/Lists/ECADocuments/SR13_02/SR13_02_EN.PDF

ensure a more harmonised approach to beneficiaries, as well as allowing efficiency savings in the management of research expenditure. DG ENTR will also contribute staff to the CSC.

Follow-up of open ECA recommendations

Overall, there are 6 ECA recommendations for which DG ENTR is lead DG which remain open: 4 on the Special Report on the Audit of the SME Guarantee facility (SMEG)[20] and 2 on the Special Report on The Management of the Galileo Programme's Development and Validation Phase[21]. All are on track towards being implemented on time.

---

20 SR 4/2011 - http://www.eca.europa.eu/Lists/News/NEWS1106_08/NEWS1106_08_EN.PDF

21 SR 7/2009 - http://eca.europa.eu/portal/pls/portal/docs/1/8036724.PDF

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.

DG ENTR 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.

DG ENTR annually assesses the **effectiveness of its key internal control systems**, including the internal control processes in place at the level of its implementing bodies in accordance with the applicable Commission guidance. The assessment relies on extensive monitoring throughout the reporting year, supported by various **information sources** such as: an assessment of compliance with the internal control standards; a survey-based senior management self-assessment of the effective implementation of prioritised standards; an assessment of audit findings and the implementation of recommendations; and a register of detected exceptions, non-compliance events and internal control weaknesses (identified both by the management and by auditors in their audit reports). The opinion of the Internal Audit Capability was duly taken into account. Based on these elements the Internal Control Coordinator reported on the state of internal control and provided his recommendation to the Director-General.

Concerning the overall state of the internal control system, the DG complies with the three assessment criteria for effectiveness, i.e. (a) staff have the required knowledge and skills, (b) systems and procedures are designed and implemented to manage the key risks effectively, and (c) there are no instances of ineffective controls that have exposed the DG to its key risks.

The **functioning of the internal control systems** has closely been monitored throughout the year by the systematic registration of exceptions and non-compliances with the rules and procedures, and of internal control weaknesses. The underlying causes behind these exceptions and weaknesses were analysed and mitigated. All related audit recommendations (see Section 2.3) were successfully implemented.

In its management plan for the reporting year **2013**, DG ENTR prioritised four **Internal Control Standards:** n° 7 'Operational Structure', n° 8 'Processes and Procedures', n° 12 'Information and Communication' and n° 15 'Assessment of Internal Control Systems' in order to improve their effective implementation. This was achieved by addressing all previously detected imperfections and audit recommendations (see Part 2.3). By the end of the reporting year, the four prioritised standards were fully and satisfactorily implemented.

Further enhancing the effectiveness of the DG ENTR control arrangements in place by inter alia taking into account any control weaknesses reported and exceptions recorded, is an on-going effort in line with the principle of continuous improvement of management procedures, while taking into account the cost-effectiveness and risk differentiation of controls.

For the achievement of its objectives DG ENTR largely relies on executive and regulatory agencies, as well as on a close cooperation with various partners and international organisations, in particular with the European Space Agency. With the further externalisation of budget implementation, in the next years DG ENTR will focus more on policy making and less on project management.

As a consequence, the DG's main inherent risk endangering the achievement of its political objectives lies in the supervision of these entrusted entities (see section 2.2). An additional significant inherent risk is related to maintaining the residual level of errors in the Research framework programme below the materiality threshold of 2 %, while balancing trust and control (see sections 2.1, 4.1 and annex 4).

As a result of the effective and timely implementation of mitigation measures none of the prominent risks for the reporting year materialised.

In conclusion, DG ENTR is compliant with the baseline requirements of the internal control standards and they are effectively implemented.

As a continuous development of corporate Internal Control, it was decided to prioritise the following four **Internal Control Standards** in **2014**:

- n° 1 (Mission) - The reasons for prioritisation are (a) the update of the mission statements as a follow-up to the last DG ENTR reorganisation and (b) necessary further adjustments due to the new financial and political framework put in place as of 2014.

- n° 3 (Staff Allocation and Mobility) - the reasons for prioritisation are the constant reduction of human resources coupled with an increase in tasks, leading to the need to identify areas where further efficiency gains can be achieved.

- n° 5 (Objectives and Performance Indicators) - the reasons for prioritisation are the need to enhance DG ENTR performance indicators and to reinforce DG ENTR control indicators to reflect the new financial rules and new political objectives.

  The performance indicators reported in part 1 of this report reflect those outlined in the 2013 Management plan, while considering Commission's permanent effort to streamline the total number of indicators used. The prioritisation of this standard does not affect its effective implementation in 2013 as the necessary improvements related to the performance and internal control indicators have been largely completed already in 2013.

- n° 9 (Management Supervision) - The reasons for prioritisation are the new legal and political challenges ahead, combined with a reduction in resources. In 2014, DG ENTR will continue to be a parent DG to two Executive Agencies which, however, will have increasingly important roles. The work started with the development of a revised supervision strategy for each agency, as well as of Memoranda of Understanding containing detailed supervision and coordination agreements.

4. MANAGEMENT ASSURANCE

This section reviews the assessment of the elements reported in Parts 2 and 3 and draw conclusions supporting of the declaration of assurance and namely, whether it should be qualified with reservations.

4.1 Review of the elements supporting assurance

The information reported in Parts 2 and 3 stems from the results of management and audit monitoring contained in the reports listed. These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of DG ENTR budget.

In 2013, DG ENTR still managed financial operations under FP6 but given their non-material amount and the fact that these are the residual payments for a programme which is now closed, they were no longer included in this report and the reservation is discontinued.

For FP7, the materiality criterion is that the estimated residual risk of error is less than 2% cumulative by the end of the programme implementation. The DG ENTR cumulative residual error rate is 2.92%. For this reason, DG ENTR in accordance with the other members of the Research Family, maintains its reservation on FP7 expenditure in 2013.

Concerning the reliability of the financial reporting by the ESA for the joint implementation of the space component of the GMES and the implementation of the GNSS programmes under centralised indirect and joint management, the Director-General considers that there is satisfactory evidence that ESA reporting is sufficiently reliable, leading to the discontinuation of the previous reservation in this area.

Except for the FP7 reservation, management has reasonable assurance that overall suitable controls are in place and work as intended, risks are being mitigated and/or monitored, and improvements and reinforcements are being implemented.

The lessons learned from the indicators of ex-ante and ex-post controls together with the strengths and weaknesses highlighted in the audits conducted in 2013 lead to the conclusion that DG ENTR has reasonable assurance[22] that its internal control system is adequately designed and works as intended.

[22] Even an effective internal control system, no matter how well designed and operated, has inherent limitations – including the possibility of the circumvention or overriding of controls – and therefore can provide only reasonable assurance to management regarding the achievement of the business objectives and not absolute assurance.

4.2 Reservation and overall conclusion on assurance

No	Title	Type (Financial or Reputational)	2013 amount at risk (in million euros)	ABB amount concerned i.e. scope (in million euro)
1	Reservation concerning the rate of the residual error with regard to the accuracy of cost claims in the **7th Research Framework Programme (FP7)**.	Financial	€ 1.2 million	ABB 04 amount: € 403.2 million Of which FP7 grants: € 88 million

In 2013, DG ENTR has managed the resources for which it was responsible to the best effect for the intended purposes, in line with the Financial Regulation and according to the principles of sound financial management, legality and regularity.

The internal control system (see part 3 above) in the DG is in place, and it functions effectively to the extent that it enables the Director-General to give his assurance on the resources used. With the help of the internal control system, weaknesses could be detected and corrective measures put in place.

In the area of the accuracy of cost claims in the Seventh Research Framework Programme (FP7) the errors detected lead the Director-General to maintain the reservation on the reasonable assurance. This decision was taken in consultation with the other members of the Research family. The exposure from this reservation, however, represents only 0.1% of DG ENTR payments for 2013.

Reservation 1

DG	**Enterprise and Industry**
Title of the reservation, including its scope	Reservation concerning the rate of the residual error with regard to the accuracy of cost claims in the **7th Research Framework Programme (FP7)**.
Domain	Research and other Internal Policies, direct centralised management of grants in the 7th Research Framework Programme (FP7).
ABB activities and amounts affected (="scope")	02 04 – "Cooperation – Space and Security", payment appropriations 2013: € 468.1 million, outturn 2013: € 403.2 million; of which FP7 grants: € 88 million.
Reason for the reservation	At the end of 2013, it is not possible to state with certainty that the cumulative residual error rate (**2.92 %**) resulting from the Common Research Audit Sample (CRAS) or the level of financial impact of errors identified will fall below the materiality threshold at the end of the multi-annual period.
Materiality criterion/criteria	The materiality criterion is the cumulative residual error rate (i.e. the level of errors that remain uncorrected and undetected). The control objective is to ensure that the cumulative residual error rate does not exceed 2% by the end of the management cycle.
Quantification of the impact (= actual exposure")	The maximum impact is calculated by multiplying the cumulative residual error rate in favour of the Commission (**2.92 %**) by the sum of FP7 payments based on cost statements actually processed in 2013 (€ 30.5 million) and FP7 pre-financings cleared in 2013 (€ 11.7 million). This yields **€ 1.2 million** as maximum potential impact on FP7 payments during 2013.
Impact on the assurance	Legality and regularity of the affected transactions. The assurance is affected within the scope of the quantified budgetary impact, which represents 0.12 % of payments made by DG ENTR in 2013.
Responsibility for the weakness	The Legislative Authorities for the complexity of the underlying rules as laid down in the basic acts, the Commission services for the management and control systems in place, and the beneficiaries and certifying auditors for the correctness of cost claims and audit certificates. Within these limits the remedial action of the services of the Commission is carried out through audit campaigns and the full and timely implementation of audit results as well as by better informing the beneficiaries and certifying auditors.
Responsibility for the corrective action	The main corrective actions, as set out in the common FP7 audit strategy, consist of exhaustive auditing of the biggest participants, coverage of an additional sample of beneficiaries randomly selected according to international audit standards and the performance of targeted audits in case of identified specific risks. A total of 59 audits were performed by DG ENTR since the start of FP7. This represents an audit coverage of 41 %. In addition, the implementation of the audit results on systematic errors to non-audited projects and the application of liquidated damages, in case the beneficiary fails to implement audit results on these systematic errors, provide for an additional extension of audit coverage of 26%. The remaining scope to reduce errors will be addressed in particular through the following actions: - continuing on-going efforts to give guidance and feedback to the participants and certifying auditors to prevent errors occurring; - continuing control and audit work in order to further reduce the FP7 residual error rate The possibilities to simplify the FP7 rules have been exhausted but the simplification measures introduced in 2011 should continue to have a positive impact on the error rate.

FP7 reservation

For FP7, the Representative Error Rate from the Research family CRaS, based on 156 results out of a sample of 162 audits, is 4.14%. The Residual Error Rate for DG ENTR, calculated on the basis of the CRaS, is 2.92%.

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 EU research policy, international competitiveness, scientific excellence, the wish to encourage participation of SMEs and the costs of controls, it is not expected that by the end of the programming period the Residual Error Rate will be below the materiality threshold defined in Annex 4. For this reason, DG ENTR maintains its reservation on FP7 expenditure in 2013.

The following framework conditions need to be borne in mind when considering remedial actions to further reduce the error rate under FP7:

A) Legal Framework

At a moment where the rules for participation for Horizon 2020 are in the final stage of adoption and having regard to the length of the legislative procedure, a modification of the legal framework for FP7 is not an option. Over the course of FP7, however, DG Research and Innovation has attempted to simplify the system within the existing legal framework, most recently through the simplification measures adopted by the Commission on 24 January 2011 (Decision C (2011) 174).

A radical simplification of the legal framework has been proposed in Horizon 2020, the Framework Programme for Research and Innovation (2014-2020), in order to meet the expectations of both stakeholders and legislative authorities.

B) Guidance to beneficiaries and certifying auditors

2013 saw the continuation of a communication campaign targeting beneficiaries and certifying auditors, based on a document setting out the 10 most common causes of error. Around 3100 people have participated in the 24 events held so far. DG RTD aims to continue this campaign in 2014.

This is in addition to the possibilities that already exist for participants to ask for guidance – for example the Research Enquiry Service and the National Contact Points.

Furthermore, the results of analysis presented in the AAR 2012 of DG RTD clearly shows that SMEs and new participants present particular risks, and this analysis will be used to tailor guidance at all stages of the process to these participants, but without discouraging them from applying for grants or increasing unnecessarily their administrative burden.

C) Continued control and audit

The newly established Research family's Common Support Center will carry out an appropriate number of ex-post audits based on cost-effectiveness considerations, as referred to above, together with the subsequent recovery actions to ensure a further reduction of the residual error rate. However, it cannot greatly extend its audit campaign without adversely affecting the other objectives of the research programme (attractiveness, reduction of administrative burden, widening, etc.)

DECLARATION OF ASSURANCE

I, the undersigned,

Director-General of the Enterprise and Industry Directorate-General

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view[23].

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 institution.

However the following reservation should be noted:

1) Reservation concerning the rate of residual error with regard to the accuracy of cost claims in the 7th Research Framework Programme (FP7).

Brussels, 28 March 2014

Signed

Daniel Calleja

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