

# Annual Activity Report 2010

## Information Society and Media Directorate-General

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# Part I

## Policy achievements

### 1.1 Information society and media – policy achievements

The Directorate General for Information Society and Media (DG INFSO) pursues an integrated approach to building up the Information Society. The main policy framework for the work of the directorate-general is outlined in the Digital Agenda for Europe (DAE)<sup>1</sup> adopted on 19 May 2010. DAE was the first flagship initiative of the Europe 2020 strategy launched by the Barroso II Commission and it defines the key enabling role of information and communication technologies (ICT) for Europe. The Digital Agenda presents a list of 101 concrete actions, of which six were already implemented [either in whole or in part] in 2010. The actions are grouped into seven main pillars, each aiming to tackle problems that hinder the achievement of the full potential of ICT. In addition, attention to the international dimension of the DAE was addressed. The pillars are:

- I. A vibrant digital single market
- II. Interoperability and standards
- III. Trust and security
- IV. Fast and ultra fast Internet access
- V. Research and innovation
- VI. Digital literacy, skills and inclusion
- VII. ICT-enabled benefits for EU society

The implementation of this ambitious plan is the responsibility of a number of different Directorates General of the Commission, not DG INFSO alone. Implementation by DG INFSO of its parts of the Seventh Framework Programme for Research and Technological Development (FP7) and the Competitiveness and Innovation Programme (CIP) contribute also to the objectives of the DAE. FP7 is the EU's main instrument for funding research in Europe, while CIP supports innovation activities and encourages a better take-up and use of information and communication technologies.

Although EU funding of ICT research and innovation provides an essential support it cannot solve all the issues hindering the achievement of full benefits of ICT. Many other actions are carried out by DG INFSO to ensure that there is a conducive environment for innovation for the ICT sector – these include policy support and legislative proposals as well as monitoring and providing support to the Member States who implement the legislation.

In May 2010, DG INFSO published Europe's Digital Competitiveness Report 2010. It was received positively both internally and in the international press and provides important data underpinning the DAE actions.

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<sup>1</sup> [COM \(2010\) 245](#) - A Digital Agenda for Europe

## 1.1.1 Main achievements towards general objectives

In 2010, DG INFSO had four general, multiannual objectives:

- 1. Establish a vibrant digital single market with a stable legal framework that stimulates investment in an open and competitive high speed internet infrastructure and related services.**

IMPACT INDICATORS	LONG-TERM TARGET	CURRENT SITUATION
Broadband internet access Owner: C1, C4 Input: B2, B3	By 2020, all Europeans to have broadband internet access at or above 30 Mbps and 50% households to have subscriptions above 100 Mbps	In January 2010, 23% of broadband subscriptions were with at least 10 Mbps
Increased choice to consumers who can then change providers if they so wish Owner: C4, B2, B3	By 26 May 2011, one day to port a fixed and mobile number in accordance with the requirements of the new regulatory framework	In October 2010, the average porting times for mobile and fixed numbers were 8.2 days and 5.9 days respectively. The figure for fixed portability is not fully comparable to that of past years due to changes in the methodology.
Approximate drop in prices for voice calls, SMS and data as a result of the Roaming Regulation "Eurotariff" Owner: B2	By 2015, no significant difference between roaming and national tariffs	In 2010, the difference between domestic averages and roaming averages for all types of communication (outgoing calls, SMS and data) is over 100%
Reliable online and cross-border transactions Owner: C4	By 2015, 50% of the population buying online By 2015, 20% of the population buying cross-border online By 2015, 33% SMEs conducting online purchase/sales	In 2010, 40% of the population was buying online In 2010, 9% of the population was buying cross-border In 2009, 28% and 14% of SMEs respectively were purchasing/selling online

- 2. Reinforce innovation and investment in ICT research and innovation as a main driver of the digital economy.**

IMPACT INDICATORS	LONG-TERM TARGET	CURRENT SITUATION
Level of investment in research and development in key ICT fields Owner: C2, C4	By 2020, double annual public investment on ICT R&D (to € 11 bln)	In 2007, ICT government budget appropriations or outlays on R&D was € 5,7 billion.
The expected impact originating from the activities funded by the ICT Programme of the FP measured in terms: a) world leadership of the sector b) benefit to the citizen Owner: C3	Impact on world leadership and benefit to the citizen: Equal or greater results with respect to 2009	The annual monitoring exercise for 2010 is still ongoing. According to the first figures the average FP7 project has produced 0.3 patents, 5 articles and 10.6 papers in 2010. The productivity rate is in line with figures for 2009. As far as the expected impacts are concerned, project coordinators have judged the highest impacts to be on creation of new products (1.93 score on a 0 to 3 scale), followed by effects on access to information (1.78) and

		education (1.57). Lower impacts are predicted on increased market shares (0.88) and job creation (0.93). Some of the impact may have not materialised yet.
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### 3. Promote ICT take-up for inclusion, public services, sustainability, quality of life, cultural diversity and extending the European values.

IMPACT INDICATORS	LONG-TERM TARGET	CURRENT SITUATION
Share of European and independent audiovisual programmes transmitted by audiovisual media services in the EU Owner: A1	Target set in the directive: share of European audiovisual services transmitted by TV channels in the EU larger than 50% of total transmission time and 10% of transmission time or programming budget for independent works	The share of EU audiovisual services reached 62,6% in 2007 and 63,2% in 2008, and independent productions 35,6% in 2007 and 34,9% in 2008.
Increase regular internet usage and use by groups at risk of exclusion (older, unemployed, low educated, etc.) Owner: C4, H3	By 2015, 75% of the population regularly using internet 60% of disadvantaged people regularly using internet Max 15% of individuals aged 16-74 never used internet	In 2010, 65% of the EU population used internet regularly  In 2009, 41% of the disadvantaged people in the EU used internet regularly  In 2010, 26% of EU population never used internet
Widespread use of eGovernment services Owner: H2	By 2015, 50% of European citizens (aged 16-74) using eGovernment 80% of businesses using eGovernment	In 2010, 42% of the population used eGovernment services 75% of businesses used eGovernment
Digital literacy gap between the EU population and groups at risk of exclusion Owner: C4, C1, H3	By 2010, reduce by half the gap (0,8) in digital literacy (Riga target)	The Riga targets have been assessed in 2010 as not having been achieved. New indicators have been identified and new targets have been set in the context of the Digital Agenda for Europe (key performance target N°3 related to digital inclusion)

### 4. Low carbon economy

IMPACT INDICATORS	LONG-TERM TARGET	CURRENT SITUATION
Reduction of energy use by deployment of solid state lighting (SSL) Owner: G5, H4	By 2020, at least 20% overall reduction in energy use on lighting	In 2009, lighting was consuming 14% of all electricity in Europe and the SSL market share was 0.3%

## 1.1.2 Main achievements towards specific objectives for every ABB activity

### 1.1.2.1 ABB activity: Regulatory framework for the Digital Agenda for Europe

DG INFSO is the main player in the implementation of the Digital Agenda for Europe (DAE), which is core to the achievements of the DG. In 2010, a number of measures already had been taken to achieve the ambitious actions and targets of the DAE.

## E-communications policy

The EU electronic communications policy aims to create an innovative and competitive single space for information society and media services and to make available affordable services for consumers by putting in place a common set of rules and creating a level playing field for competing operators across the EU. This framework is based on the premise that common mechanisms should exist at Community level to ensure that regulation adapts to changes in technology and markets in a coherent way. Member States are also required to promote the availability and efficient use of radio spectrum. All this needs to be complemented by strong enforcement of these rules to ensure that the benefits accrue to citizens and businesses alike.

Regulatory policy can therefore be seen as a structural tool, which in the telecommunications sector focuses on issues such as combating market failure and by facilitating entry through the creation of the right incentives to invest in new technologies. In 2010, activities were framed by the Digital Agenda for Europe and focused around three main strands:

- policy making in particular in the area of radio spectrum and next generation access networks;
- promoting the development of an internal market for electronic communications by monitoring and supporting the implementation of the regulatory framework, including of the Roaming Regulation and the Mobile Satellites Services Decision, in the Member States and
- assessing the imposition of national regulatory measures, pursuant to market analyses.

Electronic communications policy plays an important role within the framework of the Digital Agenda for Europe, in particular for pillar 1 (digital single market) and pillar 4 (very fast internet). A first package to implement the Broadband strategy of the Digital Agenda for Europe was adopted in September 2010 comprising three complementary measures to facilitate the roll out and take up of fast and ultra-fast broadband in the EU:

1. a Commission Recommendation on regulated access to Next Generation Access<sup>2</sup> (NGA) networks that provides regulatory certainty to telecom operators, ensuring an appropriate balance between the need to encourage investment and the need to safeguard competition (this recommendation completes  DAE action 45)
2. the proposal for a Decision to establish a Radio Spectrum Policy Programme<sup>3</sup> to ensure, inter alia, that spectrum is available for wireless broadband (see below for further details). This proposal completed the Commission's responsibility for  DAE action 44. The legislative process in the EP and Council is still progressing with active contribution and participation from the Commission services.
3. a Broadband Communication<sup>4</sup> outlining how best to encourage public and private investment in high and ultra-high speed networks. This Communication completes  action 42 of the Digital Agenda.

Concerning the legal framework for electronic communications networks and services, work in 2010 focused on support to Member States for implementation of the revised provisions of the Telecom package that was adopted at the end of 2009<sup>5</sup>. Member States have until 25 May 2011 to transpose the revised provisions into national law. DG INFSO provided guidance to Member

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<sup>2</sup> [OJ 2010/572/EU](#) – 'Commission Recommendation on regulated access to Next Generation Access'

<sup>3</sup> [COM \(2010\) 471](#) – 'Proposal for a decision of the European parliament and of the council establishing the first radio spectrum policy programme'

<sup>4</sup> [COM \(2010\) 472](#) - Communication "European Broadband: investing in digitally driven growth"

<sup>5</sup> [OJ L 337 of 18.12.2009](#)

States through the Communications Committee on some of the key provisions of the revised framework.

The Body of European Regulators for Electronic Communications (BEREC) and its Office created under the Telecom reform package of 2009, held its first meeting in Brussels in January 2010. BEREC replaces the European Regulators Group (ERG)<sup>6</sup> and provides expertise and establishes confidence by virtue of its independence, the quality of its advice and information, the transparency of its procedures and methods of operation and its diligence in performing its tasks.

In May 2010, the Commission adopted its 15<sup>th</sup> Report on the Implementation of the e-Communications regulatory framework<sup>7</sup> as part of its annual reporting exercise, which showed that most Member States' markets have become more competitive, but remain national in dimension. The major concerns identified in the annex to this report served as a basis for monitoring activities.

### **Roaming regulation**

Following the adoption of the amendments to the Roaming Regulation<sup>8</sup>, DG INFSO prepared an interim report submitted to the co-legislators at the end of June 2010<sup>9</sup>. On 1 July 2010, new measures entered into force to counter data roaming bill shocks and to impose lower roaming call price caps. A public consultation was launched in December 2010 to prepare the full review of the Roaming regulation due by end of June 2011.

### **Radio spectrum policy**

The revised regulatory framework addresses current inefficiencies in the distribution and use of spectrum. This avoids wasted opportunities for business which reduce the development and roll-out of innovative wireless services, ultimately to the detriment of consumers and the single market. The creation of a coordinated and efficient spectrum policy for wireless communications services remains a key policy objective for the EU to promote the development of a genuine single market for wireless communications services and equipment.

As part of a package of broadband measures adopted by the Commission in September 2010, a proposal was made to the European Parliament and Council for a Decision to establish a programme for planning and harmonising the use of the EU's radio spectrum. Preparatory work included a public consultation and a spectrum summit co-organised with the European Parliament in March 2010. The proposal includes steps to ensure that sufficient spectrum is made available for wireless broadband, which is essential to deliver the target of broadband for all by 2013 (one of the key goals of the Digital Agenda for Europe and one of the general objectives of DG INFSO). More efficient and competitive use of spectrum in the EU would also promote the development of innovative technologies and services, to the benefit of consumers and of Europe's overall competitiveness. Negotiations on the proposal will take place throughout 2011.

In order to reap the benefits of the switchover from analogue to digital terrestrial TV broadcasting, which will release an unprecedented amount of spectrum throughout Europe as a result of the increased efficiency of the digital format, DG INFSO prepared a technical Decision

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<sup>6</sup> [Commission Decision 2010/299/EU of 21 May 2010](#) repealing Decision 2002/627/EC establishing the European Regulators Group for Electronic Communications Networks and Services.

<sup>7</sup> [COM\(2010\) 253](#) and [Staff Working document SEC\(2010\) 630](#).

<sup>8</sup> Regulation 544/2009 of the European Parliament and of the Council of 18 June 2009 amending Regulation 717/2007 on roaming on public mobile telephone networks within the Community and Directive 2002/21/EC on a common regulatory framework for electronic communications networks and services

<sup>9</sup> [COM \(2010\) 356](#) – Communication "on the interim report on the state of development of roaming services within the European Union"

of the Commission on the 800 MHz<sup>10</sup> building on preparatory work undertaken in previous years. This Decision establishes harmonised technical rules for Member States when they allocate radio frequencies in the 800 MHz band to electronic communication services. In several Member States the 800 MHz frequencies are being freed up as part of the so-called "digital dividend" resulting from the switchover and can contribute to the deployment of high-speed wireless internet services by avoiding harmful interference. The Commission proposal for the Radio Spectrum Policy Programme would require Member States to make available the 800 MHz band for electronic communication services by January 2013.

In 2010, the Commission continued its work on harmonisation of certain spectrum bands by adopting a Decision on mobile communication on board vessels<sup>11</sup>, to facilitate the use of mobile phones on ships in European waters. An amendment to the short range devices Decision was also adopted<sup>12</sup>. On all the above issues, the Commission continued to work in close cooperation with national authorities in the Radio Spectrum Policy Group (RSPG) and the Radio Spectrum Committee (RSC)<sup>13</sup>.

## **Broadband**

The take-up of high-speed broadband Internet access in Europe has continued strongly in 2010. The importance of broadband access for Europe was highlighted by its inclusion as a funding priority in the Economic Recovery package. Coupled with evolving service demands for ever-higher bandwidth and lower latency, several European telecom operators and municipalities have begun to deploy Fibre-To-The-Home (FTTH) technology, which is increasingly accepted as the "future-proof" broadband infrastructure. Similarly, upgrades to existing technologies (e.g. DOCSIS 3.0 for cable networks, VDSL2 for twisted-pair networks, further revisions of wireless standards) allowed for bandwidth increases necessary to accommodate rising demand. Closer integration of fibre, radio and wire-line technologies (including powerline communications) and wireless optic communications is emerging as a key solution to the technology challenges, and a means to overcoming economic and regulatory obstacles, particularly in the 'rural' parts of Europe, and will be a key objective of FP7 research. A key objective in this field is to bring down capital and operational expenditures for the various competing wired or wireless technologies, to overcome the "economic digital divide", and making possible new societal services and user-friendly applications.

Concerning the financing of broadband, DG INFSO has continued the dialogue with the EIB and other Commission services in the context of the next Multi-annual financial framework, budget review and shaping of innovative financial instruments. This objective is increase very much needed finance leverage for high-risk investment.

## **Universal service**

The revised Telecom Regulatory framework gives Member States additional flexibility to upgrade universal service obligations to include broadband services. DG INFSO held a formal 10 week consultation on the future role of universal service at EU level, which closed in May 2010. The results of the public consultation will feed into the report to be adopted in 2011, which could be accompanied by additional guidance for Member States.

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<sup>10</sup> [Commission Decision 2010/267/EU of 6 May 2010](#) on harmonised technical conditions of use in the 790-862 MHz frequency band for terrestrial systems capable of providing electronic communications services in the European Union

<sup>11</sup> [Commission Decision 2010/166/EU of 19 March 2010](#) on harmonised conditions of use of radio spectrum for mobile communication services on board vessels (MCV services) in the European Union.

<sup>12</sup> [Commission Decision 2010/368/EC of 30 June 2010](#) amending Decision 2006/771/EC on harmonisation of the radio spectrum for use by short-range devices

<sup>13</sup> The adoption of regulatory opinions in RSC has ultimately led to the adoption of the various Commission harmonisation Decisions.

## Net neutrality

Regarding net neutrality, following the Commission's political commitment<sup>14</sup> to keep the neutrality of the internet under close scrutiny and to report on the state of play in net neutrality to the European Parliament and the Council of Ministers, DG INFSO held a public consultation and co-organised a summit with the European Parliament on the open internet and net neutrality in Europe in November 2010. The views expressed, as well as the work done by BEREC, were taken into account for the preparation of a report to be adopted early 2011.

## Internet and information security

On 30 September 2010, the Commission adopted a proposal for a Regulation of the European Parliament and Council concerning the reinforcement and modernisation of the European Network and Information Security Agency (ENISA)<sup>15</sup>. The main objective of the proposal is to reinforce network and information security in Europe by enabling the EU, Member States and stakeholders to develop a high degree of capability and preparedness to prevent, detect and better respond to network and information security problems. The Commission proposal completed part of "action 28: Propose a Regulation to modernise the European Network and Information Security Agency (ENISA) and make proposals to set up CERT for EU institutions"

### Cyber Europe 2010

On 4 November 2010, the first ever pan-European cyber security exercise "Cyber Europe 2010" took place. It was organised by the EU Member States and jointly supported by the European Network Security Agency (ENISA) and the EU's Joint Research Centre. The exercise was the first successful "cyber stress test" to Europe's preparedness against cyber threats. It was an important step towards working together to combat potential online threats to essential infrastructure and ensuring citizens and businesses feel safe and secure online. The exercise aimed at establishing trust in and between the Member States, testing communication channels, highlighting interdependencies and increasing mutual support procedures in case of incidents or attacks.

The DAE clearly identifies trust and security (pillar 3) as key elements of the overall strategy to deliver sustainable economic and social benefits from a digital single market. It is assumed that Europeans will not embrace technology that they do not trust. To this end, in 2010 a number of activities were undertaken, i.a. the Commission worked on enhancing cooperation with international partners, most notably with the US, in the area of cyber security. In November 2010, both sides agreed to create a EU-US Working Group on Cyber-security and Cyber-crime. Additionally, the first pan-European cyber security exercise, Cyber Europe 2010, was organised with more than 150 experts from 70 public bodies around Europe participating.

Another aspect of trust and security concerns electronic authentication which is essential for transactions on the Internet. In that context, Key action 3 of the DAE also announces the revision of the e-signature directive. Preparatory work took place in 2010 in coordination with DAE key action 16 (decision on mutual recognition of eID) to launch a joint public consultation.

In November 2010, a "Rat der IT Weisen" established by the European Commission Vice-Presidents Neelie Kroes and Maroš Šefčovič to provide the EU institutions with advice regarding the establishment of a Computer Emergency Response Team (CERT), presented their recommendations. The Commission could lead by example in the area of network and information security by establishing a CERT for the EU institutions.

<sup>14</sup> [OJ L 337 of 18.12.2009](#), p. 69

<sup>15</sup> [COM \(2010\) 521](#) – Proposal for a Regulation of the European Parliament and of the Council concerning the European Network and Information Security Agency (ENISA)

## Safer Internet programme

The most recent Safer Internet programme runs from 2009 until 2013 with a total budget of €55 million. The programme objectives are to fight not only illegal content on the internet but also harmful conduct such as grooming and bullying.

Under the 2010 call for proposals, 22 proposals were submitted before the call deadline of 27 May 2010. Following the evaluation in June 2010, 6 proposals were selected for funding for a total indicative Community contribution of € 3 million.

Full geographical coverage has now been achieved for the Safer Internet Centres: 30 awareness centres and helplines and 28 hotlines will run in 30 countries (27 MS + Iceland, Norway and Russia). In addition negotiations continue with Serbia to participate in the Programme by setting up an awareness centre and hotline in the country. The action from the 2010 call about excessive internet use addiction raised a lot of interest and a new knowledge enhancement project will start in 2011 to investigate this issue in 7 European countries. Also as a result of the 2010 call, a new technical project to support the analysis of illegal material by the police within peer to peer networks will be funded.

Safer Internet Day has been celebrated each year since 2004 to promote a safer and more responsible use of online technology and mobile phones amongst children and young people, under the patronage of Commissioner. In 2010, events were organised in more than 60 countries, ranging from safety sessions in schools to competitions for young people to conferences.

In the area of promoting a safer environment through self-regulation, following the signature in 2007 of the "European Framework on Safer Mobile Use by Younger Teenagers and Children" by leading Mobile Operators and Content Providers, there are currently 95 signatories and 27 national codes of conduct, covering of close to 100% of European subscribers . GSM Europe has conducted monitoring studies on an annual basis. The results of the implementation report were published in April 2010.

The Safer Internet Forum was held on 21 and 22 October 2010 on the topic "*Online opportunities and risks: How do children use online technologies? Are parents up to speed? How to cope with risks*". It allowed researchers from the EUKidsOnline network and the Project on Online Grooming to share first results of their surveys. It also involved a pan-European youth panel and parents' panel and 300 participants from different sectors, including education, child welfare, NGOs, government, academia and industry.

## Internet governance

DG INFSO continued to formally represent the Commission as a member of the Governmental Advisory Committee (GAC) of ICANN (the Internet Corporation for Assigned Names and Numbers), which held meetings in Nairobi, Brussels and Cartagena, Colombia during the year.

In 2010, five meetings of the High Level Group on Internet Governance (HLIG) were organised. The HLIG is an informal group composed of senior Member State representatives (+ representatives from Norway and Switzerland) and is chaired the Deputy Director General of INFSO.

DG INFSO continued to follow up activities related to the World Summit on Information Society (WSIS), particularly with regard to the Internet Governance Forum (IGF). The IGF was set up as a non-binding multi-stakeholder platform for discussion on Internet Governance related issues for an initial period of five years. The 5<sup>th</sup> IGF meeting was held in Vilnius from 14 to 17 September 2010 under the overall theme "IGF 2010 – Developing the Future Together". In view of the expiry of the initial 5-year period of the IGF the UN General Assembly, at its 65<sup>th</sup> session,

adopted a Resolution on "Information and Communication Technologies for development" in which it renewed the mandate of the IGF for further five years.

The ITU Plenipotentiary Conference took place from 4 to 22 October 2010 in Guadalajara, Mexico, during which DG INFSO chaired community coordination on IG relevant issues, such as the IGF continuation.

### **Dot eu**

The ".eu" Top Level Domain (TLD) maintained its 9th position ranking among the most popular TLDs worldwide. Its usage and visibility continued to increase among not only the large and well-known organisations but also among small and medium size enterprises, NGOs and private individuals. From June 2010, ".eu" TLD has a complete Domain Name System Security Extensions (DNSSEC) chain of trust, which means that anyone visiting such a DNSSEC-enabled ".eu" domain can be confident of its legitimacy.

### **Internet of Things**

Internet of Things (IoT) refers to a dynamic global network infrastructure with self configuring capabilities based on standard and interoperable communication protocols where physical and virtual 'things' have identities, physical attributes, virtual personalities, use intelligent interfaces, and are seamlessly integrated into the information network.

In 2010, the European Research Cluster on the Internet of Things (IERC) published its first report *Vision and Challenges for Realising the Internet of Things*. This report will be updated in 2011 with contributions from the participating projects (currently about 40, including EU-funded projects and EU national projects) as well as from several non-European stakeholders, especially from America and Asia. The Strategic Research Agenda of the cluster, which constitutes the major part of the IERC report, was translated into Chinese by Chinese researchers (with support from AIM China).

On 10 August 2010, the Commission adopted a decision to create an expert group on the Internet of Things. This group of about 50 experts from academia, industry, government and the civil society, met twice in 2010, and will meet five times in 2011, to advise the Commission on how best to address the technical, legal and organisational challenges of IoT at European level.

During 2010, following the Commission Recommendation on RFID (radio frequency identification) systems<sup>16</sup> of May 2009, DG INFSO supported industry in its endeavour to develop a comprehensive *Privacy and Data Protection Impact Assessment* (PIA) framework for RFID applications.

### **Audiovisual and media policies**

The long-term objective of EU policy in the audiovisual and media field is to ensure the conditions necessary to underpin the competitiveness of European industry, to encourage the circulation of audiovisual works and to increase the cultural diversity. The achievement of those long-term objectives was facilitated, among others, by the Commission's adoption of the 9<sup>th</sup> Communication on the Application of Article 4 and 5 of the TVwF (Television without Frontiers) Directive<sup>17</sup> in September 2010. This Communication showed satisfactory results regarding the time devoted to European and independent works on television services at EU level.

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<sup>16</sup> C (2009) 3200, Commission Recommendation "on the implementation of privacy and data protection principles in applications supported by radio-frequency identification"

<sup>17</sup> [COM \(2010\) 450](#) - 9<sup>th</sup> Communication on the Application of Article 4 and 5 of the TVwF (Television without Frontiers) Directive

DG INFSO continued to support Member States in the transposition of the *Audiovisual Media Services Directive (AVMSD)*<sup>18</sup> intended to realise a common market in broadcasting and on-demand audiovisual media services. In 2010, 16 Member States notified full transposition of the directive.

The role of the Commission in the area of film heritage is to encourage cooperation between Member States and, if necessary, support and supplement their action. In this respect, the 2<sup>nd</sup> Report on the Application of the Film Heritage Recommendation was published in July 2010. This report was a basis for the Council Conclusions on Film Heritage adopted in November 2010.

In 2010, DG INFSO carried out a feasibility study of the preparatory action voted by the European Parliament to introduce an exchange programme for journalists (*Erasmus for Journalists*) that was intended to boost media pluralism and/or the emergence of a European public sphere.

### **International Cooperation**

The activities in this area aimed to shape and promote information society policy related to the development and application of Information Communications Technologies (ICT), based on Europe's experience of market liberalisation and in line with the Commission's guidelines for the development of the Information Society and Media sectors. In this context, DG INFSO has contributed to and participated in international dialogues and negotiations with non-EU countries and international organisations, including the monitoring of the electronic communications regulations situation in enlargement countries.

DG INFSO participated in the negotiations and conclusion of two cooperation frameworks with the Andean Countries and Central America in the audiovisual sector. The DG also participated in the accession negotiations with Turkey and Croatia contributing to the adoption of legislation implementing the AVMSD in those countries. It also supported Bosnia and Herzegovina, Kosovo, Serbia and Montenegro with the alignment of their legislations to the European standards on media and the AVMS directive.

In 2010, cooperation actions (eg. in the support of DVB standards in Latin America, negotiation of the 8<sup>th</sup> Partnership Action 2011-2013 ) and policy dialogues were held with Brazil, China and South Africa, and negotiations for future dialogues were held with USA, India, Russia and Japan. With regards to countries of the European Neighbourhood Policy (ENP)<sup>19</sup>, legislative approximation, regulatory convergence and institution building continued to be supported throughout 2010 through mechanisms such as exchanges of experience, long term twinning arrangements with Member States or participation in Community programmes. Support was also provided to candidate and potential candidate countries, through monitoring missions and technical assistance in the implementation of the information society, electronic communications and media acquis (Chapter 10) in view of their preparation for future accession to the EU.

#### **1.1.2.2 ABB activity: ICT Take up**

Information and Communication Technologies Take up contributes to the uptake and the best use of ICT by the EU citizens, businesses and administrations. The financial instrument used to achieve this objective is the ICT Policy Support Programme (ICT PSP) under the Competitiveness and Innovation Programme (CIP). This programme aims at boosting competitiveness and innovation as well as ensuring inclusion.

<sup>18</sup> [OJ L 322 of 18.12.2007](#)

<sup>19</sup> ENP is addressed to the EU's neighbours to the east : Belarus, Ukraine, Moldova, Georgia, Armenia and Azerbaijan (Russia is not included); and to the countries of the Southern Mediterranean area, including Morocco, Algeria, Tunisia, Egypt, Israel, Jordan, Lebanon, Syria, Palestinian Authority (Libya is not included).

The 2010 CIP ICT PSP work programme included a further focusing of priority themes: ICT for a low carbon economy and smart mobility; ICT for health and inclusion; ICT for improved public services; Digital Libraries supporting Europeana; Multilingual Web; and Open Innovation for future Internet-enabled services in smart cities. The 2010 Call for proposals attracted 139 proposals requesting funding of € 319 million. 41 proposals were retained (budget € 107 million), including 33 pilot actions and 8 networking actions.

### ICT for low carbon economy and smart mobility

The energy use by ICT equipment and services today represents about 8% of electrical power in the EU, and about 2% of carbon emissions. The increased use of ICT in the future must not result in a large increase in energy use in networks and terminals. Several new projects with energy efficiency as their main focus started work in January 2010.

In 2010, DG INFSO launched an interservice working group and a technical working group to prepare two DAE actions on lighting:

- a Communication on Solid State Lighting (SSL) to explore the barriers and to put forward policy suggestions in 2011; and
- specifications for Member States to identify total lifetime costs for all public procurement of lighting installations by 2012.

Other achievements are:

- The launch of the ICT4EE Forum in 2010 to address the 2009 EC Recommendation, and to agree on, adopt and implement a common methodology for measuring the sector's energy and Green House Gas footprints.
- The signature of the Green Digital Charter by mayors of 23 major EU cities, an initiative with concrete targets aimed at promoting sustainability through (and also of) digital technologies.

#### Lighting

The EU-funded OLLA project that started in 2004 under FP6 was the first major European research project to deliver world-class results in new Organic Light Emitting Diodes (OLEDs) technology, which provides highly efficient lighting. OLLA was **key to the commercial success of many participating partners selling OLED technology on the market**. The market for organic and large area electronics is expected to grow to around € 70 billion by 2020. The EU's share of the supply is 25%.

### ICT for ageing well, health and inclusion

In response to the major societal challenge of the ageing European population, directorates-general INFSO, SANCO and RTD have been working together to launch the pilot **European Innovation Partnership (EIP) on Active and Healthy Ageing**. This was announced as the first pilot EIP of the Innovation Union Communication on 6 October 2010. The partnership aims by 2020 to enable EU citizens to live longer independently in good health by increasing by two years the average number of healthy years of life. In working towards this target the initiative will improve the sustainability and efficiency of social and healthcare systems, and create an EU and global market for innovative products and services with new opportunities for EU business. ICT plays a key role in this context. The Active and Healthy Ageing Partnership was accepted by the Council on 26 November 2010 to be prepared as a pilot EIP and will be formally launched in early 2011.

The eHealth governance initiative<sup>20</sup> is the policy achievement of 2010 in the sector of eHealth. The initiative triggered the preparation of a new eHealth action plan to implement a roadmap of concrete actions towards a European eHealth interoperability framework with the involvement of competence centres, the IT industry and other relevant stakeholders.

Much preparatory work has been carried out in the area of e-Inclusion:

<sup>20</sup> [http://ec.europa.eu/information\\_society/activities/health/policy/ehealth\\_governance\\_initiative/index\\_en.htm](http://ec.europa.eu/information_society/activities/health/policy/ehealth_governance_initiative/index_en.htm)

- The impact assessment work to support a proposal on 'Web-Accessibility' of public web sites progressed.
- The mandate of the i2010 e-inclusion subgroup was completed with its last meeting on 11/10/2010.
- Concept development for DAE pillar 6 (Digital literacy, skills and inclusion), especially on digital literacy and e-learning.

DG INFSO contributed<sup>21</sup> to making digital literacy and skills a priority for the *New skills for new jobs* Flagship adopted in November 2010<sup>22</sup>, which completed  DAE action 59 . The adoption, in September 2010<sup>23</sup>, of the [Memorandum of Understanding on cross-border access to protected works for the benefit of people with a print disability](#) completed  action 65 of the Digital Agenda. The aim of the Memorandum is to increase the number of works published in special formats and facilitate their distribution across the European Union.

### ICT for improved public services

The new eGovernment Action Plan 2011-2015 was adopted on December 15th 2010. It translates the four political priorities agreed by EU ministers in the Malmö Declaration (November 2009):

1. Empowering businesses and citizens
2. Strengthening the Internal Market
3. Improving efficiency and effectiveness of Public Administrations
4. Providing key enablers and preconditions

into a set out of 40 concrete actions. The governance of the Action Plan will be done by a High-level Group of eGovernment representatives from the Member States and the Commission.

In 2010, DG INFSO contributed<sup>24</sup> to the preparation and adoption of the Commission Communication *Towards interoperability for European public services*<sup>25</sup>, which completed  action 24 of the Digital Agenda. This Communication introduces the European Interoperability Strategy (EIS) and the European Interoperability Framework (EIF) for European public services. Together, they promote interoperability among public administrations: close collaboration, streamlined cross-border processes and trusted information exchange, based on interoperable ICT infrastructures and systems, are needed to maximise the social and economic potential of information and communication technologies.

The STORK Large Scale Pilot project has developed a European eID Interoperability platform that allows European citizens to log in to public services of other Member States using the eID technology of their home country. In 2010 the project tested the interoperability of the platform between 11 of the participating Member States using six cross border user cases (pilots) involving 20 service providers. The number of different eID tokens allowed on the platform is already more than 100. The STORK consortium grew from 14 to 17 participating Member States in 2010.

<sup>21</sup> The lead DG for this action were DG EAC and DG EMPL

<sup>22</sup> [COM\(2010\)682](#) - An Agenda for new skills and jobs: A European contribution towards full employment

<sup>23</sup> The lead DG for this action was DG MARKT

<sup>24</sup> The lead DG for this action was DG DIGIT

<sup>25</sup> [COM \(2010\)744](#) Commission Communication *Towards interoperability for European public services*

## Digital Libraries supporting Europeana



*"Europeana is the EU's most visible expression of our digital heritage. In less than three years, Europeana has established itself as a reference point for European culture on the Internet. It reflects the ambition of Europe's cultural institutions to make our common and diverse cultural heritage more widely accessible to all."*<sup>26</sup>

Europeana was launched in 2008, with the goal of making Europe's cultural and scientific heritage accessible to the public. It enables people to explore the digital resources of Europe's museums, libraries, archives and audio-visual collections. During 2010, the number of digital objects accessible through Europeana grew from 5.9 million to 15 million, far exceeding the original target of 10 million. This important amount of content has been delivered by about 1500 providers (primarily cultural institutions) across Europe, often networked thanks to EU co-funded projects for content aggregation and digitisation. Beyond ingesting this huge amount of data, in 2010 the Europeana Office released a new version of its operational service "europeana.eu", with improved search tools and interactive functionalities.

### New items added to Europeana in 2010

- a Bulgarian parchment manuscript from 1221 witnessing to history of the Bulgarian language;
- *Catechismusa prasty szadei*, the first Lithuanian book, published in 1547;
- paintings by the 17th century Dutch painter Jan Steen;
- the complete works of German authors Goethe and Schiller;
- 1907 footage of festivities for the Danish Constitution Day;
- a series of pre-World War I photographs of the Glendalough monastery in Ireland.

In April 2010, the Commission appointed a "Comité des Sages" on bringing Europe's cultural heritage online. The Comité worked rapidly, carried out a public consultation (1258 replies) and a public hearing (23 speakers and more than 100 overall participants), and delivered its report to Commissioners Kroes and Vassiliou on 10 January 2011.

## Multilingual Web

The purpose of the Multilingual Web action is to support the digital single market by bridging language barriers in the online domain, facilitating access to online content and services (including public services) for everybody regardless of language skills and preferences.

In 2010, the CIP ICT-PSP call yielded 8 pilot projects under two objectives: the 3 projects resulting from objective 6.1 "Open linguistic infrastructure" contribute to acquiring, pooling and sharing language resources – the basic building blocks for language-enabled applications and services; the 5 projects resulting from objective 6.2 "Multilingual online services" make use of fully or semi-automated translation and multilingual content management technologies to improve the language coverage of public and private e-services.

## Open Innovation for future Internet-enabled services in smart cities

A "smart" city is a city that makes a conscious effort to take up innovative ICT based solutions to improve conditions of living and working and support a more inclusive, and sustainable urban environment. A number of pilot projects aim at accelerating the uptake of innovative Internet-based technologies and services in cities. They apply user-driven open innovation methodologies across networks of smart cities. Each pilot therefore combines the three following elements: i) User-driven open innovation, ii) Connected smart cities, and iii) Internet-based services.

<sup>26</sup> Vice-President Kroes, opening speech at "Audiovisual Archives in the 21st Century (AVA21)" Conference, Ghent, 13 October 2010

### 1.1.2.3 ABB activity: Cooperation – Information and Communication Technologies

This activity contributes to the implementation of the ICT part of the Cooperation programme of the FP7. The common aim is to put in place the conditions and the support that allow breakthroughs and innovations to find their way to the market eventually and bring benefits to citizens and businesses. Activities cover collaboration and networking actions, support to joint technology initiatives, national programme coordination initiatives and activities specific to Public-Private-Partnerships. Added value is gained from international cooperation in research as it promotes European results and expertise in a more global context, ensuring synergies and providing European ICT industry access to advanced solutions and global markets.

#### ICT in the Cooperation programme of the FP7

In 2010, DG INFSO reached agreement with the Member States through the ICT Committee (ICTC) on:

- Allocating €220 million to public private partnerships focusing on ICT for smart cars, green buildings, sustainable factories,
- Allocating €455 million over the next two years to R&D in networking, digital media, security, experimental facilities and service infrastructure for the future internet,
- Allocating €170 million over the next two years for a new initiative led by INFSO, the 'Future Internet' Public Private Partnership. This will leverage the increasing demand for innovative internet applications to make infrastructures like health systems, energy grids or traffic management systems 'smarter'.
- Strengthening Europe's position as a leading supplier of electronic systems and photonic components: more than €200 million is available for research in this field. This supports the competitiveness of industrial strongholds such as the automotive, telecoms, industrial automation and medical system industrial strongholds in Europe.
- Some €200 million was also allocated to research in ICT for health and ageing, and €135 million for ICT research to improve energy efficiency in buildings, transport and logistics.

The interim evaluation of the ICT thematic priority of the Cooperation programme of FP7 (FP7-ICT) was completed by DG INFSO in 2010. The report<sup>27</sup> of a panel of independent experts assesses progress and provides recommendations for future EU-funded research in ICT. The latter can be summarised as follows:

- FP7-ICT is well aligned with worldwide R&D priorities and reflects technology and market trends globally. A further strengthening of this thematic priority is recommended in future Framework Programmes, notably through an increase of budgetary resources allocated to forward looking, potentially disruptive, technology developments.
- ICT is a catalyst for change and its pervasiveness makes it an innovation driver in many policy areas. The panel recommends a more coordinated approach to policy-making across DGs, facilitating the engagement of a wider constituency representing all the actors along the value chain.
- While FP7-ICT is well managed with good indicators of administrative efficiency, there is a need for more radical steps towards simplification, notably concerning the implementation of the financial rules. Improvements should be also sought in aspects such as the multiplicity of instruments, the participation rules, and the governance models.

<sup>27</sup> "[Catalysing European Competitiveness in a Globalising World](#)"

This report constituted a key component of the DG INFSO contribution to the overall interim evaluation of FP7<sup>28</sup>. It was followed by an action plan whose main lines are reflected in the Commission response to the overall interim evaluation adopted on 9 February 2011<sup>29</sup>.

### Joint Technological Initiatives and Joint Programming

Following the autonomy of ARTEMIS in October 2009, the capacity of the ENIAC Joint Undertaking to implement its own budget was recognised in 2010 and both bodies are now fully autonomous and operational.

#### Technologies for elderly and disabled

The technology developed by the I2HOME project gives elderly and disabled people easier control over electronic appliances in their homes. The project has developed a customizable interface that can be set within a classic universal remote control, a mobile phone, a computer or other devices and that can operate and control different devices and services such as heating, air conditioning, TVs and DVD players, cookers, washing machines, dishwashers and lights. The technology can also be applied outside the home.

The mid-term evaluations of ENIAC and ARTEMIS Joint Technological Initiatives<sup>30</sup>, and of the Art.169 Ambient Assisted Living (AAL) initiative<sup>31</sup> have been conducted and their results communicated, as per the legal requirements, in December 2010. To maximise the utility of the completed monitoring exercises and evaluations, their results were widely disseminated to the political and management stakeholders; and were made available on the web. Ambient Assisted Living (AAL) contributes to leverage investment on technology solutions for the elderly population. In 2010 significant progress was made as the third call for proposals resulted in more than 25 projects on their way to funding. Despite the financial crisis, more than 40% of the participants in the call were the small and medium enterprises (SMEs), which is a success.

### Public-Private Partnerships

In addition to the usual instruments of the FP7 programme for reinforcing the competitiveness of European industry and help address major societal challenges, DG INFSO increased the level of investments in ICT research by using new models of coordination such as Joint Research Programmes (Ambient Assisted Living) and other Public-Private-Partnerships (Energy-efficient buildings, Future Internet).

#### Future Internet PPP one step closer to take-off!

The evaluation of proposals submitted to the first call for the implementation of the Future Internet PPP has been completed.

The efforts of the Commission services along with the EU Member States to reach out to new stakeholders have paid off. A wide range of proposals were submitted as use cases, stretching the technological requirements of the Future Internet on issues such as massive scalability, quality of service, or security in the context of usage scenarios in domains of smart city, urban transportation, smart food, innovative electricity consumption balancing, to name a few.

see...[more](#) about what the European Commission does on Future Internet.

The Energy-efficient buildings PPP, launched under the European Economic Recovery Plan, will devote approximately € 1 billion in the period 2010-2013 to address the challenges that the European construction sector and its extended value chain are facing in their goal of researching new methods and technologies to reduce the energy footprint and CO<sub>2</sub> emissions related to new and renovated buildings. In 2010, five projects were launched following the call published in 2009.

In 2010, DG INFSO officially launched a PPP on the Future Internet (as announced by an earlier Communication<sup>32</sup>). This major effort included an official recognition of the initiative through Council Conclusions under the Spanish Presidency, an official launch at Commissioner level at the Spanish Presidency High Level

<sup>28</sup> [Interim Evaluation of the Seventh Framework Programme - Report of the Expert Group](#)

<sup>29</sup> [COM \(2011\) 52](#) – Communication on the Response to the Report of the Expert Group on the Interim Evaluation of the Seventh Framework Programme for Research, Technological Development and Demonstration Activities and to the Report of the Expert Group on the Interim Evaluation of the Risk-Sharing Finance Facility

<sup>30</sup> [COM \(2010\) 752](#) – First interim evaluation of the ARTEMIS and ENIAC Joint Technology Initiatives

<sup>31</sup> [COM \(2010\) 763](#) – First Interim Evaluation of the Ambient Assisted Living Joint Programme (AAL JP)

<sup>32</sup> Com (2009) 479

conference in Valencia<sup>33</sup>, and the adoption of € 170 million for this initiative under the ICT work programme covering the 2011-12 period. The MS also agreed to the novel approach to research proposed by DG INFSO, which closes the gap with innovation and brings the initiative under a comprehensive programme context. This work also included the liaison with the industrial community, research institutions, use cases representatives, other DGs (e.g. DG REGIO) and institutions (Committee of Regions), the organisation of information days. The rationale and objectives of the FI PPP were presented to national authorities and stakeholders, which led to the establishment or consolidation of Future Internet initiatives in Italy, Portugal, Slovenia, United Kingdom, Ireland, Germany and Denmark/Norway and triggered the creation of similar initiatives in other Member States. Internally, DG INFSO has created a Task Force to implement this initiative with the necessary cross-domain and multidisciplinary expertise that such an initiative requires.

### **Joint programming for large scale joint public research initiatives (JPI)**

DG INFSO is responsible for preparing a Commission Recommendation concerning Joint Programming Initiative (JPI) *"More years, better lives - The potential and challenges of demographic ageing"*. The initiative brings together 13 countries who expressed a strong need for the JPI in order to overcome the lack of information about research activities, better coordinate research investments and programmes including exchange of ideas for research priorities, develop common benchmarks, and facilitate joint exploration of new linkages such as to social innovation.

By developing new knowledge on ageing through multi-disciplinary research involving scientists from social and cognitive science, health, economics and technology science fields this initiative will complement the European innovation partnership on Active and Healthy ageing, as well the AAL Joint Programme, FP7 research and ICT-PSP activities linked to ageing.

### **International ICT Research Cooperation**

In the field of ICT research, activities in the manufacturing domain related to the Intelligent Manufacturing Systems (IMS) multilateral cooperation initiative, which encourages the formation of international research consortia to address industrial manufacturing and organisational challenges in the 21st century. Since 2009, IMS has shaped its strategy around Manufacturing Technology Platforms (MTPs) to facilitate the exchange of information among researchers in different IMS regions and generate new research goals.

On 1 May 2010 the European Union took over from Switzerland as the Chair of Intelligent Manufacturing Systems International: activities involve event and actions planning for a 30-month period.

In the transport domain, negotiations for "tri-lateral" EU-Japan-US initiatives were initiated in October, in particular addressing global research items and standardisation in cooperative systems.

Finally, DG INFSO has been leading the international discussions which led to the set up of coordinated calls for proposals between the ICT programme and its counterparts in Russia and Brazil. Specific cooperation objectives have been included in the WP 2011-2012 on High Performance Computing (Russia), Embedded Systems, Microsystems and Microelectronics (Brazil).

### **Better coordination of ICT research**

DG INFSO coordinated the ICT 2010-Digitally Driven event, the largest European showcase for ICT research. The ICT 2010 event gathered more than 5000 researchers, business people,

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<sup>33</sup> From economic recovery to sustainability, E Presidency Conference dedicated to PPP's, 13-14 April 2010, Valencia.

investors and policy makers in the field of ICT and digital innovation in Brussels Expo from 27 to 29 September 2010.

A Forum on Research for Innovation in ICT for the Western Balkan Countries was organised on 30 November 2010 in Belgrade. The forum attracted Delegates of ministerial level from Western Balkan Countries and Slovenia and Bulgaria. It resulted in the adoption of a Joint Declaration and a Provisional Roadmap, outlining the modalities of future cooperation in the field of ICT RTD.

With a view to increasing the level of investment in ICT research and development in the EU, several actions were undertaken to mobilise efforts across Europe around common research goals and agendas, notably the meetings of the National ICT Research Directors Forum, the 9 ICT European Technology Platforms, the 2 ICT Joint Technology Initiatives, 4 Public-Private Partnerships with major ICT contributions and 1 joint research programme. Other sector specific coordination activities were undertaken during 2010 such as the Future Internet Assembly bringing together industry and academia stakeholders and the Future Internet Forum of Member State representatives.

### **Future and emerging technologies (FET)**

FET has further raised its visibility with the success of its exhibition at the European Parliament. The set up of the FET Flagships Science Forum, the launch of new actions addressing young researchers and high-tech SMEs, and the increase in the budget received for 2011-12 put FET well on track with respect to the commitments undertaken in the Commission Communication *"Moving the ICT frontiers, a strategy for research on Future and Emerging Technologies"*.

Additionally, in 2010, joint programming with Member States research funding agencies resulted in a call in the domains of quantum computing and self-adaptive systems. A special call for FET Flagship preparatory actions, which closed in early December, is designed to pave the way for launching two fully fledged FET Flagships in 2013.

#### **1.1.2.3 ABB activity: Capacities – Research Infrastructures**

This activity contributes to the implementation of the Capacities Specific Programme of the FP7. Research infrastructures play a key role in the creation of knowledge, its diffusion, application and exploitation, thus fostering innovation. The Research Infrastructures activity carried out by DG INFSO promotes the development of large-scale ICT infrastructures, building on past successes in realising the European Research Area.

#### **eInfrastructures**

eInfrastructures focuses on ICT-based infrastructures and services that cut across a broad range of user disciplines. It aims at empowering researchers with an easy and controlled online access to facilities, resources and collaboration tools, bringing to them the power of ICT for computing, connectivity, storage and instrumentation. This allows for instant access to data and remote instruments, "in silico" experimentation, as well as the setup of virtual research communities (i.e. research collaborations formed across geographical, disciplinary and organisational boundaries). e-Infrastructures foster the emergence of e-Science, i.e. new working methods based on the shared use of ICT tools and resources across different disciplines and technology domains.

In this context, in 2010, DG INFSO

- contributed to the establishment of the European Grid Infrastructure (EGI) in Amsterdam, for the provision of distributed computing services to all researchers in Europe;

- launched the OpenAIRE project in support of the Open Access initiative enabling a cost-efficient dissemination and exploitation of FP7 research results;
- launched the operational phase of the Partnership for Advanced Computing in Europe (PRACE) to provide petascale computing capacity to the European scientific community;
- set up the experts group on Scientific Data e-Infrastructures that delivered an outstanding and visionary report as a basis for future developments in the field and
- improved the operational excellence and innovation of the GÉANT infrastructure by breaking the 40Gbits/s long distance link.

#### **GÉANT network**

For a decade GÉANT, the EU-funded high-speed research network backbone, has enabled the best minds across Europe and the world to work together in real time on ground-breaking research. With fast evolving technology, services and capacity, GÉANT remains the most advanced research network in the world.

It gives 40 million researchers in 40 countries the ability to share the massive volumes of data needed to study the smallest known particles with the Large Hadron Collider or to tackle global challenges like finding a cure for epilepsy or setting up typhoon early warning systems that can make life-or-death differences.

# Part II

## Management and internal control systems

### 2.1 Introduction to DG Information Society and Media

The mission of DG INFSO for 2011 was changed to reflect the objectives and actions of the Digital Agenda for Europe and related flagship initiatives of the Europe 2020 strategy. The new mission of the DG is to make every European digital. In fulfilling this mission the DG aims at achieving the digital single market, reinforcing Europe's competitiveness by increasing investment in ICT research and innovation, promoting the access and use of ICT to the benefit of EU society and implementing the "*acquis communautaire*" in the area of Information Society and Media.

DG INFSO operates on two Commission sites: Brussels and Luxembourg.

The main challenges for DG INFSO in 2010 stemmed from the Europe 2020 strategy, which sets out the initiatives to attain smart, sustainable and inclusive growth, and one of its flagship initiatives - the Digital Agenda for Europe (DAE). The DAE is a policy for growth and innovation in the digital society, setting out the actions to maximise the social and economic potential of ICT. It provides the main framework and objectives for the work of DG INFSO in 2010 and the near future.

#### **Staff engagement and HR strategy**

In DG INFSO, the concept of 'well-being at work' is high on the agenda and has been further reinforced since early 2010. DG INFSO continues to be recognised as one of the leading DGs in this field; its well-being activities are considered as best practices by DG HR and attract interest from other DGs. In the frame of the Staff Engagement Strategy, feedback from management and staff is being collected on the DG well-being policies, flexible working arrangements and other staff engagements issues.

In the Equal Opportunity (EO) field, a new EO&D Working Group was set up in 2010 under the Chair of one of the Deputy Directors General. The group is made up of representatives from each directorate, including managers, and two liaison officials from the HR unit. The DG INFSO Management Team is fully committed to ensuring that the DG provides adequate opportunities for staff to develop their skills and acquire new ones. In this respect, internal mobility is perceived as an essential element in career development and work satisfaction overall and is therefore encouraged and supported. In 2010, the first exercise was launched for Heads of Units and Deputy Heads of Unit, and in 2011 the exercise will be extended to all AD staff.

With the aim of further developing the DG capacity for cooperation, a mapping project has been designed in 2010 in order to develop a common vision and mindset around the pillars of the DAE and the DG priorities. Specific management seminars and events have been organised in this context.

## External and internal communication strategies

A communication strategy for the Digital Agenda (DAE), was adopted by the Management Team in 2010, and endorsed by the Commissioner. DG INFSO will discuss communication of the DAE with those other DGs responsible for some of the 101 actions, and lead a regular review of progress with the network of communication officers to look at issues such as reviewing our web presence or broadening our social media coverage. As part of the strategy, Directorates C & S are also stepping up efforts to improve the visibility of ICT research and innovation projects.

With a view to improving internal communication a staff opinion poll was carried out in DG INFSO. Its results were presented to and discussed with INFSO senior and middle management as well as with staff in three workshops (one of them in Luxembourg). The input obtained from those events was translated into a new Internal Communication strategy presented to DG INFSO management and staff for comments. As a result an Internal Communication Action Plan and a collection of Internal Communication Best Practices in DG INFSO were prepared and are being implemented.

### 2.1.1 Change of Director General

Robert Madelin was appointed Director General of DG INFSO on 1 April 2010, following the retirement of Fabio Colasanti on 31 March 2010.

### 2.1.2 Management of grants for ICT research and innovation projects under FPs and the CIP

The Commission's research budget is managed by six Directorates General (DGs): RTD, INFSO, ENTR, EAC, MOVE and ENER and two research agencies (REA and ERCEA). Consequently, a high level of planning and coordination is required to ensure consistency. In terms of budget, DG INFSO's activities for funding research and technological development under the multi-annual Research Framework Programmes (FPs) are significant. The DG is involved in direct centralised management of grants for co-financing ICT Cooperation (ICT-research) and Capacities (e-infrastructure) projects under FP7, and managing the ongoing research and technological development projects financed under FP6 and previous FP. The supported projects are technically and financially complex and are carried out over several years. Financial grants are awarded to private and public beneficiaries working together in consortia. These research organisations, universities and private companies come from many different countries inside and outside Europe.

In order to increase simplification and ease of access to a broader group of participants, a political decision was taken both in FP6 and FP7 to move away from detailed ex-ante controls to a greater reliance on ex-post controls. The grants are paid by means of an initial pre-financing after signature of the agreement and then periodic and final payments on the basis of the beneficiaries' declarations of eligible costs. The grants reimburse a proportion of the participants' eligible costs. In accordance with the legal and financial framework governing the programmes, the requirement to reimburse eligible actual costs gives rise to errors - as revealed both by the European Court of Auditors and the Commission's ex-post financial audits on the spot. This has led to reservations in previous Annual Activity Reports about the legality and regularity of the underlying transactions in FP5 and FP6. Most errors (mainly related to unsubstantiated personnel and/or indirect costs) can only be detected by checks carried out at the premises of the beneficiaries after the costs have been incurred, declared and reimbursed – i.e. by ex-post controls. The Research DGs have implemented a common and reinforced audit strategy for FP6 and FP7 to identify and correct errors in declarations of eligible costs.

Based on lessons learnt, inter alia from the ex-post controls, ex-ante controls of the Framework Programme's management operations have been reinforced. Internal guidelines for the

negotiation and payment processes have been renewed. Systematic screening of deliverables for plagiarism is being integrated, guidelines and templates allowing a more structured and efficient way of dealing with contract terminations, payment suspensions and early warnings for the Early Warning System are applied more consistently. In the context of further strengthening the fraud detection of the ex-post controls, the risk-based audits have become a more important element of the FP6 and FP7 audit strategy. 'Data-mining' has been integrated into the audit working methods and cooperation with OLAF has been strengthened.

In 2010, calls for proposals for the FP7 Call 7, FET Open, Future Internet, Public Private Partnerships (PPP) for Green Cars, Energy-efficient Buildings, and Factories of the Future and Fet Flagship Initiative were launched. A fourth PPP on Future Internet, a fully INFSO-coordinated activity, advancing Europe's competitiveness in Future Internet technologies, systems and services, has launched its first call in 2010. Other Calls launched by INFSO in 2010 were Joint ICT EU-Russia and ICT EU-Brazil call.

For the part of the Competitiveness and Innovation Programme (CIP) managed by DG INFSO, the ICT PSP Call 4 was launched. The ICT Policy Support Programme (PSP) helps ensure the wider uptake and better use of ICT by European citizens, businesses and governments thus boosting competitiveness and innovation and ensuring inclusion. The ICT PSP provides EU funding to support the realisation of the Digital Agenda for Europe. The programme addresses obstacles hindering further and better use of ICT based products and services and barriers for the development of high growth businesses, notably SMEs, in this field.

Funding goes mainly to pilot actions, involving both public and private organisations. Networking actions for sharing experiences and preparing the deployment of innovative ICT based solutions are also supported, as well as the monitoring of the Information Society through benchmarking, analyses and awareness raising actions.

As agreed per family of DGs, the "Internal Control Template" in Annex 5 presents the management and control system for the significant<sup>34</sup> areas of the DG's budget. The template gives a concise and consistent presentation of the key inherent management risks and the main mitigating control systems.

Unless stated otherwise, the Internal Control Template covers DG INFSO management and controls systems for the 2010 research budget under FP6 and FP7<sup>35</sup>. Given their limited importance in terms of the overall INFSO 2010 ICT budget, the DG INFSO Joint Undertakings (ENIAC JU and ARTEMIS JU) – which constitute a mix of "indirect and/or shared management" modes (both for a minority stake of 1/6th of the participations values) – are not included in this template covering FP6 & FP7 under "direct centralised management".

### **ARTEMIS & ENIAC**

Beyond the challenge of managing a larger total budget with no increased human resources from FP6 levels, the implementation of FP7 has also brought new challenges. The Public Private Partnerships (PPP) set up for the Joint Technology Initiatives (JTIs), aimed at leveraging the EU funding by including national and industry funds, are managed by autonomous Community Bodies, i.e. Joint Undertakings (JUs) established under ex-Article 171 of the EC Treaty (Article 187 of the TFEU). The Director of INFSO.G represents the Commission on the Governing Boards of these Joint Undertakings and chairs their Public Authorities Boards. During their set-up and transition period, the Heads of Units INFSO.G1 and G3 were the acting Executive Directors of, respectively, the ENIAC JU and ARTEMIS JU. DG INFSO was involved in setting up of all supervision arrangements relating to JUs financial circuits and procedures, in

<sup>34</sup> Significant budgets means amounts representing more than 10-20% of the budget of the DG.

<sup>35</sup> The "ICT Capacities" and "ICT Take-Up" programmes (including ICT PSP as part of CIP) may have a different legal base and/or somewhat different implementing rules, but in general the DG's FP6/FP7 control system is equally applied to these programmes.

order to monitor their correct implementation of budget execution. These arrangements covered both the transition period where the European Commission was still responsible for the JUs and the period immediately after their autonomy. While, at the end of 2009, ARTEMIS was granted its autonomy, recruitment delays forced ENIAC to postpone its request for autonomy until May 2010. The conditionality of ENIAC's autonomy was lifted by Director General of DG INFSO in July 2010. Both bodies are now fully autonomous and operational. Directorate G ensures the follow-up of the activities for the Commission and organisation of the first interim evaluation of the JTIs. This evaluation foreseen by the Regulations establishing the Joint Undertakings was carried out and the Commission delivered the report to the Council and the Parliament in December 2010.

DG INFSO closely monitored the work of ARTEMIS and ENIAC, preparing the positions of the Commission in the Public Authorities Board and in the Governing Board. Efforts were made to ensure that the JUs' projects interact with the DG's projects to fully exploit potential synergies.

Both ARTEMIS and ENIAC have successfully closed their 2010 Calls for Proposals. For the ENIAC JU the delays in the Financing Decision process, pending adoption of the revised budget by the Governing Board, have created a shortage of credits and long payment delays for the JTI projects, leading to payment of interest on late payments. As remedial action the process and timetable have been reviewed to avoid that this occurs in the future.

### 2.1.3 Policies and Agencies

Other important activities cover the Audiovisual, Media and Internet Policy, and the Electronic Communications Policy and Network Security. These activities have lower budgets but are important policies. In March 2010, with the changes in attribution of responsibilities to the new Commission college composition, the MEDIA Programme was transferred to the Directorate General for Education and Culture (EAC). As a result, responsibility for oversight of the programme's implementation via the Education, Audiovisual and Culture Executive Agency (EACEA) was also transferred to EAC.

#### **Body of European Regulators for Electronic Communications – BEREC**

The Body of European Regulators for Electronic Communications (BEREC) consists of a Board of 27 national regulators and an Office to provide BEREC with professional and administrative support. EU telecoms Ministers decided in May 2010 to set the seat of the Office in Riga, Latvia. The Office is being established. One essential step was the recruitment of the Administrative Manager of the Office, who took up his duties in October 2010. In order to ensure that BEREC and its Office are operational, DG INFSO actively worked in 2010 both externally with the national regulators and internally with DG HR, DG BUDG and other Commission services, concerning all the procedures that need to be put in place so that the Office becomes autonomous in 2011. The DG was fully involved in all the main steps relating to setting up of the Office, publication of vacancy notices, recruitment processes, adoption of rules of procedures of the Board of Regulators, nomination of Commission representative to the Board of Regulators and to the Management Committee, adoption of staff implementing rules and financial regulation. Nine selection procedures have been launched over the year and one staff member already took up his function. A list of autonomy criteria outlining the required operational structure and control mechanisms has been drafted and after the approval of INFSO management will be submitted to BEREC as a guiding work document.

#### **European Network and Information Security Agency – ENISA**

The European Network and Information Security Agency (ENISA), provides assistance on network security issues. Directorate INFSO.A oversees ENISA's compliance with budgetary and financial regulations and procedures and assists the Agency in fulfilling its tasks as defined in the ENISA Regulation, notably with regard to defining its annual work programmes, assisting

on operational, legal, administrative and budgetary matters. Support to ENISA was provided effectively and efficiently throughout 2010. DG INFSO helped to draw up written procedures of the Management Board, and two senior officials of DG INFSO are members of the Management Board. The DG initiated three written procedures leading to Commission Decisions on ENISA-related issues<sup>36</sup>.

After a 2008-2009 public debate on European efforts towards strengthening network and information security and ENISA's role therein, an impact assessment on options for the future of ENISA was finalised in April 2010, and in September 2010 the Commission adopted two proposals for Regulations of the European Parliament and Council concerning ENISA<sup>37</sup>. One proposal aims at reinforcing and modernising the Agency and establishing a new mandate for a period of five years, the other one extends the current mandate of the Agency for 18 months to cover the period of legislative scrutiny and adoption. A modernised ENISA will play an important role in boosting trust, which underpins the development of today's digital society and economy, by enhancing the security and privacy of users. The other provides for an extension of the current mandate to avoid a legal vacuum, pending the adoption of the first Regulation by the legislative authority.

Three European Commission representatives participate on ENISA's Management Board – the Directors-General of INFSO and DIGIT, and the Director INFSO.A.

## 2.1.4 Risk management

The main risks related to the DG's grant management mainly concern the legality and regularity of the underlying financial transactions of FP6 and FP7, which compose the vast bulk of the annual budget. However, there are potential similar but possibly lower risks relating to CIP projects and similar issues apply to Safer Internet projects. There are also some risks in the area of telecommunication and audiovisual policies but these are of a more political and reputational nature. The latter could materialise through lack of timely delivery on the promised policy initiatives, reviews or reports, etc. Similar political/reputational risk could materialise due to potential management issues in the Agencies and the other Community bodies to which DG INFSO is associated. Such risks are monitored in regular meetings of senior management and are subject to a regular review at the "Jour-Fixe" meetings with the Commissioner and/or her cabinet, where in case of need mitigating measures are agreed upon.

DG INFSO's "Internal Control Coordination Group" (ICC Group) monitors the progress of actions in the context of risk management and internal control recommendations. The monitoring of the DG's important risks reveals that exposure to most of those risks remained under control and/or decreased.

From the list of main risks identified for 2010, no risks were considered to have sufficient political/reputational exposure to be considered as "critical risks" in the context of INFSO Management Plan 2010.

After consideration by the INFSO AAR 2010 Declaration Group I have concluded that no INFSO-related events during 2010 fall under the Commission's significance criteria (i.e. nature, breadth of awareness and/or duration) for being classified as formal "reputational events". In addition, in view of the cumulative audit results of FP6 projects in 2010 and the associated

<sup>36</sup> Commission Decision C(2010)2387 of 20 April 2010 concerning the 2010 Financing Decision for the transfer of the European Union subsidy to the European Network and Information Security Agency – ENISA; Commission Decision C(2010)7062 of 14 October 2010 on function-specific appointments at the ENISA Management Board; Commission Opinion C(2010)8193 of 24 November 2010 on the draft Work Programme 2011 of ENISA – European Network and Information Security Agency.

<sup>37</sup> COM(2010)521, Proposal for a Regulation of the European Parliament and of the Council concerning the European Network and Information Security Agency (ENISA) ; COM(2010)520, Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EC) No 460/2004 establishing the European Network and Information Security Agency as regards its duration.

extrapolation and cleaning of the budget, I have concluded that there is no reason to maintain the reserve on the legality and regularity of FP errors that has been applied in previous years. Further, even if the materiality level in 2010 is not yet below 2% it is sufficiently close and is expected to fall below 2% in 2011. As well, no new FP6 audits will be launched in 2011 in view of the negative cost-benefit implications, and no action plan for new or different audits would be launched as a result of any such reserve. In addition, in view of the nature of the errors found (i.e. mostly pro-forma where the research work has actually been carried out as foreseen) and the application of the measures adopted by the Commission in late 2009 regarding the simplification of extrapolation of audit results and the recognition and acceptance of certain taxes, the likely level of any future errors would be below the margin of materiality.

For similar reasons, and in view of the multi-annual nature of FP7, the nature and extent of the limited number of audits carried out so far on these projects and their results, the potential impact of simplification measures taken, I have also concluded that there is no need to include a reserve on the legality and regularity of the costs claimed for FP7 projects this year.

### 2.1.5 Lessons learnt from risk-based audits

The risk of fraud or misuse of funds is intrinsic in all financial management and the research funding is no exception, and even though only a small percentage of research funding is misused, the detection and follow-up of risk-based audits and any corresponding anti-fraud cases consumes resources in administrative, financial and legal follow-up.

DG INFSO'S risk-based auditing methods have been further refined in 2010, by linking data-gathering with risk-assessment and risk-specific audit procedures. These have put DG INFSO at the current state of the art in risk-based auditing. This has been recognised by external observers in the audit profession.

The average error rate of risk-based audits was 30% in 2010. This confirms that the methods are bearing fruit, that they are selective and effective. Most risk-based audits confirmed important overstatement of costs. In some cases, the audit scope was extended to other members of the same consortium and even to subcontractors in order to have a global picture of the irregularities. The risk-based audits have led in some instances to termination of project participations and in the transfer of files to OLAF.

In 2010 a lot of work in risk-based audits was focused on cases of organised networks of companies and individuals which had set up systematic fraud mechanisms. The modus operandi involves multiple entities and escapes the traditional ex-ante and ex-post control mechanisms.

Extensive efforts were sustained in 2010 to convert lessons learnt in ex-post controls into improvements of the ex-ante control system in DG INFSO. Awareness raising and training sessions for project officers, to detect anomalies in projects, are organized and provided on a monthly basis. Following a request from DG BUDG, this training is open to all Commission staff. The training course is very successful and highly appreciated. Furthermore, the lessons learnt from risk-based audits have also been converted in revised internal guidelines aiming to detect anomalies in project at an early stage in the project life-cycle.

Since 2008 DG INFSO has taken a number of initiatives to strengthen its anti-fraud strategy. DG INFSO's anti-fraud control elements are embedded in its general internal control system of preventive, dissuasive, detective and corrective controls. In 2010 the DG has been working on the implementation of additional measures for further increasing the effectiveness of DG INFSO's anti-fraud strategy, such as detection of plagiarism in deliverables and project proposals, strengthening the ex-ante controls in the DG's project evaluation and review procedures. OLAF has welcomed DG INFSO's initiative and recommended DG INFSO to share best practice among other DGs.

## 2.1.6 Working arrangements with the Commissioner and cross sub-delegations to other Directorates-General

Beyond the weekly "Jour-Fixe" meetings between Vice President Kroes and her cabinet with the DG INFSO management team, the working arrangements between the Commissioner, the Cabinet and DG INFSO in the context of the Code of conduct for Commissioners include a twice-yearly meeting to discuss the Bi-annual Management Report (BMR). In 2010, the meetings on the BMR took place on 11 March and 17 September.

An overview of all cross sub-delegations given by DG INFSO to other services and vice versa is in Appendix 1 to Annex 5 of this AAR.

## 2.2 The functioning of the entire internal control system

DG INFSO's annual review of its implementation of the Internal Control Standards (ICS) was conducted in January 2011. It started with an initial desk review by the Management Support unit, followed by contributions from lead units responsible for ensuring compliance with requirements of the standards. Finally, meetings with all chefs-de-file were held to further discuss compliance and effectiveness of implementation of the Internal Control Standards. This has led to the 'top-down' assessment of the DG's internal control status during 2010, with respect to both the compliance and the effectiveness of the control arrangements in place. Furthermore, the 'bottom-up' information on internal control issues received through chapters 2-6 of the 2010 Directorates' Management Reports (DMRs) has been checked for confirmation or any counter-indications from the Authorising Officers by Sub-Delegation (AOSDs). Finally, the IAC's Opinion has been taken into account

### 2.2.1 Compliance with the requirements of the control standards

On the basis of available evidence, DG INFSO judged itself to be compliant in 2010 with all except for three ICS requirements, with a compliance rate of 95% (58 out of 61 requirements). DG INFSO assessed itself as being partially compliant with the following requirements:

- *Mission statements of the Directorate-General, Directorates and units have been explained to staff and are readily accessible (ICS 1 Mission)*

A check of the availability of mission statements on intranet was done and some mission statements of units were not available. As the mission statement of the DG was revised in 2010 in the context of the Management Plan 2011 to reflect the Digital Agenda for Europe, actions will be taken in the course of 2011 to update all mission statements of units and Directorates and upload up-to-date versions on intranet. A note from the Director General to all staff was sent in early 2011 to remind units and directorates that their mission statements have to be updated and available on intranet by end of February 2011.

- *Management at all levels supervise the activities they are responsible for and keep track of main issues identified. Management supervision covers both legality and regularity aspects and operational performance (i.e. achievement of AMP objectives) (ICS 9 Management Supervision)*

This Internal Control Standard was a priority in 2010 and continues as a priority in 2011. Several aspects will be concentrated on. Closer management supervision of the follow-up of audit recommendations was introduced in 2010 and good practices will be consolidated. Following the conclusions of the IAC Final Follow-up Report of Internal Audit on FP7 Project reviews, there is room for improvement in the supervision of projects funded. There is a risk

that some problematic projects are not sufficiently closely supervised and problems are not detected sufficiently early by the hierarchy. Actions will be taken to reduce this risk and find appropriate solutions. Finally, in 2011 the DG's residual oversight responsibilities towards BEREK Office, which should be granted autonomy, will have to be finalised.

- *In particular, every document that fulfils the conditions laid down in the implementing rules needs to be registered, filed in at least one official file (each file being attached to a heading of the Filing Plan), and preserved during the period established by the document management rules. To do so, the DG uses systems which respect the above rules, mainly ADONIS and NOMCOM (ICS 11 Document Management)*

DG INFOSO migrated to ARES in June 2010. It was agreed with SG/DIGIT that due to the fact that the archive module is not yet available in ARES, the document management team would mainly focus on the migration and its follow up and finalise the archive plan at a later stage. The documents are preserved during periods established by the document management rules as verification of the retention periods is embedded in the process for sending documents to the historical archives. An archive plan for the DG will be developed in the course of 2011. It will be integrated into the Archive Module of ARES which will be released by SG/DIGIT in 2011.

For ICS 7, the requirement on sensitive functions and mobility, in 2010 DG INFOSO requested one derogation to allow staff to remain in a sensitive function longer than seven years (one Head of Unit, in order to ensure continuity of operations in the interest of the service in exceptional circumstances like the adoption of the Digital Agenda, the arrival of the new Commissioner and of the new Director General). DG INFOSO has also granted derogations to allow a number of Heads of Unit to remain longer than five years in the same position due to the same exceptional circumstances mentioned above. As of the end of 2010, most of those Heads of Unit had moved, with the exception of two, whose mobility is foreseen in April and July 2011 respectively. Most of DG INFOSO's non-management functions have been de-sensitised subject to mitigating measures in place. Directors have reported twice on the status of the measures in place during 2010 in the context of the Directorates' Management Report exercises.

### **2.2.2 Effectiveness of the implementation of the prioritised control standards**

In the Management Plan 2010, DG INFOSO prioritised three ICS for which targeted actions to improve the effectiveness of their implementation were carried out during 2010. DG INFOSO's "Internal Control Coordination Group" (ICC Group) has monitored the progress of the actions. The actions taken during the year were:

- ICS 8, requirement on exceptions reporting and recording: An analysis was made in the second half of 2010 of the practice of recording and reporting exceptions in DG INFOSO. A note was sent to the Directors in December on rules for recording and reporting exceptions of both financial and non-financial nature. The new procedures are applicable from January 2011. A central monitoring of reported exceptions is foreseen. Exceptions will be reported monthly and registered in a consolidated register at DG level.
- ICS 9, management supervision: INFOSO managers were encouraged to participate in a new training module for managers on supervision techniques and best practices. New procedures on monitoring of open audit recommendations were introduced. Progress in implementation of critical and very important IAS and IAC audit recommendations is reported to senior management monthly and progress in implementation of all open recommendations – quarterly. This ICS has been kept as the only priority standard for 2011 to focus on aspects of management supervision such as residual oversight of autonomous Community Bodies, continued actions related to grant management, and implementation of accepted IAS and IAC audit recommendations.

- ICS 11, document management: 2010 was the year of migration from Adonis to ARES, meaning migration from a "DG-managed tool = Adonis" to a "Corporate-managed tool by SG/DIGIT = ARES". Actions completed in 2010 can be divided in three chapters: (1) preparation of the migration to ARES; (2) the migration as such; (3) the follow up. Several dedicated meetings per Directorate were held in order to clean up the filing plans, the actions to be closed and the Adonis data-base. The migration to ARES was covered in the following documents: (1) Migration Project; (2) Communication Plan and (3) Training Plan. Management guidance was agreed in the management seminar of 20 April 2010 where the above documents were presented and the commitment of Director-General was highlighted. A dedicated Adonis to ARES task force was set up to guide the transition process. The migration took place on 8 June. Since that date processes, procedures and workflows are being updated. The decision of the Director General to lead by example and to move as much as possible to e-signature and electronic circulation was associated with clarification and guidance on "Who signs what in INFISO" and "Which Tool to use for what in INFISO". Two management seminars of September and October 2010 had document management issues on their agendas.

Overall, the effectiveness reviews confirmed compliance with the requirement of ICS 8 on exception reporting and effectiveness of the implementation of this standard. Actions launched in 2010 will be consolidated in 2011 without, however, the need to keep this standards as a priority. The review of ICS 9 on management supervision, with which DG INFISO was partially compliant in 2010, showed that its effectiveness could be further improved. Therefore, this standard has been kept as a priority for 2011. The implementation of ICS 11 on document management has been judged effective, and although full compliance was not reached this was not considered a material weakness. An archive plan for the DG, required following the migration to ARES, will be developed in the course of 2011 and integrated into the Archive Module of ARES which will be released by SG/DIGIT in 2011. This standard has not been kept as a priority for 2011.

Concerning the overall effectiveness of internal control system in DG INFISO it is assessed that DG INFISO complies with the three assessment criteria for effectiveness; i.e. (a) staff having the required knowledge and skills, (b) systems and procedures designed and implemented to manage the key risks effectively, and (c) no instances of ineffective controls that have exposed the DG to its key risks. Consequently, the DG's overall ICS effectiveness can be considered as generally satisfactory: the majority of the controls are working as intended (subject to some improvements which can be dealt with by the usual continued line management). The DG has not found material weaknesses in its internal control systems. This report therefore concludes that the measures and procedures in place provide a basis for concluding that the overall internal control system in DG INFISO is effective.

### 2.2.3 Conclusion

Taking into account the results from the reviews and the conclusions from the reports mentioned above, DG INFISO's compliance with and overall effectiveness of the 16 Internal Control Standards can be considered as satisfactory. DG INFISO has implemented the ICS requirements. Furthermore, there are no critical or major ICS-related weaknesses. Further enhancing the effectiveness of the DG's control arrangements in place is an ongoing effort in line with the principle of continuous improvement of management procedures. DG INFISO's ICC Group will monitor the actions in the context of its 2011 ICS priorities and report on their progress to senior management and the Commissioner.

DG INFISO's management has reasonable assurance that:

- suitable controls are in place and working as intended;

- risks are mitigated and/or monitored;
- improvements and reinforcements are being implemented.

Although the 16 ICS may cover the Commission's internal management related issues (leading to reasonable assurance on sound financial management), they do not necessarily cover all potential external factors that are influencing the legality and/or regularity of a DG's underlying financial transactions – inter alia the (un)intentional behaviour of grant beneficiaries – see "key indicators on legality and regularity" in Chapter 3.1 below.

## **2.3. Information to the Commissioner**

The main elements of this report and assurance declaration have been brought to the attention of Vice President Neelie Kroes and were presented at the meeting on 25 March 2011.

# Part III

## Building blocks towards the declaration of assurance

### 3.1 Building blocks towards reasonable assurance

#### 3.1.1 Building block 1: Assessment by management

In accordance with Chapter 2.1, also this section concentrates on DG INFSO's management and control system for the "significant" areas of the DG's budget i.e. the management of FP6 and FP7 activities.

##### 3.1.1.1 Key indicators of legality and regularity and sound financial management

Financial audits are an essential element of the control system in place and the principal source of indicators regarding the legality and regularity of cost claim based transactions of FP6 and FP7. In fact one of the objectives of the Research DGs' common ex-post audit strategy is to assess the regularity and legality of the transactions and to provide input to the annual declaration of assurance by obtaining information on the level of over/under-claims by beneficiaries and their financial impact on the budget. Furthermore, the ex-post audits are an integral part of the internal control of the DG and they aim to contribute actively to the assurance by their corrective impact on errors in cost claims.

Given the increased importance of ex-post audits in the assurance process for FP6 and FP7, due to the political decision taken to reduce ex ante controls, and the significant financial impact related to the corrective effects of ex-post controls this activity has been continuously reinforced and extended over the past years in terms of staff size and number of audits conducted per year. The results of this process indicate that the implementation of the ex-post audit strategy has gradually improved the level of assurance that can be placed on the regularity and legality of cost claim based transactions and in particular the timing and nature of ex post controls as established by the audit strategies have tended to ensure that the bulk of the budget is checked and that controls are carried out earlier in order to introduce corrections as soon as possible. As such financial audits have delivered an important positive effect for the assurance process.

The increased number of audits in combination with extrapolation procedures (liquidated damages) has supported an efficient learning curve among beneficiaries which should additionally increase the level of assurance that can be placed on cost-claim based transactions.

##### **FP6 audit strategy**

The FP6 audit strategy was designed to clean a substantial part of the FP6 funding budget (40%) from errors of systematic nature by the end of 2010. To this effect the 200 largest fund recipients who account for roughly 50% of the funding budget in FP6 were selected for audit. In addition, a significant number of representative and risk based audits was carried out. Audit conclusions related to errors of systematic nature were systematically applied to non-audited projects and periods. This has led to an overall audit coverage in the order of 60% of the total FP6 funding budget.

The representative detected error rate in DG INFSO's FP6 financial transactions is 3.94% on aggregate level. This error rate is calculated based on adjustments in favour of the Commission

in cost statements audited in a representative sample of financial transaction over the whole duration of FP6.

The residual error rate, which measures the most likely level of errors pertinent to the part of the FP6 funding budget not included in the audit coverage equals 2.2%. The residual error rate is calculated by applying the detected error rate (3.94%) to the non-audited budget, from which the systematic share of the error rate (2.7%) for the budget part which is considered free of systematic error is deduced.

A simulation of the expected development of the residual error rate taking into account the remaining ongoing FP6 audits and the ongoing extrapolation exercises indicates an error rate of slightly below 2%. It is forecast that this level of error will be attained at the end of 2011.

This positive development is in line with the expectations towards the implementation of the FP6 audit strategy and confirms that the initial planning parameters of the FP6 audit strategy have proven to be realistic and attainable.

The implementation status of the FP6 audit strategy is as follows:

- the quantitative audit targets have been met both in terms of audits conducted and audit coverage
- representative data to determine a multi-annual error rate has been obtained
- the audit target to control the multi-annual residual error rate at the materiality level of 2% under consideration of cost-benefit criteria has been attained

The FP6 audit strategy is at this stage considered implemented. On the basis of cost-benefit considerations the launch of additional such audits is not justified.

However, additional risk-based audits on FP6 project beneficiaries will be carried out. Those audits are economically justifiable in view of the expected recoveries. Furthermore they are in line with the lack of tolerance to fraud and the aim to obtain a preventive and dissuasive effect for the future.

### **FP7 audit strategy**

The audit strategy for FP7 was adopted end of 2009. It builds on the experience gathered in FP6 and further refines it.

The main targets are:

- to obtain representative data to determine reliably the error rate
- to clean a substantial part of the FP7 budget (up to 50%) from errors of systematic nature
- to control the residual error rate at the materiality level (currently 2%) under consideration of cost-benefit criteria
- to conduct a substantial number of audits selected on the basis of risk to mitigate the risk of fraud

At this stage the number of audits related to FP7 closed on statistically representative transactions is not significant enough to allow a reliable estimation of the detected error rate.

However, the current error levels experienced in closed FP7 audits do not appear to exceed those noted in FP6. In FP6 the 200 biggest fund recipients, which absorb 50% of the FP6 budget were subject to financial audits and, where appropriate, extrapolation of systematic errors. Many of these organisations continue to participate in FP7 with important grant allocations. It should be expected that these beneficiaries will submit financial statements that are free of material and systematic errors. In addition, the simplification measures introduced for FP7 relating to average costs and standardised rates for SME-owners

and individual participants, along with the extrapolation of audit results and recognition of certain taxes as eligible, should help to mitigate any increases in the error rate in future FP7 audits.

## Conclusions

In view of the residual error rate FP6, which is very close to the materiality level of 2% and expected to fall below 2% in the course of 2011, the recurrent reservation on errors in FP6 cost claims no longer seems appropriate. Further, the cost-benefit ratio of standard audits is negative as the cost of carrying out further such audits to reduce the residual error rate would exceed any potential gains.

Error rates for FP7 are expected not to exceed the error level noted in FP6 audits, therefore presuming that the current control system (including implementation of the multi-annual audit programme) is maintained, a residual error rate close to 2% should be possible to attain for FP7 projects over the life of the framework programme.

### INPUT INDICATORS: INDICATORS OF EFFORT

	2010
Internal resources ex-post audits	22 FTE ( situation end-2010) 37 audits initiated with own human resources (of which 13 FP6)
Cost of external auditing	€ 1,60 million paid to external audit firms + € 92.000 for own audit missions

### OUTPUT INDICATORS: INDICATORS OF COVERAGE FP6

	Planned cumulative period (2007-2010)	Achieved cumulative period (2007-2010)	Planned in 2010	Achieved in 2010
Number of audits	411	470	50	74
Number of audits of 200 major contractors	200	199 <sup>38</sup>	n.a.	20
Total amount of costs claims audited (in € million)	n.a.	657,6	n.a.	84.1
Total audit coverage, at funding level (in € million)	n.a.	416,9 (10% of budget)	not relevant	not relevant
Additional budget 'cleaned' (*), including by extrapolation of audit results to non-audited contracts (considered free from systematic material errors) (in € million)	n.a. (50% of budget; at the end of the audit strategy implementation)	2.038 (50% of budget as of end 2010; taking into account currently ongoing audits, the coverage will be in excess of 60%)	not relevant	not relevant

(\* ) This means that corrected financial statements have been received back from the beneficiary. This may take some time and will continue after 2010.

### RESULT INDICATORS: INDICATORS OF ERROR FP6

	Achieved cumulative period (2007-2010)	Achieved in 2010
Total amount of accepted costs audited (*) (in € million)	624.9	82.6

<sup>38</sup> DG INFSO also includes in its assurance process the results of audits conducted by other Research DGs on DG INFSO TOP200 beneficiaries. Taking this into account, all DG INFSO TOP200 beneficiaries have been audited.

Systematic errors	24% (254 out of 1043 participations audited)	26% (44 out of 171 participations audited)
Overall errors in favour of the Commission (*) (**) (in € million) (= costs accepted - eligible costs after audit)	49.6	9.1
Detected error rate (in favour of the Commission) (**) - at cost level - at funding level	4.67% 3.94%	4.97% 4.40%
Overall errors in favour of the beneficiary (in € million) (***) (= costs accepted - eligible costs after audit)	9.1	2.3
Error rate in favour of the beneficiary (pour mémoire)(***) - at cost level - at funding level	1.46% 1.22%	2.84% 2.11%
Total amount of adjustments (in € million)(*): of which - implemented: - being implemented: - extrapolated:	38.0 26.2 2.5 9.3	11.3 4.1 1.2 6.0
Residual error rate in favour of the Commission	2.2%	not relevant
Residual risk/ABB activity	Currently between 2 and 5 %	not relevant

(\*) including risk-based & follow-up audits

(\*\*) "errors in favour of the Commission" are "errors made by beneficiaries which, once detected and corrected, may lead to recoveries/compensations in favour of the Commission" (likewise for "in favour of the beneficiary")

(\*\*\*) errors in favour of the beneficiaries are disclosed for information only; they are not taken into account in the calculation of the detected error rate, nor of the residual error rate, used for the assurance purpose of this report

#### IMPACT INDICATORS: IMPACT ON THE DECLARATION OF ASSURANCE

	2008	2009
European Court of Auditors' overall assessment of supervisory and control systems	Partially satisfactory ("yellow")	Partially satisfactory ("yellow")

#### Other key controls

A number of non-financial key controls are carried out at different stages of the programme management cycle, which also contribute to the assurance on legality, regularity and sound financial management. For details, see the "Internal Control Template" in Annex 5 to this AAR.

#### 3.1.1.2 Effectiveness of management and control systems for multi-annual programmes

Following the 2006 IAS audit of ex-post controls DG INFSO and the other Research DGs established the common FP6 audit policy. The audit coverage has been increased, the coherence among Research DGs strengthened, organisational changes implemented, additional staff allocated and the information dissemination on audit results, frequently occurring errors and audit certification improved (cf. ABM Action Plan of March 2007, plus regular progress reporting to the ABM Steering Committee).

Given the multi-annual character of the programme and the expected impact of the dedicated FP6 audit strategy, it was targeted that the residual error rate would be reduced to close to 2% (the current materiality level) at the end of the FP6 auditing period (2010).

DG INFSO has now reached the quantitative audit coverage targets foreseen in the common FP6 Audit Strategy (2007-2010). The FP6 audit campaign has resulted in a cumulative residual error rate of 2.2%. Finalising all ongoing audits and their follow-up, in particular successful extrapolation of audit results is expected to bring this rate down to below 2% on a multi-annual level. As such the control systems in place meet the established control target.

The risk of fraud in financial statements has been tackled by specific and selective risk-based methods. These audits are achieving good results as by using more powerful data-gathering, risk-assessment and audit methodologies. The new methods are also used in a pro-active manner to improve the ex-ante controls by awareness raising and training of the Project Officers and by targeted technical review meetings. The risk of fraud and irregularities has been strongly mitigated by these new controls.

## **Management's analysis and conclusion on the cost-effectiveness of the controls**

### **Context**

Without prejudice to evaluating whether DG INFSO'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)<sup>39</sup>, 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)<sup>40</sup> as such (cf. art 60.1 & 60.7 FR)<sup>41</sup>.

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. 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, a "full cost" analysis of the total cost<sup>42</sup> 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 power<sup>43</sup> 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 "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.

The Commission issued in May 2010 a Communication called *More or less controls? Striking the right balance between the administrative costs of control and the risk of error*. It includes a proposal to establish a "Tolerable Risk of Error" (TRE) for the "Research, Energy and Transport" area that would be in the middle of the range 2% to 5%, and is still under discussion in the European Parliament and in the Council.

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<sup>39</sup> 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

<sup>40</sup> in accordance with the principles of economy, efficiency and effectiveness (a.k.a. "the 3 Es")

<sup>41</sup> 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.

<sup>42</sup> including costs which are to be considered as "sunk costs" for the purpose of managerial decision making

<sup>43</sup> cf. the flexibility for ex-post controls provided for in art 60.4 FR

## 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 otherwise<sup>44</sup> for better value-for-money returns.

In practice, in order to determine that marginal benefit, the "best-case scenario" (cf. model 2A<sup>45</sup>; 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 audit is equal to €60.000, as defined in annex to the Commission Communication "More or less controls? Striking the right balance between the administrative costs of control and the risk of error"<sup>46</sup>;
- Expected marginal benefit of control for normal audits (i.e. audits performed for assurance and to further clean the budget from errors) is below €60.000<sup>47</sup>;
- Expected marginal benefit of control for risk-based audits based on the DG's experience, is around €150.000. This amount does not include benefit from possible extrapolation and does not take into account possible financial consequences (decrease in FP7 budgeted funding, termination of contracts etc.);
- Given that the marginal benefit from normal audits is expected to be below marginal cost of audit, DG INFSO does not intend to launch any further normal audits. However, some more risk-based audits will be carried out.

## 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(s)' in its sub-population of beneficiaries, (ii) its (cumulative) average detected error rate, and (iii) the average cost of an audit per beneficiary, it appears that DG INFSO has reached the optimal cut-off point in terms of cost-effective controls in the context of SFM.

Consequently, under SFM-considerations, 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. Audit efforts on FP6 projects in 2011 will therefore be limited to risk-based audits,

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<sup>44</sup> 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

<sup>45</sup> as described in the Commission Communication COM(2010)261 of 26.05.2010 and related working document SEC(2010)641

<sup>46</sup> SEC(2010)641 of 26.5.2010

<sup>47</sup> 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

which have proven very successful in terms of detection of irregularities and in identifying the existence of organised networks of apparently fraudulent beneficiaries systematically overcharging costs.

#### **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 2.2%. Finalising all ongoing audits and their follow-up, in particular successful extrapolation of audit results, this rate is expected to go down to below 2%. Therefore, given that it is not obligatory to include a reservation regarding the accuracy of FP6 cost claims when the error rate is between 2 and 5%, the fact that no more standard FP6 audits will be carried out, the fact that the cost-benefit of carrying out any such audits would be negative, and that for all these reasons no action plan will be introduced, I do not intend to include a reservation in this report on the legality and regularity of FP6 cost claims. The FP6 control strategy allows meeting the multi-annual control target. Given the SFM-considerations explained above, it would not be cost-effective to add further controls/audits (cf. art 27 & 60.1 FR). Consequently, an additional "action plan" would not be appropriate, and resources should be used for other priorities.

#### **3.1.1.3 ICC contribution (cf. statements of the Resources and General Affairs Directors annexed to the AAR)**

In terms of increasing the effectiveness of DG INFSO's control arrangements, the ICC's annual review and recommendations contain both the improvements made during 2010 (by implementing the previous year's ICC recommendations and other actions) and the new ICS priorities and ICC recommendations for 2011.

#### **3.1.1.4 AOSD reporting**

As Authorising Officers by Sub-Delegation (AOSDs) and through their individual Directorate Management Reports (DMRs), INFSO Directors have not reported any issues related to the principles of legality, regularity, effectiveness, efficiency and economy (sound financial management) and/or to risk management and internal control – under their responsibility to be considered by the Director General as Authorising Officer by Delegation (AOD) as potential qualifications or reservations to his 2010 AAR declaration. No critical weaknesses have been signalled.

Furthermore, it appears that the risks at directorate level have been kept under control and/or have been further reduced through continued line management. The supervision and control arrangements in place have been further improved and are considered to be satisfactory (effective and efficient). The internal control systems have been applied and directors report that they have reasonable assurance that the controls in place are suitable and working as intended.

#### **3.1.1.5 High-level exception reporting**

One instance of overruling took place in 2010. It was reported by Directorate R in its Management Report. The use of an ad-hoc financial circuit in a tendering procedure was authorised by the Director-General. The overruling was justified by urgency and priority of the file. Further to that only minor exceptions considered of a limited relevance and non-systemic nature have been reported. They have been properly documented in the related file and logged through the appropriate administrative/financial IT tools. Taking into account the scope of DG INFSO's exceptions and derogations in 2010, it can be concluded that this source of information does not lead to concerns that procedures and/or controls would not be suitable or not working as intended.

For DG INFSO in 2010, there have been no cases of instructions having been confirmed in writing by the delegating authority, in the circumstances described in Article 66(2) of the Financial Regulation.

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

### **3.1.2.1 IAC Opinion**

During 2010, the IAC completed four audits on: "CIP, Safer Internet and other non-research programmes not covered by IST framework programmes", "Evaluation of proposals FP7", "Evaluation of Research Framework Programmes managed by DG INFSO" and "DG INFSO's Activities Related to the Functioning and Policy Objectives of ARTEMIS and ENIAC (JTIs)" (the draft report for this audit was issued on 3 December and the final one on 20 January 2011). As a result of these audits, 10 very important recommendations were issued.

In addition, the IAC declares that it is not aware of anything not reported in its opinion which may constitute a major weakness in the internal control system or may lead to a potential reservation in the Annual Activity Report, except for the final residual error rate observed by ex-post controls in Framework Programmes (errors in ICT cost claims), which might be higher than the control objective.

### **3.1.2.2 IAS reports**

No IAS audits were finalised in 2010. A follow-up audit on Recoveries was announced in 2010. A kick-off meeting was held in December.

### **3.1.2.3 ECA findings**

In the European Court of Auditors (ECA) Annual Report for 2009, published in November 2010, the Court indicates that the supervisory and control systems of the Research Framework Programmes are effective for ex-post financial audits and for desk checks before payment. The Court mentions that such systems are however only partially effective for audit certification and for the implementation of financial corrections and therefore concludes that overall, the Research Policy area's supervisory and control systems are "partially effective".

The Court indicates that the reduction in the level of error already noted in its Annual Report 2008 has continued in 2009. The Court considers however that there is a risk that this trend may not continue under FP7, particularly due to difficulties in implementing the ex-ante certification of beneficiaries.

The ECA stresses again that there remains scope for further simplification of the research funding rules and procedures, and therefore welcomes the Commission's Communication putting forward further possibilities for the simplification of both FP7 and future FPs.

DG INFSO considers that the ECA report provides a fair view on the situation in this Policy area, agrees with the needs and possibilities for further improvements, while pointing out the 'systemic' and/or legal limitations.

In 2010, the ECA issued one special report (on "Impact Assessment as an instrument of the Commission's 'Better Regulation' policy: does it work?") and has continued a performance audit (on eGovernment projects co-financed by the ERDT) in which DG INFSO is involved. However, in these matters there are no critical findings attributable to DG INFSO.

### 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 year's reservation: state of play of the action plan implementation

Since AAR 2006, DG INFSO has put a reservation on the rate of errors in FP6 cost claims. Follow-up has already been ensured via the ABM Action Plan of March 2007 and has been monitored via the regular progress reports to the ABM Steering Committee. Due to the successful implementation of the FP6 audit strategy, we make no such reservation for 2010: for details see section 3.1.1.1 "Key indicators on legality and regularity and sound financial management".

#### 3.1.3.2 Follow-up of European Court of Auditors findings and recommendations on the functioning of the control system

DG INFSO has not received a "red light" from the ECA for the last two years.

From the ECA 2009 special report on impact assessment, no critical findings were attributable to DG INFSO.

Following the 2008 Discharge procedure and the set of recommendations issued by the ECA, and accepted by the Commission, there are 6 'new' ECA-recommendations for which DG INFSO was 'associated'. In the meantime, all have already been implemented. From previous years, the 5 older recommendations which remained open at the beginning of 2010 have now been implemented.

At the end of 2010 there were six open recommendations issued by the ECA in the framework of DAS 2009, with an expected completion date at the end of 2011, and one open recommendation issued by the ECA in the framework of its performance audit on FP6 instruments, with an expected completion date at the end of 2013. DG INFSO is associated in implementation of these 7 open recommendations.

#### 3.1.3.3 Follow-up of any weaknesses reported by the Internal Audit Capability, the Internal Audit Service and in the previous Synthesis report including significant delays in implementation of action plans

The DG has taken action to strengthen its system of monitoring the fulfilment of audit recommendations accepted by management arising from both IAS and IAC audits. In 2010 quarterly reporting on progress in implementation of audit recommendations was introduced. Additionally, by the decision of Director General taken in December, the implementation of open critical and very important IAS and IAC recommendations is monitored on a monthly basis. As a result of this reinforced monitoring and focused efforts, DG INFSO has succeeded in closing by end of December 2010, 7 out of 8 overdue very important IAS recommendations recorded in the 2010 Interim Overview Report on the follow-up of IAS recommendations. Concerning the follow-up of previous IAC audits, DG INFSO units have established dedicated action plans for the implementation of the accepted recommendations issued in each of the finalised IAC audits. However, in its annual Opinion, the IAC stressed the need to ensure a more effective implementation of all accepted recommendations.

In 2010, the Audit Progress Committee recalled in June and December 2010, that DG INFSO had outstanding very important audit recommendations that had not been implemented in full. DG INFSO has no open critical IAS recommendations. At end of December 2010 the DG had two open IAS recommendations of which one very important recommendation was overdue more than 6 months:

- "FP7 Controls Design": Very Important REC-10 "Liquidated damages and financial penalties": A DG INFSO internal Early Warning System (EWS) guidance note on legal entities

considered to have committed irregularities and thus for flagging in the EWS, was approved by the Director General of DG INFSO in June 2010. DG RTD has recently agreed to follow DG INFSO's proposal for a guidance note that was forwarded to DG RTD as input for the common guidelines on administrative and financial penalties. The work at DG INFSO level has been accomplished but the guidance cannot be put into practice until there is an agreement with all research DGs for a common approach. Coordination with DG RTD is ongoing with DG RTD as chef de file. DG RTD has indicated end of March 2011 as deadline for the finalisation of the guidelines.

At end of December 2010, DG INFSO had no open critical IAC recommendations. There was, however, a number of very important recommendations open, some of which were overdue:

- Audit on CIP, Safer Internet and other non-research programmes: three recommendations overdue less than six months, two of which very important, implementation in progress;
- Audit on Evaluation of Research Framework Programmes: three very important recommendations open, implementation in progress;
- Evaluation of proposals FP7: two very important recommendations open, implementation in progress;
- Audit on FP7 Project Reviews: six recommendations overdue, four of which very important overdue more than six months. A final follow-up audit report was issued in January 2011.

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

In the context of the cross sub-delegations which DG INFSO has given to other DGs (see Appendix 1), the reports received from those AODs did not indicate 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**

When taking into account the above-mentioned sources of information in Chapter 3.1 – *as "building blocks" which underpin the Authorising Officer by Delegation's general appreciation of the functioning of the internal control systems in his DG (including residual risks or residual weaknesses and envisaged measures) and, by consequence, his reasonable assurance* – it is important to note that these building blocks are not to be considered as each of them on a stand-alone basis. They support and complement each other and, consequently, as such build up the reasonable assurance layer by layer.

In summary, when reviewing the combined status of the building blocks listed above, it appears that all elements of the control chain contribute to building up reasonable assurance about the adequacy of the design of the control system and its functioning - over the whole programme cycle.

Furthermore, given the similar control systems in place for DG INFSO payments in the contexts of ICT Cooperation, ICT Capacities and CIP Projects, the assurance derived from the building blocks applies to 96% of DG INFSO's intervention payments budget (i.e. 96% of the DG's total 2010 budget excluding administrative expenditures).

More specifically, when taking into account DG INFSO's

- risk management via the High-Level Risk Assessment (HLRA) exercise and its follow-up via the Internal Control Coordination Group (ICC Group);

- effective implementation of the Internal Control Standards (ICS) and the further improvements via the annual recommendations from the Internal Control Coordinator (ICC);
- key indicators on legality and regularity of the transactions, aim of the common multi-annual FP6 audit strategy, and reinforcement of the ex-ante controls for FP7;
- confirmations from the AOSDs and no major counter-indications from main exceptions;
- overall positive feedback and no critical findings from independent IAC, IAS and ECA auditors...

... it appears that management has reasonable assurance that:

- suitable controls are in place and working as intended;
- risks are mitigated and/or monitored;
- improvements and reinforcements are being implemented

## 3.2 Reservations

### CUMULATIVE AUDIT COVERAGE END 2010 FP6

The audit coverage is composed of two parts:

- EU funding of audited projects (€ 416.9 million), in which audit adjustments have been taken into account, represents 10% of the total budget;
- the non-audited part of the budget, cleaned through extrapolation (i.e. participants for which extrapolation has been finalised by receipt of revised cost claims) and participants found to be free of systematic errors represents 50% of the total budget (€ 2.038)

### AUDIT RESULTS

The representative sample of audits carried out by DG INFSO on FP6 projects result in a cumulative detected error rate of 3.94 % (calculated at funding level, in favour of the European Commission). This error rate is calculated on the basis of all FP6 audits closed as of 31/12/2010, excluding the results of the risk-based audits (which are not representative of the whole population) and excluding follow-up audits.

Extrapolation of the correction of systematic errors in non-audited periods or projects in FP6 is part of the FP6 common audit strategy. Since 2008, extrapolation has been coordinated among Research DG's. Audits carried out on TOP beneficiaries by other Research DGs also have a cleaning effect on the systematic error in cost statements in DG INFO, because many TOP beneficiaries are common to all RDGs.

The calculation of the residual error rate is carried out in the following way:

$$Re\ sER\% = \frac{(Re\ pER\% * (P - A)) - (Re\ pER_{sys}\% * E)}{P}$$

where

ResER%	=	residual error rate, expressed as a percentage.
RepER%	=	representative error rate, or error rate detected in the representative sample (TOP+MUS in FP6).
RepERsys%	=	systematic portion of the RepER%, expressed as a percentage.
P	=	total EU contribution in Euros of the auditable population (as budgeted amounts at the level of participations in FP6).
A	=	value of the EU contribution of all audited amounts, expressed in Euros.

E = total non-audited amounts in Euro of all audited beneficiaries whose budget is free from systematic errors (as budgeted amounts at the level of participations in FP6).

Figures below are given in € millions:

$$ResER\% = \frac{(3,94\% * (4.115,6 - 416,9) - (2,67\% * 2.038))}{4.115,6}$$

On the basis of this calculation, the *cumulative residual* error rate is currently estimated at 2.2%. Finalising all ongoing audits and their follow-up, in particular successful extrapolation of audit results, will most likely bring this rate down to closely below 2%. In addition, as regards FP6 audits, all initial quantitative targets have been attained.

#### CONCLUSIONS

Since the cumulative residual error rate for FP6 (2.2%) is close to the materiality level and expected to fall below 2% in the course of 2011 once all ongoing audits are closed and all initiated extrapolation exercises have been completed, the reservation regarding the accuracy of FP6 cost claims made in previous AARs can be lifted. The FP6 control strategy allows meeting the multi-annual control target.

The originally intended audit coverage (40% of FP6 funding budget) has been surpassed to reach 60% of the budget.

Audit efforts on FP6 projects in 2011 will be limited to risk-based audits (see point 2.1), which have proven very successful in terms of detection of intentional over-claims.

No reservation will be made concerning the legality and accuracy of FP7 cost claims in view of the multi-annual nature of the programme, the initial audit results on a non-representative sample, and the expectation in view of those results that results similar to if not better than those achieved in FP6 will be attained.

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

N.A.

## Part IV

# Declaration of assurance

*I, the undersigned, Robert Madelin*

*Director-General of the Information Society and Media Directorate General*

*In my capacity as authorising officer by delegation*

*Declare that the information contained in this report gives a true and fair view* <sup>48</sup>.

*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*<sup>49</sup>.

*Place: Brussels      Date: 30/03/2011*

*(signed)*

*Robert Madelin  
Director-General DG INFSO*

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

<sup>49</sup> Executive agencies should replace "the institution" with "the Commission" here

# Annexes

- Annex I: Statement of the Internal Control Coordinator and the Resources Director
- Annex II: Human and Financial resources by ABB activity
- Annex III: Draft annual accounts and financial reports
- Annex IV: Materiality criteria
- Annex V: Internal Control Template(s) for budget implementation (ICT)
- Annex VI: Implementation through national or international public-sector bodies and bodies governed by private law with a public sector mission

# Annex I

## Statement of the Internal Control Coordinator and the Resources Director

*I declare that in accordance with the Commission's communication on clarification of the responsibilities of the key actors in the domain of internal audit and internal control in the Commission <sup>50</sup>, I have reported my advice and recommendations to the Director-General on the overall state of internal control in the DG Information Society and Media.*

*I hereby certify that the information provided in Parts 2 and 3.1 of the present AAR and in its annexes 4 and 5 is, to the best of my knowledge, accurate and exhaustive.*

*Place: Brussels    Date: 29/03/2011*

*(signed)*

*Megan Richards  
Director S General Affairs, Internal Control Coordinator*

*I hereby certify that the information provided in the annexes 2, 3 and 6 of the present AAR is, to the best of my knowledge, accurate and exhaustive.*

*Place: Brussels    Date: 15/03/2011*

*(signed)*

*Anne Bucher  
Director R Resources*

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<sup>50</sup> [SEC\(2003\)59 of 21.01.2003](#)

# Annex II

## Human and financial resources by ABB activity

### Human resources by ABB activity

Code ABB Activity	ABB Activity	Human Resources by ABB Activity		
		Establishment Plan posts	External Personnel	Total
09 02	i2010 – Electronic communications policy and network security	114	32	<b>146</b>
09 03	i2010 – ICT Take-up	75	34	<b>109</b>
09 04	i2010 – Cooperation – Information and communication technologies (ICTs)	401	138	<b>539</b>
09 05	Capacities – Research infrastructures	15	10	<b>25</b>
09 06	i2010 – Audiovisual policy and Media programme	31	7	<b>38</b>
09 AWBL-01	Administrative support for Information Society Directorate-General	124	37	<b>161</b>
09 AWBL-02	Policy strategy and coordination for Information Society Directorate-General	105	32	<b>137</b>
	<b>Total</b>	<b>865</b>	<b>290</b>	<b>1155</b>

## Autres crédits administratifs décentralisés Exécution de l'enveloppe globale 2010 (C1 de 2010)

Budget lines		FMC	Crédits	Engagement	Paiement	% EXECUTION
09	09.010211.00	INFSO	1.320.303			
09	09.010211.00.01.10	INFSO: PMO		753.593	694.888	
09	09.010211.00.01.30	INFSO	51.075	51.075	38.769	
09	09.010211.00.02.20	INFSO: PMO		404.550	330.469	
09	09.010211.00.02.40	INFSO	225.705	225.705	24.741	
09	09.010211.00.03	INFSO: PMO		162.160	113.755	
09	09.010211.00.04	INFSO	199.411	199.411	44.071	
09	09.010211.00.05	INFSO	213.506	213.506	45.001	
09	09.010211.00.06	INFSO	177.024	177.024	109.479	
<b>09 Total</b>			<b>2.187.024,00</b>	<b>2.187.024,00</b>	<b>1.401.171,91</b>	<b>100%</b>

<b>EXECUTION DES CREDITS D'ENGAGEMENT</b>		
Autres dépenses de gestion décentralisées - 09.010211.00.01 à 09.010211.00.06		
Code Activité	Activité	Exécution des crédits d'engagement
BGUE-B2008-09.010211.00.01.10	Mission expenses	753.592,98
BGUE-B2008-09.010211.00.01.30	Representation costs	51.074,75
BGUE-B2008-09.010211.00.02.20	Meeting expenses (for external experts)	404.550,36
BGUE-B2008-09.010211.00.02.40	Conference costs	225.704,88
BGUE-B2008-09.010211.00.03	Committee meetings	162.160,00
BGUE-B2008-09.010211.00.04	Studies & consultations	199.411,42
BGUE-B2008-09.010211.00.05	Information systems	213.505,61
BGUE-B2008-09.010211.00.06	Further training	177.024,00
	<b>Total</b>	<b>2.187.024,00</b>

# Annex III

## Draft annual accounts and financial reports

Annex 3 is provided in a separate file.

# Annex IV

## Materiality criteria

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

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

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

### Effectiveness of controls

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

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

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

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

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

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

Where:

resER% is residual error rate, expressed as a percentage.

repER% is the representative error rate, or error rate detected in the representative sample.

repERSys%	is the systematic portion of the RepER, expressed as a percentage. The repER% is composed of two portions reflecting the systematic and non-systematic errors detected.
P	is the total EU contribution in Euros of the auditable population (as budgeted amounts at the level of participations in FP6, and as claimed EU contributions at the level of cost statements in FP7).
A	is the value of the EU contribution of all audited amounts, expressed in Euros.
E	is the total non-audited amounts in Eurosof all audited beneficiaries (as budgeted amounts at the level of participations in FP6, and as claimed EU contributions at the level of cost statements in FP7). .51The control objective is to ensure that the residual error rate on the overall population is below 2% at the end of the management cycle.

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

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

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

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

In case an adequate calculation of the residual error rate is not possible for a FP for reasons not involving control deficiencies,<sup>52</sup> the consequences are to be assessed quantitatively by estimating the likely exposure for the reporting year. The relative impact on the Declaration of Assurance would be then considered by analysing the available information on qualitative grounds and considering evidence from other sources and areas.

### **Adequacy of the audit scope**

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

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

A multiannual control strategy requires a multiannual perspective to assurance

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<sup>51</sup> Note these do not only include those participations by beneficiaries subject to recoveries resulting from extrapolation. The amount also includes those for which it has been determined that they were not affected by systematic errors and, in consequence, no extrapolation has been launched. This also includes beneficiaries audited by other Research Commission services.

<sup>52</sup> Such as, for instance, during the first few years of implementation of the FP, when the limited number of auditable cost statements submitted do not allow for a sufficient number of representative audits to be completed in order to calculate the detected error rate.

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

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

# Annex V

## Internal Control Template(s) for budget implementation (ICT)

### DG INFSO's standard Internal Control Template (for DG INFSO's FP6 and FP7\* ICT Cooperation payments under direct centralised management\*\*)

#### 1. The control environment

including organisational, administrative and accountability structures

**Summary: The Research Projects are co-financed through the reimbursement of eligible costs**

The control environment is characterised by a large number of beneficiaries, each operating their own control system.

#### Key inherent control risks in this environment:

- Complex legal framework required to implement a system based on the reimbursement of 'actual eligible costs';
- Beneficiaries must allocate personnel cost and overheads via productive hours and time recording and deduct a range of ineligible items (VAT, duties, interest) from direct costs and overheads via management accounting in accordance with the complex contractual and regulatory provisions;
- Budgets allocated at the award stage are indicative only – amounts paid are always provisional and subject to recovery if not in line with actual costs;
- Given the large number of criteria to be complied with, and the relative lack of financial management expertise of the beneficiaries, errors are expected to be frequent.

DG INFSO's **organisational and accountability structure** is based on a de-centralised organigram, in which sub-delegations are assigned accordingly. Key controls and supervision measures are embedded in the DG's organisational structure, financial circuits and even electronic workflows. A cascading structure for problem solving, monitoring, reporting and senior supervision is operating on a weekly basis (e.g. Directorate meetings, OS-AFU-meeting, ICT Directors meeting, INFSO Directors meeting). DG INFSO's Authorising Officers by Sub-Delegation (AOSD) report twice annually via their Directorate's Management Report (DMR) to their Authorising Officer by Delegation (the Director General as AOD). In addition, the DG's ethics culture, fraud awareness training and sensitive functions policy have been strengthened.

#### Relevant key figures

**Management mode** = direct centralised management.

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

**Grant period** = up to 5 years

**Grant basis** = actual costs, in principle 50% co-funding of eligible costs + overhead (*smaller amounts as lump sums*)

**Average value** of FP6 grants = 3.890 M€ / 1.126 contracts = 3,4 M€ (*Commission's co-financed contribution*)

Average value of FP7 grants = 4.290 M€ / 1.260 contracts = 3,4 M€ (*Commission's co-financed contribution*)

The **number of participants** per project is up to 51 under FP7 and up to 95 under FP6. *It is estimated that the 200 largest beneficiaries ("TOP200 participants") account for 50% of the grants budget under FP6*

**Volume of transactions per year** = 347 (FP6) + 3.625 (FP7) = 3.972 payments (2010)

*Source: INFSO Management Information System*

#### 2. Stages and actors and main issues addressed at each stage

<b>The planning, programming,</b>	<b>Planning and programming</b> For DG INFSO's ICT-related policies, the multi-annual LT-planning as from the
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\* The information in the Template is applicable to FP6 and FP7 as well. The FP7 controls are the same as for FP6 with additional controls recently added where mentioned.

\*\* Given their limited importance in terms of the overall INFSO ICT budget, the PPP-style "Joint Undertakings" (JUs) – which in the 2 cases of DG INFSO constitute a mix of "indirect and/or shared management" modes (both for a minority stake of 1/6<sup>th</sup> of the participations values) – are not included in this template covering FP6 & FP7 under "direct centralised management".

<p><b>monitoring and reporting</b> processes in place.</p>	<p>Research Framework Program (FP) is translated per year in an annual Work Plan (WP). This WP, plus the annual planning for the DG's other policy areas, is reflected in the DG's Management Plan (MP), of which all the objectives are covered by the DG's annual High-Level Risk Assessment (HLRA) exercise.</p> <p><b>General coordination, supervision and reporting</b> In general, DG INFSO has structured its organisation and reporting channels in such a way as to be able to manage its heterogeneous activities at the right level, namely semi-autonomously where appropriate but co-ordinated when necessary.</p> <p>Directorates A and B, "Audiovisual, Media and Internet Policy" and "Electronic Communications Policy" respectively, operate on a de-centralised basis. Directorate C "Policy Coordination and Strategy " ensures coordination for all other "ICT" Directorates (D to H), both within DG INFSO and with the other Research DGs. General co-ordination is provided at senior level through the weekly INFSO Directors meeting (all Directors, presided by the Director General) and the ICT Directors meeting (ICT Directors, presided by the Deputy Director General).</p> <p>Operational co-ordination for administrative and financial matters is ensured at Head of Unit level through the weekly meeting of the Administration and Financial Units plus the Operational Sectors (OS/AFU). Finally, horizontal units from the "Resources" and "General Affairs" Directorates (R and S), and the Internal Audit Capability (IAC), provide assistance, guidance and/or support to all units of the DG.</p> <p><b>Evaluation, monitoring and impact assessment</b> DG INFSO's evaluation activities are performed according to the Commission's evaluation standards, and their results are available in due time for operational and strategic decision-making and reporting needs.</p> <p>Implementation of the major interventions under the current financial perspectives has been subject to ongoing monitoring. Monitoring of the calls for proposals for ICT research in the 'Co-operation' and 'Infrastructures' specific programmes in FP7 and in the ICT Policy Support Programme (ICT PSP) within the Competitiveness and Innovation Programme (CIP) has been completed and the monitoring reports were well received by the programmes management committees.</p> <p>DG INFSO makes impact assessments for policy initiatives, which are submitted to the Impact Assessment Board for opinion.</p>
<p><b>Selection process</b> (of beneficiaries, intermediaries, agencies etc.), including <b>preventive</b> measures.</p>	<p>The evaluation of proposals is a critical step within the internal control system. Proposals are selected based on their evaluation against public evaluation criteria. It is aimed to get the best value for public money by selecting the best quality proposals in the fairest, most transparent and most efficient way possible. Key controls include the screening of submitted proposals for eligibility; the choice of independent expert evaluators (signing a declaration of absence of conflicts of interests), the evaluation by a minimum of three experts; and a panel review for quality control and ranking of proposals. In addition, the whole evaluation process is subject to the monitoring by a panel of independent observers. In FP7, a formal redress procedure is used as an additional mandatory control. This procedure is foreseen in the Rules for Participation as an additional safeguard in order to assure a fully transparent, fair and reliable evaluation process.</p> <p>Based on the prioritised list, the Commission establishes the final list of approved proposals and proceeds to negotiate the grant agreements with the successful applicants. The purpose of the negotiation is to clarify and adapt the work to be carried out and the operational objectives of the project, substantiate its costs and determine its duration and the maximum contribution from the EU budget. Based on the recommendations from a 2009 INFSO Working Group, the internal guidelines for the negotiation process have been renewed. They include a systematic screening of the consortia in new calls.</p> <p>The Commission seeks to implement the advice of the independent expert evaluators and, where applicable, the recommendations resulting from the ethical review. This process generates significant efficiencies in the use of Community funds by discarding work which is not essential for the achievement of the scientific objectives of the project and ensuring that the budgeted costs are commensurate to the work to be carried out. Negotiation results are put forward to the Programme Committee, which must approve proposals over certain financial thresholds and funding levels.</p> <p>The grant agreements are then prepared for signature. This phase includes legal and financial verifications, which include the verification of the legal status of the beneficiary and its possible inclusion in the Early Warning System in all cases, whilst</p>

	<p>the financial viability and the co-funding capacity is analysed on the basis of the specific legal provisions of the programme concerned. With regard to the latter, the practice regarding research programmes has evolved over time, taking into account the introduction of joint financial liability in FP6 and the participants' guarantee fund in FP7. On that basis, financial viability checks are mandatory in FP6 and FP7 for project coordinators and also for individually significant project participants. Risks not covered by the generic mitigating provisions are addressed through targeted ex-post controls on the basis of a dedicated detailed risk analysis (risk-based audits).</p>
<p><b>Preventive and directive measures to improve the quality of financial management and provision of data by beneficiaries and intermediaries</b></p>	<p>The Commission has developed a specific communication strategy to ensure that both beneficiaries and the certifying auditors fully understand the contract requirements and provisions, in order to reduce the number of errors and omissions in the cost claims submitted to the Commission. This notably includes extensive guidance notes which are published in the Cordis website in addition to the legal basis and the implementing documents.</p> <p>In the context of FP7, initiatives have been taken to reinforce the ex-ante controls even further. Mainly aimed at reducing the most common misunderstandings and errors among beneficiaries (eligible personnel and/or indirect costs), the Research DGs have introduced 'agreed upon procedures' for better audit certificates and have submitted proposals on the possibility of having an ex-ante certification of the beneficiary's accounting methodology, in terms of average personnel costs and/or overall cost accounting (including indirect costs). In addition, a Guarantee Fund has been set up to offset unrecoverable recovery orders. Finally, as a dissuasive measure, contractual penalties and sanctions have been reinforced under FP7.</p>
<p><b>Detective and corrective controls:</b> Verification payments and key milestones</p>	<p>Beneficiaries submit progress reports, financial statements and an explanation on the use of resources. When required by the grant agreement, beneficiaries submit also a certificate on the financial statements (the audit certificate) issued by an independent external auditor (the certifying auditor).</p> <p>The certifying auditor checks whether the claims made are 'actual', correctly recorded in the accounts and in the eligible project period. The certifying auditor must be independent from the beneficiary and qualified to carry out statutory audits of accounting documents.</p> <p>Before a payment is authorised, all relevant operational and financial aspects are verified by at least two independent members of staff. Scientific/Project officers verify that the work carried out by the beneficiary is in all respects in compliance with the grant agreement by evaluating the project reports and deliverables. To do so, they may seek the advice of independent experts and organise review meetings. Financial officers carry out accounting and arithmetical checks to ensure financial statements and audit certificates have been submitted in accordance with the provisions of the grant agreement. The authorising officer ascertains that these checks on the supporting documents have been done and validates the expenditure.</p> <p>When opportune, "in depth" ex ante desk checks are carried out. These include the verification of individual cost items against other sources of information (reconciliations, authorisation) based on third-party invoices or payslips provided by the beneficiary. Basic deficiencies in beneficiaries' understanding of the contract provisions can be detected and improved this way, with a resulting corrective effect on future claims. The generalised use of audit certifications has reduced the need to carry out these tests.</p> <p>However, in line with the negotiation processes, also the review and payment processes are being further strengthened. Based on recommendations from a 2009 INFSO-Working Group on payments, renewed guidelines for the payment process will be adopted in March 2011. Following a 2009 IAC audit, a 2010 INFSO-Working Group on reviews has redrafted the Guidelines for the reviews in the autumn of 2010. In the meantime, systematic screening of deliverables for plagiarism is being integrated in the processes (as from 2011 second semester), while guidelines and templates allowing a more structured and efficient way of dealing with contract terminations, payment suspensions and early warnings for the EWS- system have already been made available.</p> <p>Any suspicious projects are, of course, signalled for a financial risk-based audit on-the-spot and/or for transmission to OLAF. Project participations of beneficiaries having been found to have committed irregularities and/or professional misconduct are terminated and they are excluded from participating in future projects.</p>
<p><b>Corrective controls and audit:</b></p>	<p>Ex-post audits are a key element of the control strategy. The control objectives of the ex-post audit functions are two-fold: (1) to provide an adequate indication of the effectiveness of ex-ante controls; and (2) to ensure the accuracy of the expenditure and,</p>

	<p>therefore, the legality and regularity of the underlying transactions, on a multi-annual basis.</p> <p>This is achieved by auditing and, where necessary, adjusting a sizeable proportion of the expenditure (between 40 and 50%) and by checking compliance on the rest.</p> <p>The contracts to be audited are selected using a multi-annual, three-layered sampling strategy ensuring a comprehensive coverage of the audit population. The three strata are: (1) the individually significant beneficiaries representing a large share of the budget; (2) a representative, value-based random sample from the remaining population; and (3) a risk-based sample focusing on potentially riskier contractors.</p> <p>Contracts with the individually significant beneficiaries represent over 40% of expenditure under FP6. It is presumed that in FP7 a similar situation will be the case. The systemic, i.e. non-clerical, errors detected on the audited contracts are extrapolated to non-audited contracts. This will ensure, on a multi-annual basis, that a substantial share of the expenditure is largely free from systemic errors.</p> <p>All audit results are implemented by the authorising officers. Errors detected are corrected by issuing recovery orders or deducing amounts wrongly paid from future payments to the same beneficiary. Given that the Research FPs are multi-annual programmes, these corrective controls are executed over a time-span of several years. Any adjustments which need to be made to the costs initially claimed, can first of all be made by offsetting against the next pre-financing period payment. Only when adjustments are needed after the final payment has already been made, then recovery orders are issued for cashing. In addition, if applicable, contractual penalties and/or sanctions are applied. In DG INFSO, the recovery order process and the related balance is monitored on horizontal level.</p> <p>In the context of further strengthening the fraud detection and correction powers of the ex-post controls, the risk-based audits have become a fundamental element of the audit strategy. Furthermore, 'data-mining' has been integrated into the audit working methods (pre-investigations, preparation of audit batches), working methods have become stricter in terms of 'professional scepticism' (cf. auditors' ISA240 standard), and cooperation with OLAF has been strengthened (pre-assessment, administrative/technical cooperation, regular follow-up of cases).</p>
<p><b>3. Supervision and monitoring of the internal control systems and audit follow-up</b></p>	
<p><b>Verification that processes are working as designed</b></p>	<p>Feedback on the effectiveness of the operational processes is available through several information channels:</p> <ul style="list-style-type: none"> <li>- management's knowledge about the state of the DG's internal control systems, gathered through the day-to-day work and experiences;</li> <li>- the DG's formal supervision, follow-up and monitoring arrangements;</li> <li>- the results from the annual ICS review (compliance with requirements and priorities for improvements towards further effectiveness), which offer 'top-down' information on the DG's state of its internal control system;</li> <li>- the Directors' Management Reports (DMR), which provide twice per year 'bottom-up' confirmation or counter-indications to the overall ICS reviews;</li> <li>- the results of the High Level Risk Assessment (HLRA) exercise;</li> <li>- the ex-ante and ex-post controls, including reports of exceptions and/or internal control weaknesses;</li> <li>- the results and lessons learnt from the DG's external financial audits;</li> <li>- the audits and consultancy work performed by the DG's Internal Audit Capability.</li> </ul>
<p><b>Monitoring of performance</b> of independent bodies, 3<sup>rd</sup> party auditors, externally contracted auditors</p>	<p>DG INFSO depends on external parties for (i) the selection and scientific evaluation of the research projects (by external experts), (ii) the execution of the outsourced financial audits of contractors (by an audit firm under a framework contract), and (iii) the delivery of audit certificates (by audit companies) to contractors supporting their cost claims for projects.</p> <p>DG INFSO remains ultimately responsible for the consequences of potential problems related to these outsourced services. Therefore, the DG monitors the quality of the project review process (cf. IAC audit), the quality of the financial audit reports issued by the external audit firm contracted and the quality of the audit certificates provided by the beneficiaries' appointed audit firms.</p>
<p><b>High level management reporting</b> e.g. to the Director</p>	<p>General co-ordination (and problem solving, if needed) is provided at senior level through the weekly INFSO Directors meeting (all Directors, presided by the Director General) and the ICT Directors meeting (ICT Directors, presided by the Deputy Director General).</p>

<p>General) and its role in monitoring problem issues</p>	<p>DG INFSO uses a number of management scoreboards on a monthly/quarterly basis covering, inter alia:</p> <ul style="list-style-type: none"> <li>- Budget execution (commitments and payments)</li> <li>- Payment times</li> <li>- FDI (final date for implementation)</li> <li>- Audit results and implementation/extrapolation</li> <li>- FOR (forecasts of revenue) and Recovery orders outstanding</li> <li>- Experts (TCLs/ALs, meetings)</li> <li>- Studies (so far on an 'ad hoc' basis)</li> </ul> <p>In addition, such information is available as well at directorates' level (Authorising Officers by Sub-Delegation, AOSDs) and/or even at unit level (e.g. on workflow status in "iFlow") to enable follow-up as required.</p> <p>Over the years, DG INFSO has improved its internal reporting channels by adding extra chapters on management issues to the Directors' Management Reports. These reports, which are written in line with the Charter of Authorising Officers by Sub-Delegation, allow more detailed 'bottom-up' information related to risk, control, audit and (potential) reservations issues to be collected twice per year.</p>
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<p>Summary description of <b>other key controls</b></p>	<p>Furthermore, it should be noted that a number of <b>non-financial key controls</b> are exercised at different stages of the programme management cycle, which also contribute to the assurance on legality, regularity and sound financial management. The most important contributions to the overall assurance derive from the following other key controls:</p> <ul style="list-style-type: none"> <li>• Assurance on the scientific and technical scope of the work programme and the content of calls for proposals is derived from the consecutive consultations of the external scientific advisory committee (ISTAG), the programme management committee (comitology), the internal inter-service consultation prior to the Commission Decision taken by Habilitation/Delegation.</li> <li>• Assurance on the transparency, reliability and fairness of the project evaluation procedure is built on the soundness of the overall design and documentation of these procedures, the positive conclusions of the monitoring panels of independent observers and the absence of valid complaints in the context of newly introduced redress procedure in FP7.</li> <li>• Assurance on the actual delivery of valid scientific results is obtained through the reviews of projects and their main deliverables at least once in the lifetime of every research project. These reviews are held with the support of independent external experts and lead if need be to the request of complementary work to achieve the required results, to the rejection of deliverables and in extreme cases to the termination of contracts and the recovery of unduly paid amounts. The system of project reviews in place in DG INFSO has been audited by the DG's internal audit unit, which has confirmed the adequacy of the system in place. In addition, DG INFSO's research programmes impact assessments and evaluation reports have received positive feedback from internal and external stakeholders (SG-IAB, ECA, BUDG, OECD and peers such as JRC).</li> <li>• The continuous monitoring through the DG's Internal Control Co-ordination Group provides an important contribution to the assurance on the adequate follow-up of identified risks, the actual implementation of action plans and the early discovery of any new issues requiring mitigating management measures.</li> </ul>
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## Appendix 1: Cross-delegations

By DG INFSO:

Fund Mgt Center	Date de signature	Période	Intitulé	Montant	Date réponse DG	Verifié par R2	Commentaires
INFSO/DIGIT	27/08/2007	illimitée	Développement des systèmes d'information et de gestion	crédit autorisé	21/2/2011	25/1/2011	DIR H / Ares 70323
INFSO/DIGIT	27/08/2007	illimitée	Innovation et compétitivité (PIC) - dépenses pour la gestion administrative	crédit autorisé	31/1/2011	31/1/2011	DIR H / Ares 101968
INFSO/DIGIT	27/08/2007	illimitée	Dépenses administratives - autres dépenses de gestion dans le domaine de la recherche	crédit autorisé			

Fund Mgt Center	Date de signature	Période	Intitulé	Montant	Date réponse DG	Verifié par R2	Commentaires
INFSO/ESTAT	02/02/2007	illimitée	Innovation et compétitivité (PIC) - Programme d'appui stratégique en matière de TIC	crédit autorisé	4/2/2011	7/2/2011	DIRC4 / Ares128399
INFSO/ESTAT	02/02/2007	illimitée	Achèvement du programme MODINIS	crédit autorisé			
INFSO/ESTAT	02/02/2007	illimitée	Autres actions dans le domaine audiovisuel	crédit autorisé			

Fund Mgt Center	Date de signature	Période	Intitulé	Montant	Date réponse DG	Verifié par R2	Commentaires
INFSO/OP (ex: OPOCE)	15/12/2010	illimitée	Appui à la coopération en matière de recherche dans le domaine des technologies de l'information et de la communication (TIC - Coopération)	crédit autorisé	25/1/2011	26/1/2011	DIRC/C4 & DIRS / Ares 82609

Fund Mgt Center	Date de signature	Période	Intitulé	Montant	Date réponse DG	Verifié par R2	Commentaires
INFISO/PMO	20/10/2010	illimitée	Organe des régulateurs européens des communications électroniques (ORECE) – Office – Subvention aux titres 1 et 2	crédit autorisé			L'ordonnateur délégataire fera rapport dans son AAR des fonds qui lui sont sub-délégués.
INFISO/PMO	20/10/2010	illimitée	Coopération-Technologies de l'information et de la communication-Dépenses d'appui pour l'entreprise commune ARTEMIS	crédit autorisé			
INFISO/PMO	20/10/2010	illimitée	Coopération-Technologies de l'information et de la communication-Dépenses d'appui pour l'entreprise commune ENIAC	crédit autorisé			

Fund Mgt Center	Date de signature	Période	Intitulé	Montant	Date réponse DG	Verifié par R2	Commentaires
INFISO/RTD	09/07/2009	illimitée	Innovation et compétitivité (PIC) - dépenses pour la gestion administrative	crédit autorisé	28/2/2011	1/3/2011	DIR C / Ares 221929
INFISO/RTD	09/07/2009	illimitée	Appui à la coopération en matière de recherche dans le domaine des technologies de l'information et de la communication (TIC - Coopération)	crédit autorisé			
INFISO/RTD	09/07/2009	illimitée	Coopération-Technologies de l'information et de la communication-Dépenses d'appui pour l'entreprise commune ARTEMIS	crédit autorisé			
INFISO/RTD	09/07/2009	illimitée	Coopération-Technologies de l'information et de la communication-Dépenses d'appui pour l'entreprise commune ENIAC	crédit autorisé			

To DG INFSO:

Fund Mgt Center	Date de signature	Période	Intitulé	Montant	Date réponse DG	Verifié par R2	DIR INFSO responsable
DIGIT/INFSO	23/1/2008	illimitée	Services paneuropéens de gouvernement électronique aux administrations publiques, aux entreprises et aux citoyens (IDABC)	crédit autorisé	2/2/2011	31/1/2011	DirH / Ares 114370

Fund Mgt Center	Date de signature	Période	Intitulé	Montant	Date réponse DG	Verifié par R2	DIR INFSO responsable
PMO/INFSO	17/12/2009	illimitée	Dommages et intérêts	crédit autorisé			

Fund Mgt Center	Date de signature	Période	Intitulé	Montant	Date réponse DG	Verifié par R2	Commentaires
RTD/INFSO	03/03/2009	2009-2014	Coopération-Energie-Gestion du call "ICT & Energie" FP7-ICT-ENERGY-2009-I	crédit autorisé	3/2/2011	31/1/2011	DirH / Ares 118019

Fund Mgt Center	Date de signature	Période	Intitulé	Montant	Date réponse DG	Verifié par R2	DIR INFSO responsable
SANCO/INFSO	03/03/2009	illimitée	Action communautaire dans le domaine de la politique des consommateurs	100.000	28/1/2011	31/1/2011	Directorate C & S / Ares 95338

# Annex VI

## Implementation through national or international public-sector bodies and bodies governed by private law with a public sector mission

This section, which applies only to indirect centralised management, provides the following details relating to all national or international implementing bodies, in the form of a table for each body, which implemented programmes in 2010:

### ARTEMIS Joint Undertaking

1. Programmes concerned:	7th EC Framework Programme for RTD – Cooperation Specific Programme – ICT Theme
2. Annual budgetary amount entrusted to these bodies:	Up to 55,5 M€
3. Duration of the delegation:	2008-2017
4. Justification of recourse to indirect centralised management:	Required by the Council decision <sup>53</sup> concerning the establishment of the ARTEMIS Joint Undertaking to implement a Joint Technology Initiative in Embedded Computing Systems.
5. Justification of the selection of the bodies (identity, selection criteria, possible indication in the legal basis etc):	Set out in the Council decision establishing the ARTEMIS Joint Undertaking as a Community body
6. Synthetic description of the implementing tasks entrusted to these bodies:	Implementation of the Union participation in the <b>ARTEMIS Joint Undertaking</b>

### ENIAC Joint Undertaking

1. Programmes concerned:	7th EC Framework Programme for RTD – Cooperation Specific Programme – ICT Theme
2. Annual budgetary amount entrusted to these bodies:	Up to 55,5 M€
3. Duration of the delegation:	2008-2017
4. Justification of recourse to indirect centralised management:	Required by the Council decision <sup>54</sup> concerning the establishment of the ENIAC Joint Undertaking to implement a Joint Technology Initiative in Nanoelectronics Technologies
5. Justification of the selection of the bodies (identity, selection criteria, possible indication in the legal basis etc):	Set out in the Council decision establishing the ENIAC Joint Undertaking as a Community body
6. Synthetic description of the implementing tasks entrusted to these bodies:	Implementation of the Union participation in the <b>ENIAC Joint Undertaking</b>

<sup>53</sup> Decision no 74/2008/EC of 20 December 2007

<sup>54</sup> Decision no 72/2008/EC of 20 December 2007

## AAL

1. Programmes concerned:	7th EC Framework Programme for RTD – Cooperation Specific Programme – ICT Theme
2. Annual budgetary amount entrusted to these bodies:	Up to 25 M€
3. Duration of the delegation:	2008-2013
4. Justification of recourse to indirect centralised management:	Required by co-decision <sup>55</sup> by the European Parliament and the Council concerning the Community participation in the AAL Joint Programme (represented by the AAL Association, an IASBL under Belgian Law)
5. Justification of the selection of the bodies (identity, selection criteria, possible indication in the legal basis etc):	Set out in co-decision by the European Parliament and the Council concerning the Community participation in the AAL Joint Programme
6. Synthetic description of the implementing tasks entrusted to these bodies:	Implementation of the Union participation in the <b>AAL Joint Programme</b>

<sup>55</sup> Decision no 742/2008/EC of 9 July 2008