

**Annual Activity Report
2010
Enterprise and
Industry Directorate
General**

TABLE OF CONTENTS

Table of Contents

PART 1 POLICY ACHIEVEMENTS	4
1.1 TO STRENGTHEN EUROPE'S INDUSTRIAL BASE AND PROMOTE THE TRANSITION TO A LOW CARBON ECONOMY	4
1.2 TO PROMOTE INNOVATION AS A MEANS TO GENERATE NEW SOURCES OF GROWTH AND MEET SOCIETAL NEEDS	6
1.3 TO ENCOURAGE THE CREATION AND GROWTH OF SMEs AND PROMOTE A NEW ENTREPRENEURIAL CULTURE	8
1.4 TO ENSURE AN OPEN INTERNAL MARKET FOR GOODS	10
1.5 TO SUPPORT THE EUROPEAN PRESENCE IN SPACE AND THE DEVELOPMENT OF INNOVATIVE TECHNOLOGIES THROUGH SPACE APPLICATIONS	11
PART 2 MANAGEMENT AND INTERNAL CONTROL SYSTEMS.....	15
2.1 INTRODUCTION TO ENTR ORGANISATION AND DESCRIPTION OF ITS MAIN MANAGEMENT ACTIVITIES	15
2.1.1 Mission statement, planning and monitoring	15
2.1.2 Human resources	16
2.1.3 Financial resources.....	17
2.1.4 Information technology resources (IT).....	19
2.1.5 Communication resources.....	19
2.1.6 Risk management	19
2.1.7 Impact assessments	19
2.1.8 Evaluations.....	20
2.1.9 Document management.....	20
2.1.10 DG ENTR's links with Executive and Regulatory Agencies	20
2.1.11 Cooperation mechanisms with the European Space Agency.....	21
2.1.12 Major events of the reporting year having an impact on reputation.....	22
2.2 THE FUNCTIONING OF THE ENTIRE INTERNAL CONTROL SYSTEM	22
2.2.1 Compliance with the requirements of the internal control standards	22
2.2.2 Effectiveness of implementation of the prioritised internal control standards.....	22
2.2.3 Conclusion	24
2.3 INFORMATION TO THE COMMISSIONER.....	24
PART 3 BUILDING BLOCKS TOWARDS THE DECLARATION OF ASSURANCE (AND POSSIBLE RESERVATIONS TO IT)	25
3.1 BUILDING BLOCKS TOWARDS REASONABLE ASSURANCE.....	25
3.1.1 Building block 1: assessment by management	25
3.1.1.1 Centralised indirect management	26
3.1.1.2 Joint management (ESA).....	28
3.1.1.3 Subsidies.....	29
3.1.1.4 Procurement.....	29
3.1.1.5 Grants	30
3.1.1.5.1 Management's analysis and conclusion on the cost-effectiveness of the controls for research expenditure.....	34
Context	34
Approach.....	35
Analysis.....	35
Conclusions.....	36
3.1.1.6 Control overrides	36
3.1.2 Building block 2: Results from audits during the reporting year.....	37
3.1.2.1 Opinion of the Internal Audit Capability (IAC)	37
3.1.2.2 Audits from the Internal Audit Service (IAS).....	38
3.1.2.3 Audits from the European Court of Auditors (ECA)	39
3.1.3 Building block 3: Follow-up of previous years' reservations and action plans for audits from previous years.....	40
3.1.3.1 Follow up of previous years' reservations	40
3.1.3.2 Follow up of ECA findings.....	41

3.1.3.3 Follow up of any weaknesses reported by the Internal Audit Capacity, the Internal Audit Service and in the previous Synthesis report	42
3.1.4 Building block 4: Assurance received from other Authorising Officers in cases of crossed sub-delegation.....	43
3.1.5 Completeness and reliability of the information reported in the building blocks	43
3.2 RESERVATIONS.....	44
3.3 OVERALL CONCLUSIONS ON THE COMBINED IMPACT OF THE RESERVATIONS ON THE DECLARATION AS A WHOLE.....	48
PART 4 DECLARATION OF ASSURANCE	49
ANNEX 1: STATEMENT OF THE INTERNAL CONTROL COORDINATOR AND THE RESOURCES DIRECTOR.....	50
ANNEX 2: HUMAN AND FINANCIAL RESOURCES BY ABB ACTIVITY	51
ANNEX 3 FINANCIAL REPORTS - DG ENTR - FINANCIAL YEAR 2010	53
ANNEX 4: MATERIALITY CRITERIA	68
ANNEX 5: INTERNAL CONTROL TEMPLATES FOR BUDGET IMPLEMENTATION (ICT)	71
ANNEX 6: IMPLEMENTATION THROUGH INTERNATIONAL PUBLIC-SECTOR BODIES.....	85
ANNEX 7: AARS OF EXECUTIVE AGENCIES.....	89
ANNEX 8: SUPERVISION MECHANISMS OF EXECUTIVE AND REGULATORY AGENCIES.....	90
ANNEX 9: MAIN OPERATIONAL PERFORMANCE INDICATORS OF DG ENTR.....	96
ANNEX 10: ACTIVITIES COVERED BY CROSSED SUB-DELEGATIONS GRANTED BY DG ENTR AUTHORISING OFFICER BY DELEGATION TO OTHER DIRECTORS GENERAL.....	98
ANNEX 11: GENERAL OBJECTIVES AND IMPACT INDICATORS WITH A MULTI-ANNUAL PERSPECTIVE (UP TO 2020) BY POLICY AREA	99
ANNEX 12: ARTICULATION BETWEEN OBJECTIVES, ABB ACTIVITIES AND EU 2020 FLAGSHIPS.....	102
ANNEX 13: SPECIFIC OBJECTIVES AND RESULT INDICATORS WITH A MULTI-ANNUAL PERSPECTIVE (UP TO 2014) BY ACTIVITY.....	103
A) ABB 02 02: Competitiveness, Industrial Policy and Entrepreneurship	103
B) ABB 02 03: Internal Market for Goods and Sectoral Policies.....	113
C) ABB 02 04: Space and Security.....	117
D) ABB 02 05: EU Satellite Navigation Programmes.....	121
E) ABB 02 01: Administrative support, policy strategy and coordination.....	123
ANNEX 14: DG ENTR'S 2010 COMMISSION WORK PROGRAMME ITEMS	125
A) Strategic items.....	125
B) Other items.....	125
C) Simplification items.....	125

Part 1 Policy Achievements

The Commission in its Europe 2020 strategy¹ committed itself to a series of flagship initiatives to help Europe emerge from the ongoing economic and financial crisis while laying the foundations for sustainable economic growth and competitiveness in the next decade. The Enterprise and Industry Directorate General (DG ENTR) has a key role to play in the implementation of the Europe 2020 strategy and is responsible for bringing forward two of the seven flagship initiatives: "An industrial policy for the globalisation era" and the "Innovation Union". Together with the other Europe 2020 initiatives², these two flagships are central to helping stimulate growth and create jobs. DG ENTR makes an additional contribution to Europe 2020 through its policies³ to encourage SMEs and promote entrepreneurship more widely, playing an essential role in five of the seven flagships.

To guide its work, DG ENTR has set five general objectives, whose achievement will contribute to the global Europe 2020 objectives: to strengthen Europe's industrial base and promote the transition to a low carbon economy; to promote innovation as a means to generate new sources of growth and meet societal needs; to encourage the creation and growth of SMEs and promote a new entrepreneurial culture; to ensure an open internal market for goods; and to support the European presence in space and the development of innovative technologies through space applications.

For each general objective, the most important achievements in 2010 are highlighted below. The links between the general objectives, the specific objectives and the operational activities are described in more detail in annexes 11 and 12. Annex 13 presents a more detailed overview of the latest information available on indicators, outputs and evaluation results at the end of 2010.

1.1 To strengthen Europe's industrial base and promote the transition to a low carbon economy⁴

Manufacturing industry is vital to the EU economy. Before the present economic crisis, it contributed to some 17.1 % of GDP and accounted for some 22 million jobs (2007). When taking into account the wider productive sector (power generation, construction) and associated business services the share of GDP is about 34%. Taking an even wider perspective, accounting for the share of other market services on which industry depends and which depend on industry (transport, communications, financial services, real estate, etc.), the "servo-industrial economy" accounts for close to half of GDP (~47%).

The impact of the economic crisis on industry has been severe with manufacturing output falling by around 20% in 2009 and only recovering by about 10% by the end of 2010. Data⁵

¹ Communication from the Commission on "Europe 2020 – A strategy for smart, sustainable and inclusive growth", COM(2010)2020, 3.3.2010 http://ec.europa.eu/europe2020/index_en.htm

² In 2010 the Commission issued a number of other strategic policy documents in which DG ENTR is an important stakeholder: Towards a Single Market Act (COM(2010) 608), Trade, Growth and World Affairs (COM(2010) 612), A Digital Agenda for Europe (COM(2010) 245 - EU 2020 Flagship) and Youth on the Move (COM(2010) 477).

³ http://ec.europa.eu/enterprise/index_en.htm

⁴ This first general objective is supported by the ABB Activity 02.02.

⁵ http://ec.europa.eu/enterprise/policies/industrial-competitiveness/documents/index_en.htm

on manufacturing production for November 2010 showed a growth of 8 % over the previous year. The growth trend in manufacturing production has been positive since April 2009. Nevertheless, output is still some 12% below its former peak in early 2008. Latest data of January 2011 show that the economic recovery in industry and manufacturing continues at a stable, but rather slower pace.

With a view to assisting industry through the recovery and help business to respond to new challenges and opportunities, DG ENTR prepared the Industrial Policy Communication, which was adopted by the Commission in October 2010. It set out a fresh approach to industrial policy, including measures to improve the regulatory environment for EU enterprises, strengthen the single market, and to promote an innovative and resource-efficient industrial base, as well as sector-specific actions where relevant.

This strategy will be implemented in partnership with Member States. The DG will coordinate an annual progress report to be presented to the Competitiveness Council. This will feed into the overall monitoring of progress on the Europe 2020 goals. The headline indicators of success to be achieved in the coming years are:

- The improvement in international competitiveness, comparing both the EU's productivity and cost developments with those of its competitors;
- The number of new jobs created in industry and industry-related services, with particular reference to the number created in SMEs;
- The rate at which manufacturing output rises, particularly output in the eco-industries;
- The share of medium- and high-technology manufacturing sectors in total manufacturing value-added and employment;

During the year, DG ENTR analysed economic recovery in manufacturing, construction and services industries in monthly notes. Studies were carried out on aspects affecting industrial competitiveness, which were summarised in the 2010 Competitiveness Report (accompanying the Industrial Policy Communication). In addition, the DG presented an analytical report on the main challenges and opportunities of the EU manufacturing industry and discussed it with key stakeholders in a well-attended High level conference on 27 April 2010.

The DG also continued to promote market access for EU businesses in third countries, for instance, by pursuing regulatory dialogues with our main trading partners. By the end of 2010, Free Trade Agreements have been concluded with the Republic of South Korea and Central American countries. Regulatory dialogues on industrial policy were conducted with six countries (USA, Canada, Japan, Russia, China, and Japan) and a pilot project is being conducted at sectoral level in Brazil.

In 2010, the DG contributed together with other Commission services to tackle climate change in particular concerning aspects relating to the implementation of the Emissions Trading Directive (benchmarks and allocation rules maintaining the competitiveness of EU industries by avoiding carbon leakage as much as possible). The DG also helped to prepare the EU position to the Cancun climate negotiations in December 2010, in particular regarding the development of sectoral approaches as a cost-effective way to reduce greenhouse gas emissions worldwide. A study on this was finalised in 2010 and covered the EU, US and

Japan and a few emerging countries (China, Mexico, Brazil and India) and a few sectors (cement, iron and steel, petrochemicals).

The new European strategy on clean and energy-efficient vehicles was adopted in April 2010. This represents an important first deliverable in the context of the Europe 2020 flagship "Resource Efficient Europe". Its objective is to create a favourable framework for automotive industry to come forward with clean automotive technologies and business models in support of them. This provides a strategic orientation for strengthening its competitiveness in the medium term. The strategy comprises actions in the field of European legislation, research and development, demand-side measures, automotive employment, internationally oriented initiatives, governance and electric vehicles. The first report on its implementation was adopted already in December.

At the end of 2010, eleven measures of the Eco-design Directive⁶ for energy-related products had been adopted, which should generate energy savings in the order of 200 TWh⁷ per year by 2020. During the year, DG ENTR has also prepared a Communication on raw materials adopted on 2 February 2011. This is a second key deliverable in the context of the Europe 2020 flagship "Resource Efficient Europe". Moreover, other initiatives were proposed to optimize the framework conditions for Europe's environmental industries.

The Communication "Europe: the world's No 1 tourist destination" was adopted by the Commission on 30 June 2010, setting out a new political framework for European tourism and responding to the new EU competencies in the field as set out in the Lisbon Treaty. The EDEN⁸ preparatory action came to an end. Up to December 2010, 77 European destinations had joined the excellence network. Two other tourism preparatory actions (Social Tourism in Europe and Sustainable Tourism) were also pursued.

1.2 To promote innovation as a means to generate new sources of growth and meet societal needs⁹

According to the latest Innovation Union Scoreboard¹⁰, the trend in most EU Member States as regards innovation performance is promising, despite the economic crisis. Areas where the EU is doing particularly well are in public R&D expenditure and knowledge-intensive services exports. Improvements have been noted in the development of open, excellent and attractive research systems, and in intellectual assets (e.g. Community trademarks, patents and designs). However, the progress is not fast enough and the EU is failing to close the innovation performance gap with its main international competitors: the US and Japan. Moreover, China is catching up rapidly, followed by Brazil. Europe therefore needs to step up its efforts to become more innovative in order to catch up with its trading partners and recover the path of robust and sustainable growth.

In recognition of the importance of maximising Europe's innovative potential, the European Commission unveiled in October the Innovation Union Communication, coordinated by DG ENTR and DG RTD. The implementation of a number of these actions began in 2010, such as

⁶ 2009/125/EC

⁷ TWh = TeraWatt-hour

⁸ EDEN = European destinations of Excellence <http://ec.europa.eu/enterprise/sectors/tourism/eden/>

⁹ This second general objective is supported by the ABB activities 02.02 and 02.04 (security research)

¹⁰

http://ec.europa.eu/enterprise/policies/innovation/facts-figures-analysis/innovation-scoreboard/index_en.htm

the development of a new generation of financial instruments, a new regime for cross border Venture Capital Funds (see also section 1.3) and the setting up of the Design Innovation Leadership Board. A feasibility study was launched on how the role of public procurement in promoting innovation could be enhanced. The implementation of these measures and their impact will be monitored regularly. The two headline indicators of success to be achieved in the future by this strategy are:

- The R&D investment target (3% by 2020¹¹)
- The share of fast growing innovative firms in the economy. This new indicator will be developed by 2012 in cooperation with the OECD as part of the implementation of the Innovation Union flagship.

At the end of 2010, 58 actions of the Lead Market Initiative launched in 2007 had been implemented, out of a total of 88 actions. As an example, three networks of public procurers in the sectors of construction and protective textiles are now running. The remaining actions are in progress and will normally be implemented by 2011.

An Expert Panel on Services Innovation in the EU was established in February 2010 comprising 20 members. The Panel's mandate is to look at which concrete and specific steps can and should be taken at European level. It will present its findings and recommendations in January 2011¹². A European Conference on Services Innovation was organised in June 2010.

In March, a wide range of pan-European and national activities (over 1160 events involving more than 445,200 participants) were organised during the first European e-Skills Week to raise awareness of the demand for highly skilled ICT jobs and the importance of e-skills in today's society. The campaign reached more than 65 million people. A Communication on reaping the benefits of electronic invoicing for Europe was adopted on 2 December 2010 to ensure legal certainty and a clear technical environment for e-invoices, paying particular attention to the needs of SMEs.

In July, a High level Group on Key Enabling Technologies¹³ was set up. In this context, broad-based consultations were carried out with European stakeholders in the autumn on the following topics: Micro- and Nano-electronics, Advanced Materials, Nanotechnology, Biotechnology, Photonics, and Advanced Manufacturing Systems.

In September, more than 450 participants participated at the European Cluster Conference representing policy makers from national and regional public authorities, key academic experts as well as cluster managers and entrepreneurs from all over Europe. The main topic of this Conference was the discussion of the final report of the European Cluster Policy Group (ECPG) that had been established last year by the European Commission.

Under the Seventh Framework Programme for Research and Technological Development 2007-2013 (FP7), the European Commission has made EUR 1.4 billion available specifically for Security Research¹⁴. In 2006, the European Security Research Advisory Board (ESRAB)

¹¹ Last recent data for the year 2008: R&D expenditure as % of GDP amounted to 1,80 % (1,21% for business research and 0,67% for public research).

¹² <http://www.europe-innova.eu/web/guest/innovation-in-services/expert-panel/about>

¹³ http://ec.europa.eu/enterprise/sectors/ict/key_technologies/index_en.htm

¹⁴ This security research is supported by the ABB activity 02.04 (FP7)
http://ec.europa.eu/enterprise/policies/security/index_en.htm

defined a list of the 176 technologies or services to be developed under the FP7 security programme. At the end of 2010, around 50% are currently being developed. The others have to be developed by 2013. In 2010, six patents were developed and three were registered.

The fourth call for proposals under the FP7's security theme was published on 20 July 2010 with an indicative budget of €220 million. In 2010, the total operational budget managed by REA on behalf of DG ENTR amounted to €112 million for Security, and the proportion of SMEs participating in the security projects was 20.6%. An interim evaluation of the mid-term FP7 security research activities and an *ex post* evaluation of the security research preparatory action (PASR) were finalised in December 2010. (See more details in annex 13 (ABB 02.04))

1.3 To encourage the creation and growth of SMEs and promote a new entrepreneurial culture¹⁵

Small and Medium-sized Enterprises' (SMEs) contribution to the EU's main economic objectives is acknowledged in the Europe 2020 strategy. In order to improve the business environment for SMEs, DG ENTR continued to promote the implementation of the Small Business Act of 2008 (SBA¹⁶). For instance, the "Think Small First" principle was applied for several strategic initiatives¹⁷ adopted in 2010.

According to the last SME Performance Review¹⁸, the main tool employed by the European Commission to monitor the SBA implementation, the dynamic development of the SME sector in 2002-2008 was a widespread trend across the EU, including old and new Member States. In fact, during that period there was a convergence process between both groups of countries as regards the structure of their SME sectors. Since the onset of the financial crisis, this trend seems to have been interrupted even though there are indications that, at least in the early stages of the crisis, EU SMEs have proven to be comparatively resilient. The SBA Review¹⁹ was adopted by the Commission on 23 February 2011. Although all Member States have acknowledged the importance of a rapid implementation of the SBA, the approach taken and the results achieved vary considerably from one Member State to another. The Review underlines that Member States have to step up their efforts to promote entrepreneurship and SMEs in today's difficult economic climate.

The Competitiveness and Innovation Framework Programme (CIP) supports this general objective like it does also for the first two other general objectives. One of its three operational programmes, the Entrepreneurship and Innovation Programme (EIP), supports innovation activities (including eco-innovation), provides better access to finance for SMEs and delivers business support services at local level across the EU and in a number of Third Countries.

The EIP falls under DG ENTR's responsibility, but certain parts of its implementation have been outsourced to the Executive Agency for Competitiveness and Innovation (EACI) and the European Investment Fund (EIF). An evaluation of EIP indicators was finalised in February and a CIP interim evaluation in July (see more details in annex 13 (ABB 02.02)). The results

¹⁵ This third general objective is supported by the ABB activity 02.02.

¹⁶ http://ec.europa.eu/enterprise/policies/sme/small-business-act/index_en.htm

¹⁷ See footnote 2.

¹⁸ http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm

¹⁹ <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/218&format=HTML&aged=0&language=EN&guiLanguage=en>

will feed into the ongoing impact assessment and preparation of the proposal for financing actions in support of competitiveness, innovation and entrepreneurship under the next Multi-Annual Financial Framework.

On behalf of the Commission (DG ECFIN and DG ENTR), the EIF manages the financial instruments established under EIP: the SME Guarantee facility (SMEG) which provides guarantees on loans to SMEs and the High Growth and Innovative SME facility (GIF) which provides venture capital for SMEs. A budget of €1.1 billion is foreseen for these instruments for the period 2007-2013. In May, an SME Finance Forum was organised with SMEs, banks and other financial institutions on how to address the current challenges for SMEs to access finance. Up to September 2010, there were 90,289 SME beneficiaries under SMEG and 129 under GIF.

In 2010, the EACI continued managing delegated ENTR projects, namely the Enterprise Europe Network and the IPEuropeAware project, and committed in 2010 a budget of 78.7 million for this purpose. Up to June,²⁰ 2,773 partnership agreements on business, technology and research were concluded and 2.1 million SMEs were reached through the Enterprise Europe Network.

The SME Week 2010 took place from 25 May to 1 June. Around 1,504 events were held, including nearly 300 seminars organised by the European Enterprise Network and a high level SBA conference in Madrid. This was part of the ongoing process to identify exchange and reward good practices via the European Enterprise Awards, the good practices database and regular expert meetings. In March, a report was published assessing the current state of entrepreneurship education in Europe and, in September, an evaluation of SMEs' access to public procurement markets in the EU was finalised setting the basis for further actions for improving SMEs' access to public procurement.

In June, the conclusions of a study on SMEs' internationalisation were published. Another study is being conducted with expected results in early 2011. These will feed into the preparation of the Commission Communication on reinforcing support to EU SMEs in markets outside the EU to be adopted in 2011.

DG ENTR also participated in several SME dialogues with third countries such as Russia and China. Within the Eastern Partnership's Platform on Economic Integration and Convergence with EU Policies, a first meeting of the "SME Panel" was held in October in Brussels, during which the Partner countries presented its approach to SME policy. A new assessment process of SME policy in the Western Balkans and Turkey on the basis of the SBA has been initiated.

In October, the results of a study on the implementation of the Regulation on the Statute for the European Cooperative Society were published. They will serve as a basis for a public consultation in 2011 and will be discussed during a United Nations conference in 2012.

In order to prepare the Erasmus programme for the exchange of young entrepreneurs, the DG undertook an interim evaluation of the preparatory action which enters in 2010 in its third and final year. A decision on the programme is scheduled in 2011. Since its launch, over 2,500 entrepreneurs have registered to take part. 322 exchanges have been completed, 111 are ongoing and 78 are under preparation. This item is related to the Europe 2020 flagship "Youth

²⁰ This corresponds to 30 months of activity. There is a first estimation of 3 500 agreements for the 36 months period (up to end of December 2010)

on the move".

1.4 To ensure an open internal market for goods²¹

During the past two decades, the creation of the single market is one of the main driving forces behind growth and competitiveness in Europe. The Commission²² estimates that the combined effect of internal market integration, in particular through the liberalisation of network industries, and enlargement created 2.75 million additional jobs and an economic growth of 1.85% in the period 1992–2009. Intra-European trade currently accounts for 17% and 28% of world trade in goods and services respectively.

The importance of the internal market for European growth and competitiveness was highlighted in 2010, firstly, through the report presented by former Commissioner Professor Mario Monti on "A new strategy for the single market at the service of Europe's economy and society", and, secondly, through the subsequent Commission Communication "Towards a Single Market Act²³".

In 2010, DG ENTR presented *inter alia* the following proposals with the objective to further improve and simplify the internal market legislation under its responsibility, while ensuring a high level of consumer, health and environmental protection:

- Regulation on agricultural and forestry tractors (July)
- Commission Directive amending five previous Directives relating to the type-approval of agricultural or forestry tractors (September)
- Regulation relating to the type-approval of two- or three- and four- wheeled motor vehicles of the L-category (October)

The DG also continued to promote standardisation as a tool to implement EU legislation. In 2010, the rate of national transposition of European standards supporting EU legislation and policy²⁴ amounted to more than 93% for CEN, 97 % for CENELEC and 89% for ETSI. This rate shows the degree of acceptance by the industry of the European standards.

In 2010, DG ENTR worked on the revision of the European Standardisation System, including the ICT standardisation. This initiative, which ties in with the Industrial Policy, Innovation Union and Digital Agenda flagships of the EU 2020 strategy, will be adopted in 2011.

Moreover, the Commission continued to support activities aimed at increasing SMEs' awareness of and participation in standardisation process, which were carried out predominantly by Normapme.

In 2010, progress was also made in the implementation of the REACH (Registration, Evaluation and Authorisation of Chemicals) and CLP (Classification, Labelling and Package)

²¹ This fourth general objective is supported by the ABB activity 02.03.

²² Source : Towards a Single Market Act COM(2010) 608 final/2 page 3

²³ http://ec.europa.eu/internal_market/smact/index_en.htm

²⁴ The [three European Standards Organisations](#) are the European Committee for Standardization ([CEN](#)), the European Committee for Electrotechnical Standardization ([CENELEC](#)) and the European telecommunications Standards Institute ([ETSI](#)).

Regulations.

By the first REACH registration deadline of 30 November 2010, companies had submitted about 25,000 dossiers for about 4,400 high volume chemicals and substances of concern to the European Chemicals Agency (ECHA) in Helsinki.

In the area of authorisation, ECHA added a total of 46 substances to the candidate list for substances of very high concern. All of the critical risks identified at the outset of 2010 for the operation of REACH in 2010 were well managed and no interruption to the implementation of the policy occurred.

By 3 January 2011, more than 3 million notifications for classification & labelling of hazardous substances had been submitted to ECHA within the framework of the CLP regulation, which will provide the basis for the so-called Classification and Labelling Inventory.

With regard to other existing legislation concerning chemicals, DG ENTR presented a proposal to restrict the use of phosphates and other phosphorous-containing compounds in detergents and adopted a Decision allowing the use of an electronic system to submit and validate the documentation that has to accompany the transfer of explosives.

Finally, during this year, the DG continued to enforce the substantial part of the EU *acquis*²⁵ that falls under its responsibility. Over the period 2005 to the mid-point of 2010 the number of cases opened in the national infringements database (NIF) has generally declined. There has also been a real reduction in complaints received by DG ENTR, indicating that the functioning of the regulatory framework for the internal market for goods is improving.

1.5 To support the European presence in space and the development of innovative technologies through space applications²⁶

The Treaty of Lisbon, which entered into force on 1 December 2009, made space a shared competence of the Union and its Member States, thereby recognising its strategic importance for the EU. The space sector directly contributes to the implementation of a large number of policy objectives, such as economic growth, sustainable development, the common foreign and security policy. This was recognised in the Industrial Policy Communication, which also announced that the Commission will propose new measures in 2011 to take forward the EU space policy.

Satellite-based navigation programmes (GNSS)

In January 2010, DG ENTR took over responsibility for the management of the satellite-based navigation programmes. This activity²⁷ aims at providing global satellite-based navigation infrastructures and services, notably the European geostationary navigation overlay system (EGNOS) and the European global navigation satellite system (Galileo). EGNOS provides satellite-based services to improve the performance of the Global Positioning System (GPS)

²⁵ http://ec.europa.eu/enterprise/policies/single-market-goods/monitoring-ec-law-application/index_en.htm

²⁶ This fifth general objective is supported by the ABB activities 02.04, 02.05 and 02.02 (GMES)

²⁷ This activity is supported by the budget lines ABB 02.05 and 02.04 for the research side.

over Europe. The Galileo programme is Europe's initiative for a state-of-the-art global satellite navigation system, providing a highly accurate, guaranteed global positioning service under European civilian control. Today close to 7% of the EU's GDP i.e. about €800 billion rely on satellite navigation.

In the long run, the main objectives of EGNOS and Galileo can be summarized as follow:

- To ensure Europe's independence in an area of strategic importance to both its economy and security;
- To guarantee in the long term the stable provision of high quality satellite navigation services, which will be used on a daily basis by a large number of EU citizens, worldwide and in line with users' requirements;
- To maximize the economic and social benefits for Europe and job creation by enabling novel services and business opportunities based on more accurate, and robust services;
- To deliver a system which supports Member States' requirements in terms of security;

In order to meet this challenge, DG ENTR receives support from external bodies such as the European Space Agency (ESA) through a delegation agreement, the EGNOS Service Provider (ESSP), and the European GNSS Agency. In January 2011, the results of the midterm review²⁸ on the development of Europe's satellite navigation programmes EGNOS and Galileo were presented.

EGNOS services

The EGNOS programme aims to deliver three services: the "Open" service, the "Safety-of-Life" service and the "Commercial Data Distribution" service. Since 2009, the "Open" service has been operational. It increases the accuracy of signals for timing and positioning. It is defined for mass-market application and is free of direct user charge. It is accessible to any user equipped with a receiver, with no authorization required. The "Safety-of-Life" service improves the open service performance through the provision of timely warnings to the user when it fails to meet certain margins of accuracy (integrity). Its certification is in preparation in order to make it operational by 2011. The "Commercial Data Distribution" service is aimed at market applications requiring higher performance than offered by the Open Service. It provides added value services on payment of a fee. It is based on adding two signals to the open access signals. Its free testing is ongoing in order to make it operational by 2012.

Galileo space infrastructure and services

Early in 2010, the Commission and ESA signed contracts for three of six work packages, including for support to ESA throughout implementation, up to and including system specifications, performance analysis, testing, verification and validation of all elements of the infrastructure, including the procurement of 14 satellites and 5 Soyuz launchers.

In June 2010, a Communication on an Action Plan on Global Navigation Satellite System applications was adopted, with the objective to ensure a better development of commercial services of Galileo. The Operational System Readiness Review of 18 satellites should be done by 2014 and then three services (Open, Search and Rescue and Public Related) should be operational. In October, a legislative proposal on access to Public Regulated Services of

²⁸ http://ec.europa.eu/enterprise/newsroom/cf/itemlongdetail.cfm?item_id=4835
<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/42&format=HTML&aged=0&language=EN&guiLanguage=en>

Galileo was adopted aiming at a better management of critical transport and emergency services, better law enforcement (police), improved internal security (border control) and safer peace missions.

EU Earth monitoring programme (GMES²⁹)

GMES is an Earth monitoring programme led by the European Union and carried out in partnership with the Member States and the European Space Agency (ESA). GMES aims at delivering information useful for developing and implementing public policies, at EU and Member States level. It offers EU (public) services which also stimulate the development of a commercial downstream services market.

The main policy achievement in 2010 has been the creation of a GMES EU programme with its own legal base, the Regulation on the European Earth monitoring programme (GMES) and its initial operations (2011-2013). As of 2010, therefore, GMES can count on two parallel financing sources from the EU budget (the GMES Regulation and the FP7 Space programme) and on clearly defined overall governance. As an example of delivery in 2010, the precursor service on emergency response has been activated by users more than 30 times, including the Haiti earthquake, the Pakistan floods, and floods in Eastern Europe and the toxic mud sludge flood in Hungary. For land monitoring, Urban Atlas, a digital mapping tool developed with DG REGIO, was launched in 2010.

As far as development of GMES services is concerned, five GMES precursor services (land, marine, emergency response, atmosphere and security) are under development on the basis of the FP7 Space Programme, as well as some downstream services (see following section on space research). The corresponding five large projects will end in 2011 – 2012 and follow-up projects for marine and atmosphere are addressed in the FP7 Space Work Programme 2011.

The follow-up and initial operations of Land and Emergency services are foreseen in the draft GMES Regulation Work Programme 2011. For climate change, work on the definition of user requirements is planned in 2011. The medium-term objective remains to enter the operational phase as of 2014, once the infrastructure (Sentinel satellites and ground stations) is put in place.

Space research

The objective of the FP7 space work programme is to support the European Space Policy by focusing on areas such as space science, space technologies, space transportation and Earth observation applications such as GMES. A budget of €1.4 billion has been earmarked for the FP7 space theme. From this amount, 85% are devoted to GMES and the remaining 15% are used for other space activities. An interim evaluation of the FP7 space research activities was finalised in December 2010. (See more details in annex 13 (ABB 02.04))

International cooperation is paramount for such world-class research. In July, a conference was organized in Shanghai to explore new opportunities for further enhancing EU-China space research cooperation. A second very successful workshop to promote space cooperation took place in the United States at Stanford (CA).

The fourth call for proposals under the Seventh Framework Programme's space theme was published in July with an indicative budget of €99 million. In 2010, the total operational

²⁹ GMES = Global Monitoring for Environment and Security

budget amounted to €218 million for Space (FP7 research theme). Out of these, €115 million were managed by Research Executive Agency (REA) on behalf of DG ENTR and €97 million were committed for the delegation agreement with European Space Agency (ESA). The three first calls generated a total of 122 projects.

Space-based technologies such as EGNOS and Galileo are also supported by FP7. These research activities have a clear European dimension, namely to provide a European alternative to satellite navigation systems developed by the US, Russia and China. At the end of 2010, 200 projects were funded with 913 companies and organisations involved. So far, the European Union and Industry have spent together €295.6 million and the SME participation amounted in average to 41%. In July, the third call for proposals was launched with a total budget of €30.5 million.

Part 2 Management and Internal Control Systems

2.1 Introduction to ENTR organisation and description of its main management activities³⁰

2.1.1 Mission statement, planning and monitoring

The mission statement, the main priorities, objectives and indicators of DG ENTR were reviewed in 2010 in the framework of the preparation of the Draft Budget (DB), Commission Work Programme (CWP), Management Plan (MP), and the Annual Activity Report (AAR). This review was based on two external evaluations³¹ and on discussions amongst senior management. It was also done in consultation with Vice President Tajani, following the agreed working arrangements between the Commissioner and the DG.

Based on the DG's objectives, units were invited to plan their objectives, activities and resource allocation for the year ahead. An IT tool specific to DG ENTR was used for this purpose. The following mechanisms were in place to monitor the execution of the Management Plan:

- Weekly senior management meetings
- Regular meetings at the Directorate, Unit and Team levels
- Regular updating of the rolling plan of foreseen initiatives (CWP and catalogue), of the management scoreboard and of the financial monitors. More details on main operational performance indicators can be found in Annex 9
- Use of different IT tools related to planning, human resources, financial resources, risks, impact assessments, evaluations and audits
- Meetings with the Commissioner and his Cabinet, bi-annual report to the Commissioner on management and internal control in the DG
- Review of the evaluation planning at Directorate level in April
- Review of risk mitigating action plans (for both critical and significant risks) at Directorate level in August
- Mid-year review of the implementation of the Management Plan 2010 (discussed in September during a senior Management Meeting)
- Preparation of key Strategic Planning and Programming documents (SPP: DB, CWP, MP, AAR)

³⁰ These activities are supported by the budget lines 02.01, 02 AWBL-01 and 02 and the specific objectives for horizontal activities (administrative support and policy strategy and coordination) presented in the internal management plan of DG ENTR.

³¹ The scope of both evaluations was on objective and indicators, one for the Management Plan and the other one for the Entrepreneurship and Innovation Programme. See in the annex 13 section E more details on the main outcomes of both evaluations.

2.1.2 Human resources

Reorganisation

Following the reorganisations announced by the President Barroso upon appointment of the new Commission, the DG underwent significant changes in early 2010:

- Three Units of the DG were transferred to other DGs - the former unit B5 “Administrative Burden Reduction” was transferred to the SG, and the Pharmaceuticals and Cosmetics Units (former F2 and F3) to SANCO.
- The DG acquired responsibility for the Galileo Programme, comprising three units in total, relocated from DG TREN.

In the view of the performed changes, 67 staff members moved from DG ENTR to other DGs, and 84 joined the DG under the Galileo programme. The DG was reorganised on 1 September 2010, to reflect the DG’s new responsibilities under the Barroso II Commission. This reduced the number of the Directorates in the DG by one, and following the merger of two units, reduced the number of units in the DG from 46 to 45, despite the rise in staff numbers. A second post of Deputy Director General was also created. Annex 2 gives an overview of human resources for each ABB activity.

Vacancies and recruitment

The average vacancy rate in 2010 rose from 3.6% on 01/01/2010 to 6.3% at the year-end. This increase largely reflected the large number of senior and middle management vacancies, which has in turn been heavily influenced by the relatively high number of retirements. If the middle management vacancies are deducted the overall vacancy rate falls to 4.5%.

The DG met its EU2 recruitment obligations at both AST and AD level, and thus avoided the fate of several other DGs of having their recruitments blocked due to the non-fulfilment of this obligation. The only outstanding issues in this regard have been the obligation to recruit four EU2 nationals at middle management level. Two of these recruitments were made in the second semester, and a third was in progress at the year end. A post has been earmarked for the fourth and final such recruitment to take place in 2011.

Zero-based Budgeting exercise

In accordance with some IAC³² recommendations, a Zero-based Budgeting exercise (“ZBB”) was launched in May to build up a map of what the DG does, looking afresh at resource allocation on the basis of actual needs, rather than by reference to the situation in the past. The aim was to attain deeper understanding of the organisation, to consider the future challenges and their resource implications, and to prepare strong evidence-based arguments for future resources allocation. In a first phase the DG’s managers defined the entirety of the tasks that the DG is currently carrying out, identified areas of risk and areas of future growth or reduction in activities. In a second phase the managers attributed resource figures to these tasks and risk mitigation.

The results of the exercise were discussed at a senior management meeting. The Directors appreciated the “atlas” of the DG’s current tasks and resources that the exercise gave them,

³² IAC = Internal Audit Capability

which will now be refined and corrected in further bilateral meetings.

2.1.3 Financial resources

Budget Execution (Commitment and payment)

The DG recorded a new high in the execution of its budget for both commitments and payments. In commitments, 99.2% of the adopted budget appropriations were implemented. For payment appropriations, the DG passed for the first time the 90%-threshold, with an execution rate of 93.6%. The CIP (budget line 02.0201) remains the only programme with a lower execution rate. Annex 3 gives an overview of commitments and payments for each ABB activity and more details on the types of payments in 2010 are given in the section 3.1.1.

Contractually agreed payment times

The respect of contractual payment times further increased, with only 2.8% of payments being delayed. The improvement is significant compared to previous years. In 2009, 4.5% of payments were delayed; in 2008, 13% of payments were executed late. DG ENTR effectively manages to guarantee a high standard of respect of payment times keeping delays below the 5% target. Close monitoring of payment delays will continue to take place in order to ensure the present standard is maintained.

Following the Communication of 8 April 2009 on “Streamlining financial rules and accelerating budget implementation to help economic recovery” (Doc SEC(2009) 477), the Commission strives to apply payment times even shorter than strict contractual obligations, applying 20 days for first pre-financing payments and 30 days for payments on grants. DG ENTR complied with these standards except for 6% of payments. The DG is close to reaching the 5% late payments threshold also for these even stricter deadlines.

Means of financial intervention

The means of financial interventions of DG ENTR in 2010 can be divided in three categories:

- (1) Coordination of the policy aspects of competitiveness, industrial policy, innovation, entrepreneurship, space and security
- (2) Management of legislation and standardisation
- (3) Programme management (CIP, FP, GMES, EGNOS, Galileo)

The coordination of the policy aspects of competitiveness, industrial policy, innovation, entrepreneurship and space mainly corresponds to the policy aspects of ABB activities “Competitiveness, industrial policy, innovation, entrepreneurship” as well as of the ABB activities “Space and Security”, "EU Navigation Programmes" and "Policy Strategy and Coordination". The main stakeholders in this domain are the Council, the European Parliament, the Member States, enterprises inside and outside the EU, and their associations at EU and national level, as well as international organisations such as WTO and ESA. Roughly 0.66% of the DG's payments in 2010 relates to this activity and was made mainly under public procurement contracts, with the exception of an operating grant for the EU-Japan

Centre for Industrial Cooperation.

These activities were mainly carried out by two Directorates (Dir A and Dir B) operating a financial workflow model II, where the services of the Directors execute the operational initiation and operational *ex ante* verification functions, and the Financial Resources Unit assumes the financial initiation and financial *ex ante* verification functions. The relevant Director is the Authorizing Officer for commitments, and the Head of the operational Unit is the Authorizing Officer for payments. The segregation between the initiation and verification function is assured within the services of the Director and within the Financial Resources unit.

The management of legislation (i.e. internal market legislation including notifications and infringements) and standardisation includes a range of technically complex areas, many of which have an impact on free movement of goods, fair competition, consumer safety, public health and environment.

The management of legislation corresponds roughly to the ABB activity “Internal Market”. The main stakeholders for this activity are the Council, the European Parliament, Member States, enterprises inside and outside the EU, their associations at EU and national levels as well as the European Standardisation Organisations (ESOs) and the European Chemicals Agency (ECHA). Roughly 8.65% of the DG’s payments in 2010 relate to this activity and were made both under public procurement contracts and grant agreements (the latter notably in relation to standardisation). The relevant activities were mainly carried out by some units in four Directorates (Dir C, D, F and G), operating financial workflow model III, where the operational initiation and *ex ante* verification functions as well as the financial initiation function are executed within the services of the Director. The financial *ex ante* verification is assumed by the Financial Resources Unit. The competent Director assumes the function of Authorizing Officer for commitments and the competent Heads of Unit for payments. Within the services of the Director the segregation between the operational initiation and verification function is assured.

Programme management in respect to payments concerns notably the Competitiveness and Innovation Framework Programme (CIP), the Research Framework Programmes 6 and 7, GMES and the EU Satellite Navigation Programmes (EGNOS and Galileo). Financial support is given to Enterprise Europe Network, as well as to actors of the European Aeronautics, Space and Security industries for research in the area of space and security.

This corresponds roughly to the financial part of the ABB activities “Competitiveness, industrial policy, innovation and entrepreneurship”, “Space and security” and “EU Satellite Navigation Programmes”. Approximately 90.69% of the DG’s payments in 2010 relate to programme management and were made under public procurement contracts, grant agreements (36.9 %) and joint management (12%). The activities were mainly carried out by four services (Directorates D, E and H and GP Units) to operating a financial workflow model 3 where the operational initiation and *ex ante* verification functions as well as the financial initiation function are executed within the services of the Director. The financial *ex ante* verification is assumed by the Financial Resources Unit. The competent Director assumes the function of Authorizing Officer for commitments, and competent Heads of Unit for payments. Within the services of the Director the segregation between the operational initiation and verification function is assured.

2.1.4 Information technology resources (IT)

The IT Master plan for 2010 was implemented as originally planned. The IT Steering Committee is up and running. It meets four times per year. The work was based on the detailed work plan for 2010, which the Committee adopted at its first meeting. The DG ENTR yearly disaster recovery failover test exercise took place during the last weekend of November. It showed that business continuity is effectively ensured and that within two hours the most critical and important services can be restored. (See also the section 2.2.2).

Business needs and requests for new Information Systems for the management of the Galileo programme were considered as priority one and have been integrated in the 2011 Annual Work Programme of the Informatics unit. In order to support the EACI agency with the creation of their new IT tools, DG ENTR has set up a development environment based on SharePoint for which DIGIT does not offer hosting.

2.1.5 Communication resources

The first half of 2010 witnessed a significant upsurge in DG ENTR's press communications, generating European and even international press coverage for issues such as car safety, electrical cars, e-skills, SMEs, Raw materials, tourism and CE marking. In the second half of 2010, the two most important ENTR Europe 2020 flagships (Industrial Policy and Innovation Union) received wide press coverage across Europe.

Among the press communications which received the most attention were the recent releases on REACH and the successful registration of more than 24,000 businesses and the release regarding the EU common standards for mobile phone chargers. ENTR's EUROPA website was restructured and a new graphical design implemented. The new version of the website went online on 1 September.

A dedicated scoreboard has been established to ensure appropriate management and monitoring of the internal and external communication activities. Following a first assessment, their effectiveness will be further improved. (See also section 2.2.2).

2.1.6 Risk management

The DG's risk exercise was carried out in May in the context of the preparation of the final version of the Management Plan 2010. The action plans for mitigating these identified risks were developed and, further to this, were subject to a thorough review in August.

2.1.7 Impact assessments

In 2010, DG ENTR worked on the preparation of more than 20 impact assessments. Eight were submitted to the Impact Assessment Board (IAB). Four of them had to be improved and resubmitted (the average resubmission rate in the Commission increased from 37% in 2009 to 42% in 2010). This did not delay significantly the policy-making process: thanks to dedicated support, DG ENTR managed to quickly resubmit the concerned assessments while showing substantial improvements. In order to address the root causes of the problem, DG ENTR has also put in place mitigating measures (tailor-made support to a larger number of impact assessments). A dedicated scoreboard has been established to ensure appropriate management

and monitoring of the DG's Impact Assessment work. This standard was also selected in the Management Plan 2011 for an effectiveness assessment.

2.1.8 Evaluations

With regard to the implementation of the 2010 annual evaluation programme, eleven evaluations were completed in 2010 and 14 were launched, covering both expenditure programmes and legislation. These produced useful recommendations that will be relevant for the implementation of programmes and the design of legislation. Many of the completed and on-going evaluations cover pieces of legislation, notably the Measuring Instruments Directive, the Fertilizer Regulation, the Ecodesign Directive as well as evaluations of REACH.

The DG's drive to improve the lot of small businesses is also clearly reflected in the evaluation programme. An evaluation of Member States' policies to facilitate access to finance for SMEs has been launched, an evaluation of how effectively EU SMEs are able to access public procurement was completed and an evaluation is on-going of the Pilot Project and Preparatory Action Erasmus for Young Entrepreneurs. Other main pillars of the DG have been evaluated, including the Entrepreneurship and Innovation Programme and the space and security research activities of the DG.

Based on the new emphasis given by the President to evaluate legislation and policies as well as programmes, the DG conducted a thorough assessment of evaluation needs. The organisation of bilateral reviews with each operational Directorate led to the addition of new evaluation projects bringing the total number of foreseen evaluations during this Commission's mandate to 31. The effectiveness of the evaluation activities was assessed. (See section 2.2.2)

2.1.9 Document management

The migration of the document management system from ADONIS to ARES was done successfully on 13 April. This transition was smoothly handled by the DG staff with the support of the Document Management Service (DMS), three Resources Units (HR, IT and COM) and two central services (SG, DIGIT). During the transition period, the circulation of paper signatories was maintained. In November, a pilot exercise was launched to introduce electronic-only signatories from 2011.

2.1.10 DG ENTR's links with Executive and Regulatory Agencies

DG ENTR partly delegated the management of its main financial programmes to two executive agencies:

- the Executive Agency for Competitiveness and Innovation (EACI), which manages part of the DG ENTR part of the EIP (Entrepreneurship and Innovation Programme). The DG is co-responsible for this agency with DG Mobility and Transport, DG Energy and DG Environment. The budget managed by this agency with regard to DG ENTR policies is €360 million for the period 2007-2013;

- the Research Executive Agency (REA), which manages the Space and the Security Themes of the Seventh Framework Programme (FP7). DG ENTR is co-responsible for this agency with DG RTD. The budget managed by this agency with regard to DG ENTR policies is €1.4 billion for the period 2007-2013 (€0.9 billion for the period 2011-2013).

DG ENTR is responsible for two Regulatory agencies: the European Chemicals Agency (ECHA) and the European GNSS Agency (GSA). In 2010, they respectively had an annual budget of €72 million and €7.89 million.

The supervision mechanisms for these Executive and Regulatory Agencies are described in annex 8.

2.1.11 Cooperation mechanisms with the European Space Agency

The European Space Agency (ESA) is an intergovernmental organisation which is independent from the European Union. It has 18 Member States (of which 16 are also members of the EU). In 2004, the European Commission and ESA signed a Framework Agreement with the aim to develop an overall European Space Policy by providing a common basis and appropriate operational arrangements for efficient ESA/Commission cooperation. The Agreement created the ministerial-level Space Council, the EC-ESA Joint Secretariat, and the High Level Space Policy Group.

In the framework of the co-operation on the Global Monitoring for Environment and Security (GMES), DG ENTR has signed on 28 February 2008 a delegation agreement with ESA under a joint management scheme (in accordance with article 53d of Financial Regulation 1605/2002), in order to implement the tasks related to a contribution of €624 million from the FP7 budget to the GMES Space Component for the period 2008-2013. Under this arrangement ESA takes over the project management and budget implementation role while DG ENTR monitors the implementation of the agreement on behalf of the Commission.

According to EC Regulation 683/2008, the Commission is responsible for the management of the European GNSS programmes (Galileo and EGNOS). Within this legal framework the Commission entrusted ESA with the implementation of the Galileo Deployment Phase (2008 – 2013) and the further implementation of EGNOS Programme in accordance with article 54 (2) (c) of Financial Regulation 1605/2002. A Multi-annual Delegation Agreement was signed between DG TREN and ESA on 19 December 2008 for the Galileo FOC activities and another one regarding EGNOS evolution on 31 March 2009.

The Commission delegates to ESA the carrying out of the procurement activities necessary for the implementation of the FOC phase of the Galileo programme and the evolution of the EGNOS programme. The measures financed under the GNSS Regulation must be implemented in accordance with the Financial Regulation. The Delegation Agreement signed with ESA states that the procurement activities entrusted to ESA are implemented "in full coordination with the Commission and in accordance with the EC Procurement Rules and specific guidelines of the GNSS Regulation".

In other words, ESA is authorized to act as an agent or representative on behalf the Commission which remains the contracting authority. ESA is bound to apply the Commission procurement framework in full and its actions are legally binding on the Commission. Accordingly, the EC authorising officer is the one who authorises ESA to sign contracts in the

name and on behalf of the Commission. Consequently, ESA acts under the supervision and with the assistance of the Commission notably in both the field of contractual and technical aspects.

More details on the supervision mechanisms for these delegation agreements can be found in annex 6.

2.1.12 Major events of the reporting year having an impact on reputation

No major events impacting the Director-General's declaration occurred in the reporting year.

2.2 The functioning of the entire internal control system

2.2.1 Compliance with the requirements of the internal control standards

All the baseline requirements related to the Internal Control Standards mentioned in Communication SEC (2007)1341 were implemented in 2010 by DG ENTR. This assessment was validated on 9 February 2011 during a joint meeting between the Internal Control Coordinator (ICC), the Resources Director (RD) and the Internal Audit Capability (IAC).

Derogation from the standard rule on sensitive posts

At 31 December 2010, two Heads of Unit in the DG had been in their post for longer than the indicated maximum period of five years (although none more than six years). In one case, mobility is not required given the individual's imminent retirement. In the other case, an immediate move was contra-indicated by the need to ensure continuity with the new Commissioner. This case will be re-evaluated in 2011 in the next mobility round.

2.2.2 Effectiveness of implementation of the prioritised internal control standards

Every year, each DG selects three to five priority standards in the Management Plan and defines the focus for which it will assess their effectiveness in the Annual Activity Report. On 9 February 2011, the ICC, the RD and the IAC reviewed the three priority standards selected for 2010 (listed below) and concluded that each standard had been implemented in DG ENTR at a satisfactory level of effectiveness.

- ICS 10 related to Business Continuity with a special focus on the IT contribution (including the IT helpdesk, token management and Disaster Recovery Plan (DRP)) to ensure the continuity of activities in DG ENTR.

The reason for prioritisation of this standard is that ENTR helpdesk and ENTR DRP expertise were very important to offer quick solutions for the hosting of President Cabinet and SG IT service after the fire in the Berlaymont building. The importance of IT activities was also confirmed during the action plan to mitigate any pandemic risk (tokens). Some of these elements were already mentioned in an internal pre-audit done in 2008.

In 2010, a series of actions have been undertaken in order to further improve the already extensive IT Disaster Recovery Plan (DRP). The DG Enterprise yearly Disaster Recovery failover test exercise took place the last weekend of November. This test proved that business continuity is effectively implemented in the DG. The most critical and important services were restored within two hours. An observer from the Internal Audit unit

participated in the test this year. According to the quantitative and qualitative assessment, this IT contribution to the Business Continuity can be considered as effective.

- ICS 12 related to Information and Communication with a special focus on the Intranet, the ENTR web-site on Europa and the set-up of a dedicated scoreboard for internal and external communication issues.

Based on the results of an ENTR user survey, the ENTR Intranet was completely revamped in 2009. The Intranet was also migrated to a different IT infrastructure, with further fine-tuning and new features introduced in 2010. Comments and suggestions of users and stakeholders fed the regular updating and the improved layout. According to the qualitative and quantitative assessment performed, this new ENTR Intranet can be considered as effective.

The complete revamp of ENTR website on Europa started in 2009. Recommendations collected during usability tests performed on a panel of 'real' users ensured that the new information architecture and navigation is adapted to most visitors' expectations. Statistics show that the number of page views and the number of visits of ENTR website have steadily increased over the 2009-2010 period. Both the qualitative and quantitative performed assessments demonstrate that the new ENTR website on Europa can be considered as effective.

So far, data collection has been regularly performed for selected communication activities. In order to get an integrated monitoring tool for all communication activities, a dedicated communication module was created in the management scoreboard. This project was timely implemented. Both the qualitative and quantitative assessments performed in DG ENTR demonstrate that the new communication module of the management scoreboard can be considered as already effective even if initiatives will be taken in 2011 to improve the relevance of the external and internal indicators and raise awareness of ENTR stakeholders as recommended by an internal audit performed in 2010 on the external communication activities (see audit section 3.1.2.1 for more details).

- ICS 14 related to the evaluation of activities with a special focus on their contribution to the decision-making process, especially for non-spending activities, such as legislation and policies.

Based on the new requirement in the Commission's working methods, a thorough re-assessment of evaluation needs was performed in 2010 through bilateral meetings with each Director. This led to the identification of 23 new evaluations under this Commission's mandate, bringing the total number of evaluations in the DG up to 30. The multiannual plan was updated accordingly. In addition, a workshop was organised for DG staff in order to improve the understanding of the methodological aspects of the evaluation of legislation.

In 2010, a number of evaluations were undertaken that will feed into the preparation process of new proposals that are foreseen to be presented in 2011 or later. For instance, the evaluation of the Competitiveness and Innovation Programme will feed into the preparation of the proposals foreseen in 2011 for new financing actions under the next Multiannual Financial Framework. The evaluations of the gas appliances and fertilisers legislation will provide the basis for ongoing reflections on possible legislative revisions in

2011 and 2012. According to the qualitative and quantitative assessment, this evaluation standard can be considered as effective.

2.2.3 Conclusion

The general appreciation of the functioning of DG ENTR's internal control system as a whole is based upon the annual review of the implementation of the internal control standards (compliance assessment), the effectiveness assessment of the selected focuses relating to three standards, the answers from the Directors' self-assessment and internal control templates exercises, the results of various audits, and the opinion of the IAC.

The internal control system of the DG works as intended, allowing the objectives of the services to be achieved and the related risks to be identified.

In order to promote the effectiveness of the implementation of EU law, DG ENTR will pay special attention at the beginning of 2011 to two open recommendations of the IAS final report dated 15/12/2009 on the follow-up audit on "Monitoring the implementation of EU law". A transposition and implementation plan (TIP) for new piece of legislation will be designed, when necessary.

Following the fieldwork undertaken in 2010, the IAS issued on 7 February 2011 a draft report concerning the first part of the audit on GNSS, i.e. Governance, Risk Management and Project Management. Subject to the comments provided by DG ENTR in March 2011 during the contradictory procedure with the IAS, this draft report concludes that the internal control system in place does not provide reasonable assurance regarding the achievement of the business objectives set up for the governance, risk management and project management of the GNSS programmes. According to the final report to be released by IAS in the coming weeks, DG ENTR will prepare and implement an action plan.

2.3 Information to the Commissioner

The main elements of this report and assurance declaration, including the reservations envisaged, have been brought to the attention of the Vice-President Tajani.

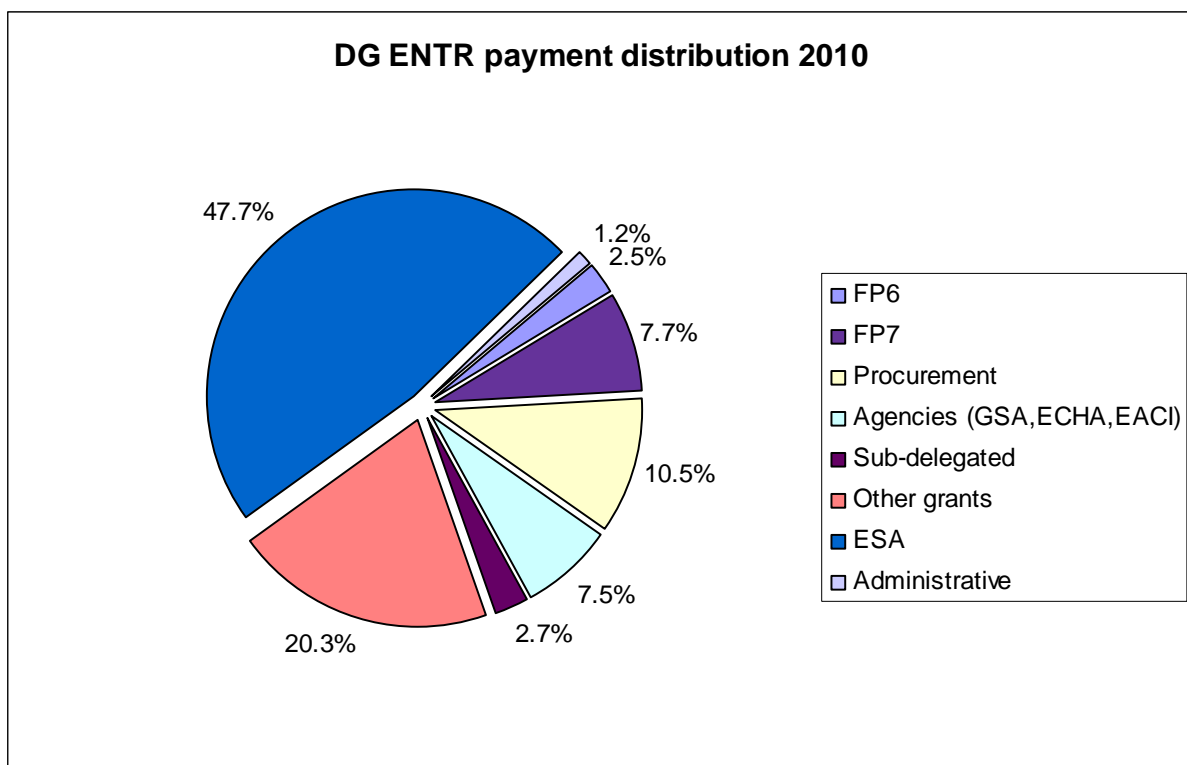
Part 3 Building blocks towards the declaration of assurance (and possible reservations to it)

3.1 Building blocks towards reasonable assurance

3.1.1 Building block 1: assessment by management

Historically, in DG ENTR most financial transactions were carried out under direct centralised management. However, since the transfer of the GNSS activities (Global Navigation Satellite Systems, EGNOS and Galileo) to DG ENTR in 2010, the highest portion in terms of expenditure is implemented by the European Space Agency (ESA) and the European GNSS Agency (GSA) under centralised indirect management. ESA participates on the basis of Joint Management in the implementation of the Space Component of the Global Monitoring for Environment and Security (GMES) funded under the Seventh Research Framework Programme (FP7).

The following chart gives an overview of the types of payments in 2010³³:



³³ This chart represents the outturn on payment appropriations in 2010 (see Annex 3) including the administrative expenditure and expenditure under cross-delegation executed by other DGs.

The above chart does not include the amount of €3,285,018 related to payments executed by DG ENTR under cross delegations received from other authorising officers by delegation.

As shown above, the DG implements its budget in several different ways, with a substantial share (48 %) being managed through cooperation with the European Space Agency. The DG funds also numerous individual projects or small groups of projects which represent 20.3% of the expenditure for 2010.

In general, the reasonable assurance of the Director General that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management is based on the following elements:

- the full and effective implementation of the Internal Control Standards (See section 2.2).
- training and guidance given to all financial actors within the framework of financial training weeks, consisting of in-house training sessions on important aspects of financial management, and through the Manual of Budgetary and Financial Procedures on the Intranet where all applicable rules and procedures are documented and completed by guidance.
- financial verification performed by the Financial Resources Unit in complete independence of the authorising officers, and exclusively on the basis of applicable legislation and the procedures decided by the Director-General. The quality of the decentralised financial verification is monitored via the *ex post* control of randomly selected transactions by the Financial Resources Unit. Tender and call for proposal documents and attribution decisions are also verified and approved by independent experts of the Financial Resources Unit.
- for all cases in which the financial verifier gives a negative opinion, a formal overriding decision is necessary if the transaction is not abandoned.
- *ex post* audits are performed on all types of grants and provide evidence with regard to errors in the underlying transactions (i.e. the cost declarations of the beneficiaries) and allow to analyse the root causes of these errors and to design corrective and preventive actions.
- the permanent improvement of the control system on the basis of findings and recommendations of the Internal Audit Capability (IAC), Internal Audit Service (IAS) and European Court of Auditors (ECA) as well as on the basis of regular analysis of the functioning and the results of the system and
- the opinion of the Internal Audit Unit on the state of control, based on its audit work in 2010.

More specifically, the management assessment for the different types of financial transactions (where appropriate based on audit evidence and legality and regularity indicators) is the following:

3.1.1.1 Centralised indirect management

For the management of the EGNOS and Galileo programmes, the European Commission and the European Space Agency (ESA) signed two delegation agreements under article 54 of the

Financial Regulation³⁴.

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

Both EGNOS and Galileo are mainly implemented through procurement procedures delegated to ESA for which, however, the European Commission remains the contracting authority. In 2010 an amount representing 36% of the total payments, was transferred to ESA under this management mode. In implementing the tasks delegated to it under this agreement, ESA applies the EC procurement rules and its own audit, accounting and internal control rules and procedures which should offer guarantees equivalent to internationally accepted standards.

The major part of the expenditure relates to public procurement activities (around 85%). The risks related to public procurement are effectively mitigated by means of independent *ex ante* verifications. The *ex ante* verification of the transfers to ESA are based on desk reviews of the reports submitted by ESA and on a review of the forecast of cash-flow needs for the next period. Moreover, on a yearly basis, the actual expenditure of the internal cost reported by ESA, are verified by means of on-the-spot checks.

Preliminary audit findings of the Commission indicate that there are weaknesses in the financial project reporting by ESA. During the performed audits, ESA faced difficulties to provide detailed supporting information for some of the reported costs. Moreover, the audit opinion of ESA's external auditor on the annual accounts 2009 points out to weaknesses in ESA's internal control systems and highlights major concerns on the reliability of the financial reporting for 2010. In 2010, ESA commenced a Financial Management Reform which envisaged a change of its accounting method and the underlying accounting system. The new accounting system is expected to provide in more systematic manner the necessary information for the preparation of financial statements. Nevertheless, there is a delay in formulating and implementing appropriate accounting policies which may interfere with the accuracy of the system. The DG has therefore insufficient evidence of the existence and proper operation of ESA's accounting and internal control systems.

It is not possible to calculate the financial impact, if there is any. Given that the payments made to ESA to cover ESA's own costs, account for roughly 15% of the payments made by the DG related to centralised indirect management, the detected weaknesses are material for the declaration of assurance in part 4. This percentage should not be considered as an error rate but rather as a portion of the payment to which an insufficient assurance has been obtained.

Besides the delegation agreements signed directly with ESA, DG ENTR also manages a delegation agreement with GSA which, on its turn, delegates implementation tasks to ESA.

³⁴ Article 54 of the Financial Regulation enables the European Commission to entrust tasks of public authority and in particular budget implementation tasks to, inter alia, national public sector bodies or bodies governed by private law with a public service mission.

3.1.1.2 Joint management (ESA)

An amount representing approximately 12% of all the payments in 2010 has been paid to the European Space Agency (ESA) under Joint Management. In the framework of the FP7 Specific Programme "Cooperation" and its theme "Space" and of the GMES Space Component (GSC) Programme, the Commission delegates to ESA the execution of jointly funded tasks, namely the implementation of the Space Component of the GMES. The Internal Control Template (ICT) for joint management in annex 5 demonstrates how the control system in place in the DG addresses the risks related to this type of expenditure.

The GMES Delegation Agreement to ESA has been established on the basis of articles 53.d of the Financial Regulation and 43 of the Implementing Rules. In implementing the tasks delegated to it under this agreement, ESA applies its own audit, accounting, internal control and procurement rules and procedures which offer guarantees equivalent to internationally accepted standards.

The payment made to ESA in 2010 was the second contribution to the jointly managed programme. The payment was made irrespective of the actual cost incurred in that period. The amount transferred to ESA in 2010 was €97 million. The *ex ante* verification of the transfer to ESA is based on the signature of the transfer agreement. Moreover, on a yearly basis, the actual expenditure of the internal cost reported by ESA, are verified by means of on-the-spot checks.

Following the weaknesses observed in the financial reporting made by ESA and the procurement procedures applied, DG ENTR strengthened its monitoring and control framework (see 3.1.3.1). In 2010, the European Court of Auditors (ECA) and the Commission audited the annual financial report 2009. The main quantifiable findings relate to the disallowance of supplementary pension contributions which are deemed to relate to past shortfalls. The preliminary audit findings of the ECA, based on a sample, revealed an error rate of 3.2%. In the audit of the Commission this resulted in a 1% error rate. The difference in error rate stems from the fact that the Commission's audit has covered all costs incurred while the ECA made a sample. Moreover, the Commission's audit included a positive adjustment which was not recognised by the ECA. Overall, the findings were similar.

The audit opinion of ESA's external auditor on the annual accounts 2009 and the major concerns on the reliability of the financial reporting for 2010, as mentioned in 3.1.1.1, is also relevant for the expenditure under Joint Management. Under this management mode, the Commission should be able to rely on the financial and internal control systems of the delegated body, which is not the case for 2010. Due to the ongoing and delayed changes of the accounting method and the accounting system, the DG has therefore insufficient evidence of the existence and proper operation of ESA's accounting and internal control systems.

It is not possible to calculate the financial impact, if there is any, given that the payment made to ESA to cover ESA's own costs, account for roughly one fourth of it. This should not be considered as an error rate but rather as a portion of the payment to which an insufficient assurance has been obtained.

3.1.1.3 Subsidies

Roughly 8% of the DG's payments in 2010 were payments of subsidies to two regulatory agencies (GSA and ECHA) and to one executive agency (EACI). Accountability for the regularity and legality of this expenditure resides ultimately with the agencies in question - the Director-General of DG ENTR is only accountable for the legality and regularity of the commitment and payment of these subsidies to the agencies. The regularity and legality of the use of the subsidies by the regulatory agencies GSA and ECHA is checked by the European Court of Auditors, which gave them a positive declaration of assurance for the year 2009.

Furthermore, the Commission has signed a delegation agreement with GSA for the implementation of the EGNOS and Galileo programmes (see also 3.1.1.1.). The European Court of Auditors provides opinion on the reliability of the annual accounts of GSA, on which basis the budgetary authorities grant a discharge. DG ENTR closely monitors the implementation of the audit strategy developed by GSA. In 2010, the Agency commenced several audits for which the final audit results will be available in the second half of 2011.

The Directors of the EACI and the REA executive agencies are accountable for the regularity and legality of the use of the subsidies by these agencies and they produce their own Annual Activity Report, which are annexed to this report (Annex 7).

These amounts (roughly 8% of the DG's 2010 payments) are therefore not covered any further in this section of this report but in Part II and in Annex 8 where the supervision of agencies is described.

3.1.1.4 Procurement

Approximately 11% of the amounts paid in 2010 have been paid under procurement contracts. The Internal Control Template (ICT) for procurement in annex 5 demonstrates how the control system in place in the DG addresses the risks related to this type of expenditure.

As mentioned in 3.1.1.1, the EGNOS and Galileo programmes are executed principally by ESA as delegated procurement agent, signing contracts on behalf of the Commission, under indirect centralised management. In 2010, 4 contracts have been awarded for a total amount of €800 million.

Two contracts were signed following a negotiated procedure, representing 2,3% of the total amount of the contracts awarded in 2010 by ESA under the EGNOS and Galileo delegation agreements. The remaining two contracts were awarded following a competitive dialogue.

The risks related to public procurement are effectively mitigated by means of independent *ex ante* verifications. Tender documents need approval by the independent experts of the Financial Resources Unit before they are allowed to be published. Tenders are evaluated by evaluation committees, as foreseen by the Financial Regulation. The absence of conflicts of interest of the evaluators is ensured. Evaluation reports also need approval by the independent experts of the Financial Resources unit before the authorising officer takes the attribution decision. For high value procurements an *ad hoc* committee of senior officials examines the evaluation report before the attribution decision can be taken. All procedures are documented in detail in the Manual of Budgetary and Financial Procedures. Before the payment is completed, the timely execution of the contract is checked and a financial verification is performed by the Financial Resources Unit in complete independence of the authorising

officers, and exclusively on the basis of applicable legislation and the procedures decided by the Director-General. All detected errors are corrected. It can be excluded that material errors persist. Materiality is defined as 2% of the payment appropriations of the ABB activity.

The following indicators demonstrate the effectiveness of the internal control system:

<p><i>Input: Resources devoted to ex ante and ex post controls to ensure legality and regularity of underlying transactions:</i></p> <ul style="list-style-type: none"> • <i>Staff devoted to ex ante/ex post control can be estimated at 7 FTE including ex ante control of tender documents, ex ante control of call evaluation, ex ante control of contractual aspects and ex ante control of commitments and payments in the operational directorates (extended workflow) and in the Financial Resources Unit.</i>
<p><i>Output: Level and nature of controls carried out</i></p> <ul style="list-style-type: none"> • <i>Coverage of first level ex ante control: 100% of all commitments and payments, 100% of all tender documents and evaluation reports</i> • <i>Coverage of second level ex ante control carried out: 8%³⁵ of all commitments and all payments, 100% of all tender documents and evaluation reports</i>
<p><i>Results of controls: What the controls allowed to discover/remedy</i></p> <ul style="list-style-type: none"> • <i>Number of instances of overriding of controls or deviations from established policies (ICS 18):4</i> • <i>Number of complaints received from unsuccessful economic providers each year: 0</i> • <i>Number of cases received by the Ombudsman per year relating to the procurement procedures: 1</i> • <i>Number of proceedings initiated by contractors or economic providers against the Commission: 1 before the Court per year</i>

3.1.1.5 Grants

Finally, 31% of the amounts paid in 2010 by the DG were paid under grant agreements.

(A) ESA-EC Galileo IOV grant agreement

The grant agreement on the completion of the In-Orbit Validation (IOV) phase of Galileo was signed in 2009. Pre-financings are disbursed based on ESA needs. At the completion of the action, ESA prepares the final financial statement to enable the Commission to determine the final balance for the action. For the IOV activities which are covered by the budget of the IOV grant agreement, ESA remains the contracting authority. The grant agreement itself establishes clear reporting requirements as well as the obligation to use the EU procurement rules for any new activities financed by the IOV grant. In 2010, the costs reported on 2009 were audited. The preliminary audit report does not include any material findings.

(B) FP6 and FP7 Grants

The grants under the multiannual FP6 program and the preparatory action for security research (PASR) represent two homogenous groups of transactions for which Internal Control

³⁵ This is the percentage of all transactions (including procurement and grants) that are subject to an extended workflow.

Templates (ICT) in annex 5 demonstrate how the control system in place in the DG addresses the risks related to this type of expenditure.

For FP6 an *ex post* audit strategy has been decided in 2007 because many cost declarations made by beneficiaries contain errors which can only be detected by means of on-the-spot audits. In order to overcome this situation, the Commission implements an *ex post* control strategy to ensure the legality and regularity of the payments on a multiannual basis. It is based on systematic detection and correction of any errors which could not be identified before making the payment. This is achieved by stepping up the *ex post* audit effort which is a key component of the control strategy and thoroughly recovering any amount found to be overpaid to audited beneficiaries. Until 2010, 429 audits have been performed. The overall representative rate of errors in the sense of too high theoretical FP6 funding is 4.95 %. The common materiality criteria of the DGs managing research expenditure are defined in Annex 4 as a residual error of less than 2%. At the end of 2010 the residual error which is determined after correction of the systematic errors, exceeded 2% and was therefore material.

The cumulated error rate for PASR projects was 6.5% at the end of 2010 but given that the value at risk, represents less than 0.1% of the budget under the relevant AAB activity, the errors found in these contracts are not material.

For FP7, a similar *ex post* audit strategy as for FP6 has been decided and is being implemented by the DGs managing FP7 expenditure. However, given the fact that only very few cost declarations have been received by DG ENTR so far, it was not possible to provide any representative audit evidence. In 2010, 7 *ex post* audits took place with an error rate of 4%.

The following indicators demonstrate the effectiveness of the internal control system:

Table 3.1 Result indicators: Indicators of error by FP

FP6

	Achieved cumulative period	Achieved in 2010
Costs claims audited	129,321,487	26,013,004
Systematic errors (number of extrapolation cases, as % of total)	56.03%	44.94%
Overall errors (in €) in favour of the Commission (B) (costs accepted by auditors - costs accepted by FO, in €)	-6,632,796	- 1,594,165
Error rate in favour of the Commission (B/A)	-5.13%	-6.13%
Overall errors in favour of the beneficiary (EC share, in €) (C)	2,248,021	697,546
Error rate in favour of the beneficiary (for info) (C/A)	1,74%	2,68%
Total amount of adjustments implemented (EC share, in €) From audit implementation:	4,624,986	977,408
Residual error rate (%)	3%	-

The calculation of the residual error rate is described in the materiality criteria in Annex 4.

Until 2010, 429 audits have been performed. The overall detected representative rate of error in the sense of too high theoretical FP6 funding is 4.95 %.

The following tables show the detail of the evolution of the error rates per year. They are provided to ensure consistency with the information provided in previous reports.

Table 3.2 Detailed error rates by FP

FP6

Year	Number of audits closed	Number of participations audited	EC share of the costs accepted by the FO (€)	EC share of the accumulated adjustments in favour of the EC		
				Amount (€)	Annual error rate %	Cumulative error rate %
2006	1	1	578,572	62,568	10.81%	10,81%
2007	104	118	25,616,936	707,930	2.76%	2.94%
2008	100	154	29,931,296	1,256,989	4.20%	3.61%
2009	147	251	47,181,678	3,011,144	6.38%	4.88%
2010	77	107	26,013,004	1,594,165	6.13%	5.13%
Total	429	631	129,321,487	6,632,796	5.13%	

FP7

Year	Number of audits closed	Number of participations audited	EC share of the costs accepted by the FO (€)	EC share of the accumulated adjustments in favour of the EC		
				Amount (€)	Annual error rate %	Cumulative error rate %
2009	1	1	123,487	0	0.00%	0.00%
2010	6	8	1,212,441	54,998	4.54%	4.12%
Total	7	9	1,335,928	54,998	4.12%	

The analysis of the errors found during the controls shows that nearly all significant errors relate to staff costs and indirect costs incorrectly declared by beneficiaries of grants as eligible costs of the co-financed projects.

In order to prevent repetition of these errors in future cost declarations beneficiaries are informed about the correct way to calculate these costs and about the most frequent errors committed when calculating these costs. Furthermore for FP6 and FP7 projects guidance is publicly available on CORDIS.

Certifying auditors who were found to have signed unqualified audit certificates for erroneous amounts of eligible costs were also directly informed about their errors and were invited to consult the available information in order to avoid similar errors in the future.

The number of FP7 audits completed by the end of 2010 is too small and not representative enough to draw any significant conclusion at the present time.

Forecasts of revenue issued based on the results of the *ex post* audits are followed up and reported to management quarterly. In addition, the implementation of the audit results on systematic errors to non-audited projects ("extrapolation") and the application of liquidated damages are applied. At the end of 2010, 70% of the audit results were implemented and in addition liquidated damages were applied for €169,000.

Table 3.3 Input indicators: indicators of effort

	2009	2010
Internal resources for <i>ex post</i> audits	3.5 FTE	3 FTE
Cost of outsourced auditing (in €)	828,800	543,582

Table 3.4 Output indicators: Indicators of coverage (by FP)**FP6**

	Planned cumulative period	Achieved cumulative period	Planned in 2010	Achieved in 2010
Number of closed audits	407	429	77	77
Audits TOP contractors	231	248	47	74
MUS-sample	161	171	25	2
Risk basis	15	10	5	1
Total amount audited (EC share in €)	n.a.	129,321,487	n.a.	26,013,004

The audits finalised during the years 2007-2010 covered 39% of the total EC commitments (amount) related to FP6 contracts. These 39% do not include amounts corrected through the extrapolation procedure or amounts that will be charged by the audited beneficiaries in future cost statements. Taking into account cost-benefit considerations, a further extension of the audit coverage will not be undertaken.

FP7

	Planned cumulative period	Achieved cumulative period	Planned in 2010	Achieved in 2010
Number of closed audits	22	7	20	6
Total amount audited (EC share in €)	n.a.	1,335,928	n.a.	1,212,441

The number of closed audits in 2010 was less than originally planned following a low number of auditable payments executed. The number of FP7 audits completed by the end of 2010 is too small and not representative enough to draw any significant conclusion at the present time.

Table 3.5 Impact indicators: Impact on the declaration of assurance

	2008	2009
European Court of Auditors : overall assessment of supervisory and control systems	Partially effective	Partially effective

*(C) Grants Internal Market and Competitiveness and Innovation***Table 3.6 Standardisation**

	Achieved in 2010
Costs claims audited (A)	5,417,847
Overall errors (in €) in favour of the Commission (B) (costs accepted by auditors - costs accepted by FO, in €)	224,389
Error rate in favour of the Commission (B/A)	4.36%
Total value at risk	694,780
Materiality (2% ABB activity)	1,296,400

In 2010, 8 audits of standardisation agreements (Internal Market) were finalised. The total adjustments show an overall error of 4.36%. The above analysis shows that the overall error rate for the cost statements provided by the standardisation bodies is material. However, it only relates to few, although significant, agreement participations. Typical errors concern personnel and indirect costs categories. The way of cooperation between EC and CEN, and between CEN and its members might also be carefully reconsidered to improve its effectiveness and satisfaction of all parties. The error is immaterial compared to the materiality criteria for the ABB activity.

Table 3.7 'Other' grants

	Achieved in 2010
Costs claims audited (A)	3,316,121
Overall errors (in €) in favour of the Commission (B) (costs accepted by auditors - costs accepted by FO, in €)	124,975
Error rate in favour of the Commission (B/A)	3.77%
Total value at risk	513,751
Materiality (2% ABB activity)	2,059,600

The amounts paid in relation to the other grants or grant schemes do not justify the production of individual Internal Control Templates. In 2010, 12 audits were finalised. It is not possible to produce representative audit evidence for this non homogenous group of grants with very different intervention mechanism and very different beneficiaries. A random sample of these grants has been audited and an error rate of 3.8% has been detected. Compared with the general materiality criteria of 2% of the payment appropriations under an ABB activity the errors are not material.

3.1.1.5.1 Management's analysis and conclusion on the cost-effectiveness of the controls for research expenditure

Context

Without prejudice to evaluating whether DG ENTR's management and control systems have succeeded to reduce the error rate in its underlying transactions below the currently applicable materiality threshold (2%) in terms of "legality and regularity" (see AAR Part 3.2)³⁶, it is also meaningful to assess whether the control system put in place by the AOD has been cost-effective in terms of "sound financial management" (SFM)³⁷ as such (cf. art 60.1 & 60.7 FR)³⁸.

When considering the total cost of control, covering all stages and elements of the entire (*ex ante and ex post*) control chain, it has to be understood that a significant part of the existing controls are established outside the scope of the AOD's discretionary decision power. On the

³⁶ *i.e. 'regardless' of the corresponding costs of control, and irrespective of whether or not an error rate within the range between 2% and 5% would one day be considered to be a "tolerable risk of error" (TRE) for the management of this policy area*

³⁷ *in accordance with the principles of economy, efficiency and effectiveness (a.k.a. "the 3 Es")*

³⁸ *At a certain stage in the lifecycle of the programmes managed, it may be that a trade-off decision is to be made between still adding controls to try reducing even further the remaining risks (inspired by art 60.4 FR), or stop adding controls for reasons of sound financial management (inspired by art 27 & 60.1 FR) and reallocate resources to address risks in other management areas.*

one hand, many of the *ex ante* controls are compulsory (a requirement as from the FR), regardless of whether their results in terms of actual contribution to reasonable assurance match the investments in inputs and coverage (e.g. the requirement of 100% coverage by *ex ante* desk checks). On the other hand, inter alia following pressures to speed up processes and to simplify the 'administrative' requirements to be fulfilled by beneficiaries of EC funds, some *ex ante* controls have been reduced in scope and/or coverage (a trend which was accompanied by focusing more on *ex post* controls), which may somewhat limit their potential contribution to reasonable assurance. In addition to the 'pre-set' nature of these controls, their cost is also semi-fixed (i.e. fixed for a certain volume of annual transactions).

Consequently, in order to determine whether it makes sense – at least in terms of sound financial management – to invest more resources into additional controls (or not), a "full cost" analysis of the total cost³⁹ of the entire control system is not very meaningful. In Research FP6, the part of the control chain over which the AOD does have considerable discretionary decision power⁴⁰ and which contributes significantly to increasing reasonable assurance, is the ex-post control function (i.e. on-the-spot audits of FP6 grant beneficiaries). Hence, the Research DGs have designed and implemented their part of the "common FP6 audit strategy". In addition to the actual management scope nature of these controls, their cost is also variable (i.e. the costs/fees to be paid per on-the-spot control/audit). Therefore, in order to conclude on the cost-effectiveness of the DG's control strategy, it appears logical to look at this single truly variable element.

Approach

In order to verify – e.g. once a year during the multi-annual lifecycle of the programmes managed – whether the optimal cut-off point in terms of cost-effective controls has already been reached, a useful approach is comparing the "marginal cost vs. marginal benefit" of those controls. At that point, the corresponding level of control would be achieving a sound cost-efficiency ratio while limiting the residual error rate to a reasonable level (which may however be different from the 2% materiality threshold currently applicable). Beyond that level of control, adding any further 'standard' controls would contribute negatively in terms of balancing costs and benefits – the AOD could then consider re-allocating resources otherwise⁴¹ for better value-for-money returns.

In practice, in order to determine that marginal benefit, the "best-case scenario" (cf. model 2A⁴²; assuming that the next control would deliver the highest yield in absolute terms) cannot be used in advance. However, settling for a pure "random selection" (cf. model 2B) or even a merely "average-based" approach is not necessarily unavoidable. In fact, a pragmatic "scenario in between" would be to rank the beneficiaries by funding received, so that even when based on the (cumulative) average error rate, at least the expected return of adding a control on the 'next largest' beneficiary would be potentially highest.

Analysis

- expected marginal cost of control (incremental cost of staff, contractors, etc)

³⁹ including costs which are to be considered as "sunk costs" for the purpose of managerial decision making

⁴⁰ cf. the flexibility for ex-post controls provided for in art 60.4 FR

⁴¹ to the subsequent programme (while still ensuring a number of risk-based audits and/or audits for continued dissuasive effect) and/or to more sophisticated anti-fraud measures

⁴² as described in the Commission Communication COM(2010)261 of 26.05.2010 and related working document SEC(2010)641

= the average cost of adding one control/audit = €60,000

- expected marginal benefit of control (incremental potential value of the 'next' error detected, once corrected⁴³)
= grant value of next⁴⁴ FP6 beneficiary to be audited x FP6 cumulative average detected error rate⁴⁵ (502,697x4.95%)
= €24,884
- expected marginal benefit will be €24,884 and expected marginal cost is €60,000 , of the 'next' marginal control action to be added .

Conclusions

a) Cost-effectiveness of controls

Considering the general characteristics of the multi-annual policy area concerned, while taking into account the specificities of the individual DG in terms of (i) the typical 'size' in its sub-population of beneficiaries, (ii) its average detected error rate, and (iii) the average cost of an audit per beneficiary, it appears that DG ENTR has reached the optimal cut-off point in terms of cost-effective controls in the context of SFM.

Consequently, under SFM-considerations (*'regardless' of whether or not the residual error rate is already below the current 2% materiality threshold – see below*), it would NOT make sense to pursue with additional controls – given that the optimal cut-off point in terms of cost-effective controls has already been reached.

b) Relation with a potential reservation (see AAR Part 3.2)

The DG's FP6 control strategy has been implemented successfully (see coverage) and quite effectively (see results); it has been able to improve assurance by reducing the residual error rate to a level as low as 3.0 %. While this result is historically favourable and close to the multi-annual target, the DG has *not* been able to attain the 2% materiality control target. Consequently, under the currently applicable assurance rules, the conditions for maintaining a reservation on FP6 are still met.

On the other hand, given the SFM-considerations explained above, for the AOD as a manager it would not be cost-effective to add further controls/audits (cf. art 27 & 60.1 FR). Consequently, an additional "action plan" for this FP6 reservation would not be appropriate, and resources would now rather be re-allocated to other management areas.

3.1.1.6 Control overrides

The ICS (Internal Control Standard) n° 8 requires that a method is to put in place to ensure that all instances of overriding of controls and deviations from established processes and procedures of the Directorate-General are documented in exception reports, justified, duly

⁴³ assuming full recovery (via offsetting against next payments or via issuing recovery orders), resulting from the implementation of audit results, the extrapolation of audit results and/or the application of penalties

⁴⁴ with the beneficiaries to be audited ranked by total EC funding received

⁴⁵ as taken from the 'representative' sample of audits carried out

approved before action is taken and logged centrally.

In 2010, there were four cases of overriding of a negative opinion given by the *ex ante* verification team of the Financial Resources Unit by the Director General.

One of the cases is related to a grant awarded to a regulatory agency for which an extension of the deadline was requested after the duration of the grant has expired. The Director General took the decision to override the *ex ante* negative opinion given the technical complexity of the grant implementation.

Written instructions (Art 66 FR)

In 2010 no written instruction in the sense of Article 66(2) of the financial regulation was given.

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

3.1.2.1 Opinion of the Internal Audit Capability (IAC)

The opinion of the Internal Auditor on the state of control is based upon the audit work performed in 2010. 2010 was the first year of a new three-year audit programme, coordinated with the IAS, which was established with the objective to cover the main processes and risks of DG ENTR. Within the financial audit universe, the assignments performed in 2010 covered the areas of the governance of the delegation agreement with the European Space Agency, the budget implementation monitoring process and a follow-up review of the audit on accounting closure 2008. With regard to the DG's operational processes, the IAC performed a performance audit on the coordination of external communication and reviewed the state-of-play of implementation of the recommendations stemming from the audit on the management of the human resources (HR), finalised in 2009 (this specific follow-up review was made in the context of the general audit follow-up exercise, taking place twice a year).

The overall opinion, which is part of the Annual report of the Internal Audit Unit for the year 2010, covers the audited parts of the internal control systems in place and is one of the building blocks of the reasonable assurance of the Director General. The audits concerning the financial processes are the most relevant for the Director General's declaration of assurance, whereas the operational audits provide further input for the general appreciation of the functioning of the internal control system (see section 2.2). In its opinion, the IAC considers that the internal control system in place in DG ENTR provides reasonable assurance regarding the achievement of the business objectives set up for the processes audited, except for issues related to the governance processes in place for GMES, the controls in place for the monitoring of the execution of payment appropriations related to the Entrepreneurship and Innovation Programme (EIP), qualifications made with regard to the coordination of external communication and the delayed implementation of four very important recommendations.

As regards the governance processes in place for both the operational and the financial management of the GMES delegation agreement with the European Space Agency (ESA), monitoring and control strategy are insufficiently documented. Nevertheless, in 2010 the Internal Auditor observed improvements such as the on-the-spot audit performed by the

financial unit of DG ENTR to check the ESA financial report before its approval.

The controls in place for the monitoring of the execution of the payment budget of the EIP did not provide reasonable assurance that available budget will not be left unspent. The main audit observations were addressed in December 2010 and referred to the following:

- as the EIP budget is widespread over the different Directorates, a central monitoring is needed;
- an unclear definition of responsibilities regarding the monitoring of the EIP payment appropriations was considered being one of the reasons having contributed to an under-execution of appropriations.

Concerning the coordination of the external communication, qualifications were made with regard to the establishment of the communication strategy of DG ENTR, the lack of a reliable central reporting on the cost of the different communication actions and insufficient guidelines on indicators and evaluations related to communication actions.

As regards the outstanding recommendations of the HR audit, 4 very important recommendations were linked to the APS (Annual Planning Strategy), which was abolished with the new Commission and not yet replaced by an alternative HR allocation process at central level. Some of these recommendations were partially addressed by a Zero-based Budgeting exercise launched in 2010, following the IAC report. Nevertheless, an HR planning and allocation process is still needed and should be incorporated in the ongoing implementing measures put in place by DG ENTR management. In agreement with the IAC, the revised date for the implementation of these recommendations is the end of the first quarter 2011.

Even though the scope of a follow-up review does not allow the Internal Auditor to issue an opinion on the accounting closure process as a whole, the specific review performed in the beginning of 2010 has shown that the process used for the calculation of the cut-off entries on behalf of the financial statements 2009 which are annexed to the AAR 2009 appears to meet the standards required.

In addition to the audit opinion the Internal Auditor has made a number of comments concerning risks, anti-fraud strategy and other control issues which were discussed with the Internal Control Coordinator and the Director of Resources. These comments do not call into question the overall effectiveness of the internal control system of DG ENTR but they will be followed up and thus the effectiveness of the internal control system will be further reinforced.

The Internal Auditor also made comments concerning the reservations on the rate of residual errors with regards to the accuracy of costs claims in the Sixth Research framework Programme (FP6), the Global Monitoring for Environment and Security (GMES) programme (joint management with ESA) and Global Navigation Satellite System (GNSS) programmes (EGNOS and Galileo, delegated to ESA).

3.1.2.2 Audits from the Internal Audit Service (IAS)

In accordance with the "single audit" principle, in 2010 the IAS performed the following assignments specifically concerning DG ENTR.

Audit on GNSS

Following the fieldwork undertaken in 2010, on 7 February 2011, the IAS issued a draft report concerning the first part of this audit, i.e. Governance, Risk Management and Project Management. Subject to the comments that will be provided by DG ENTR during the contradictory procedure with the IAS, this draft report concludes that the internal control system in place does not provide reasonable assurance regarding the achievement of the business objectives set up for the governance, risk management and project management of the GNSS programmes, because of six very important observations.

Follow-up to the audit on “Monitoring the implementation of EU Law”

The follow-up audit, dated 15 December 2009, concluded that 6 recommendations had been implemented, whereas more work was necessary for the remaining 4 recommendations. DG ENTR prepared an action plan in order to resolve the pending issues in 2010. On 16 September 2010, the IAS acknowledged that 2 of the 4 important recommendations could be closed. For the 2 remaining recommendations, new supporting evidence was asked. As since the introduction of the new action plan DG ENTR had not introduced any new legislation in relation to which a transposition/implementation plan (TIP) could be prepared, the due date was revised to 30 June 2011.

3.1.2.3 Audits from the European Court of Auditors (ECA)

The assessment of the legality and regularity of the transactions and effectiveness of the supervisory and control systems of DG ENTR is treated in Chapter 8 "Economic and Financial Affairs" of the Annual Report 2009. The Court concluded that the "most likely error rate" of the chapter is slightly below 2% and is presented as a green traffic light which represents considerable improvement compared to the previous year (DAS 2008) when "Economic and Financial Affairs" chapter received a yellow light (error slightly above 2%).

Besides the audit of the transactions, the Court assessed the supervisory and control systems of DG ENTR as “partially effective”. This assessment includes the *ex ante* control function of DG ENTR and the system of audit certificates for payments under FP6. DG ENTR considers that the weaknesses observed by the Court concerning the *ex ante* controls have no impact on the effectiveness of the supervisory and control systems and that the supervisory and control systems in place are cost-efficient, proportional and adequate as a whole.

The Commission shares the concern of the Court regarding the correctness of the FP6 audit certificates and has taken remedial action in order to improve the quality of the audit certificates in FP7.

The *ex post* functions are rated as effective for DG ENTR, as partially effective for the Executive Agency for Competitiveness and Innovation (EACI) and as not effective for the Research Executive Agency (REA) and the European Space Agency (ESA). In 2010, the control and monitoring framework related to ESA was formalised and implemented and REA addressed the concerns of the ECA related to the *ex post* controls. The weaknesses observed by the ECA in the Annual Report 2009 have therefore no negative impact on the assurance for 2010.

Besides the Annual Report 2009 the Court has not published any Special Reports relevant to the activity of DG ENTR.

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

3.1.3.1 Follow up of previous years' reservations

Reservation FP6

In the Annual Activity Report for the year 2009 the Director-General of DG ENTR made a reservation "...concerning the rate of residual errors with regard to the accuracy of cost claims in Sixth Research Framework Programme (FP6)."

The reservation in the Annual Activity Report for the year 2009 was made although the scope of the multi-annual *ex post* control strategy for FP6, and its implementation in 2009, were satisfactory and although it was expected that this would finally result in reducing the residual error rate to less than 2% by the end of 2010 (a further extension of the audit coverage, having regard to cost-benefit considerations, was considered as a possible option if this was necessary to achieve the control objective to reduce the residual error to a non material level).

The main corrective action is the full implementation of the common FP6 audit strategy which aims at optimising the impact of audits through the exhaustive coverage of the biggest participants, the coverage of an additional sampling of beneficiaries randomly selected according to international audit standards and the performance of targeted audits in case of identified specific risks. The objective of the strategy was to perform 407 audits during the years 2007-2010 and at the end of 2010 DG ENTR has finalised 429 audits in total and audited 39% of its FP6 budget.

The residual error rate at the end of 2010 is 3.0% (see table 3.1)

Recovery orders issued based on the results of the *ex post* audits are followed up and reported to management quarterly.

Table 3.8 Implementation of FP6 ex-post audit results in favour of the EC

Audit closing year	Results from external audits			Status of implementation			
	Audits closed	Participations with adjustments in favour of the EC	Adjustments in favour of the EC	Total implementation done	Offset from payments	Recoveries	Waived or not recoverable
2006	1	1	62,568	62,568	62,568	0	0
2007	104	65	707,930	328,381	201,489	126,570	323
2008	100	89	1,256,989	1,038,852	353,162	482,407	203,283
2009	147	185	3,011,144	2,217,777	847,477	1,115,061	255,238
2010	77	71	1,594,165	977,408	219,280	586,668	171,460
TOTAL	429	411	6,632,796	4,624,986	1,683,976	2,310,706	630,304

In addition, the implementation of the audit results on systematic errors to non-audited projects ("extrapolation") and the application of liquidated damages will be applied. For cost-benefit considerations in 2011 the audit work programme does not include any more audits on FP6 projects.

It is therefore prudent to continue to qualify the declaration of assurance with a reservation as

regards the accuracy of cost claims in FP6.

Reservation GMES

In 2010, DG ENTR followed-up the criticism of ECA, IAC and the reservation in the AAR 2009 which brought the following results (for some issues an IAC follow-up is ongoing and will be finalised in 2011, since the implementation of certain audit recommendations is still in progress):

- Formalisation of a control strategy for GMES in February 2010
- Audit of the financial report 2009
- Revision of ESA's procurement regulation and other improvements in ESA's procedures related to the criticism of the ECA
- ESA's financial reform, transfer from cash-based accounting to accrual in line with IPSAS⁴⁶
- Discussions on the amendment of the delegation agreement addressing the issues mentioned by ECA

The abovementioned measures have led to an improvement of the monitoring and control framework related to the activities delegated to ESA. Furthermore the weaknesses observed in the procurement procedures were addressed as well as the eligibility issues of certain personnel costs. The DG considers therefore that the action plan related to the reservation in the AAR 2009 has been implemented.

However, following the concerns of ESA's external auditor, the material error found by the ECA and the Commissions' own audit result related to the Galileo and EGNOS programmes, a new reservation related to the reporting by ESA on its own costs will be issued.

3.1.3.2 Follow up of ECA findings

The ECA made recommendations for further improvement of financial management of Research projects in the Chapter 5 (Research, Energy and Transport) and Chapter 8 (Economic and Financial Affairs) in the Annual Report 2009.

The ECA invites the Commission to ensure that the independent auditors who have incorrectly certified cost statements are made aware of the eligibility criteria for declared costs, to review the operation of the system for the certification of beneficiaries' costing methodologies, to reduce the backlog in recovering undue amounts paid and to impose sanctions where necessary, to further simplify the research funding rules and to ensure full accountability for the proper use of EU money.

The ECA also made a recommendation on the further improvement of the *ex ante* verification on interim/final payments and to ensure that the *ex post* control functions are covered by work programmes. It was recommended that for the joint management programmes with ESA, DG ENTR ensures close monitoring of the effective functioning of ESA's control systems and

⁴⁶ International Public Sector accounting Standards

assesses the reliability of ESA's annual reporting.

The Commission pursues a policy of actively providing feedback on *ex post* audit findings to the beneficiaries in order to ensure, where necessary, improvements in the work of the auditors delivering audit certificates. To this effect every beneficiary is requested in the course of the audit procedure to inform the certifying auditor on material audit findings. The Commission observes, however, that the main cause of the Court's observations is not so much the design or concept of the audit certificate but rather the relative complexity of the rules. This inherent complexity impacts the work performed by the external auditors mandated by beneficiaries to deliver audit certificates. The Commission shares the Court's concern about the correctness of the FP6 audit certificates; nevertheless the instrument has made a major contribution to prevention of errors compared to FP5. For FP7 further improvements have been introduced such as the introduction of "agreed upon procedures" (The Research DGs have introduced procedures, to improve the reliability of audit certificates that require the certifying auditor to perform pre-defined procedures and to report on that basis on the factual findings).

Furthermore, the Commission will further pursue its efforts to improve the timely implementation of the audit results in reducing the recovery backlog and continue to apply its guidelines on the application of liquidated damages. Furthermore the communication on the simplification of the recovery process adopted on 15 December 2009 provides measures to reduce and improve the performance of the recovery backlog process

The *ex post* control system of DG ENTR was assessed as effective. The criticism of the ECA is for the part of the policy area 02-Enterprise delegated to REA and EACI, where no *ex post* controls were carried out in 2009. Concerning the GMES agreement with ESA, no checks or audits were carried out in 2009. In 2010 corrective measures have been implemented and *ex post* audits were carried out.

The Commission considers that the *ex ante* checks under policy area 02 – Enterprise are proportionate and effective.

With regard to the joint management with ESA, DG ENTR has enforced its monitoring and control activities as of 2010.

At the time of writing this report, the findings of the ECA in relation to DAS 2010 are not yet known.

3.1.3.3 Follow up of any weaknesses reported by the Internal Audit Capacity, the Internal Audit Service and in the previous Synthesis report

The Directorate-General has not received any critical recommendations arising from the IAC and IAS audits. Action plans have been agreed or are in the process to be drawn up for all recommendations and are being implemented in order to correct the shortcomings that have been detected.

A summary of the conclusions and recommendations resulting from the audit work of the internal auditor is submitted to the Commissioner in the bi-annual management reports. The Internal Audit Unit monitors the implementation of its recommendations in all Directorates twice a year. The results are reported to the Director General and the Commissioner. Directors are reminded, if necessary, of pending issues in notes from the Internal Audit Unit. As of

December 2010, 82% (2009: 77%) of the accepted recommendations were considered to have been implemented. Overall, 11 very important recommendations remain open: 4 are classified as “delayed”, 4 as “in progress” and 3 have not yet been followed up. The open very important recommendations are related to the following audits:

- The audit on the management of the HR planning and allocation process in DG ENTR;
- The audit on the accounting closure 2008;
- The audit on the governance of the delegation agreement with ESA in DG ENTR;
- The audit of DG ENTR coordination of external communication.

In the course of 2010 the IAC issued a total of 48 new recommendations.

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

Roughly 2.7% of the amounts paid in 2010 on budget lines of Title 2 (Enterprise and Industry) have been authorised under cross-delegations. The Director General of DG ENTR is ultimately accountable for 0.81%, the legality and regularity of these transactions is ensured by the management and internal control systems put in place by the authorising officers to whom the cross-delegations have been given. The other 1.9% of the payments is covered in the AARs of the sub-delegated bodies and relates to administrative costs.

These authorising officers have reported on the use made of the appropriations and have not indicated any irregularities.

The conditions of these cross-delegations are following Article 7 of Implementing Rules.

The authorising officer by sub delegation regularly informs the authorising officer by delegation of the projects and activities for which he received a sub delegation. These reports should include, amongst other, the following information:

- a description of the work programme, the objectives for the period and the results achieved;
- a description of the utilisation of the financial resources;
- the signalling of any issue related to the management of the activities.

The reports on the cross-delegations exchanged between DG ENTR and other DGs did not give indications of any particular unfavourable observation with regard to the regularity and legality of the transactions concerned.

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

The information in sections 3.1.1 to 3.1.4 stems from monitoring by management and auditors. It results from a systematic analysis of the available evidence. This approach results in an adequate coverage of the budget delegated to the Director General of DG ENTR and provides sufficient guarantees of the completeness and reliability of the information reported.

3.2 Reservations

DG/Service	<i>Enterprise and Industry</i>
Title of the reservation, including its scope	<i>Reservation concerning the rate of residual error with regard to the accuracy of cost claims in the Sixth Research Framework Programme (FP6)</i>
Domain	<i>Internal policy, direct centralised management of grants under the 6th Research Framework Programme (FP6)</i>
ABB activity and amount	<i>Chapter 02 04 – "Cooperation – Space and Security" Payment appropriations: € 217.63 million. Outturn in 2010: € 186.85 million</i>
Reason for the reservation	<i>The cumulative residual error rate is 3.0% and higher than the 2% multiannual control objective. In 2010, Enterprise and Industry DG finalised the FP6 multi annual ex post control plan. Although the residual error rate will further decrease following extrapolation of audit results to non-audited contracts, a residual error rate of below 2% will not be accomplished. Taking into account cost-benefit considerations, no additional audits will be performed.</i>
Materiality criterion/criteria	<i>The materiality criterion is the cumulative residual error rate. The materiality thresholds are set at 2% and 5% as set out in detail in annex 4.</i>
Quantification of the impact	<i>The maximum impact is calculated by multiplying the residual error rate (3.0%) with the amount of FP6 payments actually processed in 2010, i.e. € 20.16 million. This yields € 0.6 million as maximum potential impact on FP6 payments during 2010.</i>
Impact on the assurance	<i>Legality and regularity of the affected transactions. The assurance is affected within the scope of the quantified budgetary impact.</i>
Responsibility for the weakness and its correction	<i>The Legislative Authorities for the underlying rules as laid down in the basic acts, the Commission services for the management and control systems in place and the beneficiaries and certifying auditors for the correctness of cost claims and audit certificates. Within these limits the remedial action of the services of the Commission is carried out through audit campaigns and the full and timely implementation of audit results as well as by better informing the contractors.</i>

<p>Corrective action(s)</p>	<p><i>The main corrective actions as set out in the common FP6 audit strategy which aims at optimising the impact of audits through the exhaustive coverage of the biggest participants, the coverage of an additional sampling of beneficiaries randomly selected according to international audit standards and the issuing of targeted audits in case of identified specific risks were finalised in 2010. In total, 429 audits were performed which represent an audit coverage of 39%. Taking into account cost-benefit considerations, a further extension of the audit coverage will not be undertaken.</i></p> <p><i>In addition, the implementation of the audit results on systematic errors to non-audited projects and the application of liquidated damages, in case the beneficiary fails to implement audit results on these systematic errors, provide for an additional extension of audit coverage. This detective and corrective strategy will cover over 50% of the DG's FP6 budget.</i></p> <p><i>Further corrective actions have been introduced for FP7 through the development of audit certification based on "agreed upon procedures". This provides a compulsory set of procedures for a more effective use of audit certification in FP7. Moreover, the simplification measures introduced early 2011, are expected to further reduce the error rate.</i></p>
------------------------------------	---

DG/Service	<i>Enterprise and Industry</i>
Title of the reservation, including its scope	<i>Reservation concerning the reliability of the financial reporting by the European Space Agency for its own costs⁴⁷ about the joint implementation of the space component of the Global Monitoring for Environment and Security (GMES) and about the implementation of the EU satellite navigation (EGNOS and Galileo) programmes.</i>
Domain	<i>Joint management (GMES) and Centralised indirect management (EGNOS and Galileo)</i>
ABB activity and amount	<i>Chapter 02 04 – "Cooperation – Space and Security" Payment appropriations: € 217.63 million. Outturn in 2009: € 186.85 million Chapter 06 08 – "EU Satellite navigation programmes (EGNOS and Galileo)" Payment appropriations: € 482.60 million. Outturn in 2010: € 460.17 million</i>
Reason for the reservation	<i>In GMES, under joint management (article 53d FR) the Commission entrusts ESA with project management and budget implementation tasks related to the programme. In EGNOS and Galileo, under centralised indirect management (article 54 FR) ESA is responsible for the project management and procurement activities of the referred programme. The procurement activities are carried out in full coordination with the European Commission and under the EU Procurement rules. For both programmes ESA is entitled to be reimbursed for its own costs incurred in the implementation of the delegated tasks. The audit opinion of ESA's external auditor on the annual accounts 2009 points out to weaknesses in ESA's internal control systems and highlights major concerns on the reliability of the financial reporting for 2010. The industrial procurement expenditure does not fall under the scope of this reservation.</i>
Materiality criterion/criteria	<i>2% of the ABB activity (defined per activity with a specific management and risk profile i.e. industrial procurements and ESA costs)</i>
Quantification of the impact	<i>It is not possible to quantify the impact, if there is any. The actual financial impact will only be known after the audit of the 2010 financial reports, scheduled to take place in 2011.</i>
Impact on the assurance	<i>The insufficient reliability of the financial reporting might affect the intended use of resources and the principles of sound financial management for the programmes.</i>

⁴⁷ This reservation is different from the reservation in the AAR 2009; the action plan related to the improvement of the monitoring and control framework and the weaknesses in the procurement procedures were addressed (see also paragraph 3.1.3.1)

Responsibility for the weakness and its correction	<p><i>The proper application of the requirements stated in the delegation agreement is the responsibility of both the delegated body and the responsible Commission's services.</i></p> <p><i>The initial assessment of the compliance of the delegated body's internal control system with international accepted standards was positive. However, following a financial reform in 2010, a new assessment should be performed by the Commission.</i></p>
Corrective action(s)	<p><i>During 2010, the DG's monitoring and control strategy towards ESA has been strengthened. In particular a control strategy including ex ante and ex post activities as regards the annual financial reporting was finalised in 2010. Further corresponding checks and balances will be performed in 2011.</i></p>

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

In 2010, DG ENTR has managed the resources for which it was responsible to best effect for the intended purposes, in line with the Financial Regulation and according to the principles of sound financial management, regularity and legality.

The internal control system (see part 2 above) in the DG is in place, and it functions effectively to the extent that it enables the Director General to give his assurance on the resources used. With the help of the internal control system, weaknesses could be detected and corrective measures put in place.

However, in the area of the accuracy of cost claims in Sixth Research Framework Programme (FP6) the errors detected lead the Director-General to maintain a reservation on the reasonable assurance. Concerning the reliability of the financial reporting by the European Space Agency on the use of its own costs for the joint implementation of the space component of the Global Monitoring for Environment and Security and the implementation of the EGNOS and Galileo programmes under centralised indirect management, the Director General considers it to be prudent to make a reservation on the reasonable assurance until he has satisfactory evidence that the reporting by ESA on its own costs is sufficiently reliable.

PART 4 DECLARATION OF ASSURANCE

I, the undersigned, Director-General of Enterprise and Industry DG

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view⁴⁸.

State that I have reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex post controls, the work of the internal audit capability, the observations of the Internal Audit Service and the lessons learnt from the reports of the Court of Auditors for years prior to the year of this declaration.

Confirm that I am not aware of anything not reported here which could harm the interests of the institution.

However the following reservations should be noted:

- (1) Reservation concerning the rate of residual errors with regard to the accuracy of cost claims in Sixth Research Framework Programme (FP6) grants.*
- (2) Reservation concerning the reliability of the financial reporting by the European Space Agency for its own costs about the joint implementation of the space component of the Global Monitoring for Environment and Security (GMES) and about the implementation of the EU satellite navigation programmes (EGNOS and Galileo).*

Brussels, 28 March 2011

(Signed)

Heinz Zourek

⁴⁸ *True and fair in this context means a reliable, complete and correct view on the state of affairs in the service.*