

ANNEX 1: Statement of the Resources Director

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

I hereby certify that the information provided in Parts 2 and 3.1 of the present AAR and in its annexes 2 to 5 is, to the best of my knowledge, accurate and exhaustive.

Place: Brussels, date: 25 March 2011

(signed)

Bernard Lheritier

¹ SEC(2003)59 of 21.01.2003.

ANNEX 2: Human and Financial resources by ABB activity

This section is not applicable to the Agency, as it is fully autonomous since 1st January 2006.

The Agency's operating or administrative budget is financed through a subsidy awarded by the EU. The authorising officers by delegation for the implementation of these appropriations in the EU budget are the Agency's parent directorates general.

Therefore, the Agency reports on its human and financial resources under 1.2 of this report.

Annex 3 Financial Reports - DG IEEA - Financial Year 2010**Table 1 : Commitments****Table 2 : Payments****Table 3 : Commitments to be settled****Table 4 : Balance Sheet****Table 5 : Economic Outturn Account****Table 6 : Average Payment Time Limits****Table 7 : Income****Table 8 : Recovery of undue Payments****Table 9 : Ageing Balance of Recovery Orders****Table 10 : Waivers of Recovery Orders****Table 11 : Negotiated Procedures (excluding Building Contracts)****Table 12 : Summary of Contracts (excluding Building Contracts)****Table 13 : Building Contracts****Table 14 : Contracts declared Secret**

Additional comments

TABLE 1: OUTTURN ON COMMITMENT APPROPRIATIONS IN 2010 (in Mio €)				
Chapter		Commitment appropriations authorised *	Commitments made	%
		1	2	3=2/1
Title 02 : Enterprise				
02 02	Competitiveness, industrial policy, innovation and entrepreneurship	114,97	114,94	99,98 %
Total Title 02		114,97	114,94	99,98 %
Title 06 : Energy and transport				
06 02	Inland, air and maritime transport	64,01	63,81	99,69 %
06 04	Conventional and renewable energies	71,30	71,01	99,60 %
Total Title 06		135,31	134,82	99,64 %
Total DG IEEA		250,27	249,76	99,80 %

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

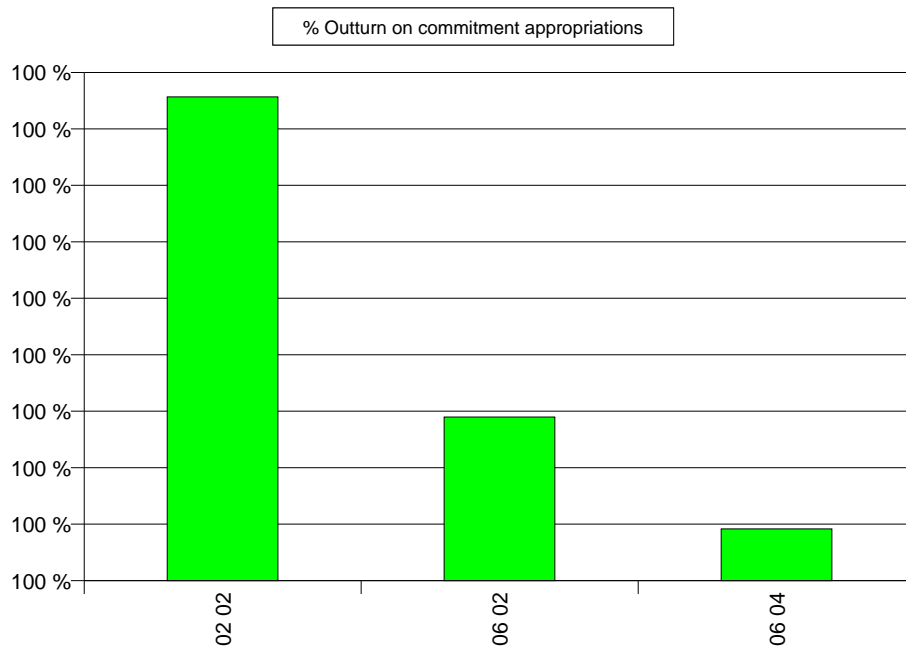


TABLE 2: OUTTURN ON PAYMENT APPROPRIATIONS IN 2010 (in Mio €)				
Chapter		Payment appropriations authorised *	Payments made	%
		1	2	3=2/1
Title 02 : Enterprise				
02 02	Competitiveness, industrial policy, innovation and entrepreneurship	36,97	36,80	99,52 %
Total Title 02		36,97	36,80	99,52 %
Title 06 : Energy and transport				
06 02	Inland, air and maritime transport	30,98	30,50	98,46 %
06 04	Conventional and renewable energies	56,29	54,74	97,24 %
Total Title 06		87,27	85,24	97,67 %
Total DG IEEA		124,24	122,04	98,22 %

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

% Outturn on payment appropriations

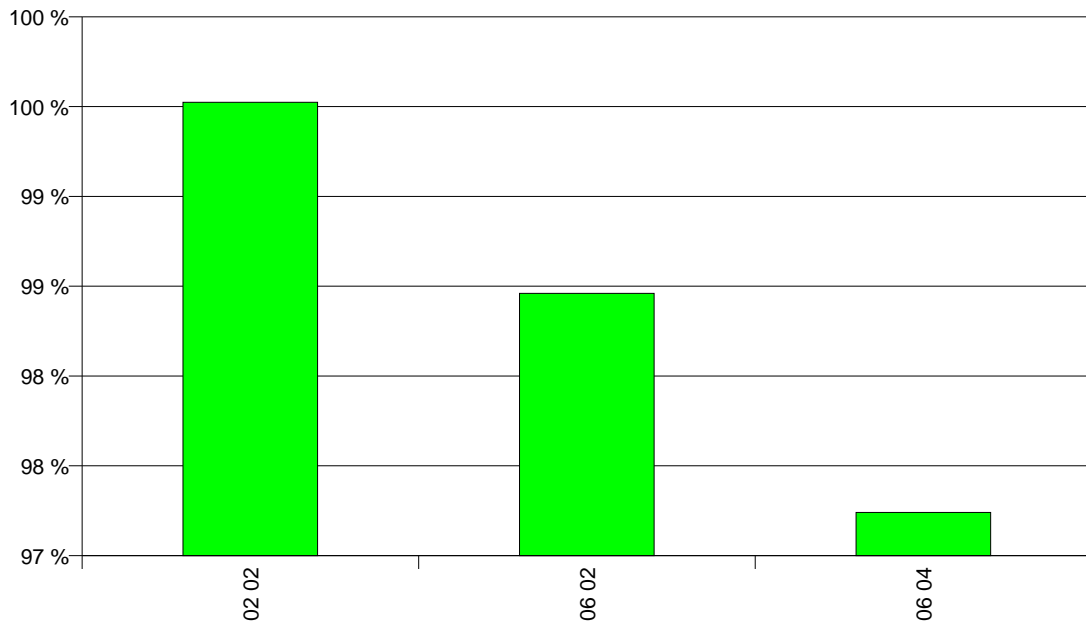


TABLE 3 : BREAKDOWN OF COMMITMENTS TO BE SETTLED AT 31/12/2010 (in Mio €)								
Chapter		2010 Commitments to be settled				Commitments to be settled from financial years previous to 2010	Total of Commitments to be settled at end of financial year 2010 (incl.corrections)	Total of Commitments to be settled at end of financial year 2009 (incl.corrections)
		Commitments 2010	Payments 2010	RAL 2010	% to be settled			
		1	2	3=1-2	4=1-2/1	5	6=3+5	7
Title 02 : Enterprise								
02 02	Competitiveness, industrial policy, innovation and entrepreneurship	114,94	2,74	112,20	97,62 %	124,33	236,54	158,74
Total Title 02		114,94	2,74	112,20	97,62 %	124,33	236,54	158,74
Title 06 : Energy and transport								
06 02	Inland, air and maritime transport	63,81	0,05	63,76	99,92 %	93,23	157,00	141,93
06 04	Conventional and renewable energies	71,01	1,70	69,31	97,61 %	148,10	217,41	202,76
Total Title 06		134,82	1,75	133,07	98,70 %	241,34	374,41	344,70
Total DG IEEA		249,76	4,49	245,27	98,20 %	365,67	610,95	503,44

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

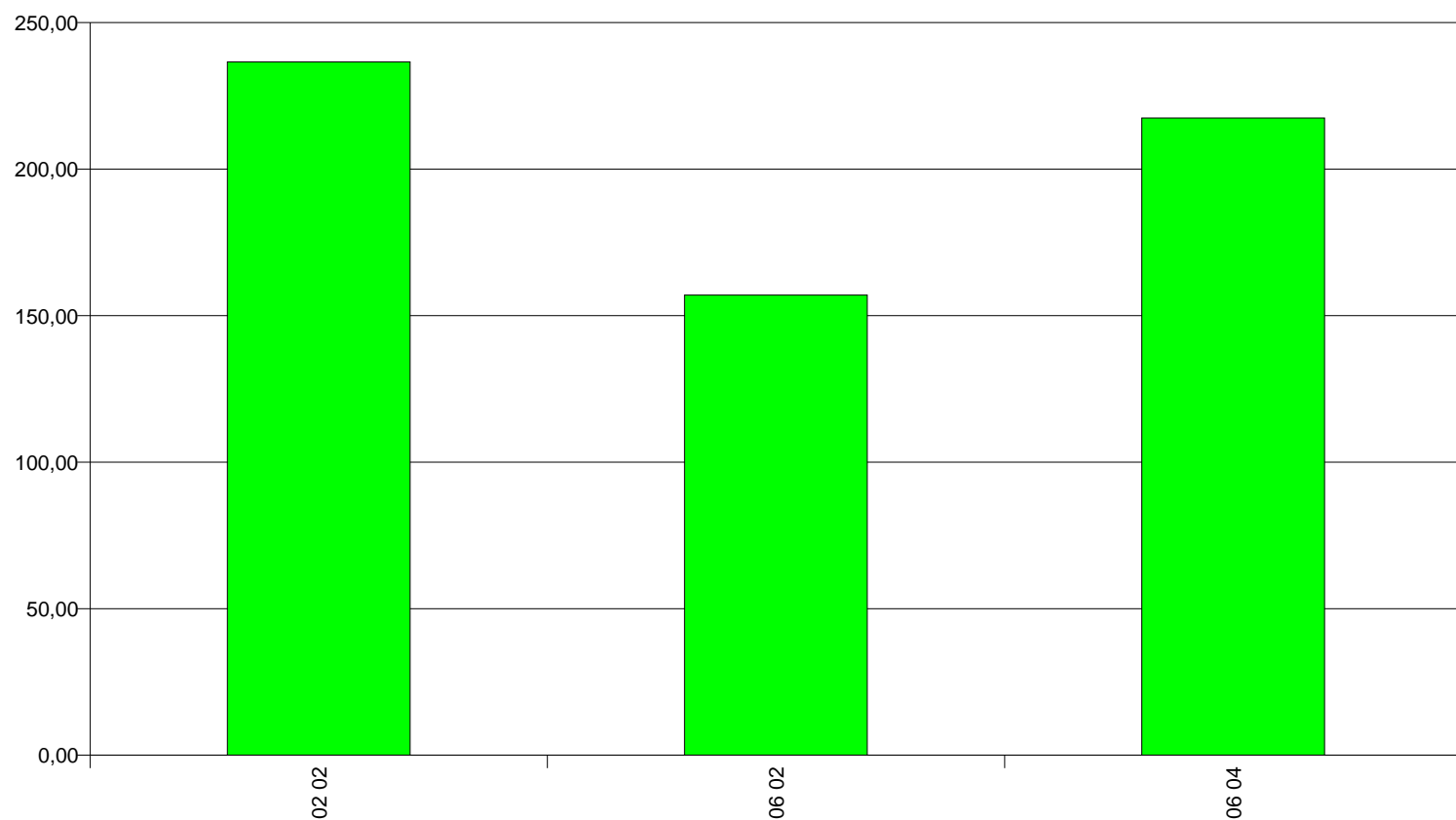


TABLE 4 : BALANCE SHEET IEEA

BALANCE SHEET	2010	2009
A.I. NON CURRENT ASSETS	5.390.533,00	0,00
A.I.1. Intangible Assets		
A.I.2. Property, plant and equipment		
A.I.3. Long-term investments		
A.I.4. Loans		
A.I.5. LT Pre-Financing	5.390.533,00	0,00
A.I.6. LT Receivables		
A.II. CURRENT ASSETS	37.750.792,65	29.108.474,61
A.II.1. Inventories		
A.II.2. Short-term Pre-Financing	32.223.043,64	29.065.973,68
A.II.3. Short-term Receivables	5.527.749,01	42.500,93
A.II.4. Short-term Investments		
A.II.5. Cash and Cash Equivalents		
ASSETS	43.141.325,65	29.108.474,61
P.I. NET ASSETS/LIABILITIES		
P.I.1. Reserves		
P.II. NON CURRENT LIABILITIES		
P.II.1. Employee Benefits		
P.II.2. Long-term provisions		
P.II.3. Long-term financial liabilities		
P.II.4. Other long-term Liabilities		
P.III. CURRENT LIABILITIES	-100.217.029,75	-59.625.360,38
P.III.2. Short-term provisions		
P.III.3. Short-term financial liability		
P.III.4. Accounts Payable	-100.217.029,75	-59.625.360,38
LIABILITIES	-100.217.029,75	-59.625.360,38
NET ASSETS (ASSETS less LIABILITIES)	-57.075.704,10	-30.516.885,77

P.I.2. Accumulated Surplus / Deficit	0,00	0,00
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Non-allocated central (surplus)/deficit*	57.075.704,10	30.516.885,77
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TOTAL	0,00	0,00
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It should be noted that the balance sheet and economic outturn account presented in Annex 3 to this Annual Activity Report, represent only the (contingent) assets, (contingent) liabilities, expenses and revenues that are under the control of this Directorate General. Significant amounts such as own resource revenues and cash held in Commission bank accounts are not included in this Directorate General's accounts since they are managed centrally by DG Budget, on whose balance sheet and economic outturn account they appear. Furthermore, since the accumulated result of the Commission is not split amongst the various Directorates General, it can be seen that the balance sheet presented here is not in equilibrium.

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

TABLE 5 : ECONOMIC OUTTURN ACCOUNT IEEA

ECONOMIC OUTTURN ACCOUNT	2010	2009
II.1 SURPLUS/ DEF. FROM OPERATING ACTIVT	149.227.221,80	127.567.753,58
II.1.1. OPERATING REVENUES	-95.483,22	232.875,40
II.1.1.0. Own resource and contributions		
II.1.1.1. Other operating revenue	-95.483,22	232.875,40
II.1.2. OPERATING EXPENSES	149.322.705,02	127.334.878,18
II.1.2.1. Administrative Expenses	2.252.732,25	3.400,18
II.1.2.2. Operating Expenses	147.069.972,77	127.331.478,00
II.2. SURPLUS/DEF. NON OPERATING ACTIVIT	-59.711,55	-55.072,13
II.2. FINANCIAL OPERATIONS	-59.711,55	-55.072,13
II.2.1. Financial revenue	-59.992,98	-105.272,86
II.2.2. Financial expenses	281,43	50.200,73
II.2. OTHER NON OPERATING ACTIVITIES		
II.2.3. Movement in empl. benefits liabi		
II.2.4. Share of net surplus/def. associ		
III.2. Extraordinary Gains		
III.2. Extraordinary Gains		
III.3. Extraordinary Losses		
III.3. Extraordinary Losses		
IV. Budgetary Adjustments (superseded)		
IV. Budgetary Adjustments (superseded)		
IV. Budgetary Adjustments (superseded)		
V. SAP/PS Accounts		
V. SAP/PS Accounts		
V. SAP/PS Accounts		
ECONOMIC OUTTURN ACCOUNT	149.167.510,25	127.512.681,45

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

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

TABLE 6: AVERAGE PAYMENT TIME LIMITS FOR 2010 - DG IEEA

Legal Times							
Maximum Payment Time (Days)	Total Number of Payments	Nbr of Payments within Time Limit	Percentage	Average Payment Times (Days)	Nbr of Late Payments	Percentage	Average Payment Times (Days)
30	185	170	91,89 %	16,26	15	8,11 %	35,07
45	451	432	95,79 %	19,33	19	4,21 %	74,79
60	1	1	100,00 %	16,00			
75	1	1	100,00 %	35,00			
90	68	68	100,00 %	43,90			

Total Number of Payments	706	672	95,18 %		34	4,82 %	
Average Payment Time	22,80			21,06			57,26

Target Times							
Target Payment Time (Days)	Total Number of Payments	Nbr of Payments within Target Time	Percentage	Average Payment Times (Days)	Nbr of Late Payments	Percentage	Average Payment Times (Days)
20	190	158	83,16 %	11,99	32	16,84 %	25,53
30	447	348	77,85 %	17,38	99	22,15 %	43,63
60	1	1	100,00 %	35,00			
75	68	65	95,59 %	42,18	3	4,41 %	81,00

Total Number of Payments	706	572	81,02 %		134	18,98 %	
Average Payment Time	22,80			18,74			40,14

Suspensions							
Average Report Approval Suspension Days	Average Payment Suspension Days	Number of Suspended Payments	% of Total Number	Total Number of Payments	Amount of Suspended Payments	% of Total Amount	Total Paid Amount
49	29	342	48,44 %	706	83.467.059,17	68,51 %	121.827.311,44

Late Interest paid in 2010			
DG	GL Account	Description	Amount (Eur)
IEEA	65010100	Interest on late payment of charges New FR	281,43
			281,43

TABLE 7 : SITUATION ON REVENUE AND INCOME IN 2010

Chapter	Revenue and income recognized			Revenue and income cashed from			Outstanding balance	
	Current year RO	Carried over RO	Total	Current Year RO	Carried over RO	Total		
	1	2	3=1+2	4	5	6=4+5		
Title 5: REVENUE ACCRUING FROM THE ADMINISTRATIVE OPERATION OF THE INSTITUTION								
52	REVENUE FROM INVESTMENTS OR LOANS GRANTED, BANK AND OTHER INTEREST	2.700,00	0,00	2.700,00	0,00	0,00	0,00	2.700,00
	Total Title 5	2.700,00	0,00	2.700,00	0,00	0,00	0,00	2.700,00
Title 6: CONTRIBUTIONS AND REFUNDS IN CONNECTION WITH COMMUNITY/EU AGREEMENTS AND PROGRAMMES								
66	OTHER CONTRIBUTIONS AND REFUNDS	5.714.205,92	42.500,93	5.756.706,85	213.895,21	17.762,63	231.657,84	5.525.049,01
	Total Title 6	5.714.205,92	42.500,93	5.756.706,85	213.895,21	17.762,63	231.657,84	5.525.049,01
	Total DG IEEA	5.716.905,92	42.500,93	5.759.406,85	213.895,21	17.762,63	231.657,84	5.527.749,01

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

Annex 3 Financial Reports - DG IEEA
Report printed on 24/03/2011

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

RECOVERY ORDERS ISSUED IN 2010 Year of Origin (commitment)	Error		Follow Up		No error / irregularity		TOTALS	
	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount
2004	2	11.679,03			1	14.432,19	3	26.111,22
2005	7	105.067,73			4	31.339,55	11	136.407,28
2006	1	34.631,16	1	422.243,00	3	114.669,25	5	571.543,41
2007	1	15.146,27			1	85.539,48	2	100.685,75
2008					2	2.811.453,10	2	2.811.453,10
2009					3	2.068.005,16	3	2.068.005,16
	11	166.524,19	1	422.243,00	14	5.125.438,73	26	5.714.205,92

EXPENSES

	No error / irregularity	
	Nbr	Amount
INCOME LINES IN INVOICES	2	-200,20

	Error		No error / irregularity	
	Nbr	Non-Eligible Amount	Nbr	Non-Eligible Amount
NON ELIGIBLE AMOUNT IN COST CLAIMS	6	320.263,21	211	36.983.994,91

	#SYNTAX	
	Nbr	Credit Note Amount
CREDIT NOTES	#SYNTAX	-256.347,24

Note : The figures are those related to the provisional accounts and not yet audited by the Court of Auditors. The provisional closure will be based on the recovery context situation at 28/02/2011.

TABLE 9: AGEING BALANCE OF RECOVERY ORDERS AT 31/12/2010 FOR IEEA

Year of Origin	Number at 01/01/2010	Number at 31/12/2010	Evolution	Open Amount (Eur) at 01/01/2010	Open Amount (Eur) at 31/12/2010	Evolution
2009	5	1	-80,00 %	42.500,93	24.738,30	-41,79 %
2010		12			5.503.010,71	
Totals	5	13	160,00 %	42.500,93	5.527.749,01	12906,18 %

TABLE 10 : RECOVERY ORDER WAIVERS IN 2010 >= EUR 100.000

	Waiver Central Key	Linked RO Central Key	RO Accepted Amount (Eur)	LE Account Group	Commission Decision	Comments
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Total DG IEEA	
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Number of RO waivers	0
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J u s t i f i c a t i o n s :

No data to be reported

TABLE 11 : CENSUS OF NEGOTIATED PROCEDURES - DG IEEA - YEAR 2010

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

No data to be reported

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

Internal procedures > € 60,000
Contract Class
TOTAL
Procedure Type
TOTAL

External procedures > € 10,000
Contract Class
TOTAL
Procedure Type
TOTAL

Additional comments

TABLE 13 : BUILDING CONTRACTS

Total number of contracts :	0
Total amount :	

Legal base	Contract Number	Contractor Name	Description	Amount (€)
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No data to be reported

TABLE 14 : CONTRACTS DECLARED SECRET

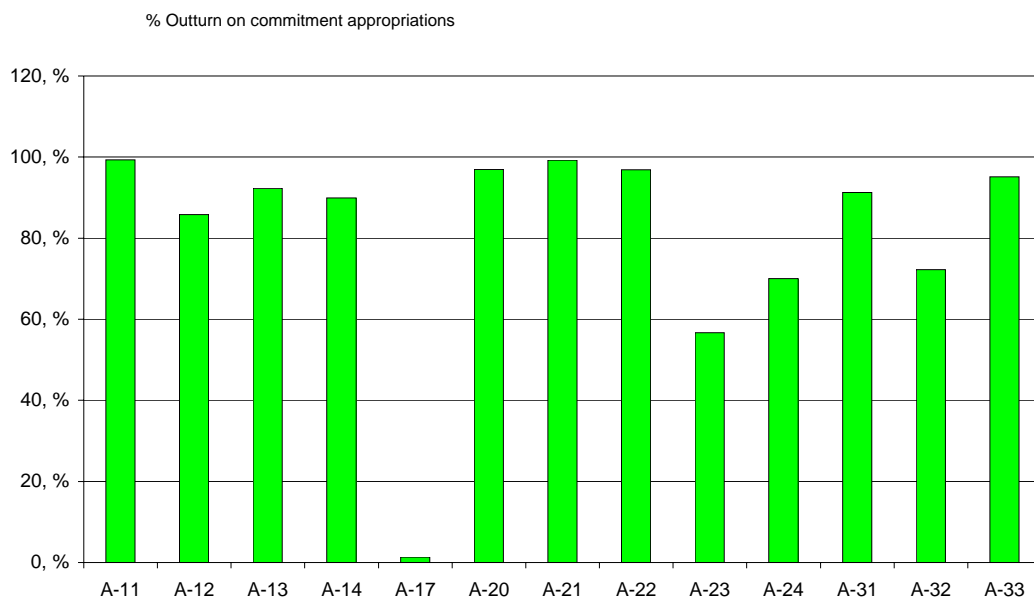
Total Number of Contracts :	0
Total amount :	

Legal base	Contract Number	Contractor Name	Type of contract	Description	Amount (€)
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No data to be reported

Annex 3 Financial Reports - IEEA - Financial Year 2010**Administrative Budget****Table 1 : Commitments****Table 2 : Payments****Table 3 : Commitments to be settled****Table 4 : Balance Sheet****Table 5 : Economic Outturn Account****Table 6 : Average Payment Time Limits****Table 7 : Income****Table 8 : Recovery of undue Payments****Table 9 : Ageing Balance of Recovery Orders****Table 10 : Waivers of Recovery Orders**

TABLE 1: OUTTURN ON COMMITMENT APPROPRIATIONS IN 2010 (in Mio€)				
Chapter		Commitment appropriations	Commitments made	%
		1	2	3=2/1
Title A-1 Frais de personnel				
A-11	Salaires	8,55	8,49	99,28 %
A-12	Frais divers recrutement et mutation personnel	0,17	0,15	85,85 %
A-13	Frais de mission	0,26	0,24	92,31 %
A-14	Socio, infrastructure, formation	0,27	0,24	89,92 %
A-17	Receptions, Frais de representation	0,01	0,00	1,36 %
Total Title A-1		9,25	9,11	98,47 %
Title A-2 Frais de fonctionnement				
A-20	Bureaux	3,47	3,36	96,93 %
A-21	Achat materiel informatique	0,62	0,62	99,22 %
A-22	Biens, meubles et frais accessoires	0,46	0,44	96,83 %
A-23	Dépenses de fonctionnement administratifs courants	0,09	0,05	56,66 %
A-24	Télécommunication & Frais de postage	0,03	0,02	70,00 %
Total Title A-2		4,67	4,49	96,29 %
Title A-3 Frais techniques et de support administratif				
A-31	Réunions d'experts	1,25	1,14	91,28 %
A-32	Information & Publications	0,07	0,05	72,20 %
A-33	Autres frais techniques et de support administrati	0,72	0,69	95,14 %
Total Title A-3		2,04	1,88	91,99 %
TOTAL IEEA		15,96	15,48	97,00 %



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

TABLE 2: OUTTURN ON PAYMENT APPROPRIATIONS IN 2010 (in Mio €)

Chapter		Payment appropriations authorised *	Payments made	%
		1	2	3=2/1
TITLE A-1 Frais de personnel				
A-11	Salaires	8,55	8,49	99,28 %
A-12	Frais divers recrutement et mutation personnel	0,20	0,14	69,98 %
A-13	Frais de mission	0,31	0,24	77,15 %
A-14	Socio, infrastructure, formation	0,31	0,22	69,60 %
A-17	Receptions, Frais de representation	0,01	0,00	1,36 %
TOTAL A-1		9,38	9,09	96,83 %
TITLE A-2 Frais de fonctionnement				
A-20	Bureaux	4,01	3,41	85,02 %
A-21	Achat materiel informatique	0,70	0,57	81,39 %
A-22	Biens, meubles et frais accessoires	0,46	0,00	0,24 %
A-23	Dépenses de fonctionnement administratifs courants	0,09	0,04	44,90 %
A-24	Télécommunication & Frais de postage	0,05	0,01	29,60 %
TOTAL A-2		5,31	4,04	76,03 %
TITLE A-3 Frais techniques et de support administratif				
A-31	Réunions d'experts	1,51	0,98	64,66 %
A-32	Information & Publications	0,14	0,08	53,62 %
A-33	Autres frais techniques et de support administrati	0,94	0,49	52,67 %
TOTAL A-3		2,59	1,55	59,72 %
TOTAL IIEA		17,29	14,67	84,87 %

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

% Outturn on payment appropriations

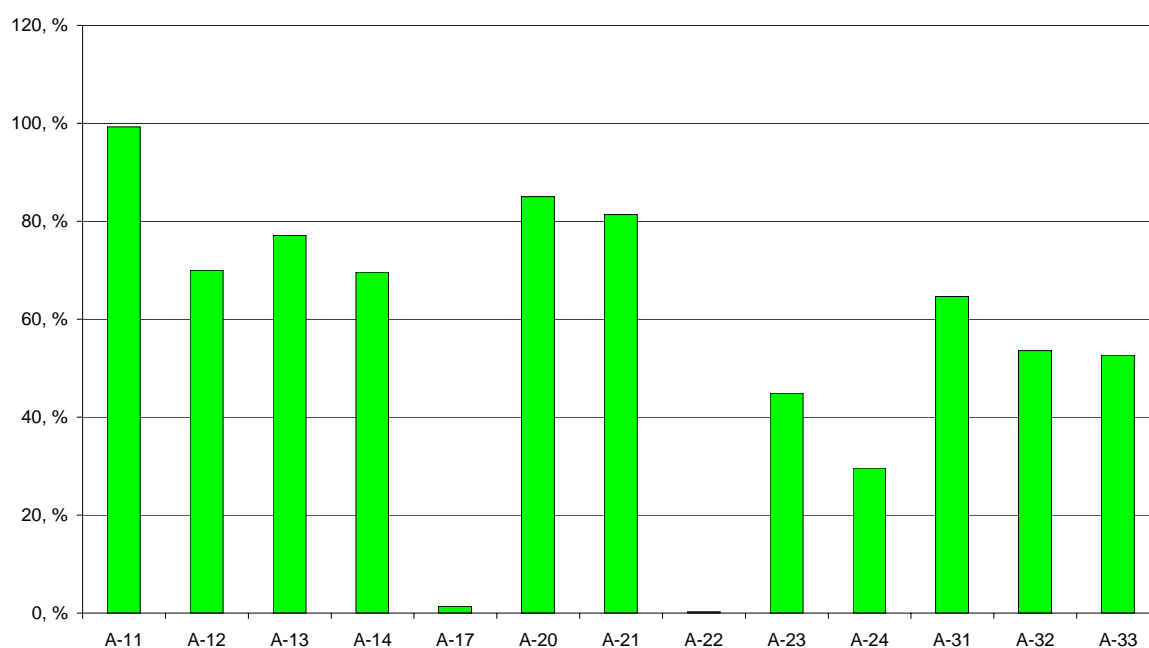


TABLE 3 : BREAKDOWN OF COMMITMENTS TO BE SETTLED AT 31/12/2010 (in Mio €)

Chapter		2010 Commitments to be settled			
		Commitments 2010	Payments 2010	RAL 2010	% to be settled
		1	2	3=1-2	4=1-2//1
Title A-1 Frais de personnel					
A-11	Salaires	8,49	-8,49	0,00	0,00 %
A-12	Frais divers recrutement et mutation personnel	0,15	-0,12	0,02	16,94 %
A-13	Frais de mission	0,24	-0,21	0,03	11,90 %
A-14	Socio, infrastructure, formation	0,24	-0,17	0,07	28,61 %
A-17	Receptions, Frais de representation	0,00	0,00	0,00	0,00 %
Total Title A-1		9,11	-8,99	0,12	1,33 %
Title A-2 Frais de fonctionnement					
A-20	Bureaux	3,36	-2,91	0,45	13,51 %
A-21	Achat materiel informatique	0,62	-0,49	0,12	20,20 %
A-22	Biens, meubles et frais accessoires	0,44	0,00	0,44	99,75 %
A-23	Dépenses de fonctionnement administratifs courants	0,05	-0,04	0,01	23,56 %
A-24	Télécommunication & Frais de postage	0,02	0,00	0,02	100,00 %
Total Title A-2		4,49	-3,44	1,05	23,47 %
Title A-3 Frais techniques et de support administratif					
A-31	Réunions d'experts	1,14	-0,75	0,40	34,62 %
A-32	Information & Publications	0,05	-0,01	0,04	86,71 %
A-33	Autres frais techniques et de support administratif	0,69	-0,30	0,39	56,87 %
Total Title A-3		1,88	-1,05	0,83	44,15 %
TOTAL IEEA		15,48	-13,48	2,01	12,95 %

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

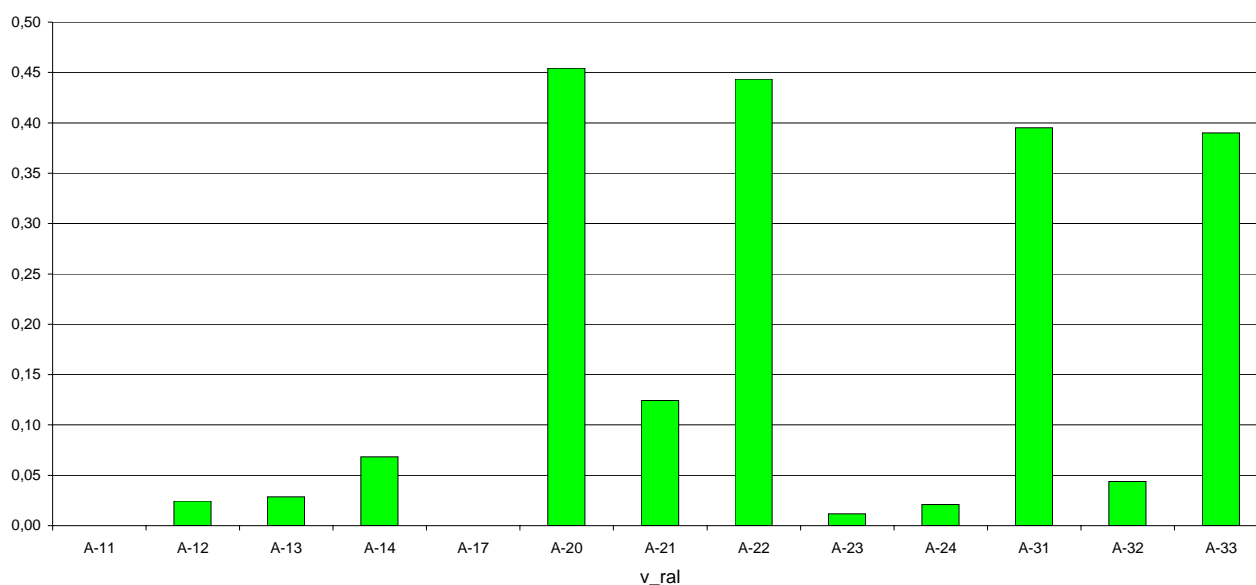


TABLE 4 : BALANCE SHEET IEEA

BALANCE SHEET	2010	2009
A.I. NON CURRENT ASSETS	2.472.036,71	97.107,50
A.I.1. Intangible Assets	21.408,00	37.730,50
A.I.2. Property, plant and equipment	2.450.628,71	59.377,00
A.II. CURRENT ASSETS	2.662.704,18	2.612.267,51
A.II.2. Short-term Pre-Financing	0,00	0,00
A.II.3. Short-term Receivables	63.635,05	147.860,80
A.II.5. Cash and Cash Equivalents	2.599.069,13	2.464.406,71
ASSETS	5.134.740,89	2.709.375,01
P.I. NET ASSETS/LIABILITIES	0,00	0,00
P.I.2. Accumulated Surplus / Deficit	0,00	0,00
P.II. NON CURRENT LIABILITIES	-321.716,20	-75.000,00
P.II.2. Long-term provisions	-321.716,20	-75.000,00
P.III. CURRENT LIABILITIES	-2.895.779,41	-2.519.749,27
P.III.2. Short-term provisions		0,00
P.III.4. Accounts Payable	-2.895.779,41	-2.519.749,27
LIABILITIES	-3.217.495,61	-2.594.749,27
NET ASSETS (ASSETS less LIABILITIES)	1.917.245,29	114.625,74
P.I.2. Accumulated Surplus / Deficit	1.917.245,29	114.625,74
Non-allocated central (surplus)/deficit*		
TOTAL	1.917.245,29	114.625,74

* This figure is a balancing amount presented here so as to reflect the fact that the accumulated result of the Commission is not attributed to each DG

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

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

TABLE 5 : ECONOMIC OUTTURN ACCOUNT IEAA

ECONOMIC OUTTURN ACCOUNT	2010	2009
II.1 SURPLUS/ DEF. FROM OPERATING ACTIVT	-1.802.619,55	207.580,38
II.1.1. OPERATING REVENUES	15.353.003,23	-12.097.973,40
II.1.1.1. Other operating revenue	15.353.003,23	-12.097.973,40
II.1.2. OPERATING EXPENSES	13.550.383,69	12.305.553,78
II.1.2.1. Administrative Expenses	13.550.383,69	12.291.299,42
II.1.2.2. Operating Expenses		14.254,36
ECONOMIC OUTTURN ACCOUNT	1.802.619,55	207.580,38

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

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

TABLE 6: AVERAGE PAYMENT TIME LIMITS FOR 2010 - IEEA

Legal Times

Maximum Payment Time (Days)	Total Number of Payments	Nbr of Payments within Time Limit	Percentage	Average Payment Times (Days)	Nbr of Late Payments	Percentage	Average Payment Times (Days)
30	459	412	89,76 %	17,96	47	10,24 %	40,77
45	621	545	87,76 %	22,36	76	12,24 %	77,49
60	3	3	100,00 %	7,67			

Total Number of Payments	1083	960	88,64 %		123	11,36 %	
Average Payment Time	25,31			20,43			63,46

Target Times

Target Payment Time (Days)	Total Number of Payments	Nbr of Payments within Target	Percentage	Average Payment Times (Days)	Nbr of Late Payments	Percentage	Average Payment Times (Days)
30	1083	867	80,06 %	18,72	216	19,94 %	51,80

Total Number of Payments	1083	867	80,06 %		216	19,94 %	
Average Payment Time	25,31			18,72			51,80

Suspensions

Average Report Approval	Average Payment Suspension Days	Number of Suspended	% of Total Number	Total Number of Payments	Amount of Suspended	% of Total Amount	Total Paid Amount
0	23	40,	3,69 %	1.083,	121.045,00	1,25 %	9.670.789,21

Late Interest paid in 2010

DG	GL Account	Description	Amount (Eur)

TABLE 7 : SITUATION ON REVENUE AND INCOME IN 2010

Title	Description	Year of Origin	Revenue and Income recognized	Revenue and Income cashed	Outstanding Balance
20-0	subside	2010	15.963.000,00	15.963.000,00	0,00
TOTAL			15.963.000,00	15.963.000,00	0,00

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

RECOVERY ORDERS ISSUED IN 2010 Year of Origin (commitment)	TOTALS	
	Nbr	RO Amount
Sum:		

EXPENSES	Nbr	Amount
INCOME LINES IN INVOICES	0,	

	Nbr	Amount
NON ELIGIBLE AMOUNT IN COST CLAIMS	0,	

	Nbr	Amount
CREDIT NOTES	0,	

TABLE 9: AGEING BALANCE OF RECOVERY ORDERS AT 31/12/2010 FOR IEEA

Year of Origin	Number at 01/01/2010	Number at 31/12/2010	Evolution	Open Amount (Eur) at 01/01/2010	Open Amount (Eur) at 31/12/2010	Evolution
2009	1		-100,00 %	827,99		-100,00 %
Totals	1		-100,00 %	827,99		-100,00 %

ANNEX 4 Materiality criteria¹

It has to be noted that the Director's Declaration covers a narrower area than the AAR itself. The AAR includes an assessment of the results achieved by the Agency with the resources allocated. It is a "mirror" of the Agency's 2010 work programme. On the other hand, the declaration expresses the Director's responsibilities conferred under the Charter for Authorising Officers and refers only to the Agency's operational activities. These were in 2010 the implementation of the IEE programmes I and II, the Marco Polo programmes I and II, the EIP Network project management and animation, EIP eco-innovation pilot and market replication projects as well as IPEuropAwareproject.

Furthermore, the declaration is restricted to the following areas (i) control systems, (ii) sound financial management, and (iii) legality and regularity of transactions.

In its respective legal framework and over its fixed lifetime to 2015, the Agency manages certain tasks concerning Community aid under the CIP (2007-2013) and the Marco Polo programme. These tasks do not involve political choices. Thus, the Agency is not responsible for the evaluation of the Community programmes it implements, for monitoring of legislation and strategic studies, or any other action which remains under the exclusive competence of the Commission.

1. Qualitative criteria

a) Significant repetitive errors

Systematic errors caused by weaknesses in key controls and intentional misstatements are likely to entail a greater exposure to potential financial loss than random errors and faulty judgements.

In the context of grant management applying the eligible cost model, the grant agreements foresee the reimbursement of the beneficiaries' actual incurred costs. Thus, the exposure to potential financial loss is highest with regard to errors in final payments. For errors in pre-financing payments, the risk is much lower because firstly, these funds remain the property of the Communities and secondly, errors in beneficiaries' mid-term cost claims can still be corrected at the final payment stage.

b) Significant deficiencies in one of the control systems

Identified weaknesses in the design or operation of internal controls of both the Agency itself and the beneficiaries having received a final payment could significantly influence the appreciation of the Director's Declaration.

This could be the case notably,

- if significant conflicts of interest existed;
- if personnel were unqualified;
- if the systems failed to provide complete and accurate information due to design flaws or misapplication of procedures;

¹ The materiality criteria were determined on the basis of both the guidelines annexed to the Communication COM(2003)28 of 21st January 2003 and the explanations given in the 2009 AAR circular of the Secretariat General.

- if appropriate verifications, approvals, reviews and audits of transactions and procedures were absent or largely insufficient or inadequate;
- if duties were not separated; or
- if controls were intentionally overridden and/or wilfully circumvented.

c) Issues outlined by the European Court of Auditors (ECA) or the Internal Audit Service (IAS) or OLAF

A critical observation made by the ECA, the IAS or OLAF could lead to a reservation,

- if the observation is made in an area covered by the Director's Declaration, and
- if the issue is not solved immediately during the reporting period, and
- if the impact is material (financial loss exceeding 2 % of the implemented budget concerned; see point 2 below).

d) Significant reputational risks

Besides a possible quantitative aspect of the risk, the impact of a reputational risk on the declaration of assurance is assessed mainly on the basis of qualitative criteria, such as sensitivity of the policy area concerned, high public interest or serious legislative concerns.

2. Quantitative criterion

In the framework of a transaction-based approach, the Agency considers that identified erroneous transactions which expose the Agency to an actual financial loss could lead to a reservation to the Director's declaration under the following conditions:

- A significant weakness described in part 2 or 3 has been identified, and
- The weakness affects at least one the following areas: (i) control systems, (ii) sound financial management, or (iii) legality and regularity of transactions, and
- An actual financial loss or reputational issue has already occurred or is very likely to materialise, and
- In case of a financial loss, this has actually exceeded or is very likely to exceed the threshold of 2 % of the relevant budget. The reference is the annual budget for the programme concerned, i.e. IEE, Marco Polo, EIP Network project and IPR project, and EIP eco-innovation projects.

For on-the-spot controls of payments, an error rate after corrective measures is called "residual error rate" and is calculated and measured against the 2% materiality criterion as follows:

- In case of errors found in ex-ante controls, these are typically corrected prior to the final payment, hence a residual error rate of 0%.
- For ex-post controls of payments, an average residual error rate per programme is calculated. The residual error is understood as detected error minus all corrective actions taken by the Agency.
- When measuring against the 2% materiality level, it has to be noted that the average error rate calculated by the Agency is not representative and thus can not be extrapolated to all payments made for the same programme. This is due to the

fact that for selecting the sample of transactions to be controlled on the spot, the Agency applies a risk based and targeted approach rather than a random method that would comply with the criteria of samples' representativeness. The risk based approach is considered more cost-effective given the heterogeneity of the Agency's audit population. Therefore, the calculation of the Agency's error rate is complemented by a qualitative analysis of the origin, nature and impact of the errors found in the controlled sample before deciding whether or not the materiality threshold of 2% is exceeded.

ANNEX 5 Internal Control Templates for budget implementation

Since 2008, the delegation of tasks to the EACI was effective with regard to the implementation of the programmes IEE I and II, Marco Polo I and II; CIP network animation and project management, eco-innovation pilot and market replication projects as well as the IPeuropAware project of the EIP. To this end, the EACI mainly awards grants through open calls for proposals while a small share of the programmes' budgets is also implemented through procurement contracts.

Accordingly, the EACI produced five internal control templates:

1. Grants of the IEE programmes I and II
2. Grants of the Entrepreneurship and Innovation Programme (EIP) - Enterprise Europe Network and IPeuropAware project;
3. Grants of the eco-innovation market replication projects of the EIP;
4. Grants of the Marco Polo programmes I and II,
5. Procurement related to all programmes as well as the implementation of the Agency's administrative budget

Annex 5.1. Template for centralised indirect management of EU funds by the EACI Internal Policies:

Grants of the IEE programmes I and II (for procurement see Annex 5.5)

1. Characteristics of the EACI policy environment

The IEE programme co-funds non-technical projects in the areas of renewable energy and energy efficiency. The co-financing is realised through reimbursing up to 50% of a project's eligible costs in IEE I (2003 to 2006) and up to 75 % in IEE II (2007-2013). Projects run up to three years. To implement a project, beneficiaries are organised almost exclusively in consortia. About 60% of the beneficiaries participating in the IEE programmes are private organisations of which 2/3 are SMEs.

I. Key inherent risks in these two environments

- (1) Risk of poor quality of selected proposals reducing the programmes' effectiveness:

The procedure for awarding grants is quite complex with regard to compliance with the legal requirements. Moreover, only projects of good quality ensuring a high impact of the EU programmes should be funded while avoiding double-financing of the same subsidised action.

For each programme, a Call for Proposals is launched every year and evaluated by the EACI with the assistance of external experts and with the participation of the parent DG.

- (2) Risk of poor technical implementation of the project, including the communication of the projects' results, reducing the programmes' impact:

The beneficiaries' technical implementation of the grant agreement, including communication of the project results, is monitored by the Agency. While monitoring compliance with the grant agreement is a straight forward task, monitoring the effectiveness and impact of a project is rather demanding.

Although outputs or deliverables are easy to follow up, results and impacts actually achieved by the IEE projects are very difficult to measure and verify. This is due to the ways in which the IEE projects are expected to "trigger" follow-on activities. Moreover, given the complex matrix of factors driving energy markets, it seems overambitious, to isolate direct causal links between project/programme results and macro-economic trends such as the EU's energy consumption or CO₂ emissions. Instead, indirect links and plausibility considerations dominate in the monitoring.

- (3) Risk of overpayment of the costs of a project negatively affecting the efficiency and economy of the granted funds:

The legal framework of the grant agreements is complex as it requires from the beneficiaries for each project an actual eligible cost reporting that entails demanding requirements for cost recording (no significant simplification through using lump sums except for indirect cost since IEE II, call for proposals 2007), as well as mandatory co-financing and a multi-partner/multi-country structure.

The concept of actual eligible costs coupled with "staff costs" being an important cost category offers to the Agency limited possibilities to control eligibility of costs by desk checks. Moreover controls are based essentially on declarations from the beneficiaries (reporting) facing the risk of being erroneous or irregular.

Furthermore, due to the rather large number of different beneficiaries, each operating their own control system, only partial assurance can be drawn from beneficiaries' internal control systems.

In addition, beneficiaries, especially SMEs and small public organisations, might lack sufficient financial management expertise and/or adequate IT solutions for meeting the complex recording requirements to generate accurate financial reports. Moreover, SMEs are exposed to the risk of not being financially viable until the end of the project.

All three risks may entail a negative financial impact, especially through decreased effectiveness and efficiency. They are also likely to affect the Agency's and Commission's reputation.

With a view to mitigating these risks, the Agency put in place an internal control system following the Commission standards (see parts 2 and 3 of the AAR).

II. Management mode

Indirect centralised management (Art. 53 (2) of the Financial Regulation).

Grants awarded to a multi-beneficiary consortium, where the coordinator of each consortium manages the distribution of funds among the co-beneficiaries.

Reimbursement of actual eligible costs.

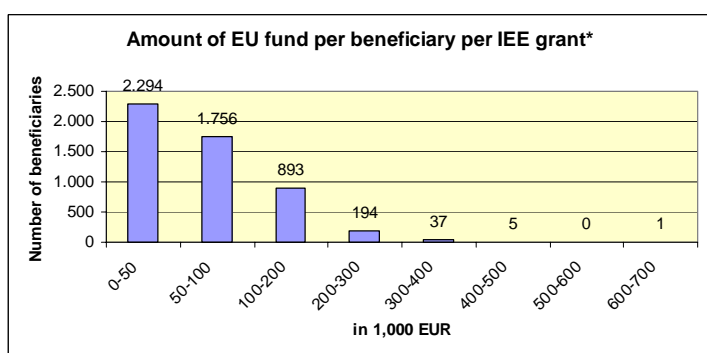
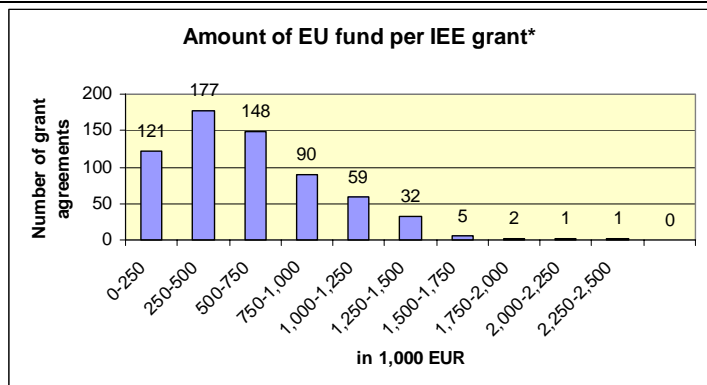
Co-financing required: from 25% (IEE II) to 50% (IEE I).

III. Grant period

Grants are disbursed over a period of up to three years per project (on average two and a half years) for the programmes

- IEE I from 2003 to 2006 (4 years) and
- IEE II from 2007 to 2013 (7 years).

*: Note that the sum total of beneficiaries, counted per grant, in 2010 amounts to about 5.200 of which 2.560 different legal entities;



IV. Number of contracts and beneficiaries pertaining to the IEE programme

1. Number of mono beneficiary grant agreements:

25 on-going in December 2010 concerning the IEE creation of local/regional energy agencies (in 2009: 22 on-going).

2. Number of all grant agreements (multi-beneficiary grant agreements each have one co-ordinator; on average 8 beneficiaries build a consortium):

- 61 grant agreements signed in 2010 plus one grant for concerted actions; (in 2009: 57);
- 314 in December 2010 plus two grants for concerted actions (in 2009: 388).

3. Number of beneficiaries: about **2.560 different legal entities** in IEE (in 2009: 2.300) (note that the sum total of beneficiaries, counted per grant, in 2010 amounts to about 5.200; in 2009: 4.500).

V. Average value/ range of the IEE programme

1. Co-financed contributions by EU budget (execution of commitment appropriations):

- IEE I: Calls 2003 to 2006 in total € 200,0 million (€ 50,0 million on average per call); plus € 3,1 million for concerted actions
- IEE II: Calls 2007 to 2009 in total € 177,6 million (€ 59,2 million on average per call) plus € 11,9 million for 3 concerted actions

2. Size classes of grant agreements/projects for IEE I and II

- Less than € 1 million: 84% (in 2009: 90%);
- Less than € 0,5 million: 47% (in 2009: 52%)

3. Average value per grant agreement

- IEE I: Calls 2003 to 2006: € 0,45 million (range from € 0,01 to 1,42 million)
- IEE II: Call 2007 to 2009 € 0,94 million (range from € 0,23 to 2,42 million)

4. Average per beneficiary and grant

- IEE I: Calls 2003 to 2006: € 0,06 million (range from € 0,001 to 0,63 million)
- IEE II: Call 2007 to 2009 € 0,10 million (range from € 0,004 to 0,47 million)

VI. Grant basis

For IEE I : Actual eligible costs, up to 50% of eligible costs per project, no lump-sum grants.
For IEE II: Actual eligible costs, up to 75% of eligible costs per project, no lump-sum grants.

VII. Volume of transactions per year

		<u>2010</u>	<u>2009</u>
For IEE:	Budgetary commitments - budget execution	100%	100%
	Grants:	€ 73,7 million	€ 49,4 million
	Procurement (see Annex 5.5):	€ 3,5 million	€ 4,2 million
	Payments - budget execution	100%	90%
	Grants and procurement:	€ 52,4 million	€ 48,5 million

2. Elements of the internal control systems and actors, through programme life cycle.

The objectives of the controls are to ensure good quality of selected projects, good performance and sound financial management.

Selection process (of projects, beneficiaries, intermediaries, agencies etc.), including preventive measures	Characteristics of the selection process of projects/beneficiaries <ul style="list-style-type: none">• The Call for Proposals is based on the annual Work Programme adopted by the Commission.• Proposals are selected according to the selection and award criteria published in the Call for Proposals.• During the selection procedure, the Agency checks the proposers' financial viability as well as exclusion criteria, for example against a legal entity list and the Commission's Early Warning System (EWS).• The evaluation of proposals is supported by external experts so that each proposal is evaluated by three experts who work independently from each other. The experts are selected from an open call for expression of interest. The parent DGs are also assisting in the evaluation procedure. All persons involved sign a declaration of absence of conflict of interest prior to the start of the evaluation exercise.• An Interservice Consultation on the selected proposals is carried out by the relevant parent DG to prevent double funding of the same project.
Preventive and directive measures: improve the quality of financial management and provision of data by beneficiaries /intermediaries	Communication strategy with proposers and beneficiaries <ul style="list-style-type: none">• Publications in the Official Journal of the EU and on the Website of the programme;• Newsletter for stakeholders;• European InfoDay on each call for proposals; participation in a number of nationally organised InfoDays;• Guidelines for applicants; financial guidelines for applicants and beneficiaries to help prepare both the budgets of the proposals and the cost-statements for financial reports;• Participation in kick-off meetings to facilitate the start of a project; in IEE organisation of co-ordinator meetings to support exchange among project leaders and between project leaders and the European Commission. Internal procedures <ul style="list-style-type: none">• Use of model grant agreements recommended by the Commission, but adapted to the programmes;• Use of a manual of procedures with checklists for the Agency's internal operational and financial procedures; all relevant documentation easily accessible on the Agency's Intranet;• Financial procedures with a high degree of segregation of duties (at least six eyes); the financial circuit of Model 1 is applied with a decentralised 100% first

	<p>level verification and a central second level verification on a sample basis using the Commission's application MUS-DICE; checklists are filled in to document the controls conducted;</p> <ul style="list-style-type: none"> • All staff signs the Code of good administrative behaviour. Staff who are involved in the selection procedure or in the management of the grant agreements also sign a declaration of absence of a conflict of interest. Regular training on evaluation and negotiation procedures as well as matters of ethics and integrity is offered to all staff. Procedures supplemented by checklists/templates exist for reporting exceptions as well as reporting improprieties and internal control weaknesses; • Networks of staff in special functions exist to exchange best practices among the different units and programmes.
<p>Detective and corrective controls: Verification of commitments, pre-financing, interim payments and key milestones.</p> <p>Monitoring of the project</p>	<p>Controls before and during the implementation period of the projects <i>(Description of the ex ante control methodology)</i></p> <ul style="list-style-type: none"> • Control provisions provided for in the grant agreements (penalty, recovery clauses, termination of the agreement, audit certificates, financial guarantees, onsite audits by, for example, the Agency, the ECA, and inspections by OLAF); • Negotiations regarding the selected proposals' technical actions and budgets to ensure that the grant agreement serves as a solid basis for implementing and monitoring the project; • Controls of the implementation of the projects on the basis of progress reports as well as interim and final technical reports, including participation in project meetings; • Desk checks of beneficiaries' cost claims based on a number of supporting documents; • On the impact of the entire programme: external mid-term evaluations carried out under the responsibility of the parent DGs.
<p>Corrective controls and audits:</p> <p>Either on the system or on individual projects. At the end of the project (before or after the final payment)</p>	<p>Controls at the end of the project <i>(Description of the ex post control strategy)</i></p> <ul style="list-style-type: none"> • Control provisions provided for in the grant agreements (penalty, recovery clauses, termination, ex post controls and/or audits): At any time during a project's implementation period and for 5 years after partial or final payment, the Commission, the European Court of Auditors, and the Agency can carry out on the spot controls and/or audits with substantive testing of a sample of transactions. • Ex-post controls and/or audits are carried out on a sample of beneficiaries. According to the current ex-post control strategy for IEE¹, the objective is to achieve an audit coverage of 5% of the programmes' budget; the audit sample is chosen on the basis of a risk analysis (beneficiaries with a high number of projects, high amounts granted, relatively high hourly rates and overhead costs) or on special request from operational units. Due to the heterogeneity of the audit population, and considering cost-effectiveness, auditees are not selected randomly according to criteria of a sample's representativeness. This means that the audit results can not be extrapolated to the whole population of beneficiaries; however, the Agency foresees to calculate an average error rate. Following the guidance issued by DG BUDG, the average error rate will be calculated on the basis of audit results found in the high, medium and low risk audit populations.

¹ On the basis of the lessons learned, the current ex-post control strategy will be updated at least annually and whenever deemed necessary.

3. Internal and external supervisory and audit controls

<p>Verification that processes are working as designed</p>	<ul style="list-style-type: none"> • Regular reports of the financial control officer on the errors and deficiencies found in the scope of the ex-ante controls. Recommendations made and followed up to improve both the design and the effectiveness of internal controls; • Monthly management reports on operational scoreboard pertaining to project management; • Procedures for recording exceptions and recording and correction of internal control weaknesses; • Discussion of Risk Management and ICS – annual self-assessment exercise.
<p>Monitoring of performance of 3rd party auditors, externally contracted auditors</p>	<ul style="list-style-type: none"> • Framework contract with external audit firm monitored by ex-post controller, including close review and analysis of all reports, joint missions, and regular contacts with the contractor's quality control; • External audit firm bound to follow international audit standards.
<p>IAC, IAS, ECA, EP Feedback on adequacy of the system</p>	<ul style="list-style-type: none"> • Feedback provided by the Agency's internal audit function, the Commission's Internal Audit Service (IAS) and the European Court of Auditors and in the discharge procedure before the European Parliament. Audit recommendations are followed up systematically; • Regular monitoring of the implementation of the action plan developed during the annual risk assessment exercise.
<p>High level management reporting and its role in identifying problem issues</p>	<ul style="list-style-type: none"> • EACI's work programme (i.e. the Annual Management Plan of the Agency) compiled and monitored. It shows the specific objectives and tasks necessary to achieve the general objectives set forth in the Act of Delegation; a set of indicators facilitates the monitoring process; • Quarterly management reports compiled in compliance with the Act of Delegation and sent to the parent DGs and the Steering Committee showing the progress made through operational and financial scoreboards; • Report on the Agency's performance during the Steering Committee meetings four times a year; • Mid-term report on the achievement of the objectives set in the AMP prepared for the Steering Committee; • Annual Activity Report (AAR) compiled showing the progress made during the year.

Annex 5.2. Template for centralised indirect management of EU funds by the EACI Internal Policies:

Grants of the Entrepreneurship and Innovation Programme (EIP) Enterprise Europe Network (for procurement see Annex 5.5)

1. Characteristics of the EACI policy environment

The Entrepreneurship and Innovation Programme (EIP) under CIP provides support for enterprises, in particular SMEs, entrepreneurship, innovation, including eco-innovation and industrial competitiveness. The following activities are delegated to the Agency since 2008: (i) Enterprise Europe Network – project management; (ii) Enterprise Europe Network – network animation; (iii) eco-innovation projects (which are dealt with in Annex 5.2); (iv) innovation actions: IPeuropAwareProject.

The main objective of the existing grants is to implement a single network providing integrated services in support of business and innovation. The EACI's co-financing is realised through reimbursing of up to 60% of a project's eligible costs. The specific grant agreements are based on framework partnership agreements which run up to seven years. To implement the project, beneficiaries are organised in consortia of 5 to 6 partners on average.

I. Key inherent risks in this environment

- (1) Risk of poor quality of selected proposals, including possible distortion of competition, reducing the programme's effectiveness:

For the EACI's project management of the EIP (2007 to 2013), this risk is low, since the only open call for proposals was launched by DG ENTR in 2007. With the selected network partners, DG ENTR signed Framework Partnership Agreements (FPA) running for six years with the possibility of a one-year extension. The first Specific Grant Agreements, running for three years, were signed by the Agency, but the legal and financial commitments are based on the FPAs and do not involve any discretion. For the award of the following two-year Specific Grant Agreements, the Agency conducted a consultation exercise with the Network partners in 2010.

- (2) Risk of poor implementation of the project reducing the programme's impact:

The beneficiaries' implementation of the Specific Grant Agreement is monitored by the Agency. The monitoring of the effectiveness of the projects is facilitated by the use of indicators, such as the 50 data items reported by the network partners: 15 core indicators are reported twice a year; all 50 data items are reported at the interim and at the final stage of the project. In addition, during the lifetime of the projects, the Agency's staff is carrying out monitoring visits at the beneficiaries' sites.

- (3) Risk of overpayment for a project negatively affecting the efficiency and economy of the granted funds:

The legal framework of the grant agreements is complex as it requires from the beneficiaries for each project an actual eligible cost reporting that entails demanding requirements for cost recording (no significant simplification through using lump sums), as well as mandatory co-financing and a multi-partner structure.

The concept of actual eligible costs coupled with "staff costs" being an important cost category offers to the Agency limited possibilities to control eligibility of costs by desk checks. Moreover, controls are based essentially on declarations from the beneficiaries (reporting) facing the risk of being erroneous or irregular.

Furthermore, due to the rather large number of different beneficiaries, each operating their own control system, only partial assurance can be drawn from beneficiaries' internal control systems. In addition, these organisations might lack sufficient financial management expertise and/or adequate IT solutions for meeting the complex recording requirements to generate accurate financial reports.

All three risks may entail a possible negative financial impact, especially through decreased effectiveness and efficiency. They are also likely to affect the Agency's and Commission's reputation.

With a view to mitigating these risks, the Agency put in place an internal control system following the Commission standards (see parts 2 and 3 of the AAR).

II. Management mode

Indirect centralised management (Art. 53 (2) of the Financial Regulation).

Grants awarded to a multi-beneficiary consortium, where the coordinator of each consortium manages the distribution of funds among the co-beneficiaries.

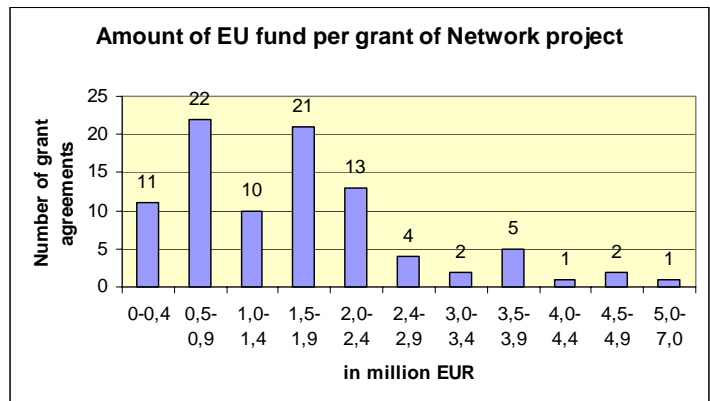
Reimbursement of actual eligible costs.

Self-financing required: minimum 40%.

III. Grant period

Grants are disbursed over the project period of three/two years per project for the programme

EIP from 2007 to 2013 (7 years).



IV. Number of contracts and beneficiaries pertaining to the EIP programme

Number of grant agreements (one lead partner per grant agreement (on average 5 to 6 partners build a consortium):)

- 92 (in 2009: 92) total on-going Specific Grant Agreements in December; all due to close on 31/12/2010.
- first batch of 41 signed Specific Grant Agreements with start date 01/01/2011;
- 47 on-going grant agreements for Specific Actions.

V. Average value/ range of the programme

1. Co-financed contributions by EU budget (execution of commitment appropriations):

- a) EIP Call 2007 - grants: € 154,1 million (in 2009: € 154,1 million);
- b) EIP Specific Actions –grants € 11,4 million (in 2009: € 2,6 million)
- c) EIP IPR project – one grant € 6,2 million (in 2009: € 6,2 million)

2. Average value per grant agreement

- a) EIP Call 2007 - grants: € 1,7 million (range from €0,18 to 5,6 million)
- b) EIP Specific Actions –grants € 0,2 million (range from €0,02 to 0,9 million)

VI. Grant basis

Actual eligible costs, up to 60% of eligible costs, no lump-sum grants.

VII. Volume of transactions per year

	2010	2009
For EIP-EEN: <u>Budgetary commitments - budget execution</u>	100%	100%
Grants:	€ 56,1 million	€ 9,1 million
Procurement	€ 4,8 million	€ 2,0 million
<u>Payments - budget execution</u>	100%	51%
Grants and procurement:	€ 28,7 million	€ 22,7 million

2. Elements of the internal control systems and actors, through programme life cycle.

The objectives of the controls are to ensure good quality of selected projects, good monitoring of the effectiveness of the projects and sound financial management.

Selection process
(of projects, beneficiaries, intermediaries, agencies etc.), including preventive

Characteristics of the selection process of projects/beneficiaries

Not applicable to the EACI in 2010 (see paragraph I.1(1) above).

measures	
<p>Preventive and directive measures: improve the quality of financial management and provision of data by beneficiaries /intermediaries</p>	<p>Communication strategy with proposers and beneficiaries</p> <ul style="list-style-type: none"> • Website of the programme; • Two-day contractor's meeting regularly once a year; • Guidelines for applicants; financial guidelines for applicants and beneficiaries to help prepare both the budgets of the proposals and the cost-statements for financial reports plus document on frequently asked questions published on the Webpage of the programme; • For the network partners, electronic communication tool called "First Class" with a section "question & answers". <p>Internal procedures of the EACI</p> <ul style="list-style-type: none"> • Use of model grant agreements recommended by the Commission, but adapted to the programme; • Use of a manual of procedures with checklists for the Agency's internal operational and financial procedures; all relevant documentation easily accessible on the Agency's Intranet; • Financial procedures with a high degree of segregation of duties (at least three pairs of eyes); the financial circuit of Model 1 is applied with a decentralised 100% first level verification and a central second level verification on a sample basis using the Commission's application MUS-DICE; checklists are filled in to document the controls conducted; • All staff signs the Code of good administrative behaviour. Staff who are involved in the management of the grant agreements also sign a declaration of absence of a conflict of interest. Regular training on matters of ethics and integrity is offered to all staff. Procedures supplemented by checklists/templates exist for reporting exceptions as well as reporting improprieties and internal control weaknesses; • Networks of staff in special functions exist to exchange best practices among the different units and programmes.
<p>Detective and corrective controls: Verification of commitments, pre-financing, interim payments and key milestones.</p> <p>Monitoring of the project</p>	<p>Controls before and during the implementation period of the projects <i>(Description of the ex ante control methodology)</i></p> <ul style="list-style-type: none"> • Control provisions provided for in the grant agreements (penalty, recovery clauses, termination of the agreement, audit certificates, financial guarantees, onsite audits by, for example, the Agency, the ECA, and inspections by OLAF); • Monitoring visits at least once during the three-year lifetime of the projects focussing on the implementation of the action and the output/results achieved; • Controls of the implementation of the projects on the basis of the beneficiaries' regular reporting; • Desk checks of beneficiaries' cost claims based on a number of supporting documents; • On the impact of the entire programme: external mid-term evaluations carried out under the responsibility of the parent DG.
<p>Corrective controls and audits:</p> <p>Either on the system or on individual projects. At the end of the project (before or</p>	<p>Controls at the end of the project <i>(Description of the ex post control strategy)</i></p> <ul style="list-style-type: none"> • Control provisions provided for in the grant agreements (penalty, recovery clauses, termination, ex post controls and/or audits): At any time during a project's implementation period and for 5 years after partial or final payment, the Commission, the European Court of Auditors, and the Agency can carry out on the spot controls and/or audits with substantive testing

<p>after the final payment)</p>	<p>of a sample of transactions.</p> <ul style="list-style-type: none"> Ex-post controls and/or audits are carried out on a sample of beneficiaries. According to the current ex-post control strategy for the EEN project², the objective is to achieve an audit coverage of 10% of the EEN project budget; the audit sample is chosen on the basis of a risk analysis (partners with high amounts granted, relatively high hourly rates) or on special request from operational units. Due to the heterogeneity of the audit population, and considering cost-effectiveness, auditees are not selected randomly according to criteria of a sample's representativeness. <p>This means that the audit results can not be extrapolated to the whole population of beneficiaries; however, the Agency foresees to calculate an average error rate. Following the guidance issued by DG BUDG, the average error rate will be calculated on the basis of audit results found in the high, medium and low risk audit populations.</p>
<p>3. Internal and external supervisory and audit controls</p>	
<p>Verification that processes are working as designed</p>	<ul style="list-style-type: none"> Regular reports of the financial control officer on the errors and deficiencies found in the scope of the ex-ante controls. Recommendations made and followed up to improve both the design and the effectiveness of internal controls; Monthly management reports on operational scoreboard pertaining to project management; Procedures for recording exceptions and recording and correction of internal control weaknesses; Discussion of Risk Management and ICS – annual self-assessment exercise.
<p>Monitoring of performance of 3rd party auditors, externally contracted auditors</p>	<ul style="list-style-type: none"> Framework contract with external audit firm monitored by ex-post controller, including close review and analysis of all reports, joint missions, and regular contacts with the contractor's quality control; External audit firm bound to follow international audit standards.
<p>IAC, IAS, ECA, EP Feedback on adequacy of the system</p>	<ul style="list-style-type: none"> Feedback provided by the Agency's internal audit function, the Commission's Internal Audit Service (IAS) and the European Court of Auditors and in the discharge procedure before the European Parliament. Audit recommendations are followed up systematically; Regular monitoring of the implementation of the action plan developed during the annual risk assessment exercise.
<p>High level management reporting and its role in identifying problem issues</p>	<ul style="list-style-type: none"> EACI's work programme (i.e. the Annual Management Plan of the Agency) compiled and monitored. It shows the specific objectives and tasks necessary to achieve the general objectives set forth in the Act of Delegation; a set of indicators facilitates the monitoring process; Quarterly management reports compiled in compliance with the Act of Delegation and sent to the parent DGs and the Steering Committee showing the progress made through operational and financial scoreboards; Report on the Agency's performance during the Steering Committee meetings four times a year; Mid-term report on the achievement of the objectives set in the AMP prepared for the Steering Committee; Annual Activity Report (AAR) compiled showing the progress made during the year.

² On the basis of the lessons learned, the current ex-post control strategy will be updated at least annually and whenever deemed necessary.

Annex 5.3. Template for centralised indirect management of EU funds by the EACI Internal Policies:

Grants of the EIP eco-innovation projects (for procurement see Annex 5.5)

1. Characteristics of the EACI policy environment

Eco-innovation pilot and market replication projects are any form of innovation aiming at progressing towards sustainable development through reducing impacts on the environment or achieving a more efficient and responsible use of natural resources. Projects run up to three years and are co-financed up to 60%. About 90% of the projects are implemented by consortia, 10% by a single beneficiary. In total, about 70% of the participants are SMEs.

I. Key inherent risks in these two environments

- (1) Risk of poor quality of selected proposals reducing the programmes' effectiveness:

The procedure for awarding grants is quite complex with regard to compliance with the legal requirements. Moreover, only projects of good quality ensuring a high impact of the EU programmes should be funded while avoiding double-financing of the same subsidised action.

For each programme, a Call for Proposals is launched every year and evaluated by the EACI with the assistance of external experts and in coordination and/or with the participation of the parent DGs.

- (2) Risk of poor technical implementation of the project, including the communication of the projects' results, reducing the programmes' impact:

The beneficiaries' technical implementation of the grant agreement, including communication of the project results, is monitored by the Agency. While monitoring compliance with the grant agreement is a straight forward task, monitoring the effectiveness and impact of a project is rather demanding.

Although outputs or deliverables are easy to follow up, results and impacts actually achieved by a project are very difficult to verify. This is especially true for successful market uptake, given the ways in which the eco-innovation projects are expected to "trigger" follow-on activities. Moreover, given the complex matrix of factors driving energy markets, it seems overambitious, to isolate direct causal links between project/programme results and macro-economic trends such as the EU's energy consumption or CO₂ emissions. Instead, indirect links and plausibility considerations dominate in the monitoring.

- (3) Risk of overpayment of the costs of a project negatively affecting the efficiency and economy of the granted funds:

The legal framework of the grant agreements is complex as it requires from the beneficiaries for each project an actual eligible cost reporting that entails demanding requirements for cost recording (lump sum defined for indirect costs: fixed 7% on all direct eligible costs), as well as mandatory co-financing and most of the time a multi-partner/multi-country structure.

The concept of actual eligible costs coupled with equipment and "staff costs" being the most important cost categories offers to the Agency limited possibilities to control eligibility of costs by desk checks. Moreover controls are based essentially on declarations from the beneficiaries (reporting) facing the risk of being erroneous or irregular.

Furthermore, due to the rather large number of different beneficiaries, each operating their own control system, only partial assurance can be drawn from beneficiaries' internal control systems.

In addition, beneficiaries, especially SMEs and other private sector organisations with no previous experience in EU projects, might lack sufficient financial management expertise and/or adequate IT solutions for meeting the complex recording requirements to generate accurate financial reports. Moreover, SMEs are exposed to the risk of not being financially viable until the end of the project.

All three risks may entail a negative financial impact, especially through decreased effectiveness and efficiency. They are also likely to affect the Agency's and Commission's reputation.

With a view to mitigating these risks, the Agency put in place an internal control system following the Commission standards (see parts 2 and 3 of the AAR).

II. Management mode

Indirect centralised management (Art. 53 (2) of the Financial Regulation).

Grants awarded to a multi-beneficiary consortium, where the coordinator of each consortium manages the distribution of funds among the co-beneficiaries.

Reimbursement of actual eligible costs.

Co-financing required: from 40% to 60%.

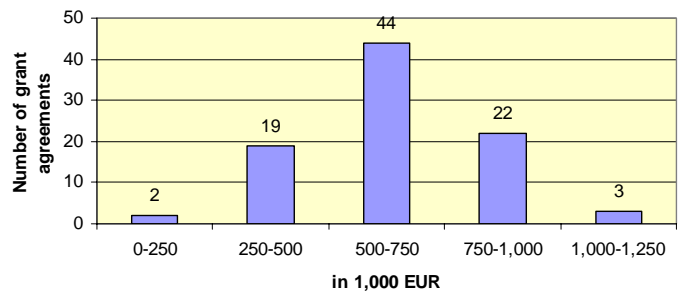
III. Grant period

Grants are disbursed over a period of up to three years per project (on average two and a half years)

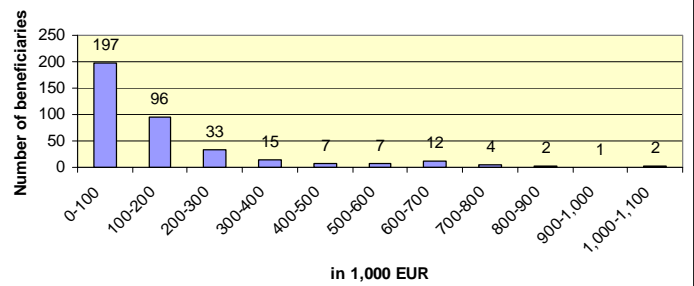
The CIP Eco-innovation initiative runs from 2008 to 2013 (6 years).

*: Note that the sum total of beneficiaries, counted per grant, in 2010 amounts to 376 of which 355 different legal entities;

Amount of EU fund per Eco-Innovation project*



Amount of EU fund per beneficiary per grant



IV. Number of contracts and beneficiaries pertaining to the Eco-Innovation projects

1. Number of mono beneficiary grant agreements:

12 on-going in December 2010 (in 2009: 7).

2. Number of all grant agreements (multi-beneficiary grant agreements each have one co-ordinator on average 4 beneficiaries build a consortium)

- 47 grant agreements signed in 2010 (in 2009: 44);
- 90 total on-going grant agreements in December 2010 (in 2009: 44).

3. Number of beneficiaries: about **355 different legal entities** (in 2009: 175)

(note that the sum total of beneficiaries, counted per grant, in 2010 amounts to about 376; in 2009: 186).

V. Average value/ range of the Eco-Innovation projects

1. Co-financed contributions by EU budget (execution of commitment appropriations):

Call 2008 € 27,6 million;
Call 2009 € 31,7 million

2. Size classes of grant agreements/projects:

- Less than € 1,0 million: 80%;
- Less than € 0,5 million: 20%

3. Average value per grant agreement

Calls 2008 and 2009: € 0,65 million (range from € 0,14 to 1,28 million)

4. Average value per beneficiary and grant:

Call 2008 and 2009: € 0,16 million (range from € 0,006 to 1,05 million)

VI. Grant basis

Actual eligible costs: 2008 call: 40%, 50% or 60% of eligible costs depending on the size of the beneficiaries; later calls: 50 % of eligible costs per project; no lump-sum grants.

VII. Volume of transactions per year

	2010	2009
For eco-inno.: <u>Budgetary commitments - budget execution</u>	100%	100%
Grants:	€ 31,7 million	€ 27,5 million
Procurement	€ 0,2 million	€ 0,1 million
<u>Payments - budget execution</u>	100%	91%
Grants and procurement:	€ 8,1 million	€ 7,6 million

2. Elements of the internal control systems and actors, through programme life cycle.

The objectives of the controls are to ensure good quality of selected projects, good performance and sound financial management.

Selection process
(of projects, beneficiaries, intermediaries, agencies etc.), including preventive measures

Characteristics of the selection process of projects

- The Call for Proposals is based on the annual Work Programme adopted by the Commission.
- Proposals are selected according to the selection and award criteria published in the Call for Proposals.
- During the selection procedure and in the contract preparation phase, the Agency checks the proposers' financial viability as well as exclusion criteria, for example against a legal entity list and the Commission's Early Warning System (EWS).
- The evaluation of proposals is supported by external experts so that each proposal is evaluated by three experts who work independently from each other. The experts are selected from an open call for expression of interest. The parent DGs are also involved in the evaluation procedure, either in the selection directly or by providing feedback to special cases and as member of the Evaluation Committee. All persons concerned sign a declaration of absence of conflict of interest prior to the start of the evaluation exercise.
- Consultation with other DGs and colleagues in EACI on special cases concerning potential overlaps with ongoing projects, technical opinion, etc.
- An Interservice Consultation on the selected proposals is carried out by the relevant parent DG to prevent double funding of the same project.

Preventive and directive measures: improve the quality of financial management and provision of data by beneficiaries /intermediaries

Communication strategy with proposers and beneficiaries

- Publications mainly on the website of the initiative and related websites, and Official Journal of the EU as required;
- Publications in the Official Journal of the EU and on the Website of the programme;
- Newsletter for stakeholders;
- European InfoDay on each call for proposals; participation in a number of nationally organised InfoDays;
- Guidelines for applicants; financial guidelines for applicants and beneficiaries to help prepare both the budgets of the proposals and the cost-statements for financial reports;
- Frequently Asked Questions;
- Participation in project meetings to facilitate the start of a project and to follow up on the progress made;
- Standard presentations on contractual and financial issues;
- An open door policy by offering the possibility to submit queries to a web enquiries mailbox for potential applicants (more than 1000 web enquiries).

	<p>Internal procedures</p> <ul style="list-style-type: none"> • Use of model grant agreements recommended by the Commission, but adapted to the programmes; • Use of a manual of procedures with checklists for the Agency's internal operational and financial procedures; all relevant documentation easily accessible on the Agency's Intranet; • Support by IT tools for project management and follow-up such as ABAC, EPSS and Rivet as well as ePMS (in 2011); • Financial procedures with a high degree of segregation of duties (at least six eyes); checklists are filled in to document the controls conducted; the financial circuit of Model 3 is applied with a central 100% first level verification; • All staff signs the Code of good administrative behaviour. Staff who are involved in the selection procedure or in the management of the grant agreements also sign a declaration of absence of a conflict of interest. Regular training on evaluation and negotiation procedures as well as matters of ethics and integrity is offered to all staff. Procedures supplemented by checklists/templates exist for reporting exceptions as well as reporting improprieties and internal control weaknesses; • Networks of staff in special functions exist to exchange best practices among the different units and programmes.
<p>Detective and corrective controls: Verification of commitments, pre-financing, interim payments and key milestones.</p> <p>Monitoring of the project</p>	<p>Controls before and during the implementation period of the projects <i>(Description of the ex ante control methodology)</i></p> <ul style="list-style-type: none"> • Control provisions provided for in the grant agreements (penalty, recovery clauses, termination of the agreement, audit certificates, financial guarantees, onsite audits by, for example, the Agency, the ECA, and inspections by OLAF); • Negotiations regarding the selected proposals' technical actions and budgets to ensure that the grant agreement serves as a solid basis for implementing and monitoring the project; • Controls of the implementation of the projects on the basis of progress reports as well as interim and final technical reports, including reporting on pre-defined and negotiated performance indicators; participation in project meetings, on-site visits; • Desk checks of beneficiaries' cost claims based on a number of supporting documents; • On the impact of the entire CIP programme, including eco-innovation projects: external mid-term evaluations carried out under the responsibility of the parent DGs.
<p>Corrective controls and audits:</p> <p>Either on the system or on individual projects. At the end of the project (before or after the final payment)</p>	<p>Controls at the end of the project <i>(Description of the ex post control strategy)</i></p> <ul style="list-style-type: none"> • Control provisions provided for in the grant agreements (penalty, recovery clauses, termination, ex post controls and/or audits): At any time during a project's implementation period and for 5 years after partial or final payment, the Commission, the European Court of Auditors, and the Agency can carry out on the spot controls and/or audits with substantive testing of a sample of transactions. • Ex-post controls and/or audits are carried out on a sample of beneficiaries. According to the current ex-post control strategy for Eco-Innovation³, the objective is to achieve an audit coverage of 5% of the programmes' budget; the audit sample is chosen on the basis of a risk analysis (beneficiaries with a high number of projects, high amounts granted, relatively high hourly rates and overhead costs) or on special request from operational units. Due to the

³ On the basis of the lessons learned, the current ex-post control strategy will be updated at least annually and whenever deemed necessary.

	<p>heterogeneity of the audit population, and considering cost-effectiveness, auditees are not selected randomly according to criteria of a sample's representativeness.</p> <p>This means that the audit results can not be extrapolated to the whole population of beneficiaries; however, the Agency foresees to calculate an average error rate. Following the guidance issued by DG BUDG, the average error rate will be calculated on the basis of audit results found in the high, medium and low risk audit populations.</p>
3. Internal and external supervisory and audit controls	
Verification that processes are working as designed	<ul style="list-style-type: none"> • Regular reports of the financial control officer on the errors and deficiencies found in the scope of the ex-ante controls. Recommendations made and followed up to improve both the design and the effectiveness of internal controls; • Monthly management reports on operational scoreboard pertaining to project management; • Procedures for recording exceptions and recording and correction of internal control weaknesses; • Discussion of Risk Management and ICS – annual self-assessment exercise.
Monitoring of performance of 3rd party auditors, externally contracted auditors	<ul style="list-style-type: none"> • Framework contract with external audit firm monitored by ex-post controller, including close review and analysis of all reports, joint missions, and regular contacts with the contractor's quality control; • External audit firm bound to follow international audit standards.
IAC, IAS, ECA, EP Feedback on adequacy of the system	<ul style="list-style-type: none"> • Feedback provided by the Agency's internal audit function, the Commission's Internal Audit Service (IAS) and the European Court of Auditors and in the discharge procedure before the European Parliament. Audit recommendations are followed up systematically; • Regular monitoring of the implementation of the action plan developed during the annual risk assessment exercise.
High level management reporting and its role in identifying problem issues	<ul style="list-style-type: none"> • EACI's work programme (i.e. the Annual Management Plan of the Agency) compiled and monitored. It shows the specific objectives and tasks necessary to achieve the general objectives set forth in the Act of Delegation; a set of indicators facilitates the monitoring process; • Quarterly management reports compiled in compliance with the Act of Delegation and sent to the parent DGs and the Steering Committee showing the progress made through operational and financial scoreboards; • Report on the Agency's performance during the Steering Committee meetings four times a year; • Mid-term report on the achievement of the objectives set in the AMP prepared for the Steering Committee; • Annual Activity Report (AAR) compiled showing the progress made during the year.

Annex 5.4. Template for centralised indirect management of EU funds by the EACI Internal Policies:

Grants of the Marco Polo programmes I and II

1. Characteristics of the EACI policy environment

The Marco Polo (MP) programmes I and II co-fund projects with the aim of reducing road and traffic congestion, improving the environmental performance and enhancing intermodal transport. Type of actions funded are model shift with 80% of the projects funded, catalyst actions 8%, "Motorways of the Sea" 1%, traffic avoidance 1%, and common learning 10%.

The EACI's co-financing is based on, if applicable, tonne-kilometres actually shifted or traffic actually avoided or through reimbursing a project's eligible costs or the maximum amount of the project losses. The majority of projects run industrially for three years (model shift actions). To implement the project, beneficiaries have to work at least with one associated partner (on average 3 partners per project). Since the recast of the Marco Polo Regulation in 2009, as from the call 2010, a single company can apply without partners.

The Agency's stakeholders are legal persons who participate in the programmes as proposers, beneficiaries and/or associated partners. Of these stakeholders, 53% of all participating partners are classified as SMEs; among the project leaders 40% are SMEs.

I. Key inherent risks in this environment

- (1) Risk of poor quality of selected proposals, including possible distortion of competition, reducing the programmes' effectiveness:

The procedure for awarding grants follows the quite complex comitology procedure managed by the parent DG. Moreover, only projects of good quality ensuring a high impact of the EU programmes should be funded while avoiding distortion of competition and double-financing of the same subsidised action.

For each programme, a Call for Proposals is launched every year and evaluated by the EACI with the assistance of external experts and with the participation of experts from the Commission. Special attention is devoted to competition issues and the mitigation of the risk.

- (2) Risk of poor industrial implementation of the project reducing the programmes' impact:

The beneficiaries' industrial implementation of the grant agreement (including, if applicable, communication of the project results and methods) is monitored by the Agency. The monitoring of the effectiveness of the projects is facilitated by the use of result indicators, such as tonne-kilometres shifted and environmental benefits achieved versus contractual provisions.

- (3) Risk of overpayment for a project negatively affecting the efficiency and economy of the granted funds:

The legal framework of the grant agreements is complex as it requires from the beneficiaries for each project – except for common learning actions – a reporting on actual tonne-kilometres shifted and an actual eligible cost reporting.

Moreover, for most of the projects, considerable amounts of self-financing have to be sought. In addition, beneficiaries, especially SMEs, are exposed to the risk of not being financially viable until the end of the project.

The concepts of actual eligible costs, project financial losses and tonne-kilometres shifted offer to the Agency only very limited possibilities to control cost claims by desk checks. Moreover controls are based essentially on declarations from the beneficiaries (reporting) facing the risk of being erroneous or irregular. Furthermore, beneficiaries, especially SMEs might lack sufficient financial management expertise and/or adequate IT solutions for meeting the complex recording requirements to generate accurate financial reports.

All three risks may entail a possible negative financial impact, especially through decreased effectiveness and efficiency. They are also likely to affect the Agency's and Commission's reputation.

With a view to mitigating these risks, the Agency put in place an internal control system following the Commission standards (see parts 2 and 3 of the AAR).

II. Management mode

Indirect centralised management (Art. 53 (2) of the Financial Regulation).

Grants awarded to a beneficiary who implements the project with associated partners.

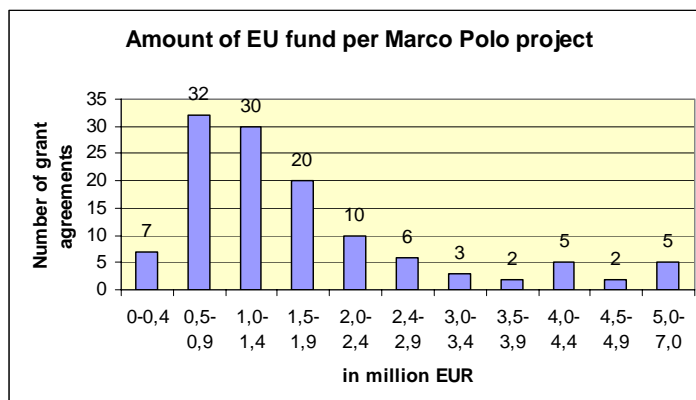
Reimbursement of actual tonne-kilometres shifted or traffic avoided or actual eligible costs or losses engaged.

Self-financing required: from 50% up to 97% depending on the type of project.

III. Grant period

Grants are disbursed over the project period of up to five years per project (on average three years) for the programmes

- MP I from 2003 to 2006 (4 years) and
- MP II from 2007 to 2013 (7 years).



IV. Number of contracts and beneficiaries pertaining to the Marco Polo programme

Number of grant agreements (one lead partner per grant agreement):

- 66 total on-going grant agreements in December 2010 (in 2009: 64)
- 58 grant agreements closed since 2004 (in 2009: 23).

V. Average value/ range of the programme

- Co-financed contributions by EU budget (execution of commitment appropriations):
 - MP I: Calls 2003 to 2006 in total € 73,8 million (€ 18,4 million on average per call);
 - MP II: Calls 2007 to 2009 in total € 133,2 million (€ 44,4 million on average per call)
- Average value per grant agreement
 - MP I: Calls 2003 to 2006: € 1,3 million (range from € 0,25 to 4,0 million)
 - MP II: Calls 2007 to 2009 € 2,0 million (range from € 0,37 to 6,8 million)

VI. Grant basis

For MP I and II: funding is made according to a threefold ceiling:

- tonne-kilometres shifted/traffic avoided or
- actual eligible costs, taking into account
- the losses made with the action.

VII. Volume of transactions per year

		2009	2009
For MP:	<u>Budgetary commitments - budget execution</u>	100%	100%
	Grants:	€ 54,0 million	€ 33,4 million
	Procurement	€ 0,3 million	€ 0,6 million
	<u>Payments - budget execution</u>	99%	96%
	Grants and procurement:	€ 29,4 million	€ 29,5 million

2. Elements of the internal control systems and actors, through programme life cycle.

The objectives of the controls are to ensure good quality of selected projects, good monitoring of the effectiveness of the projects and sound financial management.

<p>Selection process (of beneficiaries, intermediaries, agencies etc.), including preventive measures</p>	<p>Characteristics of the selection process of beneficiaries</p> <ul style="list-style-type: none"> • The Call for Proposals is based on the annual Marco Polo Work Programme adopted by the Commission. • Proposals are selected according to the selection and award criteria published in the Call for Proposals. • During the selection procedure, the Agency checks the proposers' financial viability as well as exclusion criteria, for example against a legal entity list and the Commission's Early Warning System (EWS). • The evaluation of proposals is enforced by the advice of external experts: each proposal is evaluated by three experts who work independently from each other. The experts are selected from an open call for expression of interest. The parent DG and other Commission services (DG ENV or DG COMP) are assisting in the evaluation procedure. All persons involved sign a declaration of absence of conflict of interest prior to the start of the evaluation exercise. • The awarding decision is taken following the comitology procedure managed by the parent DG. Since call 2010, a simplified procedure of information to Programme Committee and to the European Parliament applies.
<p>Preventive and directive measures: improve the quality of financial management and provision of data by beneficiaries /intermediaries</p>	<p>Communication strategy with proposers and beneficiaries</p> <ul style="list-style-type: none"> • Publications in the Official Journal of the EU and on the Website of the programme; • Marco Polo conference for stakeholders once a year; • Helpdesk for Marco polo and MoS (dedicated mailboxes and phone). • Annual verification visits at the project's site, i.e. on average three times during a project's duration of three years. <p>Internal procedures</p> <ul style="list-style-type: none"> • Use of model grant agreements recommended by the Commission, but adapted to the programme; • Use of a manual of procedures with checklists for the Agency's internal operational and financial procedures; all relevant documentation easily accessible on the Agency's Intranet; • Financial procedures with a high degree of segregation of duties (at least three pairs of eyes); the financial circuit of Model 3 is applied with a central 100% first level verification; checklists are filled in to document the controls conducted; • All staff signs the Code of good administrative behaviour. Staff who are involved in the selection procedure or in the management of the grant agreements also sign a declaration of absence of a conflict of interest. Regular training on matters of ethics and integrity is followed by staff. Procedures supplemented by checklists/templates exist for reporting exceptions as well as reporting improprieties and internal control weaknesses; • Networks of staff in special functions exist to exchange best practices among the different units and programmes.
<p>Detective and corrective controls: Verification of commitments, pre-financing, interim payments and key milestones.</p>	<p>Controls before and during the implementation period of the projects (Description of the ex ante control methodology)</p> <ul style="list-style-type: none"> • Control provisions provided for in the grant agreements (penalty, recovery clauses, termination of the agreement, audit certificates, financial guarantees, onsite audits by, for example, the Agency, the ECA, and inspections by OLAF); • Negotiations regarding the selected proposals' technical actions and budgets to ensure that the grant agreement serves as a solid basis for implementing and monitoring the project;

Monitoring of the project	<ul style="list-style-type: none"> • Controls of the implementation of the projects on the basis of regular reporting as well as annual verification visits focussing on the technical implementation of the project as well as on financial aspects; • Desk checks of beneficiaries' cost claims based on a number of supporting documents; • On the impact of the entire programme: external mid-term evaluations carried out under the responsibility of the parent DG.
<p>Corrective controls and audits:</p> <p>Either on the system or on individual projects. At the end of the project (before or after the final payment)</p>	<p>Controls at the end of the project <i>(Description of the ex post control strategy)</i></p> <ul style="list-style-type: none"> • Control provisions provided for in the grant agreements (penalty, recovery clauses, termination, ex post controls and/or audits): At any time during a project's implementation period and for 5 years after partial or final payment, the Commission, the European Court of Auditors, and the Agency can carry out on the spot controls and/or audits with substantive testing of a sample of transactions. • Ex-post controls and/or audits are carried out on a sample of beneficiaries. According to the current ex-post control strategy for Marco Polo⁴, the objective is to achieve an audit coverage of 10% of the programmes' budget; the audit sample is chosen on the basis of a risk analysis (beneficiaries with a high number of projects, high amounts granted) or on special request from operational unit. Due to the heterogeneity of the audit population, and considering cost-effectiveness, auditees are not selected randomly according to criteria of a sample's representativeness. This means that the audit results can not be extrapolated to the whole population of beneficiaries; however, the Agency foresees to calculate an average error rate. Following the guidance issued by DG BUDG, the average error rate will be calculated on the basis of audit results found in the high, medium and low risk audit populations.
3. Internal and external supervisory and audit controls	
Verification that processes are working as designed	<ul style="list-style-type: none"> • Regular reports of the financial control officer on the errors and deficiencies found in the scope of the ex-ante controls. Recommendations made and followed up to improve both the design and the effectiveness of internal controls; • Monthly management reports on operational scoreboard pertaining to project management; • Procedures for recording exceptions and recording and correction of internal control weaknesses; • Discussion of Risk Management and ICS – annual self-assessment exercise.
Monitoring of performance of 3 rd party auditors, externally contracted auditors	<ul style="list-style-type: none"> • Framework contract with external audit firm monitored by ex-post controller, including close review and analysis of all reports, joint missions, and regular contacts with the contractor's quality control; • External audit firm bound to follow international audit standards.
IAC, IAS, ECA, EP Feedback on adequacy of the system	<ul style="list-style-type: none"> • Feedback provided by the Agency's internal audit function, the Commission's Internal Audit Service (IAS) and the European Court of Auditors and in the discharge procedure before the European Parliament. Audit recommendations are followed up systematically; • Regular monitoring of the implementation of the action plan developed during the annual risk assessment exercise.

⁴ On the basis of the lessons learned, the current ex-post control strategy will be updated at least annually and whenever deemed necessary.

<p>High level management reporting and its role in identifying problem issues</p>	<ul style="list-style-type: none"> • EACI's work programme (i.e. the Annual Management Plan of the Agency) compiled and monitored. It shows the specific objectives and tasks necessary to achieve the general objectives set forth in the Act of Delegation; a set of indicators facilitates the monitoring process; • Quarterly management reports compiled in compliance with the Act of Delegation and sent to the parent DGs and the Steering Committee showing the progress made through operational and financial scoreboards; • Report on the Agency's performance during the Steering Committee meetings four times a year; • Mid-term report on the achievement of the objectives set in the AMP prepared for the Steering Committee; • Annual Activity Report (AAR) compiled showing the progress made during the year.
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Annex 5.5. Internal control template for procurement

- Direct centralised management of the EACI's administrative budget
- Centralised indirect management of EU funds (Internal Policies) implemented by the EACI

1. Inherent nature and characteristics of procurement

A) Administrative budget

For its 2010 administrative expenditure the Agency received an EU subsidy as its own operating budget of € 15,963 million. The Director acts as authorising officer.

Of the € 15,484 million actually committed (97% execution rate), total **staff expenditure** accounts for about **60% of total commitments, i.e. € 9,1 million**. As in previous years, this figure includes about € 0,6 for reimbursements of mission expenses, staff recruitment and training costs.

About **7% (€ 1,1 million)** account for the assistance of **external experts** in the evaluation exercise relative to calls for proposals for the diverse programmes. A call for expression of interest was launched in 2008 and is still open. Another **2% (€ 0,4 million)** was committed for **ex-post controls** at beneficiaries' sites carried out by an external audit firm on behalf of the Agency.

Costs related to office rent, equipment, supplies and services, including IT and services received from OIB, DG DIGIT, DG BUDG for ABAC and PMO for calculating the salaries account for **22% of the budget (€ 3,4 million)**. To this end, the Agency signed Service Level Agreements with the Commission services. Until November 2010, the Agency was using offices in two buildings (Tour Madou and Orban 10).

In November, the Agency moved to the "Covent Garden" building after having concluded the negotiated procedure (publication of a property prospecting notice) by signing the contract on 30th June 2010. For early reimbursements of the fitting out works the Agency committed **€ 1,6 million**.

Supplies and services received from third parties were mainly purchased on the basis of framework contracts that the Commission concluded with external service providers and in which the Agency participates.

In addition, in 2010, a total of 17 negotiated procedures were concluded of which 16 with one single offer for services/supplies amounting to less than € 5.000, and one with three offers for a contract value of less than € 25.000.

B) Operational budget

For procurement on the operational budget, two open calls for tender were finalised in 2010 pertaining to the IEE II programme (budgetary commitments of € 3,0 million). Another open call for tender was launched and a contract signed for the IPR project of the EIP amounting to € 2,5 million. In addition, one framework contract was signed relating to the hire of conference and training rooms and attendant services with a legal commitment of € 0.93 million for 24 months (no budgetary commitment).

By far most of the purchases were covered by framework contracts concluded by the Agency itself or by the Commission. The Agency also uses Service Level Agreements with Commission services such as DG HR, OPOCE or SCIC. No negotiated procedures were applied in 2010.

I. Key inherent risks of procurement relative to the Agency's operational and administrative budget implementation

- Procurement of the Agency follows the same rules and procedures as public procurement of the Commission. Detailed guidelines are provided by DG BUDG in the form of a vade-mecum. Nevertheless, within the Agency, in-depth knowledge is necessary to ensure compliance with the complex rules mitigating the risk of choosing wrong procedures/thresholds, the risk of conflict of interest, and favouritism.

- The risk of errors or mismanagement involves substantial resources - human and financial - if third parties contest the Agency's decisions and bring their cases to the courts.
- Sound financial management is at risk unless procurement is managed effectively to meet the Agency's needs, and unless best value for money is obtained.
- Fraud or criminality committed by contractors or the Agency's staff is very likely to damage the Agency's and the Commission's reputation.

II. Management mode/s: Key figures of commitment appropriations:	Type of procedure	2010 CA* In € million	2009 CA* In € million	2010 contractors	2009 contractors
<i>ad *: Commitment appropriations without Commission services</i> <i>ad #: Framework contract without budgetary commitment</i>	Open call for tender relative to IEE	3,0	4,2	2	4
	Open call for tender relative to EIP IPR	2,5	-	1	-
	Open call for tender relative to EIP Network	0 #	-	1	-
	Restricted procedure	-	-	-	-
	Negotiated procedure thereof for				
	<i>Administrative budget</i>	0,51	0,03	17	14
	<i>Operational budgets</i>	-	0,01	-	5

Average median /value/ range of contracts: Not specified in all contracts.

Average/median contract period: On average 2 to 3 years.

2. Management and control systems – the basis of the declaration of assurance

Planning and selection process / preventive controls

Procurement of the Agency follows the same rules and procedures as procurement of the Commission. Within these procedures, preventive actions are implemented with the aim of reinforcing sound financial management, enhancing open and transparent procurement procedures, promoting accountability and integrity of financial and operational actors as well as improving internal controls including the reporting of irregularities by staff complemented by measures ensuring effective protection of whistleblowers.

- The Agency's procurement needs are clearly defined and justified from an economic or operational point of view and approved by the Director or the Head of Unit Resources depending on the amount of money involved.
- For high value contracts, the Director appoints an evaluation committee to prepare the selection of the contractors. In general, the parent DGs assign at least one staff member to participate in the selection procedure.
- With a view to ensuring compliance of its public procurement procedures with the Financial Regulation, the Agency established an advisory committee for procurement contracts (ACPC) conducting ex-ante controls. Each procurement file exceeding EUR 130.000 has to pass through the ACPC.
- Every staff member signed the Code of good administrative behaviour and signs a declaration of absence of a conflict of interest, each time he/she is involved in a evaluation procedure. Regular training on matters of ethics and integrity is offered to all staff. Procedures supplemented by checklists/templates exist for reporting exception, as well as reporting improprieties and internal control weaknesses.
- Every staff member with a significant financial responsibility is on the list of sensitive posts. Given the Commission's revised guidelines (SEC(2008)77), the Agency updated its analysis of sensitive posts in 2008; no update was needed in 2009 or 2010. The Agency's mobility policy foresees that staff should in general not occupy a sensitive post for more than five years.
- The Agency takes part in the Early Warning System of the Commission. This means that prior to signing a contract with a third party, the Agency is alerted by the computerised financial system, if the Commission is aware of contractors who

	<p>are in one of the situations of exclusion specified in the Financial Regulation (e.g. bankruptcy, failure to pay tax or social security contributions, convicted of an offence concerning their professional conduct). Information on exclusion will be shared with all organisations involved in managing EU money, including the Member States, with effect from 1st January 2009.</p>
<p>Communication / information and directive controls</p>	<ul style="list-style-type: none"> • Open calls for tender are published in the Official Journal and on the EUROPA website. If applicable, updated information and FAQ are posted on the website. • Model letters are used to ensure that unsuccessful tenderers are informed in an adequate way. • A computerised accounting system is used to record the contracts and the transactions related to the contracts in ABAC. • Technical training is provided to all staff involved in procurement and financial procedures on a regular basis (for example, monthly Financial Officers Forum). • The model contracts recommended by the Commission are used. • The Agency documented its internal operational and financial procedures, including procurement, in the form of a Manual of Procedures as well as in so-called "yellow pages". The documentation is easily accessible on the Intranet. • The financial procedures have a high degree of segregation of duties with at least six eyes. Checklists are used to record the conducted controls.
<p>Detective and corrective controls: Performance monitoring, and verification of payments and key milestones</p>	<p>Controls before and during the implementation of the contract <i>(Description of the ex ante control methodology)</i></p> <ul style="list-style-type: none"> • Each contract provides for control provisions, such as penalty, recovery clauses, possibility to terminate the contract. • Technical controls are carried out by staff who receives the purchased service, good or equipment; the controls are documented by signing "conforme aux faits". • Prior to payment, financial staff checks the invoice on the basis of adequate and sufficient supporting documents, such as equivalences of authorised order forms, signed delivery documents, invoices.
<p>Corrective controls and audit: Desk reviews, on-the-spot audits carried out either ex ante or ex post.</p>	<p>Controls at the end of the contract <i>(Description of the ex post control strategy)</i></p> <ul style="list-style-type: none"> • Certain control provisions are provided for in the contracts (penalty, recovery clauses, termination, ex post controls and/or audits); • Ex post controls and/or audits are carried out annually by the Court of Auditors (DAS exercise) on a sample of transactions pertaining to the EACI's implementation of the administrative budget.
<p>3. Feedback which enables control activities to be optimised</p>	
<p>Verification that processes are working as designed</p>	<ul style="list-style-type: none"> • The financial control officer compiles an annual report on the errors and deficiencies found in the scope of their ex-ante controls. Recommendations are made and followed up to improve both the design and the effectiveness of internal controls; • The Agency drafted procedures for recording exceptions and recording and correction of internal control weaknesses and made them available to all staff; • Management takes part in the annual exercise on internal control and risk management facilitated by DG BUDG.
<p>Monitoring of performance of independent bodies, 3rd party auditors, externally contracted auditors</p>	<ul style="list-style-type: none"> • The Agency signed a framework contract with an external audit firm that is monitored by the ex-post controller, including close review and analysis of all reports, possible joint missions, and regular contacts with the contractor's quality control; • The external audit firm is bound to follow international audit standards.

<p>IAC, IAS, ECA recommendations on the functioning of the system and their follow up</p>	<ul style="list-style-type: none"> • Feedback is provided by the internal audit function of the Agency and by the Commission Internal Audit Service (IAS). Recommendations are followed up systematically. • Feedback from the European Court of Auditors and by the European Parliament in the context of the discharge procedure as well as their recommendations are followed up systematically.
<p>High level management reporting and its role in identifying problem issues</p>	<ul style="list-style-type: none"> • The EACI work programme includes the specific objectives and tasks relative to the implementation of the administrative budget. • A set of indicators facilitates the monitoring process. • Quarterly management reports sent to the parent DGs and the Steering Committee include the financial scoreboards pertaining to the administrative budget. • The Steering Committee meets four times a year to discuss - inter alia - the performance of the Agency, including issues related to procurement. • The mid-term report on the achievement of the objectives set in the AMP prepared for discussion in the Steering Committee includes the administrative budget. • The Annual Activity Report (AAR) showing the progress made during the year includes the administrative budget.