

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

I hereby certify that the information provided in Parts 2 and 3.1 of the present AAR and in its annexes 2 to 6 is, to the best of my knowledge, accurate and exhaustive.

Done in Brussels, 21 March 2011

(signed)

Augusto BONUCCI

Annex 2: Human and Financial Resources

Table 18: Human resources by ABB activity

Code ABB Activity	ABB Activity	Human Resources		
		Establishment Plan posts	Estimates of External Personnel	Total
32 04	Conventional and renewable energies	148	49	197
32 05	Nuclear energy	308	16	324
32 06	Research related to energy	21	4	25
32 AWBL-02	Policy strategy and coordination	40	6	46
06-32 AWBL-01	Shared ENER/MOVE administrative support - SIAC	8		8
Total		525	75	600

Table 19: Financial Resources: Implementation of Decentralised Administrative Appropriations of the DG ENER Global Envelope – Situation as at 31.12.2010

Budget Line	Description	Credits	Commitment	Payment	Appropriations carried over from 2009	Implementation of appropriations carried over from 2009 (%)
06.010211.00.01.10	Mission Expenses	1 183 000	1 123 000	930 848	0	
06.010211.00.01.30	Representation Expenses	20 850	20 850	9 671	0	
06.010211.00.02.20	Meeting Costs	480 000	480000	344 976	0	
06.010211.00.02.40	Conference Costs	394 150	254 886	80 363	107 554	92.52
06.010211.00.03	Meetings of Committees	215 000	215000	111 524	0	
06.010211.00.04	Studies and consultations	2 000	800		0	
06.010211.00.06	Further training and management training	305 000	305000	82 952	0	
06 Total		2 600 000	2 399 536	1 560 333	107 554	92.52

Annex 3: Draft Annual Accounts and Financial Reports

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

TABLE 1: OUTTURN ON COMMITMENT APPROPRIATIONS IN 2010 (in Mio €)				
Chapter		Commitment appropriations authorised *	Commitments made	%
		1	2	3=2/1
Title 06 : Energy and transport				
06 01	Administrative expenditure of 'Energy and transport' policy area	17.88	15.15	84.70 %
06 03	Trans-European networks	20.87	20.76	99.48 %
06 04	Conventional and renewable energies	2,028.84	1,876.83	92.51 %
06 05	Nuclear energy	277.50	276.53	99.65 %
06 06	Research related to energy and transport	165.32	150.57	91.08 %
06 07	Security and protection of energy and transport users	0.40	0.15	37.37 %
Total Title 06		2,510.82	2,339.98	93.20 %
Title 26 : Commission's administration				
26 01	Administrative expenditure of Commission's administration policy area	0.35	0.35	99.99 %
Total Title 26		0.35	0.35	99.99 %
Total DG ENER		2,511.17	2,340.33	93.20 %

* 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).

% Outturn on commitment appropriations

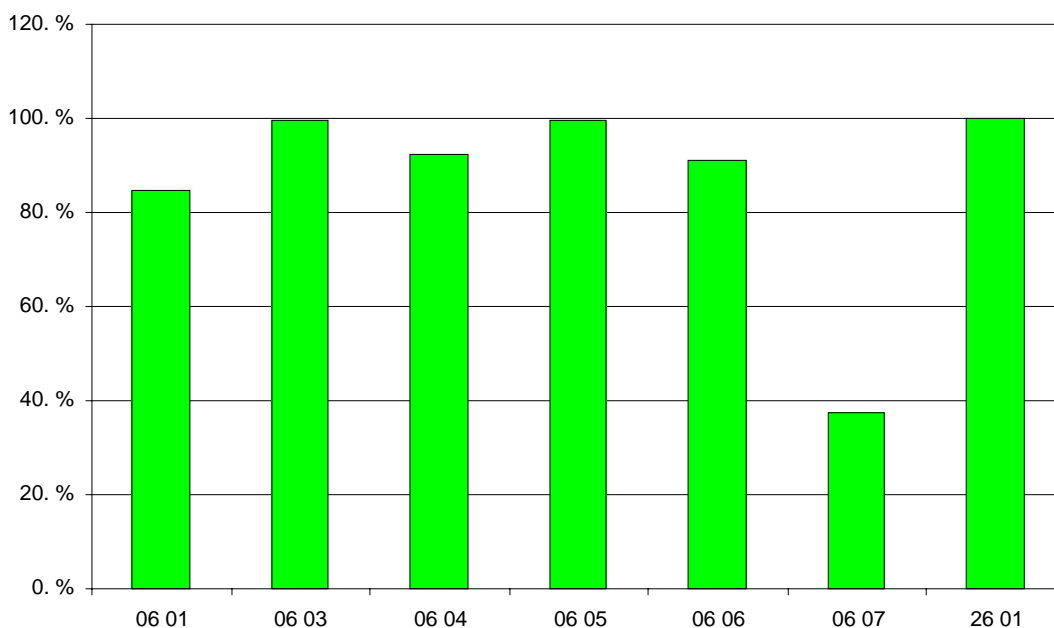


TABLE 2: OUTTURN ON PAYMENT APPROPRIATIONS IN 2010 (in Mio €)				
Chapter		Payment appropriations authorised *	Payments made	%
		1	2	3=2/1
Title 06 : Energy and transport				
06 01	Administrative expenditure of 'Energy and transport' policy area	19.86	13.50	68.00 %
06 03	Trans-European networks	20.01	18.86	94.25 %
06 04	Conventional and renewable energies	1,009.70	718.29	71.14 %
06 05	Nuclear energy	241.45	237.48	98.35 %
06 06	Research related to energy and transport	174.40	147.71	84.69 %
06 07	Security and protection of energy and transport users	0.90	0.54	59.62 %
Total Title 06		1,466.32	1,136.38	77.50 %
Title 26 : Commission's administration				
26 01	Administrative expenditure of 'Commission's administration' policy area	0.69	0.33	47.55 %
Total Title 26		0.69	0.33	47.55 %
Total DG ENER		1,467.01	1,136.71	77.48 %

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

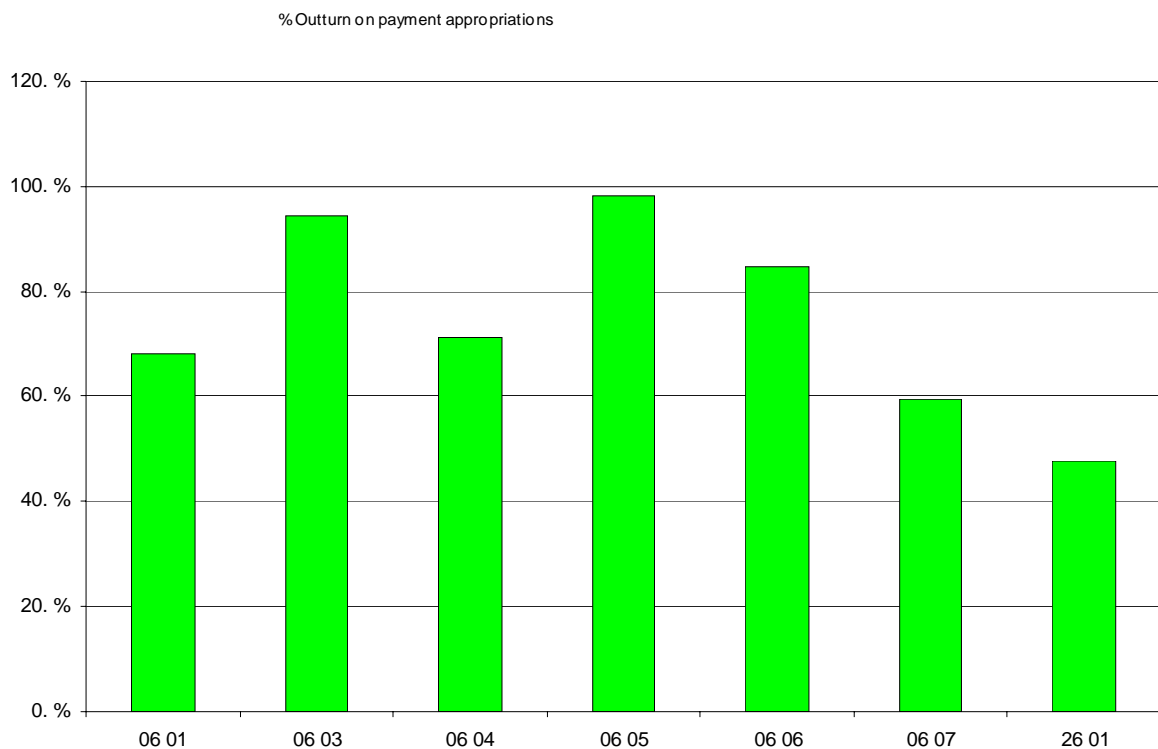


TABLE 3 : BREAKDOWN OF COMMITMENTS TO BE SETTLED AT 31/12/2010 (in Mio €)								
		2010 Commitments to be settled				Commitments to be settled from	Total of Commitments to be settled at end	Total of Commitments to be settled at end
Chapter		Commitments 2010	Payments 2010	RAL 2010	% to be settled	financial years previous to 2010	of financial year 2010 (incl. corrections)	of financial year 2009 (incl. corrections)
		1	2	3=1-2	4=1-2//1	5	6=3+5	7
Title 06 : Energy and transport								
06 01	Administrative expenditure of 'Energy and transport' policy area	15.05	12.04	3.01	20.01 %	0.00	3.01	1.98
06 03	Trans-European networks	20.76	0.00	20.76	100.00 %	75.30	96.06	96.79
06 04	Conventional and renewable energies	1,876.83	199.73	1,677.10	89.36 %	1,529.10	3,206.20	2,048.22
06 05	Nuclear energy	276.53	6.97	269.55	97.48 %	367.38	636.93	598.98
06 06	Research related to energy and transport	150.57	6.48	144.09	95.70 %	366.73	510.82	538.89
06 07	Security and protection of energy and transport users	0.15	0.04	0.11	74.71 %	0.66	0.77	1.16
Total Title 06		2,339.88	225.26	2,114.62	90.37 %	2,339.17	4,453.80	3,286.02
Title 26 : Commission's administration								
26 01	Administrative expenditure of 'Commission's administration' policy area	0.35	0.06	0.29	83.40 %	0.00	0.29	0.34
Total Title 26		0.35	0.06	0.29	83.40 %	0.00	0.29	0.34
Total DG ENER		2,340.23	225.32	2,114.91	90.37 %	2,339.17	4,454.09	3,286.36

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

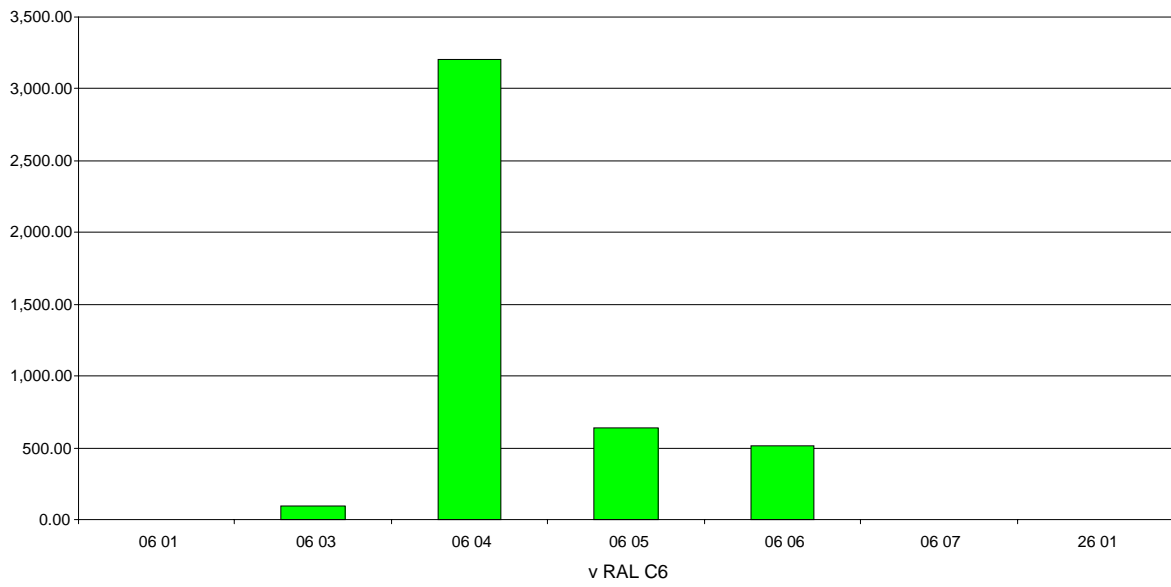


TABLE 4 : BALANCE SHEET ENER

BALANCE SHEET	2010	2009
A.I. NON CURRENT ASSETS	539,013,503.26	405,104,010.53
A.I.1. Intangible Assets	2,695,884.53	147,373.68
A.I.2. Property, plant and equipment	7,394,613.33	17,821,405.28
A.I.3. Long-term investments	0.00	22,621,803.06
A.I.5. LT Pre-Financing	528,923,005.40	364,513,428.51
A.II. CURRENT ASSETS	236,176,108.18	887,924,956.14
A.II.1. Inventories	0.00	5,165,285.60
A.II.2. Short-term Pre-Financing	231,715,263.65	868,593,454.05
A.II.3. Short-term Receivables	4,460,844.53	14,166,216.49
ASSETS	775,189,611.44	1,293,028,966.67
P.III. CURRENT LIABILITIES	-672,275,076.96	-151,123,190.06
P.III.4. Accounts Payable	-672,275,076.96	-151,123,190.06
LIABILITIES	-672,275,076.96	-151,123,190.06
NET ASSETS (ASSETS less LIABILITIES)	102,914,534.48	1,141,905,776.61
P.I.2. Accumulated Surplus / Deficit	0.00	0.00
Non-allocated central (surplus)/deficit*	-102,914,534.48	-1,141,905,776.61
TOTAL	0.00	0.00

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

It is important to note when considering table 4 that the split of DG TREN in to DG MOVE and DG ENER was carried out by creating a new profit centre for DG MOVE, while DG ENER took over the profit centre of the previous DG TREN. As a result the balance sheet for DG ENER for 2010 is not comparable with that of 2009.

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 ENER

ECONOMIC OUTTURN ACCOUNT	2010	2009
II.1 SURPLUS/ DEF. FROM OPERATING ACTIVT	763,932,266.60	990,045,990.77
II.1.1. OPERATING REVENUES	5,540,570.61	-19,657,752.51
II.1.1.1. Other operating revenue	5,540,570.61	-19,657,752.51
II.1.2. OPERATING EXPENSES	758,391,695.99	1,009,703,743.28
II.1.2.1. Administrative Expenses	-4,406,093.01	41,848,889.95
II.1.2.2. Operating Expenses	762,797,789.00	967,854,853.33
II.2. SURPLUS/DEF. NON OPERATING ACTIVIT	3,377,640.21	5,331,350.34
II.2. FINANCIAL OPERATIONS	3,377,640.21	-8,919,271.28
II.2.1. Financial revenue	3,374,390.77	-8,946,608.00
II.2.2. Financial expenses	3,249.44	27,336.72
II.2. OTHER NON OPERATING ACTIVITIES		14,250,621.62
II.2.4. Share of net surplus/def. associ		14,250,621.62
ECONOMIC OUTTURN ACCOUNT	767,309,906.81	995,377,341.11

It is important to note when considering table 5 that the split of DG TREN in to DG MOVE and DG ENER was carried out by creating a new profit centre for DG MOVE, while DG ENER took over the profit centre of the previous DG TREN. As a result the economic outturn for DG ENER for 2010 is not comparable with that of 2009.

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

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

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	505	468	92.67 %	17.12	37	7.33 %	46.27
45	305	289	94.75 %	24.93	16	5.25 %	84.06
60	33	31	93.94 %	28.55	2	6.06 %	81.50
105	18	17	94.44 %	72.71	1	5.56 %	120.00
Total Number of Payments	861	805	93.50 %		56	6.50 %	
Average Payment Time	24.02			21.54			59.64

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	79	69	87.34 %	11.22	10	12.66 %	24.50
30	764	610	79.84 %	18.69	154	20.16 %	44.82
90	18	10	55.56 %	53.30	8	44.44 %	102.88

Total Number of Payments	861	689	80.02 %		172	19.98 %	
Average Payment Time	24.02			18.44			46.34

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
59	43	130	15.10 %	861	111,496,242.85	13.65 %	816,861,554.90

Late Interest paid in 2010			
DG	GL Account	Description	Amount (Eur)
DG ENER	65010100	Interest on late payment of charges New FR	3 249.44
			3 249.44

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	483,663.49	75,151.52	558,815.01	483,663.49	19,891.71	503,555.20	55,259.81
59	OTHER REVENUE FROM ADMINISTRATIVE OPERATIONS	532,171.47	0.00	532,171.47	532,171.47	0.00	532,171.47	0.00
	Total Title 5	1,015,834.96	75,151.52	1,090,986.48	1,015,834.96	19,891.71	1,035,726.67	55,259.81

Title 6: CONTRIBUTIONS AND REFUNDS IN CONNECTION WITH COMMUNITY/EU AGREEMENTS AND PROGRAMMES								
60	CONTRIBUTIONS TO COMMUNITY/EU PROGRAMMES	644,931.00	0.00	644,931.00	644,931.00	0.00	644,931.00	0.00
61	REPAYMENT OF MISCELLANEOUS EXPENDITURE	0.00	175,445.52	175,445.52	0.00	0.00	0.00	175,445.52
66	OTHER CONTRIBUTIONS AND REFUNDS	3,124,703.02	5,409,927.52	8,534,630.54	2,002,401.74	1,438,594.38	3,440,996.12	5,093,634.42
	Total Title 6	3,769,634.02	5,585,373.04	9,355,007.06	2,647,332.74	1,438,594.38	4,085,927.12	5,269,079.94

Title 9: MISCELLANEOUS REVENUE								
90	MISCELLANEOUS REVENUE	-19,127.60	31,632.02	12,504.42	-26,995.12	31,632.02	4,636.90	7,867.52
	Total Title 9	-19,127.60	31,632.02	12,504.42	-26,995.12	31,632.02	4,636.90	7,867.52

Total DG ENER	4,766,341.38	5,692,156.58	10,458,497.96	3,636,172.58	1,490,118.11	5,126,290.69	5,332,207.27
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**TABLE 8 : RECOVERY OF UNDUE PAYMENTS
(Number of Recovery Contexts and corresponding Transaction Amount)**

RECOVERY ORDERS ISSUED IN 2010 Year of Origin (commitment)	Irregularity		No error / irregularity		TOTALS	
	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount
2000	1	9,191.33			1	9,191.33
2001	1	900,662.25			1	900,662.25
2002	1	58,709.51	1	11,562.92	2	70,272.43
2004	5	240,053.09			5	240,053.09
2005	2	66,521.28	3	9,467.24	5	75,988.52
2006	2	22,880.15	2	2,314.30	4	25,194.45
2007	3	158,300.72			3	158,300.72
2009			5	962,327.97	5	962,327.97
No Link	3	36,257.57	1	722.88	4	36,980.45
	18	1,492,575.90	12	986,395.31	30	2,478,971.21

EXPENSES	No error / irregularity	
	Nbr	Amount
INCOME LINES IN INVOICES	4	-0.15

	Error		Irregularity		No error / irregularity	
	Nbr	Non-Eligible Amount	Nbr	Non-Eligible Amount	Nbr	Non-Eligible Amount
NON ELIGIBLE AMOUNT IN COST CLAIMS DG ENER	21	485,584.08	24	2,925,841.12	14	1,693,976.22
NON-ELIGIBLE AMOUNTS IN COST CLAIMS TREN ENER	6	102,759.18	17	2,802,772.32	14	1,758,058.49

	Error		Irregularity		No error / irregularity	
	Nbr	Credit Note Amount	Nbr	Credit Note Amount	Nbr	Credit Note Amount
CREDIT NOTES DG ENER	4	-107,813.61	11	-127,280.08	18	-570,168.73
CREDIT NOTES TREN ENER	2	-863.88	3	-181,742.92	26	-159,066.55

It is important to note that the above amounts show the amounts for DG ENER and TREN ENER separately. This is because the DG ENER figures only cover the period after the profit centres created for ENER and MOVE following the split of DG TREN became operational. As a result, certain transactions completed in 2010 before the separation of profit centres into ENER and MOVE are shown separately as TREN ENER.

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

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
1996	1	1	0.00 %	372,898.92	372,898.92	0.00 %
1998	1	1	0.00 %	101,459.99	101,459.99	0.00 %
1999	2	2	0.00 %	180,783.07	180,783.07	0.00 %
2001	6	5	-16.67 %	325,072.02	292,940.00	-9.88 %
2002	5	5	0.00 %	611,052.82	611,052.82	0.00 %
2003	2	2	0.00 %	301,023.44	301,023.44	0.00 %
2005	3	3	0.00 %	229,090.62	219,090.61	-4.37 %
2006	5	4	-20.00 %	133,730.27	127,754.27	-4.47 %
2007	4	2	-50.00 %	720,324.68	58,976.16	-91.81 %
2008	3	2	-33.33 %	268,707.85	119,169.25	-55.65 %
2009	19	10	-47.37 %	2,448,012.90	1,816,889.94	-25.78 %
2010		14			1,130,168.80	
Totals	51	51	0.00 %	5,692,156.58	5,332,207.27	-6.32 %

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
1	3233100078	3230806654	-149,538.60	Private Companies		
2	3233100094	3230902073	-492,929.82	Private Companies		

Total DG ENER	-642,468.42
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Number of RO waivers	2
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Justification :

1) RO 3233100078 THE PUBLIC BUILDING LTD - Commission Decision C/2009/10098 adopted 18/12/2009 - Waiver on the basis of Article 87.1.b of the IR because of the insolvency of the debtor.

2) RO 3233100094 NORDIC WINDPOWER - Commission Decision C/2010/2240 adopted 13/04/2010 - Waiver on the basis of Article 87.1.b of the IR because of the insolvency of the debtor.

TABLE 11 : CENSUS OF NEGOTIATED PROCEDURES - DG ENER - YEAR 2010**Contracts > €60.000**

Negotiated Procedure Legal base	Number of Procedures	Amount (€)
Art. 126 1b	3.	1,369,500.00
Total	3	1,369,500.00

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

Type of contract	2009 - DG TREN		2010 - DG ENER	
	Count	Amount (€)	Count	Amount (€)
Service	42	253,197,748.28	25	17,716,263.00
Supply	5	1,832,799.00	1	1,033,673.00
TOTAL	47	255,030,547.28	26	18,749,936.00

Procedures	2009 - DG TREN		2010 - DG ENER	
	Count	Amount (€)	Count	Amount (€)
Negotiated Procedures	12	237,911,119.16	3	1,369,500.00
Open Procedures	35	17,119,428.12	23	17,380,436.00
Other	0	0.00		
TOTAL	47	255,030,547.28	26	18,749,936.00

As in the 2009 AAR, the amount for the framework contracts is the total amount authorised by the CCAM for the whole duration of the framework contract.

For procedures having more than one lot, each contract is included. Contracts are also included that are below €60 000 where they are part of a procedure with a value over €60 000

The small difference in the figures for 2009 - DG TREN between what was presented in AAR 2009 and what is presented here is due to one service contract for €148 800 being transferred to DG ENTR when DG TREN was split in early 2010

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 4: Materiality Criteria

Because of its multi-annual nature, the effectiveness of the Research DGs' control strategy can only be fully measured and assessed at the final stages in the life of the framework programme, once the ex-post audit strategy has been fully implemented and systematic errors have been detected and corrected.

The control objective is to ensure for each FP that the residual error rate, i.e. the level of errors which remain undetected and uncorrected, does not exceed 2% by the end of the management cycle. This objective is to be reassessed annually, in view of the results of the implementation of the ex-post audit strategy and taking into account both the frequency and importance of the errors found as well as a cost-benefit analysis of the effort needed to detect and correct them.

Notwithstanding the multi-annual span of their control strategy, the Director Generals of the Research DGs are required to sign a statement of assurance for each financial year. In order to determine whether to qualify this statement of assurance with a reservation, the effectiveness of the control systems in place needs to be assessed not only for the year of reference but also with a multi-annual perspective, to determine whether it is possible to reasonably conclude that the control objectives will be met in the future as foreseen. In view of the crucial role of ex-post audits defined in the common FP6 and FP7 audit strategies, this assessment needs to check in particular whether the scope and results of the ex-post audits carried out until the end of the reporting period are sufficient and adequate to meet the multi-annual control strategy goals.

Effectiveness of controls

The starting point to determine the effectiveness of the controls in place is the cumulative level of error expressed as the percentage of errors in favour of the EC, detected by ex-post audits, measured with respect to the amounts accepted after ex-ante controls.

However, to take into account the impact of the ex-post controls, this error level is to be adjusted by subtracting:

Errors detected corrected as a result of the implementation of audit conclusions.

Errors corrected as a result of the extrapolation of audit results to non-audited contracts with the same beneficiary.

This results in a residual error rate, which is calculated in accordance with the following formula:

$$resER\% = \frac{(repER\% * (P - A)) - (repERsys\% * E)}{P}$$

Where:

resER%	is residual error rate, expressed as a percentage.
repER%	is the representative error rate, or error rate detected in the representative sample.
repERsys%	is the systematic portion of the RepER, expressed as a percentage. The repER% is composed of two portions reflecting the systematic and non-systematic errors detected.
P	is the total EU contribution in Euros of the auditable population (as budgeted amounts at the level of participations in FP6, and as claimed EU contributions at the level of cost statements in FP7).
A	is the value of the EU contribution of all audited amounts, expressed in Euros.
E	is the total non-audited amounts in Euros of all audited beneficiaries (as budgeted amounts at the level of participations in FP6, and as claimed EU contributions at the level of cost statements in FP7). ⁴⁶ The control objective is to ensure that the residual error rate on the overall population is below 2% at the end of the management cycle.

If the residual error is less than 2%, no reservation would be made.

If the residual error rate is between 2 and 5%, an additional evaluation needs to be made of both quantitative and qualitative elements in order to make a judgement as of the significance of these results, in accordance with the Commission guidelines for defining materiality, and to assess whether the measures in place are deemed sufficient in view of the control target.

In case the residual error is higher than 5%, a reservation would be made and an additional action plan should be drawn up.

These thresholds are consistent with those retained by the Court of Auditors for its annual assessment of the effectiveness of the controls systems operated by the Commission, where if the error rate exceeds 5% the Court's overall assessment is "unsatisfactory"; between 2% and 5% "partially satisfactory"; and below 2% "satisfactory". The alignment of criteria is intended to contribute to enhanced clarity and consistence during the Discharge discussions.

In case an adequate calculation of the residual error rate is not possible for a FP for reasons not involving control deficiencies⁴⁷ the consequences are to be assessed quantitatively by estimating the likely exposure for the reporting year. The relative impact on the Declaration of

⁴⁶ Note these do not only include those participations by beneficiaries subject to recoveries resulting from extrapolation. The amount also includes those for which it has been determined that they were not affected by systematic errors and, in consequence, no extrapolation has been launched. This also includes beneficiaries audited by other Research Commission services.

⁴⁷ Such as, for instance, during the first few years of implementation of the FP, when the limited number of auditable cost statements submitted do not allow for a sufficient number of representative audits to be completed in order to calculate the detected error rate.

Assurance would be then considered by analysing the available information on qualitative grounds and considering evidence from other sources and areas.

Adequacy of the audit scope

The quantity and adequacy of the (cumulative) audit effort carried out until the end of each year is to be measured by comparing the planned with the actual volume of audits completed. The data is to be shown per year and cumulated, in line with the current AAR presentation of error rates. The multi-annual planning should be reported in sufficient detail to allow the reader to form an opinion on whether the strategy is on course as foreseen.

The Director General should form a qualitative opinion to determine whether deviations from the multi-annual plan are of such significance that they seriously endanger the achievement of the internal control objective. In such case, she or he would be expected to qualify his annual statement of assurance with a reservation.

A multi-annual control strategy requires a multi-annual perspective to assurance

It does not suffice to assess the effectiveness of controls during the period of reference to decide whether the statement of assurance should be qualified with a reservation because the control objective is set in the future. The analysis must also include an assessment of their likely performance in subsequent years and give adequate consideration to the risks identified and the preventive and remedial measures in place. This would then result in an assessment of the likelihood that the control objective will be met in the future.

Materiality is assessed for each Framework Programme

In any given year, DG ENER manages financial operations under the several Framework Programmes. Each is managed under different sets of regulatory and contractual provisions. Therefore, the assessment of the performance of the internal controls has to take into account these differences.

Annex 5: Internal Control Templates for Budget Implementation

European Energy Programme for Recovery

Summary

DG ENER manages grants awarded to project promoters to implement the €3 980 million European Energy Programme for Recovery. The programme is designed to inject significant sums into the EU economy quickly in order to stimulate the EU recovery out of recession, while at the same time contributing to the goals of European Energy Policy. To this end all the money had to be committed by the end of 2010.

There are three distinct areas to the programme: (i) gas and electricity infrastructure projects (€2 365 million); (ii) offshore wind energy (€565 million); and (iii) carbon capture and storage (€1 050 million). For all three areas the projects have been pre-selected by the EEPR regulation. The co-financing is through the reimbursement of eligible costs. The EEPR can finance up to 50% of the projects, except for Carbon Capture and Storage (CCS), where the maximum is 80%.

Key inherent risks in this environment :

- Large number of different beneficiaries, each operating their own control system, with limited ability to rely on assurance from beneficiaries' control systems.
- Complexity due to the obligation to have multiple partners for each project
- Eligible costs concept: very limited possibility to control eligibility of costs by desk checks;
- Risk of false declaration from the beneficiary
- Even though a low % of materiality impact may appear acceptable, the reputation risk may be high, particularly if the level of payments made (and hence the stimulus to recovery) is low.

Management mode:

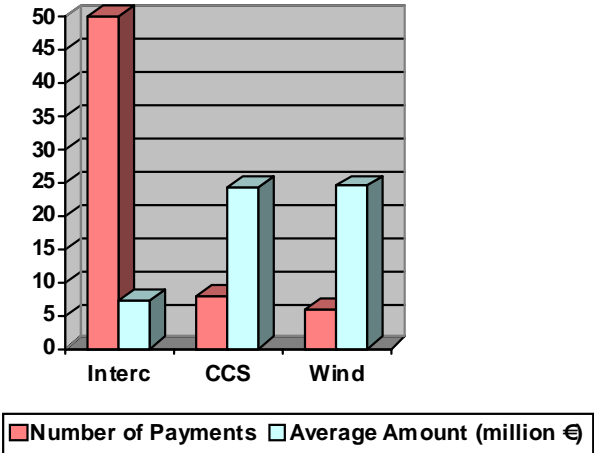
Direct centralised management.
 Grants awarded directly to the beneficiary's consortia without intermediaries. The coordinator of each consortium manages distribution of funds among the co-beneficiaries.
 Reimbursement of actual eligible costs
 Co-financing required.

Infrastructure

Grant period: July 2009 to 31 June 2016

Disbursed over 6 years for a 2 year programme

Number of contracts and



<p>beneficiaries:</p> <p><i>44 grant decisions and 15 grant agreements running during the year</i></p> <p><i>44 grant decisions and 10 grant agreements signed during the year.</i></p> <p><i>Number of mono-beneficiary contracts: 39</i></p> <p><i>Number of multi-beneficiary contracts: 20</i></p> <p><i>Number of beneficiaries: 66</i></p> <p>Average value/ range:</p> <p><i>€3.833 billion (Commission's co-financed contribution).</i></p> <p><i>3.39% of the grants by number are under €1 million.</i></p> <p><i>Average value per contract: €64.96 million</i></p> <p><i>Average value per beneficiary in case of multi beneficiary/ consortium: €41.48 million</i></p> <p>Grant basis: <i>Actual eligible costs.</i></p> <p>Volume of transactions per year: <i>€700.91 million in 2010</i></p>	
<p>2. Elements of the internal control systems and actors, through programme life cycle.</p> <p>The objectives of these controls are to ensure good quality of selected projects, good performance and sound financial management.</p>	
<p>Selection process (of beneficiaries, intermediaries, agencies etc.), including preventive measures</p>	<p><i>Characteristics of the selection process of beneficiaries</i></p> <p><i>A call for proposals was launched for all projects on 16.7.2009. 87 applications were received (46 for gas and electricity; 29 for offshore wind (OWE) and 12 for carbon capture and storage (CCS). Each sub-programme had its own evaluation exercise.</i></p> <p><i>The selection and award criteria concerned the proposals' technical and financial soundness, and their potential to incur substantial capital expenditure by the end of 2010.</i></p> <p><i>The committees were comprised of Commission officials. For gas and electricity they were assisted by a team of external experts and for CCS by experts from the European Investment Bank. On the basis of their recommendations, the Commission selected 43 proposals for gas and electricity, 9 for OWE and 6 for CCS.</i></p> <p><i>The Commission then prepared the grant agreements and grant decisions for signature, including legal and financial verification</i></p>

	<p><i>(e.g. the legal status of the beneficiary, its possible inclusion in the Early Warning System, its financial viability and its capacity to co-fund the project) as well as safeguarding measures (the provision of pre-financing guarantees).</i></p> <p><i>For the gas and electricity projects the Commission adopted 44⁴⁸ individual grant decisions were notified to the beneficiary, while for OWE and CCS the legal commitments are grant agreements signed with the beneficiary. All grant agreements for CCS (6) and for OWE (9) were signed before the end of 2010.</i></p> <p><i>As a result €3 832 million (96,3% of the total EEPR envelope) was committed and €146 million (3,7% of the EEPR budget) was not. This amount will be invested in a financial facility supporting energy efficiency and renewable energy initiatives. This is currently being negotiated between the European Investment Bank and the Commission following an amendment to the EEPR regulation adopted in December 2010.</i></p>
<p>Preventive and directive measures to improve the quality of financial management and provision of data by beneficiaries and intermediaries</p>	<p><i>Description of the DG communication strategy towards beneficiaries, internal proceedings</i></p> <p><i>The Commission has set up a website - http://ec.europa.eu/energy/eepr/index_en.htm - to communicate with stakeholders on the programme.</i></p> <p><i>Information meetings with beneficiaries are organised if the beneficiary so requests. There are also frequent contacts between the beneficiaries and the technical and financial officers to resolve particular issues.</i></p> <p><i>Commission contractual templates were used.</i></p>
<p>Detective and corrective controls:</p> <p>Verification of commitments, pre-financing, interim, payments and key milestones.</p> <p>Monitoring of the project</p>	<p><i>Controls before and during the implementation period of the projects</i></p> <p><i>The individual grant decisions for electricity and gas state that, before payments are made, the beneficiaries must have the necessary permits and have signed a formal commitment to go ahead with the project.</i></p> <p><i>The grant decisions and agreements contain standard control clauses (e.g. penalty, recovery clauses, termination)</i></p> <p><u><i>Verification of pre-financing, interim payments and key milestones</i></u></p> <p><i>Beneficiaries submit progress reports, financial statements and an explanation on the use of resources. When required by the grant agreement or decision, beneficiaries also submit a certificate on the financial statements (the audit certificate) issued by an independent external auditor (the certifying auditor). The certifying auditor checks whether the claims made are actual, correctly recorded in the accounts and in the eligible project period. The certifying auditor must be independent from the beneficiary and qualified to</i></p>

⁴⁸ 44 grant decisions for 43 projects because one project has 2 decisions.

carry out statutory audits of accounting documents.

Checks and monitoring during the initial phases of the programme

Before a payment is authorised, all relevant operational and financial aspects are verified by at least two independent members of staff. Scientific/Project officers verify that the work carried out by the beneficiary is in all respects in compliance with the grant agreement or decision by evaluating the project reports and deliverables. To do so, they may seek the advice of independent experts, something that is done for CCS projects. Financial officers carry out financial and arithmetical checks to ensure financial statements and audit certificates have been submitted in accordance with the provisions of the grant agreement. The authorising officer ascertains that these checks on the supporting documents have been done and validates the expenditure.

In addition:

- *For gas and electricity, 12 projects are closely monitored and the financing decisions require bi-monthly or quarterly reporting in their first year. In addition, all projects must provide reports 6 months after the notification and then every year. Guidelines have been prepared on regular technical and financial reporting and there are meetings for each project at least once a year. Technical officers plan to visit the projects with the help, if necessary, of external experts.*

In addition, Member States are required to undertake technical monitoring and financial control of projects and to certify the amount and conformity with the EEP of all expenditure incurred. They have been doing this when beneficiaries have requested payments. Member States may also request the Commission's presence during such checks, but so far this has yet to occur. Member State must also inform the Commission of the measures taken to control, manage and monitor projects to ensure their successful completion. So far this has yet to occur.

- *For CCS, progress reports on each project are due every 6 or 12 months and telephone conferences between the technical officer and the project promoter are held every month. On the spot visits are planned and will start in February 2011. For OWE, the monitoring is the same as for the Research Framework Programmes.*

DG ENER has put in place a Task Force to follow the implementation of the programme. Chaired by the adviser to the Resources Director, the group is composed of representatives from the three technical units managing the programme, the communications unit and the legal affairs cell of the financial resources unit. Up to September 2010, it met roughly every two weeks to monitor implementation. Since then it has met when

	<p>necessary.</p> <p><i>The Commission is required to monitor the projects' implementation and report on implementation to the Council and Parliament every year when the preliminary draft budget is presented. The Commission adopted the first such report on 27.4.2010.</i></p> <p><i>At any time during the implementation period and for 5 years after partial or final payment, the Commission can carry out on the spot controls and/or audits with substantive testing of a sample of transactions. No such audits were carried out in 2010 as insufficient cost claims had been submitted to make it worthwhile. Audits are planned for 2011.</i></p> <p><i>Construction works have started, investment costs are being incurred and the Programme is playing its role of stimulus to economic recovery. At the end of 2010 €700 million has been paid to beneficiaries: €361 million to gas and electricity; €146 million to OWE; and €193 million to CCS.</i></p> <p><u>Mid-term review of the programme</u></p> <p><i>As requested by art. 27 of the EEPER Regulation, a mid-term evaluation is being carried out and will be finalised by the end of 2011.</i></p>
<p>Corrective controls and audits:</p> <p>Either on the system or on individual projects.</p> <p>At the end of the project (before or after the final payment)</p>	<p>Controls at the end of the project</p> <p><i>There are control provisions provided in the contracts (penalty, recovery clauses, termination, ex post controls and/or audits). At any time during the implementation period and for 5 years after partial or final payment, the Commission can carry out on the spot controls and/or audits with substantive testing of a sample of transactions.</i></p> <p><i>Three EEPER supported infrastructure projects have already been completed and are operational, namely the Romania – Hungary gas interconnector, the Austria – Hungary electricity interconnection and the reverse flow project between Austria and Slovakia. The requests for final payment has yet to be made, so no corrective controls have taken place on these or any other EEPER projects.</i></p>
<p>3. Internal and external supervisory and audit controls</p>	
<p>Verification that processes are working as designed</p>	<p><i>Each year, DG ENER invites its horizontal services in charge of the elements relevant for the internal control standards (IAC, human resources, financial resources, evaluation and impact assessment, strategic planning, etc.) to review and <u>assess the level of implementation of the internal control standards</u>. This exercise, the auto-evaluation using iCAT, is done for all the standards and serves several purposes. It allows an impression of the extent to which all the standards are respected. It raises awareness of the ICS and their level of implementation. It allows a structured annual "debate" on elements that can be improved. In addition, a survey was organised with randomly selected personnel of DG ENER to obtain their perception and assessment of the level of efficiency of the internal</i></p>

	<p><i>control standards.</i></p> <p><i>The survey serves as a tool to put the auto-evaluation into perspective and is very useful when prioritising the ICS for the MP.</i></p> <p><u><i>Risk management:</i></u></p> <p><i>- DG ENER's risk environment is well mapped and controlled. Clear internal guidelines allow DG ENER's management to have a clear view of the different risks and the actions to mitigate these. Structured and documented risk management exercises biannually aimed to identify and deal with all major risks and to lay down appropriate action to bring them to an acceptable level. These namely include an annual exercise for the preparation of the Management Plan. (ICS 6)</i></p> <p><u><i>Recording of Exceptions:</i></u></p> <p><i>The recording of exceptions. Each deviation from an established policy or procedure made under exceptional circumstances is documented, justified and approved at an appropriate level before action is taken. A registry is maintained. (ICS 8)</i></p> <p><i>In addition, a monitoring system has been established, which has enhanced the supervision mechanisms by allowing easy identification of errors related to non-full compliance with internal procedures and by enabling management to act upon them increasing awareness of all staff.</i></p> <p><u><i>IAC/IAS/ECA</i></u></p> <p><i>The systematic monitoring of the implementation of audit recommendations. It is aimed to ensure that the internal control weaknesses and risks identified by both external (the European Court of Auditors) and internal auditors (the Internal Audit Service and the Internal Audit Capability) reported are adequately addressed; defining appropriate action to remedy systemic weaknesses and monitoring the implementation of action plans.</i></p>
<p>Monitoring of performance of 3rd party auditors, externally contracted auditors</p>	<p><i>Audits carried out by the Court of Auditors. External auditors may be contracted to audit the projects.</i></p>
<p>IAC, IAS, ECA, EP</p> <p>Feedback on adequacy of the system</p>	<p><i>Given the large amounts in question, the Court is likely to pick up some transactions as part of its sampling for the Declaration of Assurance.</i></p> <p><i>In 2010, 2 transactions were picked up in this way. The Court has yet to issue preliminary observations on one of them. For the other it detected an error of 2.42% by the beneficiary who claimed ineligible costs.</i></p> <p><i>The Shared Internal Audit Capability finalised an audit of the EEPR</i></p>

	<p><i>consortia selection and contracting process. The auditors gave a satisfactory opinion, as well as identifying areas that could be improved through increasing the visibility of Community financial support and to risk management. An action plan was drawn up and the issues addressed.</i></p>
<p>High level management reporting and its role in identifying problem issues</p>	<p><i>A monitoring system has been put in place for the follow-up of the implementation of post-audit action plans in response to the internal audit recommendations. A biannual reporting is made to the high level management at the Comité de Suivi meetings.</i></p> <p><i>All the deviations from an established policy or procedure made under exceptional circumstances are presented to the high level management at the Comité de Suivi meetings and also by information notes.</i></p> <p><i>The progress made during the year is reported in the Annual Activity Report (AAR), and if need be in the synthesis report for the Commission as a whole.</i></p> <p><i>The Council regularly monitors the implementation of the programme at its meetings discussing energy.</i></p>

Nuclear Decommissioning Funds

Summary: Payments and implementation through CPMA and EBRD for all decommissioning projects

Management mode:

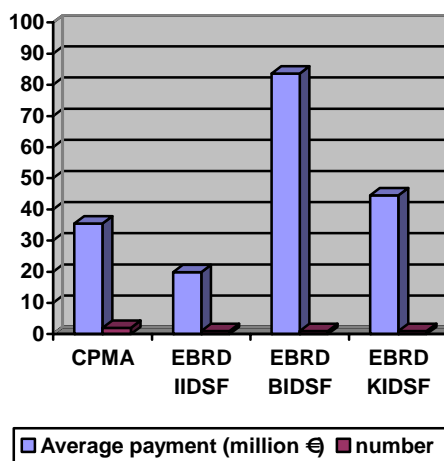
indirect centralised for CPMA, and joint management for EBRD (multi donor fund covered by separate fund rules)

Key figures:

Commitment 2010: €255 million

Payments 2010: €219.1 million

- CPMA €71.15 million
- EBRD
 - BIDSF €83.6 million
 - IIDSF €19.9 million
 - KIDSF €44.5 million



Management and control systems : stages and main actors

No specific risks identified. For CPMA full state guarantee and implementation through certified agency; for EBRD joint management (multi-donor fund covered by separate fund rules) and with EU representation within the EBRD Board of Directors. Commission decision on procedures is in place including monitoring arrangements. The Commission Decision on Procedures was amended in 2010 integrating recommendations from evaluations and audits as well as clear guidelines and templates. Further details on risk mitigation are given below.

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

The Accession Treaties of 2003 and 2005 identify the Member States that can benefit from decommissioning support. Only Bulgaria, Lithuania and Slovakia are eligible, and their Accession Treaties give the specific nuclear power plants which have to be closed down and for which financing can be made available.

On a national level "decommissioning plans" exist, setting down the procedure and the different steps to be undertaken to decommission a nuclear power plant in accordance with internationally-accepted standards.

First, the Member States concerned present the project implementation objectives for the year (CPD) based on long-term national decommissioning plans.

The COM, assisted by the NDAPC management committee (under comitology) revises and approves the proposed objectives in order to make sure that they optimise decommissioning taking due account of the mandatory requirements for safe maintenance of the nuclear power plants concerned. This annual list of objectives is formalised as an

	<p><i>annex to the yearly COM decision on financing.</i></p> <p><i>The COM then agrees the 4 contribution agreements with the implementing bodies (EBRD and CPMA).</i></p> <p><i>In the next stage the implementing bodies present project identification fiches to the COM. The COM verifies that the proposed projects fall within the scope of the CPD, and consults the NDAPC. After approval, and, for the EBRD after the formal approval of the grant agreement in the Assembly of Contributors, the implementing body can finalise the project specifications, and, after checking by the responsible department in the EBRD or CPMA, launch the necessary tenders.</i></p> <p><i>Tendering documents are prepared by the beneficiaries, and checked by the implementing bodies. For the CPMA tendering follows national law and for the EBRD its own procurement rules. Beneficiaries are responsible for the correct implementation of the applicable tendering procedures and rules. The implementing bodies are responsible for verifying that all tendering procedures and rules have been correctly applied in a consistent and legal manner by the different beneficiaries. After selection, following the procurement procedures in place, contracts can be concluded.</i></p>
<p>Communication and information measures to improve the quality of financial management and provision of supporting data by beneficiaries, contractors and intermediaries</p>	<p><i>CPMA and the EBRD are responsible for this. All data (upcoming and active tenders as well as the results thereof, and ongoing projects) should be published on the implementing bodies' websites (www.ebrd.com and www.cpva.lt). There is a monitoring system in place that streamlines the communication and flow of information to the concerned Member States and COM in the assembly of contributors (EBRD) and monitoring committee (CPMA).</i></p>
<p>Detective and corrective controls: Checks and monitoring during the initial phases of the programme/contract Checks and monitoring during the final/ closure phases of the programme/contract</p>	<p><i>CPMA and EBRD monitor the project execution closely, including visits on-the-spot to check the technical development and existence of the projects, as well as technical and financial checks (invoices etc.).</i></p> <p><i>The PMU consultants send monthly progress reports to the EBRD.</i></p> <p><i>For each project that has reached technical materialisation final project completion reports, attesting and describing in detail that projects have been finalised technically and financially according to the contracts in place, are addressed to the implementing bodies for control.</i></p> <p><i>Overall control by COM and Members States is done through the monitoring committees (CPMA) and Assembly of Contributors (EBRD) as follows:</i></p> <p><i>CPMA: Twice a year monitoring committees in Lithuania. Also twice a year on-the-spot technical verification visits by COM.</i></p> <p><i>EBRD: Twice a year Assembly of Contributors (including monitoring role) with prior EBRD-EC preparatory meetings. These pre-meetings aim to discuss all projects individually, and to get a full up-to-date picture of the technical evolution and</i></p>

	<p><i>state-of-play. Corrective measures the EBRD should be taking when there are delays or problems are also discussed. Once or twice a year the COM conducts on-the-spot technical verification.</i></p> <p><i>Twice a year steering committees with the Member States involved addressing the high level problems.</i></p> <p><i>Systematic financial desk checks by COM on each received signed financial table attached to the payment request (with 1 page audit certificate on the financial bank account status for the EBRD funds). Checks include:</i></p> <ul style="list-style-type: none"> <i>• comparing the new with the previous table in order to identify anomalies and verify that there is a logical evolution between the successive payment requests;</i> <i>• making sure that, for the requested payments, all grant agreements concerned are signed;</i> <i>• ensuring that the amounts of total payments for a specific grant are not higher than the authorised total of the grant; the total sum of contracts does not exceed the total of approved grant agreements;</i> <i>• ensuring that all contracts for which payments are requested are signed or signing date is foreseen within the next 6 months; and</i> <i>• verification by the country desk officer that contract signature date seems realistic based on the general information received on the programme and project evolution.</i> <p><i>Each year an audit statement is received confirming that the figures presented by the EBRD to the Assembly of Contributors in the balance sheet of the funds are correct.</i></p>
<p>Preventive and corrective controls and audit:</p> <p>Desk reviews, on-the-spot audits carried out either <i>ex ante</i> or <i>ex post</i>.</p>	<p><i>CPMA audit (assessment of indirect financial management) by Financial Audit Unit in 2008</i></p> <p><i>EBRD 6 pillars assessment being done by DG ECFIN (2009-2010)</i></p> <p><i>Systematic financial desk checks on payment requests submitted by CPMA and EBRD to COM (see above).</i></p> <p><i>Desk review of technical documents and reports during the whole year on a very regular basis by the COM desk officers, including telephone checks (to stay up to date at any moment, and to be kept aware of general technical progress and current ongoing issues) with beneficiaries, the Ministry of Energy (close contacts in Lithuania to streamline overall coordination of the 2 implementation channels), as well as with the implementing bodies, as well as on-the-spot checks of the advancement of the overall decommissioning process.</i></p> <p><i>Possibilities for financial audits are foreseen in the contribution agreements. The COM launched the first external financial audit of BIDSF in early 2010 (approval in assembly of contributors in</i></p>

	<p>November 2009). The audit will be finalised in 2011.</p> <p>EBRD completed an internal audit of the 3 funds in 2009-2010.</p>
<p>Feedback which enables control activities to be optimised</p>	
<p><i>Regular meetings to follow up the evolution of the decommissioning funds+ see also above on checks and monitoring</i></p>	
<p>Verification that processes are working as designed</p>	<p><i>Each year, DG ENER invites its horizontal services in charge of the elements relevant for the internal control standards (IAC, human resources, financial resources, evaluation and impact assessment, strategic planning, etc.) to review and <u>assess the level of implementation of the internal control standards</u>. This exercise, the auto-evaluation using iCAT, is done for all the standards and serves several purposes. It allows an impression of the extent to which all the standards are respected. It raises awareness of the ICS and their level of implementation. It allows a structured annual "debate" on elements that can be improved. In addition, a survey was organised with randomly selected personnel of DG ENER to obtain their perception and assessment of the level of efficiency of the internal control standards.</i></p> <p><i>The survey serves as a tool to put the auto-evaluation into perspective and is very useful when prioritising the ICS for the MP.</i></p> <p><u>Risk management:</u></p> <p><i>- DG ENER's risk environment is well mapped and controlled. Clear internal guidelines allow DG ENER's management to have a clear view of the different risks and the actions to mitigate these. Structured and documented risk management exercises biannually aimed to identify and deal with all major risks and to lay down appropriate action to bring them to an acceptable level. These namely include an annual exercise for the preparation of the Management Plan. (ICS 6)</i></p> <p><u>Recording of Exceptions:</u></p> <p><i>The recording of exceptions. Each deviation from an established policy or procedure made under exceptional circumstances is documented, justified and approved at an appropriate level before action is taken. A registry is maintained. (ICS 8)</i></p> <p><i>In addition, a monitoring system has been established, which has enhanced the supervision mechanisms by allowing easy identification of errors related to non-full compliance with internal procedures and by enabling management to act upon them increasing awareness of all staff.</i></p> <p><u>IAC/IAS/ECA</u></p> <p><i>The systematic monitoring of the implementation of audit recommendations. It is aimed to ensure that the internal control weaknesses and risks identified by both external (the European Court of Auditors) and internal auditors (the Internal Audit Service and the Internal Audit Capability) reported are adequately addressed; defining</i></p>

	<i>appropriate action to remedy systemic weaknesses and monitoring the implementation of action plans.</i>
Monitoring of performance of independent bodies, 3 rd party auditors, externally contracted auditors	<i>CPMA monitoring committee meets twice a year. Assembly of Contributors (EBRD) meets twice a year. See above detective and corrective controls</i>
High level management reporting (e.g. to the Director General and its role in monitoring problem issues)	<i>Comité de suivi Regular meetings with DDG</i>

Research Framework Programme

Management mode:

Direct centralised management.

Grants are awarded directly to the beneficiary consortia. The coordinator of each consortium manages the distribution of funds.

Key figures:

		FP6	FP7
Projects (number)		120	68
Partners (number)	Total	1301	755
	Minimum	1	1
	Maximum	34	28
	Average	11	11
Duration (months)	Average	41	42
Eligible costs (million €)	Total	779.73	470.11
EU contribution (million €)	Total	313.91	261.91
	Minimum	0.20	0.54
	Maximum	11.39	31.77
	Average	2.62	5.46

Management and control systems: stages and main actors

Research projects co-financed through reimbursement of eligible costs

The control environment is characterised by a large number of beneficiaries, each operating their own control system. The implementation and management of the research framework programmes involves projects that are technically and financially complex. These projects have a lifetime of several years, are carried out by consortia of multiple private and public partners located in different countries (even outside Europe), and involve large sums in terms of co-financed grants.

Key control risks inherent in this environment:

- *Complex legal framework required to implement a system based on the reimbursement of 'actual eligible costs';*
- *Beneficiaries must allocate personnel costs and overheads via productive hours and time recording and deduct a range of ineligible items (VAT, duties, interest) from direct costs and overheads via management accounting in accordance with the complex contractual and regulatory provisions;*

- Budgets allocated at the award stage are indicative only — the amounts paid are always provisional and subject to recovery if not in line with actual costs;
- Given the large number of criteria to be complied with, and the relative lack of financial management expertise among beneficiaries, errors are likely to be frequent.

Accountability structures

DG ENER is responsible for the technical and financial management of the projects. The DG ensures that it performs its financial transactions (commitments and payments) in a legal and regular way according to the applicable legal framework and the procedures in place and that the underlying transactions, i.e. the cost declarations of beneficiaries on basis of which it makes payments, are legal and regular.

Management and control systems: see Part 2 AAR 2010.

<p>Selection process (of beneficiaries, intermediaries, agencies, contractors etc.), including preventive measures</p>	<p><u>The evaluation of proposals</u> is a critical step within the internal control system. Proposals are selected according to their research credentials. (best value for public money) Key controls include the screening of submitted proposals for eligibility; the choice of independent expert evaluators, the evaluation by a minimum of three experts; and a panel review for quality control and ranking of proposals. Based on the prioritised list, the Commission establishes the final list of approved proposals and proceeds to negotiate the grant agreements with the successful applicants. The purpose of the negotiation is to clarify and adapt the work to be carried out and the operational objectives of the project, substantiate its costs and determine its duration and the maximum contribution from the EU budget. The Commission seeks to implement the advice of the independent expert evaluators and, where applicable, the recommendations resulting from the ethical review. This process generates significant efficiencies in the use of Community funds by discarding work which is not essential for the achievement of the scientific objectives of the project and ensuring that the budgeted costs are commensurate to the work to be carried out. Negotiation results are put forward to the Programme Committee, which must approve proposals over certain financial thresholds and funding levels. The grant agreements are then prepared for signature. This phase includes legal and financial verifications (the legal status of the beneficiary, its possible inclusion in the Early Warning System, its financial viability and its capacity to co-fund the project) as well as safeguarding measures (the provision of the guarantee fund).</p>
<p>Communication and information measures to improve the quality of financial management and provision of supporting data by</p>	<p>The Commission has developed a specific communication strategy to ensure that both beneficiaries and the certifying auditors fully understand the contract requirements and provisions in order to reduce the number of errors and omissions in the cost claims submitted to the Commission. This notably includes extensive guidance notes which are published in the Cords website in</p>

<p>beneficiaries, contractors and intermediaries</p>	<p><i>addition to the legal basis and the implementing documents. In the context of FP7, initiatives have been taken to reinforce the ex-ante controls even further. Mainly aimed at reducing the most common misunderstandings and errors among beneficiaries (eligible personnel and/or indirect costs), the Research DGs have introduced 'agreed upon procedures' for better audit certificates and have submitted proposals on the possibility of having an ex-ante certification of the beneficiary's accounting methodology, in terms of average personnel costs and/or overall cost accounting (including indirect costs). In addition, a Guarantee Fund has been set up to offset unrecoverable recovery orders. The ex-post financial audit and desk control staff carry out preventive checks and thus are contributing to raising the overall awareness of the financial reporting rules amongst beneficiaries. Information sessions (FP7 and FP6) on the eligibility of costs (with focus on personnel costs) were also organised.</i></p>
<p>Detective and corrective controls:</p> <p>Checks and monitoring during the initial phases of the programme/contract</p> <p>Checks and monitoring during the final/ closure phases of the programme/contract</p>	<p><u>Verification of pre-financing, interim payments and key milestones</u></p> <p><i>Beneficiaries submit progress reports, financial statements and an explanation of the use of resources. When required by the grant agreement, beneficiaries also submit a certificate covering the financial statements (the audit certificate) issued by an independent external auditor (the certifying auditor). The certifying auditor checks whether the claims made are actual, correctly recorded in the accounts and in the eligible project period. The certifying auditor must be independent from the beneficiary and qualified to carry out statutory audits of accounting documents.</i></p> <p><u>Checks and monitoring during the initial phases of the programme</u></p> <p><i>Before a payment is authorised, all relevant operational and financial aspects are verified by at least two independent members of staff. Scientific/Project officers verify that the work carried out by the beneficiary is in all respects in compliance with the grant agreement by evaluating the project reports and deliverables. To do so, they may seek the advice of independent experts. Financial officers carry out accounting and arithmetical checks to ensure financial statements and audit certificates have been submitted in accordance with the provisions of the grant agreement. The authorising officer confirms that these checks on the supporting documents have been done and validates the expenditure.</i></p>
<p>Preventive and corrective controls and audit:</p> <p>Desk reviews, on-the-spot audits carried out either <i>ex ante</i> or <i>ex post</i>.</p>	<p><i>- <u>Ex-post audits</u> are a key element of the control strategy. The control objectives of the ex-post audit functions are twofold: (1) to provide an adequate indication of the effectiveness of ex-ante controls; and (2) to ensure the accuracy of the expenditure and, therefore, the legality and regularity of the underlying transactions, on a multi-annual basis.</i></p> <p><i>The contracts to be audited are selected using a multi-annual, three-layered strategy ensuring comprehensive coverage of the</i></p>

	<p><i>audit population. The three strata are: (1) the 123 contractors representing the largest share of the budget (individually significant beneficiaries); (2) a representative, value-based random sample from the remaining population; and (3) a risk-based selection focusing on potentially riskier contractors. The individually significant beneficiaries represent 50% of the expenditure under FP6. The systematic errors detected in the audited contracts are extrapolated to non-audited contracts. This will ensure, on a multi-annual basis, that a substantial share of the expenditure is free from systematic errors.</i></p> <p><i>All audit results are implemented by the authorising officers.</i></p> <p><i>Errors detected are corrected by issuing recovery orders or deducting amounts wrongly paid from future payments to the same beneficiary.</i></p> <p><i>- <u>Desk control</u> is an in-depth document review of the legality and regularity of expenditure of the underlying transactions. It is a level of ex-post control aimed at interim payments within a project lifetime. It contributes to the provision of reasonable assurance to AOSD that the claimed and paid expenditure are in accordance with the principles of sound financial management and that the requirements of legality and regularity were complied with.</i></p> <p><i>In 2010, the contractors to be desk controlled were partially selected using MUS sampling on a population of interim transactions carried over from previous years and partially selected on the basis of more risk-based factors, such as the size of the contribution received and the absence of previous audits. The desk control verifies the legality and regularity of the underlying transactions by checking the supporting documents for the declared and paid expenses.</i></p>
<p>Feedback which enables control activities to be optimised</p>	
<p>Verification that processes are working as designed</p>	<p><i>Each year, DG ENER invites its horizontal services in charge of the elements relevant for the internal control standards (IAC, human resources, financial resources, evaluation and impact assessment, strategic planning, etc.) to review and assess the level of implementation of the internal control standards. This exercise, the self-assessment using iCAT, is done for all standards and serves several purposes. It allows the respect of the standards, whether prioritised or not, to be confirmed. It contributes to maintaining knowledge of the ICS and their implementation. It ensures a structured yearly "debate" on elements that can be improved. In addition, a survey was organised of randomly selected personnel of DG ENER and the SRD to obtain their perception and assessment of the level of efficiency of the internal control standards.</i></p> <p><i>The survey serves as a tool to put the self-assessment into perspective and is very useful when prioritising the ICS for the MP.</i></p>

	<p><u>Risk management:</u></p> <p><i>DG ENER's risk environment is well mapped and controlled. Internal guidelines allow DG ENER management to have a clear view of the different risks and the actions taken to mitigate them. Biannual structured and documented risk management exercises aim to identify and deal with all major risks and to plan appropriate action to bring them to an acceptable level; one of these is the exercise for preparing the Management Plan. (ICS 6)</i></p> <p><u>Recording of Exceptions:</u></p> <p><i>Each deviation from an established policy or procedure made under exceptional circumstances is documented, justified and approved at an appropriate level before action is taken. A registry is maintained. (ICS 8)</i></p> <p><i>In addition, a monitoring system has been established, which has enhanced the supervision mechanisms by allowing easy identification of errors related to non-compliance with internal procedures and by enabling management to act upon them thereby increasing awareness amongst all staff.</i></p> <p><u>IAC/IAS/ECA</u></p> <p><i>The systematic monitoring of the implementation of audit recommendations aims to ensure that the internal control weaknesses and risks identified by both external (the European Court of Auditors) and internal auditors (the Internal Audit Service and the Internal Audit Capability) are adequately addressed through defining appropriate action to remedy systemic weaknesses and monitoring the implementation of action plans.</i></p> <p><u>Direct observation</u></p> <p><i>In addition to the structured administrative and reporting processes mentioned above, any other relevant information brought to the attention of the management is duly analysed and considered.</i></p>
<p>Monitoring of performance of independent bodies, 3rd party auditors, externally contracted auditors</p>	<p><i>Each year the Court requests information on the implementation of the ex-post control strategy, which it then integrates into its assessment, along with the information it gleans from the other members of the research family, in its declaration of assurance.</i></p>
<p>High level management reporting (e.g. to the Director General and its role in monitoring problem issues)</p>	<p><i>A monitoring system has been put in place for the follow-up of the implementation of action plans in response to internal audit recommendations. A report is made biannually to high-level management at the Comité de Suivi meetings.</i></p> <p><i>All deviations from an established policy or procedure made under exceptional circumstances are presented to the high-level management at Comité de Suivi meetings and information notes.</i></p>

Annex 6: Implementation through national public-sector bodies

Indirect centralised management through:

CPMA in Lithuania

	Requirement	Information
1.	Programmes concerned	Decommissioning funding for Lithuania - Ignalina Programme –CPMA -2007 – 2013
2.	Annual budgetary amount entrusted to these bodies	€100 million in 2010
3.	Duration of the delegation	31 December 2020
4.	Justification of recourse to indirect centralised management	Centralised indirect management gives advantages of <i>proximity</i> and <i>flexibility</i> as it is easier to adapt it to the local and specific needs of the beneficiary country and allows for a better coordination with simultaneous co-financed measures at national level. It also provides for increased ownership of the programme and a simplified relationship between the Community and the beneficiary state. Delegating contract management to a national agency enables the Commission to focus on core activities (policy formulation, political drive, control and evaluation).
5.	Justification of the selection of the bodies (identity, selection criteria, possible indication in the legal basis etc.)	When the scheme was set up, the CPMA was already an established national agency with an accredited implementation system. Before accession the CPMA was the certified Lithuanian EDIS contracting authority/paying agency for the PHARE programme. After accession the CPMA was entrusted with the management of structural funds programmes. CPMA therefore had direct experience managing programmes not requiring an ex-ante control by the Commission. A 2009 audit confirmed that the CPMA still fulfils all requirements for accreditation.

<p>6. Synthetic description of the implementing tasks entrusted to these bodies</p>	<p>The CPMA is responsible for implementing the Ignalina Programme measures specified in the Combined Programming Documents provided in the relevant Commission Financing Decisions and by the National Agency Operating Agreement.</p> <p>The CPMA oversees implementation by:</p> <ul style="list-style-type: none"> - overseeing the preparation or amendment of project identification fiches and submitting them for the Commission's approval; - the implementation of projects by the award of procurement contracts and grants in line with the Commission-approved project fiches; - the management of the Community financial assistance; - compiling information about the progress of activities under the procurement contracts and grants.
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Annex 7: AAR of the Executive Agency for Competitiveness and Innovation