

ANNUAL ACTIVITY REPORT 2010

DG EDUCATION AND CULTURE

30 March 2011



Education and Culture DG

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Part 1 Policy Achievements

With a view to contributing to a knowledge based Europe reconciling a competitive economy and an inclusive society, the mission of the Directorate General for Education and Culture of the European Commission (DG EAC) is to foster both equity and excellence in education and training, to attract the best researchers, to support cultural exchange and cooperation, to enhance the competitiveness of the audiovisual industry, to develop the European dimension in sport, to maximise the potential and well-being of young people, while stimulating the mobility of individuals or works in each of these fields. The DG acts through tightly linked policy cooperation and spending programmes, at all times supporting multilingualism and equal opportunities in all its activities.

Section 1.1 Achievements in the area of Education and Culture

The year 2010 has brought many changes for the Directorate-General. Its policies were identified as playing a key role in achieving the strategic priorities of "Europe 2020" – the new EU agenda for smart and inclusive growth – and contributed substantially to most of the flagship initiatives of the new Commission ("Youth on the Move" (YoM), "Agenda for new Skills and Jobs", "Innovation Union", "Digital Agenda" and "Platform against Poverty"). The entry into force of **the Lisbon Treaty** introduced a new EU competence in the field of sport, a reference to democratic participation and codesion for youth and qualified majority voting in the area of culture. With the arrival of the **new Commission**, activities were transferred from DG EAC to other DGs (visits, citizenship), while others were handed over to DG EAC (Marie Curie Actions, MEDIA Programme). Within the DG, there was a change of Director General and a reorganisation with the creation of an additional Directorate. Meanwhile DG EAC made progress in advancing policy cooperation and in strengthening the efficiency of the related spending programmes.

The highlights of the year included the following items.

- The adoption of the **Europe 2020 strategic agenda** stressed prominently the pivotal role of the DG EAC policies in developing human capital and driving research and innovation in the knowledge economy. To support the Europe 2020 strategy, DG EAC prepared the adoption by the Commission in particular of:
 - the Communications on "Youth on the Move" and "an Agenda for New skills and jobs", a Communication for the European cooperation in Vocational Education and Training and a Proposal for a Recommendation of the Council on promoting learning mobility of young people;
 - a Green Paper to launch a debate on how to unlock the potential of cultural and creative industries and a Communication on opportunities and challenges for European cinema in the Digital Era linked to the "Digital Agenda" and "Innovation Union" flagship initiatives.
- With a few exceptions, such as in the field of early childhood education and care or employability of graduates where initiatives were postponed to 2011, DG EAC secured the adoption of almost all other initiatives planned in its remit in the **Commission Work Programme for 2010**, in particular:
 - the Commission report on the implementation of the European Agenda for Culture. In addition, the Commission adopted a proposal for a Decision of the European Parliament and of the Council with a view to establishing a European Heritage Label.

- The Commission adopted as planned its Communication on the implementation of the sport provisions in the Lisbon Treaty. The Proposal for a sport programme 2012-2013 was meanwhile cancelled due to the lack of evidenced added value of a programme over such a short period of time.
- Furthermore, progress was made on topics which are to be delivered in the coming years, notably on the preparation of the **next generation of programmes** through on-going evaluation of current programmes, impact assessment and public consultations.
- The **funding programmes** managed in the remit of the DG, mainly through agencies¹, appeared to have the expected impact. In 2010, they were largely implemented as foreseen. The main exception concerned the suspension of payments to a limited number of National Agencies (NAs) for the Lifelong Learning programme (LLP) and Youth in Action programme (YiA), due to various detected management weaknesses. In all cases, corrective actions have been launched immediately. Payments to beneficiaries already selected were not disrupted. Besides it was possible to resume partly the implementation of the Youth in Action Programme in Cyprus, following progress made at national level.² More generally, the impact of the economic crisis on the functioning of the programmes was felt through a reduced participation from certain Member States and staffing difficulties in some national agencies. Current positive trends in mobility might not be sustained in the near future, against a background of lower available incomes and cuts in national budgets, unless EU efforts are strengthened.

In conclusion, the year 2010 confirmed that the issues addressed by DG EAC are, in general, of high political and economic relevance and very close to the concerns of citizens. Notwithstanding the fact that the direct influence of the DG's actions on some of the indicators listed below is often limited, they illustrate clearly that the DG is engaged in all its different policy domains. All indicators from the 2010 management plan linked to Europe 2020 headline targets as well as most of other indicators linked to the DG's general objectives showed progress, as follows.

GENERAL OBJECTIVE 1:				
Raise the level and relevance of skills contributing to excellence and make mobility a possibility for all young learners and researchers as contributions to an innovative and knowledge-based Europe.				
<i>Impact Indicators</i>		<i>Latest known result</i>	<i>Milestones</i>	<i>Long-term targets</i>
1.	Tertiary level attainment	In 2009, 32.3% of 30-34 year olds were higher education graduates (male: 28.9%, female: 35.7%). In 2008: 31.1% (male: 28.0%, female: 34.3%)	Monitored according to the Europe 2020 governance.	By 2020, at least 40% of 30-34 year olds should be higher education graduates. Particular attention will be given to reducing gender imbalance.

¹ See below section 2.1, Annexes 6 about National Agencies and 7 about the Education Audiovisual and Culture Executive Agency and the Research Executive Agency.

² See below section 3.

2.	<p>Mobility of students, pupils, the vocational sector, teachers and trainers</p>	<p><u>EU tertiary students</u> studying in another EU country: 2000: 316,000 2007: 479,000 2008: 488,000</p> <p><u>EU tertiary graduates</u> (<35 years) with higher education mobility experience: 2011: 14.3% (9.4% >3 months)</p> <p><u>Students in initial vocational education and training (VET)</u> participating in Leonardo da Vinci (LdV) mobility : 2000: 17,000 2006: 41,000 2009: 52,000</p> <p><u>Professionals in VET</u> participating in LdV mobility: 2000: 5,000 2006: 13,000 2009: 13,000</p> <p>For <u>general education</u> and the VET sector: 12,500 Comenius individual mobility grants for teachers, assistants and pupils in 2009</p>	<p>EU benchmark to be adopted in 2011</p>	<p><u>For higher education:</u> Bologna benchmark (2020): 20% of those graduating in the European Higher Education Area to have had a study or training period abroad</p> <p><u>For vocational sector:</u> an EU benchmark on learning mobility to be adopted in early 2011</p> <p><u>Cross-cutting:</u> Particular attention is given to the participation of disabled learners (specific indicator to be developed)</p>
3.	<p>Mobility of young people outside formal education settings (non formal learning)</p>	<p>No global data yet available (study ongoing)</p> <p>Young people and youth workers participating in Youth in Action: 2007. 111,000 2009: 137,000</p>	<p>To be established in respect of the targets to be developed</p>	<p>To be defined in line with the recommendations of the Green Paper on learning mobility, as part of the Youth on the Move initiative in early 2011</p>
4.	<p>Low achievers in basic skills</p>	<p>2006: 24.1% of 15-year-olds were low achievers in reading (17.4% of girls, 30.4% of boys)</p> <p>2009: 20% of 15-year-olds were low achievers in reading (13.4% of the girls, 36.6% of the boys)</p>	<p>By 2011, reduce low-achieving 15 year olds in reading literacy to 17%, which is 20% lower than in 2009</p>	<p>By 2020, less than 15% of 15-year-olds are low-achievers in basic skills (reading, mathematics and science). Particular attention is given to gender imbalances</p>

5.	Participation in pre-primary education and care	Young children participate in pre-primary education: 2007: 90.6% 2008: 92.3%	Communication to be adopted in 2011	By 2020, at least 95 % of children between 4-years old and the age for starting compulsory primary education participate in early childhood education.
6.	Early school leavers	2007: 15.1% (17.1% of boys and 13.0% of girls) 2008: 14.9% (16.9% of boys and 12.9% of girls) 2009: 14.4% (16.3% of boys and 12.5% of girls)	Monitored according to the Europe 2020 governance. Recommendation to be adopted in 2011	By 2020, not more than 10% of 18-24-year-olds have only lower-secondary education and are not enrolled in education or training. Particular attention is given to Early school leaving in VET and early childhood education and care. Particular attention is given to gender imbalance, as well as to pupils with disabilities.
7.	Youth unemployment	September 2010: youth unemployment >25 years old is 20.3%, compared to overall unemployment rate of 9.6% April 2009: 20.6%	2011: reinforcement of the Youth dimension in the Europe 2020 strategy (Youth on the Move) in particular regarding youth employment	By 2018, significantly decrease of youth unemployment in the EU Particular attention is given to young people with disabilities
8.	Youth poverty	2009: 27.8% of young Europeans 16-24 at risk of poverty or social exclusion (28.3% in 2008)	2011: reinforcement of the Youth dimension in the Europe 2020 strategy (Youth on the Move) in particular regarding social inclusion	By 2018, the rate of young people at risk of poverty is reduced in the EU area Particular attention is given to young people with disabilities.
9.	Adult participation in lifelong learning	2007: 9.5% 2009: 9.3% of 25-64 year olds participated (female 10.2%, male 8.5%)	By 2015 at least 12.5% of the working age population participating in lifelong learning Communication to be adopted in 2011	By 2020, at least 15% of adult population (aged 25-64) participate in lifelong learning. Particular attention will be given to gender balance.
10.	Indicator to be developed on Employability	No data available	Benchmark to be adopted in 2011	Strengthened contribution of education and training systems to skills needs of the labour market

GENERAL OBJECTIVE 2:

Foster creativity, promote intercultural dialogue and cultural and linguistic richness based on Europe's shared heritage and its diversity, while building the job-creating potential of the creative economy

<i>Impact Indicators</i>		<i>Latest known result</i>	<i>Milestones</i>	<i>Long-term targets</i>
1.	Percentage of EU citizens that according to a Eurobarometer survey associate the EU with cultural diversity ³	2009: 19%	No quantified targets have been set. We aim at an increase in the % of EU citizens who associate the EU with cultural diversity by end 2013	
2.	Foreign language teaching in basic education	2006: All countries for which data exist (22) have introduced early teaching of language (ISCED 1 or less) 2007/2008: In lower secondary education, 50.5% of pupils across Europe learn two or more languages (58% in 2006/2007)	Progress in introducing foreign language teaching at an early stage of education The results of the first European Survey on Language Competences in 2011 should lead to the proposal of a European benchmark on language competences in 2012.	By 2020, at least 80% of lower secondary pupils are taught two foreign languages or more
3.	Language diversity in the European Union	2008: EN, FR DE, ES, and RU represent over 95% of all languages taught in secondary education in the majority of countries	The results of the aforementioned European Survey will provide comparable data including on language diversity in European schools.	Based on data known by 2015, a revision of the Barcelona objective (i.e. every child in the EU should be taught at least two foreign languages from an early age.)

GENERAL OBJECTIVE 3:

Reinforce participation, solidarity and exchanges between the people in Europe, focusing on young people and on people engaging in sport and physical activity, in view of their contribution to European citizenship

<i>Impact Indicators</i>		<i>Latest known result</i>	<i>Milestones</i>	<i>Long-term targets</i>
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³ http://ec.europa.eu/public_opinion/archives/eb/eb71/eb71_std_part1.pdf

NB: DG EAC's activities will be only one of many factors which influence this perception

1.	Youth Participation	Information will be available as from 2012.	Priority theme during 2011-12 under the youth OMC and the Structured Dialogue with youth 2011: Eurobarometer and Council Resolution on Youth Participation 2012: study on youth participation and report on the youth OMC	Advance capacity of MS to approximate their policies through Structured Dialogue with young people By 2018, higher percentages of young people taking part in elections and in civil society organisations
2.	Youth Volunteering	16% of people aged 15-30 are occasional or regular volunteers (source "EU Youth Report" 2009)	2012: Report on the implementation of the Council Recommendation on mobility of young volunteers adopted in 2008	By 2018, increased percentage of young volunteers compared to the overall youth population
3.	Participation rates in sport and physical activity	27% of people aged over 15 engage in sport or physical activity 5x per week or more, in line with WHO recommendations (source: 2009 first Eurobarometer in that field) ⁴	2010: Communication of the European Commission on the impact of the Lisbon Treaty on sport 2011-2013: Proposal and adoption of EU incentive measures for sport (2014-...)	By 2018, increased number of people engaged in sport and physical activity.

GENERAL OBJECTIVE 4:

Cooperate on all dimensions of the DG's policies with world partner countries or regions and with international organisations with a view to promoting European values, policy approaches and attractiveness worldwide, to integrating broader global experiences into the internal EU policy dialogue and to strengthening people to people contacts.

<i>Impact Indicators</i>		<i>Latest known result</i>	<i>Milestones</i>	<i>Long-term targets</i>
1.	Number of students from non-EU countries enrolled in higher education institutions in the EU	2008: 980,000 students from non-EU countries enrolled in higher education institutions in the EU (2007: 950,000)	No quantified targets have been set. We aim at a yearly increase in numbers of students from non-EU countries enrolled in higher education institutions in the EU Attention is given to gender balance	
2.	The world ranking of EU universities	2010: 191 higher education institutions of the EU, in the Shanghai top 500 World ranking (194 in 2009; 191 in 2005)	No quantified targets have been set. We aim at a yearly increase in number of excellent EU universities on worldwide ranking lists	

⁴ http://ec.europa.eu/public_opinion/archives/ebs/ebs_334_en.pdf

3.	Implementation of the UNESCO convention on the Protection and Promotion of the Diversity of Cultural Expressions	Convention ratified in 2010 by 115 states (2009 : 104)	No quantified targets have been set. We aim at an international environment that protects and promotes diversity of cultural expressions
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Section 1.2 Achievements by ABB activity

1.2.1 Lifelong learning including multilingualism

This activity aims at supporting the development by competent authorities of high quality education and vocational training and of access by all citizens to lifelong learning as contributions to an innovative and knowledge-based Europe. The specific objectives pursued under the activity are:

1. Modernisation and reform of EU education and training systems by the Member States in line with the 'Europe 2020' strategy;
2. Development of an European area of lifelong learning, fostering mobility in view of strengthening Europe's competitiveness, building its knowledge-intensive economy and deepening the sense of European identity and citizenship;
3. Building the basis needed for the European Institute of Innovation and Technology (EIT) to operate independently with the view of pursuing world-class innovation in an unprecedented way;
4. Multilingualism enabling European citizens to use several languages, to access culture, to participate as active citizens, and to benefit from better communication, inclusiveness, wider employment and business opportunities.
5. Bringing other countries' experiences into EU policy and programme formulation, enabling partner countries to benefit from EU achievements and supporting mutual understanding

The status of lifelong learning at EU level was noticeably strengthened during 2010, notably through the adoption of the **Europe 2020 Strategy**. The EU has defined a two-sided headline target (out of five) which relates to education 1) to reduce the number of early school leavers to below 10% by 2020 (2009: 14.4%); 2) to increase the number of graduates from tertiary education to at least 40% by the same date (2009: 32.3%). Both have shown an improvement from 2008. Member States were required to prepare their own national targets in their National Reform Programmes to contribute to these European targets.

The Europe 2020 strategy is carried out thanks to seven flagship initiatives. Among these DG EAC took the lead for the Youth on the Move initiative⁵ and contributed largely to the launching of the Agenda for New Skills and Jobs⁶; it contributed also actively to the adoption of the Digital Agenda⁷, the Innovation Union⁸, and the Platform against

⁵ COM(2010) 477 of 15.9.2010

⁶ COM(2010) 682/3 of 23.11.2010

⁷ COM(2010)245 of 26.08.2010

⁸ COM(2010) 546 of 06.10.2010.

Poverty⁹. DG EAC is fully integrated in the coordination mechanisms for the Strategy at Commission level.

The aim of the **Youth on the Move** initiative, which the Commission formally launched in September, is not only to raise the quality and international attractiveness of Europe's higher education (largely stable position in the worldwide ranking of Universities since 2005), but more generally to improve learning opportunities for young people and to facilitate their transition into the labour market. DG EAC coordinated intensively the preparation of the 2010 package, including a Commission Communication, a proposal for a Council Recommendation on learning mobility and two staff working papers. The Commission tasked DG EAC with the preparation of a number of concrete actions including the extension of mobility programmes and the modernisation agenda of education and training systems, with a particular focus on higher education.

In that respect, the European Higher Education Area was officially launched in 2010 at the Ministerial meeting of the Bologna process countries. People and Erasmus Mundus programmes increasingly contributed to the **modernisation of EU higher education**. As much as 119 out of the 125 best ranked EU universities participated in Marie Curie Actions and three quarters of the best ranked EU universities participated in the Erasmus Mundus programme (up from 65% in 2009). With a view to making lifelong learning and learner mobility a reality, DG EAC launched the preparatory phase of a new reform agenda in that field to be adopted by the Commission in 2011.

Meanwhile the **Agenda for new Skills and Jobs** has the objective of creating the right conditions to modernise labour markets and to allow people to acquire new skills in order to raise employment levels and to ensure the sustainability of social models in Europe. Increasing the mobility capacity of workers across fragmented labour markets has a critical impact on structural employment rates in an area of free movement of capital like the EU. Together with DG Employment, Social Affairs and Equal Opportunities, DG EAC prepared a Communication allowing the Commission to launch the initiative in November,¹⁰ including the planned development of a European skills passport. Up to 2010, more than 10 million people had already used the 'Europass' online CV (curriculum vitae) to help them find a job.¹¹

The economic crisis highlighted the urgency to support about 80 million adults with low skills in the EU. The issue of adapting the skills of the adult population to changing requirements needs to be addressed, considering that only 9.2% participated in lifelong training in 2010 (9.5% in the previous two years). In the context of Europe 2020, work on implementing the Action Plan on **Adult Learning** has gained momentum in its last year. More generally, progress was made towards the full translation of the **European Qualifications Framework (EQF)**¹² into national qualification systems. By end 2010, 13 countries had developed their national qualifications frameworks and four had referenced their systems to the EQF.

⁹ COM(2010) 758 of 16.12.2010

¹⁰ The related New Skills for New Jobs initiative, which had previously been the subject of a Commission communication in 2008, has been pursued through a dedicated expert group.

¹¹ By offering a standardised CV template, available in 26 languages, Europass helps job-seekers to market their skills to employers across Europe and beyond.

¹² The European Qualification Framework (EQF) acts as a translation device to better understand qualifications from different EU countries, making it easier to learn, work or hire staff abroad.

Following the impetus of the Europe 2020 agenda, Ministers and Directors general for schools dealt in 2010 with **early school leaving**, basic skills reinforcement, key competences assessment and teacher induction. In that respect, the Commission published a well-received Policy Handbook for beginning teachers. The Communication on "A new impetus for European Cooperation in **Vocational Education and Training** (VET) to support the Europe 2020 Strategy"¹³ paved the way towards the Bruges review of the Copenhagen process in 2010. It invited the Member States and the European Social Partners to endorse an ambitious modernisation agenda for VET until 2020 and a set of concrete deliverables until 2014.

Regarding **multilingualism policy**, two Government groups (early language learning and employability) and two stakeholder platforms (business and civil society) worked throughout the year, defining the contribution of language learning and teaching to the ET 2020 strategic framework.

DG EAC made a substantial contribution to the **European Year against Poverty and Social Exclusion**, most notably in preparing the May 2010 Council Conclusions on the social dimension of education and training and the informal ministerial debate on the same subject in November 2010.

The **Lifelong Learning Programme** continued to focus on intra-EU learning mobility, be it of pupils (Comenius and Leonardo da Vinci respectively for general and vocational schools), university students (Erasmus), adults (Grundtvig) or educational staff. Good progress was noted in 2010 regarding the deployment of electronic application forms in Member States (96%), the future participation of Croatia and Switzerland, and the evidence-based management of the funds thanks to the long-awaited approval by Member States of indicators to evaluate the programme. Regarding the sub-programme for schools, a new **Comenius** Individual Pupil Mobility action reached some 670 pupils in 13 countries. A 2010 impact study underlined the positive effects for school staff of going abroad for Comenius in-service training. When it comes to vocational education and training, the **Leonardo da Vinci** sub-programme celebrated its 15th Anniversary in 2010. The number of mobility grants awarded (almost 90,000) exceeded expectations with 77,000 placements in enterprises of which more than 20,000 mobility of apprentices. An impact study evidenced that it had a decisive effect on internationalisation of schools, education quality, new curricula and training of teachers. Adult education remained key to achieve a lifelong learning objective. The **Grundtvig** Actions, which celebrated in 2010 their 10th Anniversary, experienced a high demand as regards decentralised actions in the adult education sector. Dissemination events in 2010 highlighted their contribution to social inclusion and to the European Year of Combating Poverty and Social Exclusion (for instance through training in prisons). Via the **Jean Monnet** Programme, EAC further contributed to fostering high-quality knowledge of the European integration process, reaching 250,000 students annually on the 5 continents.

Progress with the implementation of **Erasmus** has particularly contributed to the DG's objective in relation to fostering mobility and supporting cooperation between higher education institutions. Since the inception of the programme, 2.4 million students have benefited from its support. During the latest known academic year, student mobility increased by 8.7% which was mainly due to an impressive 50% growth in the number of Erasmus placements. Staff mobility increased also by 13.6% over the year. The number

¹³ COM (2010) 296

of applications received for the Erasmus centralised actions, which promote cooperation between higher education institutions, showed an encouraging increase (194 projects submitted as compared to 174 in 2009).

Overall, the support of the LLP for continuous education has proved valuable to address the challenge of an ageing population, as well as to steer national policies in the directions agreed at EU level, in line with the Europe 2020 strategy. Interventions focusing on exchange of good practices have proven to be specifically relevant in view of the modernisation of educational systems.

In 2010 again, the **international cooperation with non European countries** strongly contributed to making EU education and research systems more attractive worldwide, but also to the modernisation of EU education and training systems. In that respect, the People programme (see 1.2.2 below) remained the most open EU research programme, all Marie Curie Actions being opened to researchers of any nationality worldwide. Overall 20% of the host organisations funded under these actions were localised in third countries. Worldwide cooperation was equally central to the **Erasmus Mundus** programme. Up to now, the programme has supported 147 joint cycles and has allocated scholarships to over 20,000 students and 3,000 academics. Other international cooperation schemes (e.g. agreements with the US and Canada, pilot project with the European Neighbourhood Countries and Russia) led to 44 new bilateral projects, allowing for the exchange of almost 2,000 students and 700 scholars. It is worth noting that the association gathering the alumni of these bilateral projects was consolidated. DG EAC prominently featured in major international higher education events held in 2010 in partner countries (e.g. Asia Pacific, Korea, Americas, Mexico).

The DG has managed the participation in some of its programmes of Croatia, FYROM, Bosnia and Herzegovina (as a contribution to the pre-accession and enlargement processes), and of Switzerland. Management of the LLP and YiA programmes should be significantly improved in FYROM. In certain candidate countries (Albania, Montenegro, Turkey), education systems remained unable to deliver the skills match needed by changing labour markets. Nevertheless, in the medium term, they should have the capacity to comply with the requirements of the *acquis*. Some countries are either up to the European standards (Island) or have made some progress to bring their education frameworks closer to these although efforts remain to be done in implementing them (Croatia).

Regional policy exchanges continued in the framework of the Eastern Partnership (e.g. eTwinning programme for schools partly extended), the Union for the Mediterranean and the EU-Africa Strategy (e.g. Tuning Africa feasibility study¹⁴). The DG pursued the sectoral policy dialogue with third countries, particularly in 2010 in respect of priority partners such as China (Shanghai Expo), Mexico, Brazil, Israel, Australia (as regards qualifications frameworks), US (concerning new skills for teachers) and Japan (about education quality assurance). Relevant implementing provisions of general EU instruments were negotiated with Armenia, Libya, Azerbaijan and Georgia.

The need to develop new conditions which are attractive to investment in knowledge and innovation in Europe is the driver behind the establishment of the **European Institute of Innovation and Technology** (EIT). Its priorities are the transfer of higher education,

¹⁴ The "tuning" approach aims at enabling higher education institutions to adapt to globalisation and increasing mobility. This is a methodology to (re-)design curricula and make them comparable.

research and innovation activities to commercial applications, in particular through start-up and spin-off enterprises. In 2010, priorities for DG EAC were to build capacity for the Institute in order to allow its financial autonomy and the establishment of the contractual framework of the so-called Knowledge and Innovation Communities (KICs)¹⁵. In both areas, progress was more difficult than anticipated. DG EAC provided intensive support to the launching of the EIT and full assistance to its Governing Board over 2010. The EIT officially opened its doors in Budapest and a Host Agreement was ratified with the Hungarian authorities. The EIT recruited a sufficient number of employees to start its operations. Meanwhile the EIT Foundation was established under Dutch law, as the EIT's main vehicle for fund-raising. However not all procedures allowing financial autonomy were defined and the Director of the EIT resigned in August, which required the launch of a new time-consuming recruitment procedure. As a consequence, the financial autonomy of the EIT was postponed to 2011. Nevertheless content wise, the EIT is progressively becoming operational, in support of the Europe 2020 strategy (Innovation Union; Digital Agenda flagships). The first two KICs started their work in 2010, respectively in the field of sustainable energy (KIC "Inno Energy") and digital innovation (KIC "ICT Labs").

1.2.2 Researchers mobility

This activity aims at raising skills and mobility of researchers as contributions to an innovative and knowledge-based Europe. The specific objectives pursued under the activity are:

1. To support training, transfer of knowledge and the structuring of the research careers through mobile researchers (European and International dimension)
2. To foster the inter-sectorial mobility and the participation of women in research

The contribution of DG EAC to the research effort of Europe was extended for the first time in 2010 to the support given to the mobility and working conditions of the best researchers. Since their launch by the EU in 1996, the **Marie Curie Actions** have supported 50,000 researchers of more than 120 different nationalities working in 70 countries. Transferred to DG EAC as from March, these Actions played an important role in putting into practice the flagship initiatives "Youth on the Move", "Innovation Union" and "Agenda for new skills and jobs". It is estimated that about 60% of funded research projects directly address the major societal challenges as defined in the Europe 2020 Strategy (e.g. climate change). Over the period 2009-2010, in line with the second objective, increased percentages of host organisations from the private sector (21%) and female participants (38%) were noted.

DG EAC has acted as an effective interface with the **Research Executive Agency**, which is in charge of implementing the Marie Curie Actions.¹⁶ The 2010 People Work Programme¹⁷ was fully implemented in spite of the delays inherent in the transfer of responsibility but mainly due in this case to the late availability of appropriate IT tools. DG EAC has also dedicated a major effort to policy activities and to the promotion of the Marie Curie actions through the participation in 150 events or the organisation of

¹⁵ The EIT operates through KICs which are excellence-driven strategic partnerships of higher education institutions, research organisations, companies and other stakeholders within self-supporting networks.

¹⁶ See Annex 7 – Annual Activity Report of REA.

¹⁷ Marie Curie Actions are part of the specific Programme People, which is funded from the 7th Research Framework Programme of the EU.

stakeholders conferences, among which the high-level celebration this year of the 50,000th Marie Curie fellowship. The excellence of the Actions was again confirmed by the fact that 76% of Marie Curie researchers funded in academia were trained in the Top 500 world universities, while all of the first 100 European universities were also Marie Curie beneficiaries (based on the Shanghai ranking).

1.2.3 Cultural and audiovisual cooperation in Europe

This activity aims to support the cultural and audiovisual cooperation in Europe. The pursued specific objectives of this activity are:

1. Create a supportive environment for artistic creation and cultural and audiovisual works/operators with a view to promoting cultural diversity, and creating jobs and growth;
2. Support European cultural and audiovisual cooperation by promoting intercultural artistic creation, new professional pathways for artists, increasing media literacy, the circulation of cultural and audiovisual works throughout Europe as well as the audiences for non-national European works, with a view to promoting cultural diversity, enhancing intercultural dialogue, and promoting a sense of European citizenship;
3. Promote the integration of the cultural and audiovisual dimension in all external and development policies and programmes, and develop political dialogue and cultural exchanges with 3rd countries, with a view to integrating the cultural and audiovisual dimension as a vital element in the EU's international relations.

Close cooperation with Member States to ensure the contribution of culture and audiovisual industries to meeting the objectives of the **Europe 2020** strategy including the flagship initiatives Digital Agenda, Innovation Union and New Skills and Jobs was launched at the March informal meeting of culture Ministers. The major initiative adopted by the Commission in 2010 to support the Europe 2020 strategy in this area was the Green Paper on "Unlocking the Potential of **Cultural and Creative Industries**". The public consultation on issues including access to finance, skills needs and internationalisation for these industries has shown that expectations were high for EU action. Responses will feed into policy proposals in 2011. Another headline of the year was the report of the "comité des sages" on bringing Europe's **cultural heritage online**, following the consultative stage organised by DG EAC together with DG Information Society and Media. Now widely disseminated, their conclusions will feed into several Digital Agenda initiatives, including orphan works and out of commerce works. Furthermore, DG EAC commissioned two studies finalised in 2010 on the entrepreneurial dimension of creative industries and the contribution of culture to regional economic development, whose results will help to prepare the future cohesion policy. In launching a new Web tool "culture funding in other EU programmes", DG EAC offered stakeholders for the first time a common entry point to all EU programmes that fund culture projects, contributing to the overall search for synergies between EU areas of action with a view to maximising their impact on growth.

Another milestone in 2010 in the field of culture policy was the adoption by Ministers of the **Workplan on Culture 2011-2014**. This was made possible thanks to the adoption earlier in the year of the first Commission progress report on the implementation of the **European Agenda for Culture** since 2007, as well as of the final recommendations of

the four OMC expert groups.¹⁸ Both showed progress in mainstreaming culture in 20 European policy fields. The Commission proposal for a **European Heritage Label** was also put forward in 2010, under the ordinary legislative procedure. The novelty of the proposed label is that it concerns not so much sites' beauty but rather their symbolic value for European integration and education purpose. Work on implementing the 2008-2009 pilot project on **artist mobility** continued meanwhile with a total of 13 mobility projects and networking among artist residencies.

Several events marked the year 2010 in the field of culture cooperation. First of all, the 25th anniversary of the **European Capitals of Culture (ECOC)** was celebrated in March. The three 2010 ECOC (Pecs, Essen and Istanbul), the selection of the 2015 title (Mons, Pilsen) and the pre-selections for the 2016 title (Spain and Poland) were implemented according to schedule. The available evaluation results confirm that this action has increasingly contributed to the long-term regeneration of cities. For instance, as a result of Linz 2009 (3.5 million visitors) there was a 10% increase in stays compared to 2008 despite the financial crisis. Over the preparatory period 2005-2010, regional income increased by €302.5 million and 4,625 new jobs were created or secured. Regarding the **EU Prizes**, the EU cultural heritage prize, the prize for contemporary literature as well as the European Border Breakers Award for contemporary music were awarded in 2010. The Commission proposed also a follow-up to its evaluation of the 2008 **European Year of Intercultural Dialogue**.

As to the role of culture in **external relations**, the most significant landmarks were the 5th anniversary of the Unesco Convention on the diversity of cultural expressions (which had by the end of the reporting year been ratified by 6 more countries bringing the total to 116 including the EU), the first annual high-level EU-China culture forum, the Northern Dimension Partnership on Culture signed with Norway, Iceland, and the Russian Federation, and the attention to the contribution of culture to the Millennium Development Goals. In contrast, no further progress can be reported this year about the EuroMed strategy on culture due to the political situation in that region.

The **Culture Programme** 2007-2013 provides funding to cultural bodies of European interest and co-funds trans-national cultural cooperation projects such as festivals, master classes, exhibitions, etc. The selection procedures of the Programme were shortened by a few months thanks to increased efficiency. As a result of funding in 2010, it is estimated that 19,423 artists/cultural workers will have been mobile and several thousands of cultural works will have circulated. In total, more than 1,500 books were translated between 2007 and 2010. Translations into predominant languages have recently diminished to the benefit of other languages supported by the Programme. Overall 80% of Culture projects contributed to intercultural dialogue.

In 2010, DG EAC welcomed the arrival of the **MEDIA 2007 programme** and media literacy Unit from DG Information Society and Media. This new organisation of the Commission offered scope for further cooperation in the closely related fields of culture and audiovisual. Without the EU intervention, neither the decreasing market share of the European cinema (30% worldwide), nor the still modest distribution of non-national European films (9% EU-wide) would resist global competition and both would be

¹⁸ In the context of culture policy, four expert groups from the Member States working through the open method of coordination address regularly the 4 priorities of the 2008-2010 Council Workplan on Culture (creative industries; mobility of professionals; mobility of collections; education and culture). The structured dialogue with civil society representatives is based on three thematic culture platforms.

considerably lower. In order to facilitate access to private sources of financing for film producers, the Commission signed agreements with two third party organisations to set up a new mechanism called **MEDIA Production Guarantee Fund**. About 300 new films are supported yearly by MEDIA, representing one out of two European films distributed in Europe outside their country of origin. These have above-average success in A-rated festivals (e.g. in 2010, 5 supported films received European Film Awards and one was awarded the Golden Globe for Best Foreign Film).

The third and final year of the **MEDIA International Preparatory Action** confirmed the importance of mutual cooperation between European and third country professionals from the audiovisual industry. A smooth transition to the **new MEDIA Mundus Programme** (€4.9 million) was successfully prepared.

With regard to the **digitisation of cinemas**, the independent cinema sector in Europe is facing difficulties in converting from traditional film to digital projection. In line with the 2020 Digital agenda, the Commission adopted in 2010 its Communication on the Opportunities and Challenges for European Cinema in the Digital Era. The Commission therein explores ways of accompanying this transition, in particular by contributing to a framework for standardisation, regional support to digitisation, compatibility with State Aid rules, and direct support to exhibitors of European films through the MEDIA Programme. A new action line in support of the digitisation of cinemas was established under the MEDIA Programme, with a delay due to the technical character of this matter.

In line with the Europe 2020 Digital Agenda flagship, the policy work and awareness raising on **media literacy** continued in the course of 2010 in the framework of Expert Groups. In view of the obligation for the Commission set by the Audiovisual Media Services Directive to report on media literacy levels in all Member States by 2011, assessment criteria were defined and will be now fine tuned.

1.2.4 Encouraging and promoting cooperation in the field of Youth and Sports

This activity aims to encourage and promote cooperation in the field of youth and sport. The pursued specific objectives of this activity are:

1. In the context of 'Youth on the Move', promoting the mobility of young people in view of improving their employability through non formal learning activities
2. In the same context, maximising the potential and well-being of all young people and promoting their active citizenship, social inclusion and solidarity;
3. Implement the Lisbon Treaty in the field of Sport by strengthening the societal role, the economic dimension and the governance of sport in the EU

The economic crisis hit the almost 100 million young people across the EU more than the average population, with higher unemployment (20.3%) and poverty (27,8%) rates. A better knowledge economy with more opportunities will help the youth to find new jobs and work longer so as to relieve the strain of ageing. Hence, the Europe 2020 Strategy has given full attention to youth, through its flagship initiative **Youth on the Move** focussing on education and employment. In the youth domain, DG EAC contributed to its preparation especially as regards youth work and volunteering. Following the adoption of the YoM Communication, the DG initiated preparatory work for the YoM card, for a Recommendation on non-formal learning and considered how the EU Youth Portal could support mobility of young Europeans.

DG EAC continued to mainstream a youth dimension in EU policy-making along the eight fields of action of the **Youth Strategy** adopted in 2009, such as youth participation and volunteering. As a follow-up to the Recommendation on the Mobility of Young Volunteers (2008), preparatory work with national experts from Member States resulted in a first cross-border volunteering project. Under the Open Method of Coordination, the DG supported in particular the preparation of the Council Resolution on the Active Inclusion of Young People, Combating Unemployment and Poverty. It furthermore strengthened the evidence-base for youth policy through studies (e.g. on access to culture), or strengthened partnership with the Council of Europe. In addition, initiatives have been taken to improve the visibility of EU activities, within the EU towards regions or through fruitful grassroots events (Bordeaux, Budapest), and worldwide, for instance, at the UN World Youth Conference in Mexico.

The **Youth in Action Programme** aims to support more opportunities for young people in education and employment (with a particular support to non-formal learning experiences with a European dimension) to improve their full participation in society (including in terms of European citizenship) and to foster solidarity and tolerance among the youth and between generations, in order to reinforce social cohesion in the EU. In most countries no such programmes of cross-border mobility exist. In 2010, it should have supported an ever greater number of young people and youth workers (exact figures to be known later in 2011) compared to 2009 (more than 130 000 participants following an 18% increase in grant requests). On a qualitative note, the first ever survey on the impact of the Programme among participants revealed very positive results. For instance, 76% of participants in the European Volunteer Service said that their job chances had increased thanks to their European project experience. Furthermore, progress was made over 2010 on the learning dimension of the programme and the dissemination of its results.

In the **sport** field, the main activities were related to the entry into force of the **Lisbon Treaty** which made of Sport a new field of competence for the EU. A public consultation and a Eurobarometer paved the way for a Commission Communication on sport. Policy work made also progress on issues such as minimum contractual requirements for professional footballers, personal data protection in the context of international anti-doping rules, or equal treatment of non-nationals in individual sports competition.

It was decided not to propose a sport programme for 2012-2013 but to concentrate resources under the next multi-annual financial framework. Meanwhile projects under **Preparatory Actions** continued to be funded and their evaluation was launched to feed into the proposal for incentive measures under the next financial framework.

Part 2 Management and internal control systems

Section 2.1 Introduction to DG EAC

DG EAC is in charge of multiple policy areas which comprise education and training, mobility of researchers, multilingualism, cultural and audiovisual cooperation, youth, and sports. The Treaty limits the competence at the European level in these fields to complementary and transnational activities, such as policy cooperation. The DG's spending programmes implement actions mainly by means of grants funded under Title 15 of the budget. The administrative implementation of these programmes includes bodies outside the DG such as European Executive Agencies or National Agencies that operate within a given participating country. In addition to the programmes, services are

provided to the entire Commission by the Central Library and the Traineeship Office. Over recent years, DG EAC's profile has increasingly moved to that of a policy DG and program supervisor, rather than a direct financial management DG.

In 2010, no major changes occurred in the budget structure but several measures have significantly modified the operating environment of DG EAC.

- A **new College** entered into office, with a new single Commissioner, Mrs Androulla Vassiliou, for Education, Training, Culture, Youth, taking up also the responsibility for multilingualism.
- The Commission secured agreement on the new EU strategic agenda, "**Europe 2020**", with a much more pronounced role for education and training, raising the role of DG EAC in the coordination of the implementation of the strategy.
- Associated with the start of the new Commission, the **portfolio of DG EAC** changed: the MEDIA Programme and Marie Curie Actions Units were integrated from respectively DG Information Society and Media and DG Research, while the Citizenship and Visits Units were transferred to DG Communication.
- The above changes resulted in a **reorganisation of the DG** on 1 June 2010. An additional Directorate was set up in the education domain and the existing operational Directorates have experienced some changes in responsibilities and staff – including senior management.
- A **new Director General** was appointed on 1 May 2010.

Although the above events have resulted in modified priorities and the aforementioned adjustments in the organisation, overall, the DG has been able to deliver the expected policy and programme outputs and results.

As from 1 June 2010, DG EAC has been organised in **six Directorates**:

- Directorates A, B and C were responsible for lifelong learning. Directorate A dealt with horizontal policy issues (Europe 2020 strategy, multilingualism, equal opportunities, etc), Directorate B with sector-based education policies (except higher education) and the overall coordination of the Lifelong learning programme, and Directorate C with higher education, research issues (Marie Curie Actions, EIT) and international cooperation;
- Directorate D covered Culture and Media programmes, as well as related policy activities, and was responsible for the external communication of the DG;
- Directorate E dealt with youth, sports and managed the Central library of the Commission,
- Directorate R and the two horizontal units experienced some internal reshuffle of responsibilities but continued to be overall responsible for coordination and administrative support and the management of the traineeship service of the Commission.

The policies of the DG were supported by the following **main programmes**¹⁹:

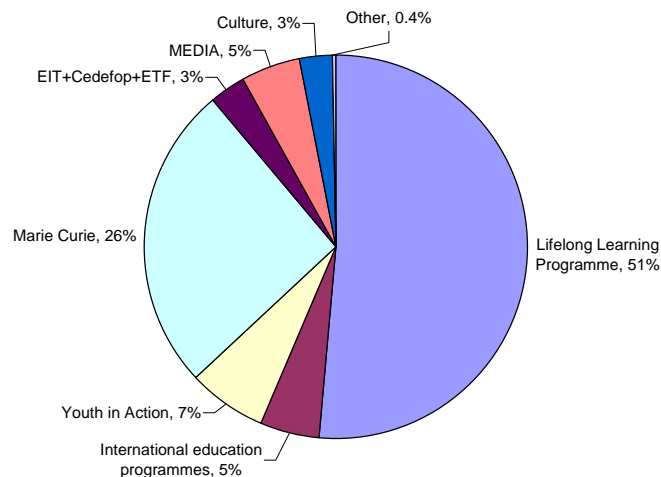
¹⁹ See Annexes 2 and 3 for more information on resources.

- Lifelong Learning Programme – 2007-2013 (LLP) with €1,007 million in terms of operational expenditures committed in 2010;
- Marie Curie Actions of the People specific Programme – part of the 7th Research Framework Programme with €544 million;
- Youth in Action programme – 2007-2013 (YiA) with €127 million;
- Media 2007 – 2007-2013 with €104 million;
- Culture programme – 2007-2013 with €55 million;
- Erasmus Mundus 2 programme– 2009-2013 with €97 million.

The DG participates in the activities of three EU Agencies and bodies:

- EIT: the European Institute for Innovation and Technology, as mentioned above (1.2.1) is a new independent EU body set up to address Europe's innovation gap.
- ETF: the European Training Foundation (Turin, Italy) helps the Union's partner countries develop education and training systems. The ETF also helps transition and developing countries reform their education, training and labour market systems in the context of the EU's external relations policy.
- Cedefop: the European Centre for the Development of Vocational Training (Thessaloniki, Greece) is the EU's reference centre for vocational education and training. It provides information on and analysis of education and training systems, policies, research and practice.

The **total budget** for the projects and actions in the Education and Culture domain amounted to **about EUR 2.1 billion** (including the participation of EFTA/EEA, but excluding the candidate countries) in 2010. The graph shows the relative importance of the programmes and highlights the predominance of LLP and Marie Curie. The execution rate of the voted funds was as high as 99.9% for commitments and 99.6% for payments (excluding administrative expenditure).



DG EAC's main programmes typically contain many diverse actions with a direct interaction with citizens in most cases. The programmes generally finance a high number of small actions and projects with a relatively short duration (rarely more than two years). The main actions can be summarised as follows:

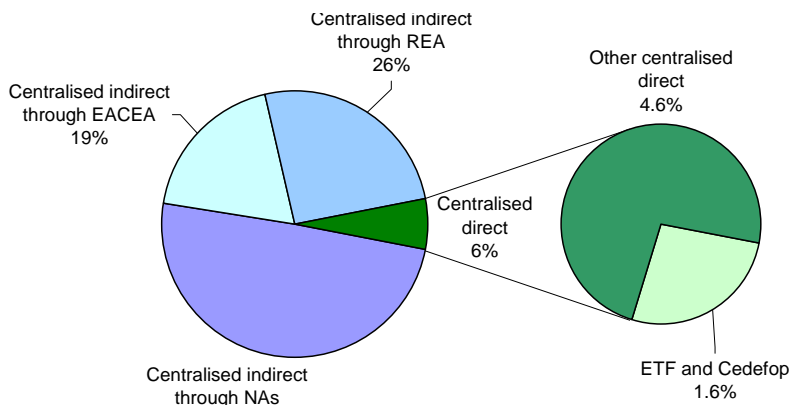
- **Mobility** actions, consisting of hundreds of thousands of individual grants, particularly in the LLP sub-programmes Erasmus and Leonardo da Vinci, as well as in Marie Curie actions and in the YiA programme;
- **Partnerships**, such as between schools (Comenius), adult training organisations (Grundtvig) or regions (Youth in Action), to which several thousands of organisations participate;
- **Cross-border cooperation** projects, support for networks and operational grants to certain organisations;
- **Policy cooperation and support**, such as peer learning activities, development of transparency tools, studies and comparative research.

In order to be able to finance such numerous and varied projects, both for new programmes and for the finalisation of the previous generation of programmes, DG EAC uses three different implementation modes, of which two forms of externalisation:

- **Centralised indirect management through National Agencies (NAs)** appointed and supervised by the National Authorities (NAUs) of the participating countries to the LLP and YiA programmes. This implementation mode is mainly used for mass mobility actions, partnerships, and certain cooperation projects. The actions implemented through NAs represent close to 50% of the DG's budget. National agencies are equipped to manage the large volume of actions of relatively low amounts that require proximity to the beneficiaries. DG EAC retains full responsibility for these parts of the programmes.
- **Centralised indirect management through two EU Executive Agencies:** the Education Audiovisual and Culture Executive Agency (EACEA) and the Research Executive Agency (REA), mainly for those parts of EAC programmes where projects are allocated across Europe based on excellence. DG EAC's responsibility is executed through the Steering Committee of the Executive Agency. The actions implemented through the Executive Agencies represent close to 45% of the budget (19% by EACEA, 26% by REA).

For these two main implementation modes, a more detailed description of the management and control framework can be found in the Internal Control Templates in Annex 5.

The remaining actions are implemented by DG EAC under **direct management**. This only represents 6% of the budget, of which the subsidies to the Cedefop and ETF agencies represent more than a quarter. The remaining actions mainly consist of administrative expenditure (central library, Bluebook trainees, studies, external communication, IT systems, etc.), policy support, politically sensitive actions, pilot projects and preparatory actions.



Overall, because of their nature, the implementation of the EAC programmes requires, more than other programmes, a reconciliation of safety of implementation with user friendliness and simplicity.

The **management and control systems** have been designed taking into account the inherent characteristics of DG EAC's programmes, in particular the need for large scale externalisation. In order to counter the potential risks, DG EAC has strengthened the management and control structures in the current generation of programmes by the introduction of an integrated control framework, where DG EAC's controls build upon controls executed by DG EAC's partners in the implementation of the programmes.

Within DG EAC, decisions with regard to the internal control system are taken by the Director's Board, composed of the Director General, the Deputy Director General and the Directors. A Task Force of all Directors dedicated to management issues, as well as a Supervisory Group for National Agencies, under the responsibility of the Resources Director, prepare decisions and monitors their implementation. Reporting of key management indicators to senior management has been centralised in a monthly Dashboard.

For actions under direct management and for the management of grants to the National Agencies, the Executive Agencies and the regulatory agencies, DG EAC has internally set up a decentralised internal financial circuit without counterweight; the financial and budgetary units give support and guidance. Financial initiation and verification tasks have been centralised in a single financial cell per Directorate – with a limited number of exceptions – in order to concentrate the relevant financial knowledge and to benefit from economies of scale. The year 2010 has brought a significant change in terms of daily financial management with the migration from local financial IT systems to the Commission corporate application ABAC. As a transitional precautionary measure, a second-level ex ante verification has therefore been added in the financial circuit.

Executive Agencies

The Directors of the Executive Agencies falling under DG EAC's responsibility give assurance on the use of the funds delegated to them in their Annual Activity Reports, which are annexed to this report.

The Commission retains a supervisory role on the activities of the agencies. The supervisory measures are defined in function of the structure and maturity of the respective Agencies, as well as the status of DG EAC as a parent DG *vis-à-vis* the other parent DGs.

The supervision structure of **EACEA**, as described in previous AARs, changed because of the redistribution of portfolios that took place with the new Commission taking up its functions. The year 2010 saw the exit of DG Information Society and Media (transfer of the MEDIA programme to EAC) and the entry of DG Communication (transfer of the Citizenship programme to COMM) as parent DG of EACEA. This change did not, however, have an impact on the structure, substance or methods of the work of the Agency.

In his AAR 2010, the Director of EACEA has put a reservation on the management of the current (2007-2013) Youth in Action and Culture programmes because of the occurrence of significant errors in the underlying transactions found through ex post controls by external auditors. The materiality of the 2010 value at risk related to those detected error rates is 4.28% for the Culture programme (2007-2013) and 7.38% for the Youth programme (2007-2013). Nevertheless the value at risk for the two programmes combined accounts for only 0.5% of the total payments budget of EACEA for 2010 (2.9Mio for a total of 567.7Mio). The errors concern mainly the difficulty for some beneficiaries to produce adequate justifying documents and the non respect of some eligibility rules. The reasons behind this reservation are, therefore, very similar to the ones underlying DG EAC's reservation concerning its centralised direct management. The action plan that is proposed by EACEA is also in line with the action plan that is being implemented by DG EAC. The DG and the Agency have agreed to cooperate closely in order to be able to learn from each other's experience and best practices.

The EACEA Director's declaration of assurance is complemented by the supervision on the functioning of EACEA by DG EAC through:

- The assessment of the implementation of the internal control standards in EACEA;
- The systematic monitoring of EACEA on the basis of the documents submitted to the Steering Committee;
- The in-depth analysis of EACEA's legal acts submitted for Commission approval by the parent DGs;
- The regular monitoring of the performance indicators in relation to the objectives of EACEA, including the error rate of ex-post audits of projects;
- The results of the assessment of the periodic reports of EACEA;
- The periodic horizontal coordination meetings between the DG and EACEA;
- The follow-up of the audits carried out by the various bodies that control the Agency (Internal Audit Capabilities (IACs) of EACEA and DG EAC, Internal Audit Service of the Commission (IAS) and European Court of Auditors);
- The follow-up of the implementation of the action plan to EACEA's 'three-yearly' evaluation;
- The assessment of EACEA's new or amended procedures;
- The validation by other bodies of EACEA's systems (e.g. DG BUDG's compulsory annual validation of EACEA's accounting systems);
- The monitoring of the management cost per programme managed by EACEA.

In function of the results obtained from the above controls, DG EAC has not observed any elements in the supervision of the EACEA that would call into doubt the EACEA Director's declaration.

DG EAC became a parent DG of **REA**, responsible for implementing the major part of the People programme, as of 1 March 2010. REA has been independent for approximately 18 months, whereas 2010 was the first year for which REA managed all aspects of the project management cycle.

REA's internal control system is modelled on those of the research family, in particular the operating procedures that have been set up in accordance with DG Research and Innovation's provisions. REA is fully compliant with the set of standards that were identified as a prerequisite for the Agency for obtaining its autonomy in 2009. During 2010 REA has progressed with its ISC implementation plan towards reaching full compliance with all ICS, with the objective of reaching this aim and further improving its effectiveness in 2011.

The IAS concluded following its audit conducted at the beginning of 2010 that the design and set up of REA's internal control system provides reasonable assurance of the overall control environment and of the grant management process, except for issues surrounding, among other things, the risk management process and ex-post audit strategy. The IAS has planned an audit to assess the effectiveness of the controls in place in 2011.

REA's ex-post audit function has been launched during 2010 (73 audits launched as foreseen, of which approx. 43% on a random basis). However, REA will not reach the critical mass (with a view to closed audits) necessary to have an indication of a representative error rate before the end of 2011 at the earliest.

The IAC of REA states that it has not detected any critical weaknesses which could jeopardise the achievements of the Agency's business objectives, but also remarks that it is too early to provide an opinion on the state of internal control across REA as a whole.

The Director of REA confirms in his AAR that he has sufficient assurance on the proper use of resources and that the available control procedures provide the necessary guarantees on the legality and regularity of underlying transactions for the programme managed for DG EAC.

The REA Director's declaration of assurance is complemented by the supervision on the functioning of REA by DG EAC in principle through the same elements as listed above for EACEA²⁰, whereas the scope of the supervision measures is more limited due to:

- REA intervening in the implementation of (only) one programme on behalf of DG EAC, falling under the responsibility of one operational unit in the DG;
- DG RTD acting as lead parent DG, being responsible for the budget line of the operating subsidy and for completing the formal Commission legal procedures (e.g. the passing for adoption of annual work programme) for REA.

In function of the results obtained from the above controls, DG EAC has not observed any elements in the supervision of REA that would call into doubt the REA Director's declaration.

Implementation of working arrangements with Commissioner and Cabinet

²⁰ In function of, among other things, the duration of existence of REA (e.g. REA has not yet completed its three first years of existence and has therefore not yet been subject to an external evaluation).

The working arrangements with Commissioner Vassiliou and her Cabinet were agreed and implemented. Briefings and speeches have been delivered on time and comments or suggestions have been quickly accommodated. The mid-year reporting on progress with the Management Plan and how it was implemented was also delivered on time. In addition, information on the execution of the budget was provided to the Commissioner.

The system of regular as well as ad hoc meetings of the Cabinet with the Coordination Unit 01 and the Assistants of the Director General or of the Commissioner with the Director General proved effective in enabling both sides to coordinate activities, to prepare for particular events, to agree positions on (legislative) dossiers and to anticipate difficulties.

Section 2.2 The functioning of the entire internal control system

A reservation on centralised direct management has been issued in the 2009 Annual Activity Report. In 2010, efforts continued to further improve the quality of DG EAC's management framework and practices, based on the **risk assessment** conducted in parallel with the elaboration of the MP 2010. The 2010 risk assessment had identified several areas of political, operational and administrative high level risks, but no critical risks. All risks have been reduced via adequate actions plans.

2.2.1 Compliance with the requirements of the control standards

DG EAC is generally compliant with the requirements of each of the 16 Internal Control Standards (ICS). An analysis by DG EAC on its ICS compliance concluded that **90%** of all baseline requirements were implemented in 2010 (92% in 2009). Six requirements are assessed as being only partially implemented and needing some improvement; this will be done in 2011.

ICS 7.6: Operational structure

The Commission corporate IT development methodology RUP has been translated into a DG EAC methodology RUP@EAC, which is to be followed by all IT projects. However, not all IT projects are yet fully compliant as regards the required documentation. Good progress can be noted.

ICS 8.1 & 8.3: Procedures

Not all IT systems have a full RUP@EAC compliant documentation; for five systems this document has been submitted to the Corporate Project Office (CPO) for approval. Concerning E-Domec procedures, they have to be regrouped in a single manual of procedures.

ICS 10.5: IT Business Continuity Plan (BCP) / Disaster Recovery Plan (DRP)

The Disaster Recovery Plan exists and is tested on the majority of the IT systems of the DG EAC. Only one locally hosted system (Youthlink) has not yet been tested and for systems hosted outside the Commission on behalf of operational units, the respect of DRP requirements has not yet been verified.

ICS 12.5 & 12.7: Communication

Concerning external Communication, DG EAC's current strategy dates back from 2006; a new strategy has to be drafted to be in line with new guidelines and the new communication strategy for the whole Commission. An IT general user survey is under construction.

In 2010, one derogation to the mandatory staff mobility requirement has been granted and properly recorded in ARES.

2.2.2 Effectiveness of implementation of the prioritised control standards

Based on observed weaknesses its 2009 ICAT query and a Directors Board's decision, DG EAC identified six priority ICS in its MP 2010. Progress on these standards was regularly monitored by Directors. In 2010, DG EAC has implemented a number of measures to improve the effective implementation of the identified priority standards:

- **ICS 7 – Operational Structures:** the implementation of the action plan for the IAS IT audit implied the review of IT governance (new IT Steering Committee) and the methodology for the management of the IT environment. Due to the changed portfolio and reorganisation, appropriate adaptations of organisational structures took place; for example, following the transfer of the Erasmus unit, a specific "Memorandum of understanding" was agreed between Directorates B and C to maintain a smooth functioning of the LLP programme. A new LISO correspondent has been appointed to deal with all IT security aspects and its work programme validated.
- **ICS 8 - Procedures:** More than 50 changes or updates of financial or operational procedures took place in 2010, linked to the transfer of new activities to DG EAC (MEDIA/People), the nomination of a new IAC, direct use of ABAC, the review of the centralised direct management mode, the use of the framework contract for communication. As mentioned above, a second-level ex ante verification has been put in place and regularly analysed following the decision of direct introduction of financial operations in ABAC. Thus, there is a need for a review of the presentation and coherence of the manual of procedures.
- **ISC 9 – Supervision:** Thanks to a successful effort to close pending IAC and IAS recommendations, the DG has only a limited number of open recommendations left and all action plans are up to date. The follow-up of audit recommendations is now a key tool for improving the internal control environment. The new approach implies that all new action plans must be implemented within a year and for each action an implementation criterion is defined to clarify the results to achieve. In addition, a new database ("Life card") dealing with the follow-up of recommendations will become operational in the first half of 2011. This will facilitate the overall reporting.

The planned update of the overall supervision framework in order to make it more comprehensive and to refine the supervision of the Executive Agencies has been delayed. Nevertheless, daily supervision still goes on (unit/directorate meetings, progress meetings, follow-up tables, senior management reporting). Procedures for the operational interface with the new REA Agency (at unit and DG level) are being defined and DG EAC has become a member of REA's Steering committee. Fortnightly coordination meetings between DG EAC and REA have been established, and further cooperation mechanisms are being examined in order to clarify DG EAC's role in a context where DG Research and Innovation (RTD) is the lead parent DG. The changes in the cooperation will be formalised in a revised Memorandum of Understanding between the parent DGs and REA.

- **ICS 10 – Business Continuity:** The BCP was kept up-to-date taking into account the impact of the new Commission organisation, DG EAC's internal reorganisation and the abandon of local financial systems. Appropriate handovers related to the change of Director General and to the departure or arrival of activities have been provided in due time. For locally hosted IT systems the Disaster Recovery Plan has been reviewed and

tested. Following the evacuation exercise of the EAC premises, DG EAC requested from the relevant Commission service (OIB) the organisation of a structured dialogue with all stakeholders to achieve a reduction of the risk of the building.

- **ISC 11 – Document management:** The various reorganisations in the first half of 2010 have had a temporary negative effect on the respect of ICS 11, especially, the introduction of ARES in the MEDIA unit and its filing plan led to delays. DG EAC has to pay particular attention to the filing of documents. The new versions of ARES offer more efficient reports and tools to improve the internal control system in document management.

Recently an important effort was made for completing Data Protection. The information on DG EAC's intranet was updated and extended. The inventory of notifications was analysed and all pending notifications were finalised with regular follow-up by Senior Management.

- **ICS 12 – Information & communication:** DG EAC made significant efforts in 2010 to comply with the Commission's strategy on internal communication, with specific focus on feedback on management decision. Efforts were made to contribute to a proactive information and communication (restyling of the intranet, lunch debates, information campaign on new financial circuit, TV screen at the ground floor with internal/external communication items running...). Cooperation with the Internal Communication Network of the Commission has improved in 2010 (both at technical level and content-wise). Furthermore, one person was recruited for the development of internal communication.

In order to obtain an assessment of the effectiveness of the internal control system, a self assessment exercise took place end 2010 in the form of an “ICAT exercise” (DG BUDG’s Internal Control self Assessment Tool). The questionnaire was adapted to take into account the specificities of DG EAC's control context and all profiles of DG EAC's staff (Directors/middle management/AD/AST) participated. The ICAT exercise confirmed that significant progress had been made on five of the 2010 priority standards, except ICS 10 related to business continuity.

2.2.3 Conclusion

Overall, the ICAT exercise observed a **significant improvement** of the compliance and effectiveness of the implementation of ICS in DG EAC in 2010 including the non-financial activities: 73% of ICS is now considered "fully effective" (68% in 2009). This is the result of the constant attention to raising awareness and ownership of DG EAC's internal control system through compulsory training and information sessions. As such, a common and shared approach of the concept and process of assurance has been developed. The procedures in place allow a reasonable control of the key risks posed to the objectives of DG EAC.

To strengthen ICS effectiveness, for the first time this year, each open audit recommendation (IAC, IAS, European Court of Auditors, Synthesis...) has been linked to a specific ICS.

Taking into account the preceding information, it can be concluded that the internal control system of DG EAC is functioning well. Senior Management has identified that the main areas where effectiveness needs to be further improved in 2011 are:

- ICS 7 (operational structures), ICS 8 (procedures) and ICS 13 (financial & accounting information) as a risk analysis of DG EAC's financial circuits is currently carried out

and will lead to a formal AOD decision which will have to be documented and implemented.

- ICS 9 (management supervision) as DG EAC's supervision strategy adopted in March 2008 has to be refined and reviewed especially to take into account the needs for a specific supervision of the new Executive Agency REA and the improvement of the efficiency of DG EAC's single audit approach within the context of the centralised indirect management mode via National Agencies.
- ICS 10 (business continuity) as there is still a lack of awareness, training and tests regarding the Business Continuity Plan.

The Directors' Task Force will establish an overall action plan to tackle the identified priority areas which will be monitored on a regular basis.

Section 2.3 Information to the Commissioner

The main elements of this report and assurance declaration, including the envisaged reservation, have been brought to the attention of Commissioner Vassiliou.

Part 3 Building blocks towards the declaration of assurance and reservations to it

Section 3.1 Building blocks towards reasonable assurance

As explained in section 2.1, DG EAC implements its programmes through three management modes: centralised indirect management through National Agencies, centralised indirect management through the executive agencies EACEA and REA, and centralised direct management by the DG. As the Directors of the executive agencies are Authorising Officers by Delegation for the parts of the programmes delegated to them, they take responsibility for this spending in their declaration of assurance in the AARs of the executive agencies. Consequently, the spending through executive agencies is not part of the declaration of assurance of the Director General of the parent DGs.

The two management modes that are part of the declaration of assurance of the Director General of DG EAC have very different risk profiles and have their own control and supervision arrangements. Therefore, it seems most appropriate to judge any weaknesses found against the part of the budget spent in each specific management mode. If the amount at risk surpasses 2% of the budget spent through a specific management mode during the year, a reservation should be considered.

3.1.1 Building block 1: Assessment by management

This section discusses each management mode separately.

Centralised indirect management through National Agencies

Under the current generation of programmes 2007-2013, DG EAC has introduced an integrated control system for management through National Agencies, with a more pronounced role and responsibility for the National Authorities of the participating countries. Under this system, the first level of controls on beneficiaries is executed by the National Agencies. The secondary level of controls over the supervisory and control systems of the NAs is carried out by the Member States/participating countries. DG EAC's third level of supervisory controls aims to review the national control systems

(primary and secondary controls). The overall control system is described in detail in the relevant internal control template in annex 5.

DG EAC receives formal assurance from the National Authorities (NAUs) on the proper functioning of the control system of the National Agencies (NAs).

- In 2007, the NAUs gave ex ante declarations of assurance on the internal control systems of National Agencies, which were verified by DG EAC before the start of the implementation of the programmes. Where needed, the DG introduced qualifications on the declaration.
- After each year of programme implementation (for the first time in 2008), the NAUs provide an ex post declaration of assurance (DoA) on the proper management of the funds by the NAs, on the functioning of their control system and on the probity of the accounts presented in the NAs yearly reports (YR).

Drawing lessons from the received declarations and reports, the DG has continuously clarified and further specified the instructions for the reports and declarations to ensure that the information received would be more precise and complete. Thanks to the updated guidelines issued in December 2009, the quality and relevance of the received information has improved. This has allowed a broader and more in-depth analysis of the declarations and yearly reports by the DG.

Both participating countries and the Commission are now well accustomed to the new control system. As a result, declarations and reports were received earlier than before and treated more quickly by the Commission. The analysis of all 2009 DoA and YR, with the exception of Malta, was finalised by October 2010.

On top of the external assurances from participating countries, DG EAC has conducted a number of direct controls in 2010:

- 13 financial ex-post audits have been finalised and 6 more are considered to be sufficiently advanced to be included in the analysis for the AAR 2010, covering overall 8 Member States and 15% of the total programme budget (corresponding in terms of decentralised operation spending to 14% of LLP and 22% of YiA);
- 12 system audit visits to NAUs.

The assurance on the functioning of the control system was further increased by:

- 56 monitoring visits to NAs (often combined with visits to NAUs), either to verify the NAs control and reporting systems or to assess quality and impact of programme actions at national level. The latter type of visits also provides an opportunity for discussing issues regarding administrative, contractual or financial management.
- Frequent contacts with NAs and NAUs at management and desk level.
- Various types of meetings and trainings frequently held with NAs and NAUs, in particular to ensure that NA staff are well informed of management and programme implementation rules, and to clarify to the NAUs their supervisory role vis-à-vis NAs.
- A very limited number of complaints received compared to the very high number of supported projects. Their analysis has not revealed systemic failures.
- A low number of cases of presumed irregularity or fraud reported in 2010.

Over the first four years of implementation of the programmes, almost all NAs and/or their NAUs have been audited or visited for supervisory or monitoring reasons. With limited exceptions, the remaining countries will be visited or audited in 2011.

As a result of the above, DG EAC considers it has now a more complete knowledge of the way in which its programmes are implemented by NAs. In line with the work started in 2009, the increased knowledge and more detailed analysis have been reflected in individual opinions on the management and control system of each NA-NAU combination, which were established by the operational Directorates responsible for the implementation of LLP and YiA. All individual management opinions were summarized in overall management opinions by programme, which were signed by the responsible Directors. The most important conclusions of the supervision and control activities in 2010 are:

- The results of the financial audits mentioned above show an average error rate of 0.3%. As the number of audits is limited, the observed error rate cannot be extrapolated to the full population. Nevertheless, the error rate is in line with previous observations (0.6% in AAR 2009, 0.03% in AAR 2008, 0.5% in AAR 2007). The moderate level of the error rate gives an indication on the quality of the first level of controls and, possibly, the second level; they do not necessarily represent an error for the budget as the reports audited have been received by DG EAC but not settled yet.
- The NAs and NAUs have in general followed up observations resulting from previous declarations, and reports or monitoring visits. For 6 out of the 10 control areas, less than 10% of NAs or NAUs have an outstanding very important or critical observation. For treasury management and the accounting system this is the case in less than 25% of NAs.

Concerning secondary controls, 28% of NAUs still have an outstanding critical (only a limited number of cases) or very important observation. This does not indicate that secondary controls were not carried out, but rather that the DoAs were not always based on a sufficient assurance basis, notably as regards checks on the legality and regularity of transactions underlying the NA accounts and NA reports.

Primary controls (checks by NAs on beneficiaries) are still subject to a very important or critical observation in around 40% of the National Agencies, which is significantly lower than at the start of 2010 when around 80% of NAs were still in this situation. Remaining weaknesses are noted in particular in relation to incoherent reporting data, timely performance of the minimum number of checks, and high financial correction levels. However, the insufficient number of checks relates in particular to on-the-spot checks; as all final reports need to be and are checked before closure, this weakness is at least partly remedied for the actions concerned.

All identified weaknesses have been followed-up through feedback letters. In the case of critical observations, the NAU was required to establish an action plan that was continuously monitored by DG EAC.

The Directors responsible for the implementation of the LLP and YiA programmes have issued a qualified opinion on the implementation through NAs. They consider that National Authorities and National Agencies have put in place appropriate management

and control systems and that they function effectively so as to give reasonable assurance on the legality and regularity of the underlying operations subject to the limitations set out below.

- Absence of assurance for Malta (LLP+YiA), United Kingdom (YiA)

The absence of assurance related to Malta results from a combination of insufficient supervisory controls of the National Authorities and substantial and continued weaknesses in the management activities of the National Agency, which led to programme suspension on 7 May 2010. As a result, no EU funds were transferred to the National Agency in 2010. In February 2011, an on-the-spot check by DG EAC confirmed that both the National Authority and Agency met the agreed minimum requirements. As a consequence, the programme suspension was conditionally and partially lifted (excluding payments for 2011 decentralised action funds).

The absence of assurance related to the United Kingdom (YiA) mostly results from audit-detected weaknesses in the financial management and reporting by the National Agency. The identified issues were insufficiently reported by the National Authority within its 2009 Declaration of Assurance. The suspension of all payments has been decided in January 2011. This precautionary measure will be maintained until the 2010 Declaration of Assurance has been audited by DG EAC, in order to confirm progress made. Additionally, DG EAC has officially informed the UK of possible financial corrections for overdue agreements as well as for non-compliant grant control.

- Partial assurance for Bulgaria (LLP), Cyprus (YiA), Greece (YiA), Spain (LLP), Iceland (YiA), Poland (LLP+YiA), Portugal (LLP), Sweden (LLP), Slovakia (YiA), United Kingdom (British Council LLP).

Even though substantial progress was noted in 2010, a partial assurance in relation to Spain, Portugal and Sweden (LLP) and to Greece (YiA) has to be maintained. Indeed, based on the progress on implementation of the agreed action plans, the critical observations that had been issued due to insufficient supervisory controls on behalf of the National Authorities in the 2008 Declarations of Assurance were lifted in the first half of 2010. Nevertheless, a partial assurance is justified based on remaining outstanding issues.

Thanks to significant progress, there is no longer an absence of assurance for Bulgaria (LLP) and Cyprus (YiA); due to remaining pending issues, a partial assurance is maintained. For Bulgaria (LLP), pending further progress on NA primary checks, a 10% payment suspension regarding decentralised funds prefinancing is still in place as a precautionary measure; for Cyprus (YiA), some remaining issues of non-compliance are still to be solved and, as a precautionary measure, prefinancing payments are still suspended.

In addition, a partial assurance is issued with regard to Iceland (YiA), Poland (LLP+YiA), Slovakia (YiA) and UK/British Council (LLP):

- for Iceland (YiA), the partial assurance is due to some difficulties in the programme management, notably the reporting and the timely closure of grant agreements. Nonetheless the commitment rate is improving and there are satisfactory secondary controls.
- for Poland (LLP+YiA), the partial assurance relates to insufficient secondary controls and the assurance making process as detected through

a supervision audit. Nonetheless this critical observation is partly counterbalanced by a solid management and programme implementation from the side of the National Agency.

- for Slovakia (YiA), the partial assurance relates to a combination of limited management weaknesses, average programme implementation and delays in the closure of agreements which limits the assurance regarding the National Agency. Nonetheless, some improvements have been measured in the course of the year, the National Authority controls have been evaluated as compliant and the open observations remain limited in both number and importance.
- for UK/British Council (LLP), a supervisory audit undertaken in December 2010 revealed a number of previously not detected weaknesses, which justify a qualified opinion. UK/BC is a joint NA managing both parts of the LLP (Erasmus and Comenius) and Youth in Action. For LLP, the observed problems are mitigated by both sounder grant management procedures by the NA and a stronger supervision by the NAU, as well as LLPLink ensuring reliability of data. For LLP, previous grant management delays have been resolved.

To limit the impact of the weaknesses and material deficiencies noted above, the following corrective and precautionary measures have been taken:

- The national authorities that received a critical observation for not having provided sufficient assurance on the 2008 Yearly NA Report and notably the financial reports have been requested to produce an action plan detailing the remedial measures with precise target dates. The action plans were agreed with the National Authorities in February-March 2010. The implementation of the action plans was monitored via a regular desk review of progress reported by the National Authorities in 2010. A further review meeting was held with all countries with partial assurance in January 2011.
- The 2010 COM-NA agreements provide the related National Agencies with a legal basis and the operational support to remediate the weaknesses found. However, 2010 pre-financing payments were transferred to the NAs only once the implementation of the action plan was found to be satisfactory in order to exert the necessary pressure on the authorities.
- DG EAC made an active use of suspensions of payments to National Agencies in 2010 as an instrument to ensure a proper management by NAs.

Based on the conclusions above, DG EAC's methodology for defining the materiality criteria²¹, which received the green light from the European Court of Auditors in its Annual Report 2009, foresees the application of the following error rates for the different groups of NAs, which were identified in particular on the basis of the reporting by Authorising Officers by sub-delegation on the use of resources:

- NAs/NAUs with no assurance: 20%
- NAs/NAUs with partial assurance: 5%
- NAs/NAUs with acceptable assurance: 0.3% (error rate in financial audits)

²¹ See Annex 4 on materiality criteria.

As noted above, due to the limited number of financial audits, the observed error rate cannot be extrapolated. Nevertheless, as the observed rate is in line with previous years' observations it is regarded as an approximation of the error rate observed in those countries where no significant or critical deficiencies in the management and control system have been observed.

National Agencies / National Authorities	Error rate (1)	Weight (*) (2)	Contribution to error rate (1)*(2)
No assurance: Malta (LLP+YiA), United Kingdom (YiA)	20%	1%	0.2
Partial assurance: Bulgaria (LLP), Cyprus (YiA), Greece (YiA), Spain (LLP), Iceland (YiA), Poland (LLP+YiA), Portugal (LLP), Sweden (LLP), Slovakia (YiA), United Kingdom (British Council –LLP)	5%	28%	1.4
Acceptable assurance	0.3% (**)	71%	0.2
Total		100%	1.8%

(*) Based on the share of the concerned NAs in the total budget spent through NAs

(**) Error rate actually observed in ex-post financial audits

The table shows that this leads to an aggregate error rate for the implementation through NAs of 1.8%. As this is below the 2% threshold, there is **no need to make a reservation for this management mode**.

The total error rate remained approximately at the same level as in the AAR 2009 (1.7%). Nevertheless, Youth in Action records a significantly higher error rate than last year (3.6%, compared to 1.0% in the AAR 2009), which is solely due to the effect of the audit in the UK which resulted both in an increase in the observed error rate for financial audits, in several critical observations and the ensuing lack of assurance for that country. Without this individual case, the error rate for YiA would have remained limited to 1.1%. The higher error rate for YiA is compensated by a decline of the error rate for LLP from 1.8% in the AAR 2009 to 1.5% now.

Centralised direct management

In their reporting, Authorising Officers by sub-delegation do not indicate any elements that would put into doubt the assurance on transactions under centralised direct management.

An important building block in the assurance are the ex ante controls that are conducted by the DG. In order to guarantee the continued quality of financial transactions after the transition of local financial IT systems to ABAC, a second level ex ante verification was introduced on all transactions. Errors which were found by the second ex ante verification related mostly to incorrect accounting treatment of the transactions and were corrected before final approval of the transactions in ABAC. Statistics on the errors detected show a gradual reduction in number and indicate that the new requirements are being integrated in the initiation and verification process at operational level. The IAC concluded in its report on a consulting engagement "Review of financial transactions in ABAC" that the important financial data representing the regularity and legality of transactions which were introduced directly in ABAC, are considered to be reliable.

In addition, the operational directorates responsible for the closure of projects ask for targeted ex ante audits by an external audit firm for those cases that are considered most risky or where the information in the final report raises questions. In 2010, three targeted ex ante audits were finalised. They detected an error rate of 19.5% in the costs declared by beneficiaries. This high rate shows the ability of operational directorates to identify the risky or doubtful cases, so as to eliminate errors before final payments are made.

On a second level, in order to get a complementary external view on the respect of legality, regularity and compliance with the principles of sound financial management of transactions, DG EAC requests an external audit firm to conduct ex post controls on a random selection of final payments for grants.

A random selection method (MUS) across all transactions of the DG has been applied, which allows extrapolating the results of the controls to the full population if the number of audits is sufficiently large. In 2010, 11 untargeted ex post audits were finalised or are sufficiently advanced to be taken into account. They represent €5.2 million of total funding, which corresponds to 25% of the total budget spent on projects implemented through centralised direct management.

All audited projects were initiated between 2004 and 2007. The bulk of the audited projects concerns 2005 and 2006, thus mainly programmes of the previous generation (2000-2006). This implies that the expected positive effects of improvements in the financial management in the DG that were introduced in recent years, such as the centralisation of financial actors in a financial cell by Directorate, were only partially reflected in the error rate found. The more widespread use of lump sums under the 2007-2013 programmes should also help avoiding errors.

The total error rate is calculated in dividing the total amount to be recovered according to results from all untargeted ex post audits carried out on closed projects by the total amount paid for projects which have been audited. In 2010 this error rate is 3.4% and thus above the 2% threshold, for the second successive year. The error rate is higher than in 2009 (2.3%) despite significant progress with the implementation of the action plan on the 2009 reservation (see 3.1.3 below). This is not surprising as the type of actions that are being implemented concern mainly the early phases of project and contract design. It therefore takes time before they have an effect on the final phases of the projects. In addition, there is an additional time lag between the finalisation of projects and the availability of audit results on closed projects.

It is considered that **a reservation continues to be warranted for a second year for this management mode**, even though its significance still needs to be put into perspective for the following reasons:

- A majority of measures of the action plan designed to respond to the reservation in the AAR 2009 have been implemented in 2010, fully (43%) or partly (29%). Because of the type of errors, the first phases of the action plan were mainly concentrated on recoveries and the adoption of procedures, whose effective implementation by operational services and beneficiaries remains mainly to be done. This was being confirmed by the IAC, which is currently finalising its assessment of the implementation of this action plan and its impact on the sustainable reduction of the error rate in central direct spending. The IAC found no major omission in the conception of the plan, while outlining that the implementation of new procedures and the majority of medium term actions (e.g. simplifications) remained to be carried out.

DG EAC will implement fully its action plan as soon as possible, building on the IAC findings.

- The errors mainly concern projects of the previous generation of programmes; improvements to the DG's financial management system that were introduced in recent years are therefore not yet reflected in the error rate. The limited number of projects concerning the current programmes that were included in the sample of ex post controls being closed in 2010 tends to show lower error rates.
- The centralised direct management mode (excluding the subsidies to Cedefop and ETF) represents less than 5% of the total budget of the DG (see section 2.1); the amount at stake is indeed limited to 0.16% of the budget, which could be considered too low to warrant a reservation.

The analysis of the observed financial errors detected through audits finalised in 2010 reveals similar issues as in the AAR 2009 and the subsequent analysis by the IAC. In particular, the inclusion of costs that were ineligible by nature was by far the most frequent error category in 2010 (45% of errors). Other main errors concerned the inability of beneficiaries to produce appropriate justifying documents (16%) and over-claims compared to reality (14%). Other types of errors were less widespread and had a lower impact on the error rate. In the follow up review of the audit of centralised direct spending, IAC found generally a high level of implementation of recommendations which over time will contribute to error reduction. However, it proposed that management should consider how some good practices implemented by certain units could be adopted more widely.

In order to deal with the identified problem, DG EAC will complete the implementation of the action plan that was launched as a response to the reservation in the AAR 2009 (See section 3.1.3).

European Institute of Innovation and Technology (EIT)

The EIT has become operational in Budapest on 1 April 2010. A desk review of the EIT procedures and administrative organisation and an on-the-spot visit in June 2010 concluded that the EIT had not yet put into place appropriate financial circuits and procedures for financial autonomy to be granted. An action plan was agreed in order to implement remedial actions in a timely manner. The process was accompanied by a working group with representatives from both the EIT and DG EAC.

In August, the EIT's Director resigned and the Head of the operational unit was appointed as acting Director. A recruitment process for a new Director was therefore launched and the selection process advanced swiftly; a final decision is expected for April 2011.

A specific risk assessment of the overall EIT situation was carried out in September and confirmed that the granting of financial autonomy needed to be further postponed and that DG EAC needed to continue, and even strengthen, its support to the EIT in order to help it establish its governance and internal control system. A new Memorandum of Understanding was signed in order to clarify roles and responsibilities and transitional working arrangements. Pro-active solutions have been sought, such as a new EIT organisational structure, which has been in place since 1 October 2010. In addition, Commission officials were put at the EIT's disposal and the Commission also offered job shadowing and training to the EIT to support this improvement phase.

At the end of 2010, DG EAC requested the EIT to present a Readiness Report to demonstrate the measures taken to ensure the EIT's financial autonomy from an administrative and financial point of view and to show the efficiency of processes. This report should enable the European Commission to reconsider its decision on the EIT's financial autonomy by March 2011.

Suspected irregularities or fraud and ongoing OLAF investigations

Suspected irregularities or fraud and ongoing OLAF investigations had no impact on the assurance over the reporting period. At the beginning of 2010, DG EAC notified to OLAF allegations of fraud in the National Agency of the Former Yugoslav Republic of Macedonia which implements preparatory measures (funded by DG ELARG) in preparation of a possible future participation in the LLP and YiA programmes. As these allegations and underlying internal control weaknesses might be of a systemic nature, DG EAC took precautionary steps and suspended the implementation of preparatory measures for the LLP and YiA programmes in this country.

DG EAC notified also to OLAF (as in previous years) a small number of potential fraud cases at final beneficiary level, which had been brought to attention by the regular or ad hoc reporting from the National Agencies concerned. None of them, on the basis of their nature and potential financial impact, required particular precautionary measures.

3.1.2 Building block 2: Results from audits during the reporting year

IAC Opinion

The Internal Audit Capability of DG EAC (IAC) conducted two audits (Financial circuits, Financial and operational procedures of People programme). A third audit (document management) was in the reporting phase and two consultancy assignments had been completed (Reliability of ABAC following transition to direct data entry; error reduction in centralised spending) at the time of writing. Certain recommendations focused on the need for more practical and updated documented procedures and for improved internal communication. In addition, the IAC carried out five follow-up audits (Supervision of National Agencies; ICS 12/management information; Communication Policy; Traineeship Office; Spending activities) and found a generally high implementation rate.

Through a concerted approach to the follow up of recommendations within the DG, the number of outstanding IAC recommendations was reduced in 2010 to only 15. No "critical" or "very important" recommendations with implementation overdue for more than 12 months remained open at the time of writing of the present report.

Finally, the IAC conducted a preliminary study on the follow-up of the European Court of Auditors report and discharge recommendations and concluded that DG EAC took a proactive approach which contributed to the timely and sufficient response to implementing and closing recommendations. Considering that a satisfactory system for coordinating and implementing recommendations was in place, it concluded that the residual risk was estimated as low.

Based on the results of audits and consultancies completed or being finalised and the objectives and scope of the engagements carried out during 2010, the IAC concluded that the internal control system in place in DG EAC **provided reasonable assurances**

regarding the achievement of the business objectives set up for the processes audited, **except for** the five very important recommendations which were accepted by management and which would be addressed by an action plan. Most actions are expected to be completed by end December 2011.

IAS Audit reports

The IAS audited DG EAC's IT management (audit finalised in April) and concluded that major improvements were needed. IAS found that the internal control system in place for managing IT projects provided reasonable assurance regarding the achievement of the business objectives set up for the processes audited, except concerning IT Project Management (risk management, vision documents and project management methodology) and information Security (authentication mechanism for LLPLink, segregation of duties in LLPLink team, user account management procedures and role of the LISO). 14 observations (7 rated 'very important' and 7 rated 'important') were made for which appropriate actions have been defined in the action plan. Most actions are expected to be completed by end 2011.

The IAS has conducted an "Audit on DG EAC supervision and monitoring of National Agencies – Lifelong Learning Programme" which concludes that the internal control system in place provides **reasonable assurance** regarding the achievement of the business objectives set up by DG EAC for the supervision and monitoring of NAs managing the LLP programme, except for the following two "very important" observations concerning DG EAC supervisory mechanisms and uncleared prefinancings. In total, IAS has issued seven recommendations (three very important, three important and one desirable). DG EAC accepted all recommendations and has immediately elaborated a comprehensive action plan indicating concrete assessment criteria, target dates and responsible units. Most actions are expected to be completed by end 2011.

All previous 2010 IAS recommendations are closed or sent as "ready for review". All 2010 and 2011 recommendations are in line with their forecast implementation dates.

Follow-up of the European Court of Auditors findings and recommendations

DG EAC appears together with DG Justice, DG Home Affairs and DG Communication in chapter 7 of the **Annual Report 2009** of the Court under the title "Education and Citizenship". The Court focussed on closures (final financial transactions which represent only 13% of budget) of which nearly 2/3 are related to projects of the 2000 – 2006 programming period with more complex rules.

The Court concluded for chapter 7 that:

- Closures for the year ended 31 December 2009 for Education and Citizenship were "affected by material error" (error rate above 2%);
- the supervisory and control systems for Education and Citizenship were partially effective in ensuring the regularity of closures made in 2009;
- the Director-General's declaration and the annual activity report gave a fair assessment of financial management in relation to regularity.

The Court made only one recommendation: to further reinforce the checks on closures to ensure that errors are detected and corrected, and prevent the reoccurrence of previously identified errors.

In the framework of DG EAC's permanent communication with NAUs, the results of the Declaration of Assurance 2009 have already been presented by the Court and discussed with the National Authorities on a seminar which took place in January 2011.

A **special report of the Court on Leonardo da Vinci mobility** concluded overall "that the design and management of the mobility scheme of the Leonardo da Vinci programme could lead to effective results." The positive elements of the report were the following:

- The Commission established an appropriate project cycle management system;
- The operational elements of the programme are generally well managed;
- Controls at National Agency level complied with Commission guidance.

As far as the recommendations were concerned, DG EAC took appropriate action in order to remedy the weaknesses detected. Depending on feasibility, some recommendations have already been implemented or are being implemented, while others will be taken on board in the future programme.

3.1.3 Building block 3: Follow-up of previous years' reservations and action plans for audits from previous years

Follow-up of 2009 reservation (centralised direct management)

DG EAC established an action plan for the follow up of the reservation issued in 2009 due to the too high error rate in direct management. On top of issuing all recovery orders related to the errors found in 2009, corrective actions mainly concerned the reinforcement of the monitoring tools, of control procedures and simplification.

Supplementary control procedures were developed in 2010 and will be implemented in 2011: verification of supporting documents at the closure of the project, use of agreed upon procedures for audit certificates. Moreover explicative notes on treatment of contributions in kind and eligibility of VAT were issued. The budget model for grants was also updated to take into account contributions in kind. A monthly report on recoveries linked to audits is now followed by the Task force Directors.

The main outstanding steps for 2011 are:

- the operational Directorates and beneficiaries will need to implement the procedures agreed in 2010 concerning contracting and closure of grants;
- the introduction of centralised ex ante verification of calls for proposal;
- the further simplification and, where appropriate, shift from cost based to results based closure of projects will be further analysed for the next generation of programmes.

The DG's IAC is in the process of auditing the Action plan. In its preliminary observations it notes that the design of the action plan corresponds to the main underlying causes and agrees that progress has been made in its implementation particularly in recent months. It also considers that the implementation of the action plan has, so far, been concentrated on the drafting and adoption of procedures but that the awareness raising of and effective implementation by operational services remains to be done.

Follow-up of audit work on IT tool / Local Financial Systems (LFS)

Significant progress was made in improving internal management and control structures through the implementation of action plans in response to past audit work. The most important areas of progress are listed below.

An assessment of the financial management strategy of the DG revealed that the effort for the maintenance, continuous follow-up of ABAC changes, monitoring and checking the coherence of the Local Financial IT systems (Symmetry-PMS1, Appfin) was high compared with the benefits the DG was getting from the operation of these LFS. This was mainly due to the limited number of projects and transactions that the DG had to manage throughout the year (around 500 projects/year). In addition, the relevant functionality of corporate tool (ABAC) has become more complete and now covers most of the DG's needs.

The Directors Board of 18 January 2010 decided to stop using the local financial IT systems Appfin and Symmetry. From 1 May 2010 onwards, all transactions have been directly introduced in ABAC (except those created in ALEPH for the library and NIS for traineeships).

In order to prepare for the transition and to compensate for the absence of specific functionalities provided by the local systems, a range of measures were foreseen. The main preparatory measures were the following:

- Technical ABAC Trainings were organised for the users;
- ABAC guides, explaining mainly specific values to be introduced in ABAC for accounting and statistical purposes, were issued;
- Measures were put in place to manage the budget (by introducing a Work Programme Index, allowing the control of budget consumption);
- Identification of transactions by a unique project number (RUN);
- Automatic generation of documents;
- As previously reported, a second level ex ante verification was introduced to check all financial transactions directly created in ABAC after their acceptance by the verifying agent of the financial cell. This second ex ante verification also concerned the transactions (e.g. administrative budget) which were already directly created in ABAC. For this purpose a new ABAC financial circuit was created (light version with 2nd level ex ante).

In its draft report on a consulting engagement: "Review of financial transactions in ABAC" the main finding of the Internal Audit Capacity stated that the important financial data representing the regularity and legality of transactions which were introduced directly in ABAC, were considered to be reliable.

Synthesis of the results of accounting controls

In the context of the accounts quality exercise, DG EAC established a set of regular controls in order to verify the correctness and completeness of the accounting registrations in the DG, in accordance with the accounting work programme 2010.

Two types of controls were carried out:

- *Controls on the accounts*: This type of controls is based on the checks proposed by DG BUDG in the context of the accounting revision programme. The

establishment of a second verification ex-ante control has considerably contributed to the improvement of the data quality of the financial transactions.

- *Accounting controls on files*: The accounting control of the files is an ex-post control procedure, which aims to verify the correctness and completeness of the registrations in the central accounting system with respect to the actual transactions and its related documents. The controls were carried out monthly on a sample basis. Corrections were put in place, if still possible. No material errors were detected by these controls.

Reporting of those recovery orders where the DG has not followed the advice of the Legal Service (LS).

During 2010, DG EAC did not follow the advice of the Legal Service in only one case. It concerned the recovery order for a Conference for which the Legal Service asked to waive the debt. DG EAC asked first DG Budget to send a last reminder to try to obtain the reimbursement of the amount. However, in December 2010, DG EAC waived the recovery order as the last attempt to recover had been fruitless.

Exceptions procedures

Concerning financial exceptions, the decreasing trend observed during 2009 continued also in 2010: 46 cases of exceptions were recorded during 2010, compared to 64 cases of exceptions for 2009 and 104 cases for 2008.

Nineteen cases related to procurement procedures. The majority of these exceptions concerned deviation from EAC framework contracts in order to cover the procedural needs of EIT. Ten cases related to different aspects of grants management. Six exceptions related to experts' participation in meetings, five to financial management as regards expenditure operations, four to access rights to the accounting systems granted to non-statutory staff, one to an ex post referral, one to subdelegation rules. The analysis of the content did not reveal any structural problems within the DG so that no modification of the current financial procedure of DG EAC was necessary as an outcome of this procedure.

Concerning operational procedures in the field of Commission Inter-Service Consultations and the Right of scrutiny of the European Parliament, the possibility for exceptions is explicitly provided for in the applicable procedures. No exceptions were recorded for reducing the delay of consultations of other services of the Commission, while two exceptions were sought on the right of scrutiny of the Parliament (for draft measures concerning the implementation of the MEDIA Programme in April and October), which were accepted by the Parliament.

3.1.4 Building block 4: Assurance received from other Authorising Officers in cases of crossed sub-delegation

In 2010, DG EAC gave a number of crossed sub-delegations to other DGs.

- Crossed sub-delegation to DG ESTAT concerning the implementation of the grants for the Adult education survey (AES) and the Continuing vocational training survey (CVTS)). The objectives of these grants were to contribute to the statistical data production in order to ensure the availability of comparable data at Eurostat on lifelong learning. The crossed subdelegation ended on 31.12.2010.

- In April 2010, a crossed sub-delegation was given to DG EMPL in order to treat the outstanding RAL on line 15.0606 - Special annual events. It will end on 31.06.2011.
- Due to a change in nomenclature in 2010, a crossed sub-delegation to PMO was signed for line 15.021101- EIT Direction structure, updating the act signed on 25 March 2009 for line 08.2401.

The Authorising Officers by Delegation have all submitted their reports on 2010 activities, in line with the deadline foreseen. As indicated in the reports, the appropriations were all used in conformity with the procedures of their respective DGs. No particular problems or possible reservations were made in the reports.

3.1.5 *Completeness and reliability of the information reported in the building blocks*

The information from the various building blocks described above covers all budget delegated to the AOD of DG EAC. The reliability of the information is considered sufficient, in particular as the quality of the information and assurance received from NAUs has been improved considerably in 2009.

Section 3.2 Reservations

DG	EAC
Title of the reservation, including its scope	Too high error rate in centralised direct management, due to lack of justifying documents for cost claims, mainly concerning projects from the previous generation of programmes (continuation of 2009 reservation).
Domain	Centralised direct management – grants – all activities
ABB activity and amount	4.6% of EAC budget, corresponding to €95.6 million (excludes subsidies to Cedefop and ETF)
Reason for the reservation	Significant occurrence of errors in the underlying transactions found through ex post controls by external auditor. The untargeted audits that were finalised in 2010 showed an error rate of 3.4%. The observed errors predominantly concern the inability by the beneficiaries to produce justifying documents or these documents are of insufficient quality.
Materiality criterion/criteria	<p>The observed error rate of 3.4% surpasses the 2% threshold set by management mode. Therefore, it is considered that for 2010 a reservation is warranted, even though:</p> <ul style="list-style-type: none"> • The implementation of the action plan is well advanced, which is confirmed by an ongoing IAC audit. Because of the type of errors, its first phases were mainly concentrated on the drafting and adoption of procedures, whose effective implementation by operational services and beneficiaries remains to be done. • The errors mainly concern projects of the previous generation of programmes; improvements to the DG's financial management system that were introduced in recent years are therefore not yet reflected in the error rate. The limited

	<p>number of projects concerning the current programmes that were included in the sample of ex post controls being closed in 2010 tends to show lower error rates.</p> <ul style="list-style-type: none"> • The centralised direct management mode (excluding the subsidies to Cedefop and ETF) represents less than 5% of the total budget of the DG (see section 2.1); the amount at stake is indeed limited to 0.16% of the budget, which could be considered too low to warrant a reservation.
Quantification of the impact	Based on the observed error rate, the amount at risk corresponds to 3.4% of the budget managed through centralised direct management or €3.3 million. This represents 0.16% of the DG's overall budget.
Impact on the assurance	Although the error is significant for the centralised direct management mode, its effect on the overall assurance is very limited, given the limited weight of centralised direct management (4.6% excluding the subsidies to Cedefop and ETF) in the DG's overall management.
Responsibility for the weakness and its correction	The error occurs at the level of beneficiaries, but is currently not detected by the DG's controls at the time of closure of a project.
Corrective action(s)	<p>In order to deal with the identified problem, DG EAC intends to complete the implementation of its existing action plan:</p> <ul style="list-style-type: none"> • the operational Directorates and beneficiaries will need to implement the procedures agreed in 2010 concerning contracting and closure of grants (methods for verification of supporting documents at the closure of the project, use of agreed upon procedures for audit certificates, treatment of contributions in kind and eligibility of VAT, application of common budget model for grants); • the introduction of centralised ex ante verification of calls for proposal; • the further simplification and, where appropriate, shift from cost based to results based closure of projects will be further analysed for the next generation of programmes.

Section 3.3 Overall conclusions on the combined impact of the reservations on the declaration as a whole

Although the reservation concerning centralised direct management is based on a material error level for this particular management mode, its effect on the overall assurance is very limited, given the small weight of centralised direct management (4.6% - excluding subsidies to Cedefop and ETF) in the DG's overall management. Therefore, the observed error only represents 0.16% of the DG's overall budget.

Part 4 Declaration of assurance

I, the undersigned,

Director-General of the Directorate General of Education and Culture,

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view²².

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: too high error rate in the small share of overall expenditure managed via centralised direct management, due to lack of justifying documents for cost claims.

Brussels, 30 March 2011

[signed]

Jan Truszczyński

²² True and fair in this context means a reliable, complete and correct view on the state of affairs in the service.