

ANNEX 1:

Statement of the Resources Director

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

I hereby certify that the information provided in Parts 2 and 3 of the present AAR and in its annexes 2 to 5 is, to the best of my knowledge, accurate and exhaustive.

Done in Brussels, 25/03/2011

Resources Director,

Augusto Bonucci

(signed)

¹ SEC(2003)59 of 21.01.2003.

ANNEX 2: Human and Financial Resources by ABB activity

HUMAN RESOURCES BY ABB ACTIVITY

Code ABB Activity	ABB Activity	Establishment Plan posts	External Personnel	Total:
06 02	Inland, air and maritime transport	213	65	278
06 03	Trans-European networks	37	6	43
06 06	Research related to transport	7	6	13
06 AWBL-02	Policy strategy and coordination for 'Mobility and Transport' Directorate-General	57	10	67
06-32 AWBL-01	Shared administrative support for Energy and Mobility and Transport	168	29	197
	Total	482	116	598

IMPLEMENTATION OF THE GLOBAL ENVELOPE BUDGET LINES CONCERNED 06.010211.00.01 TO 06.010211.00.06

Budget Line	Description	Available appropriations 2010	Commitment 2010	Payment 2010	Amount of appropriations carried over from 2009	% implementation on appropriations carried over from 2009
06.010211.00.01.10	Mission Expenses	1 472 000	1 472 000	1 134 057	508 509	57.94%
06.010211.00.01.30	Representation Expenses	20 850	20 850	11 692	1 311	100.00%
06.010211.00.02.20	Meeting Costs	605 000	605 000	397 430	575 296	48.32%
06.010211.00.02.40	Conference Costs	89 000	80 876	75 709	162 171	79.90%
06.010211.00.03	Meetings of Committees	637 000	637 000	371 490	417 026	75.01%
06.010211.00.04	Studies and consultations	34 650	24 650	24 650	4 995	100.00%
06.010211.00.05	Development of management and information system	775 639	775 088	196 462	504 958	92.44%
06.010211.00.06	Further training and management training	304 500	304 500	150 062	114 156	86.03%
06 Total		3 938 638	3 919 963	2 361 553	2 288 422	69.32%

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

Additional comments

It is important to note when considering tables 4 and 5 that the split of DG TREN in to DG MOVE and DG ENER was carried out by creating a new profit centre for DG MOVE, while DG ENER took over the profit centre of the previous DG TREN. As a result there is no balance sheet and economic outturn for DG MOVE in 2009.

For table 8, it is important to note that the amounts in the expenses section only cover the period after the profit centres for ENER and MOVE became operational following the split of DG TREN. As a result, certain transactions completed in 2010 before the separation into ENER and MOVE was made are not included due to a technical constraint. As a result they are included in the table at the end of the annex.

TABLE 1: OUTTURN ON COMMITMENT APPROPRIATIONS IN 2010 (in Mio €)				
Chapter		Commitment appropriations	Commitments made	%
		1	2	3=2/1
Title 06 : Energy and transport				
06 01	Administrative expenditure of Energy and transport policy area	30,86	28,64	92,81 %
06 02	Inland, air and maritime transport	136,11	129,37	95,05 %
06 03	Trans-European networks	131,47	130,15	99,00 %
06 06	Research related to energy and transport	120,71	101,56	84,13 %
06 07	Security and protection of energy and transport users	2,62	2,15	82,21 %
Total Title 06		421,76	391,87	92,91 %
Total DG MOVE		421,76	391,87	92,91 %

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

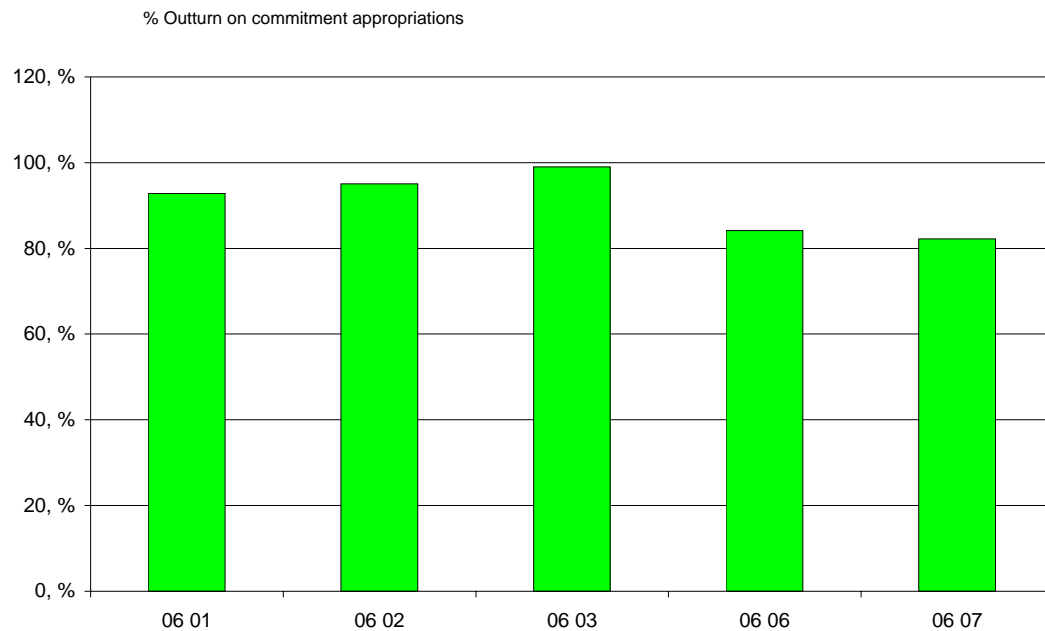


TABLE 2: OUTTURN ON PAYMENT APPROPRIATIONS IN 2010 (in Mio €)				
Chapter		Payment appropriations	Payments made	%
		1	2	3=2/1
Title 06 : Energy and transport				
06 01	Administrative expenditure of `Energy and transport, policy area	39,65	29,55	74,54 %
06 02	Inland, air and maritime transport	129,81	118,51	91,29 %
06 03	Trans-European networks	90,47	20,11	22,23 %
06 06	Research related to energy and transport	91,96	58,81	63,96 %
06 07	Security and protection of energy and transport users	5,02	2,86	56,96 %
Total Title 06		356,91	229,85	64,40 %
Total DG MOVE		356,91	229,85	64,40 %

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

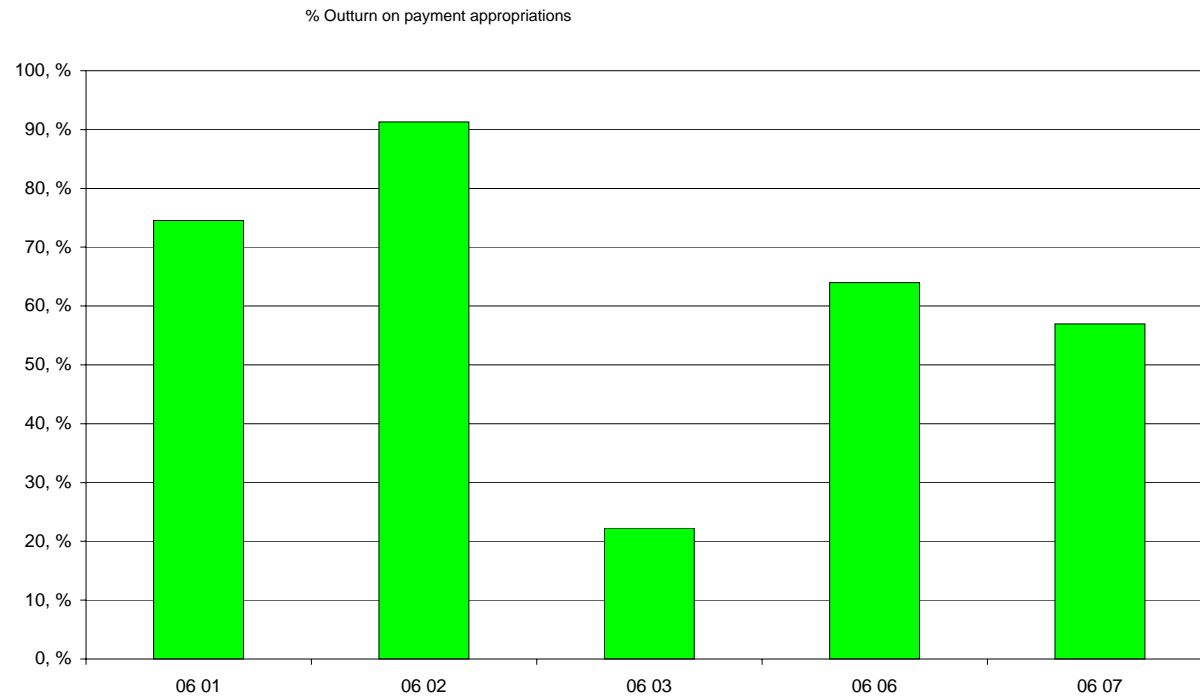
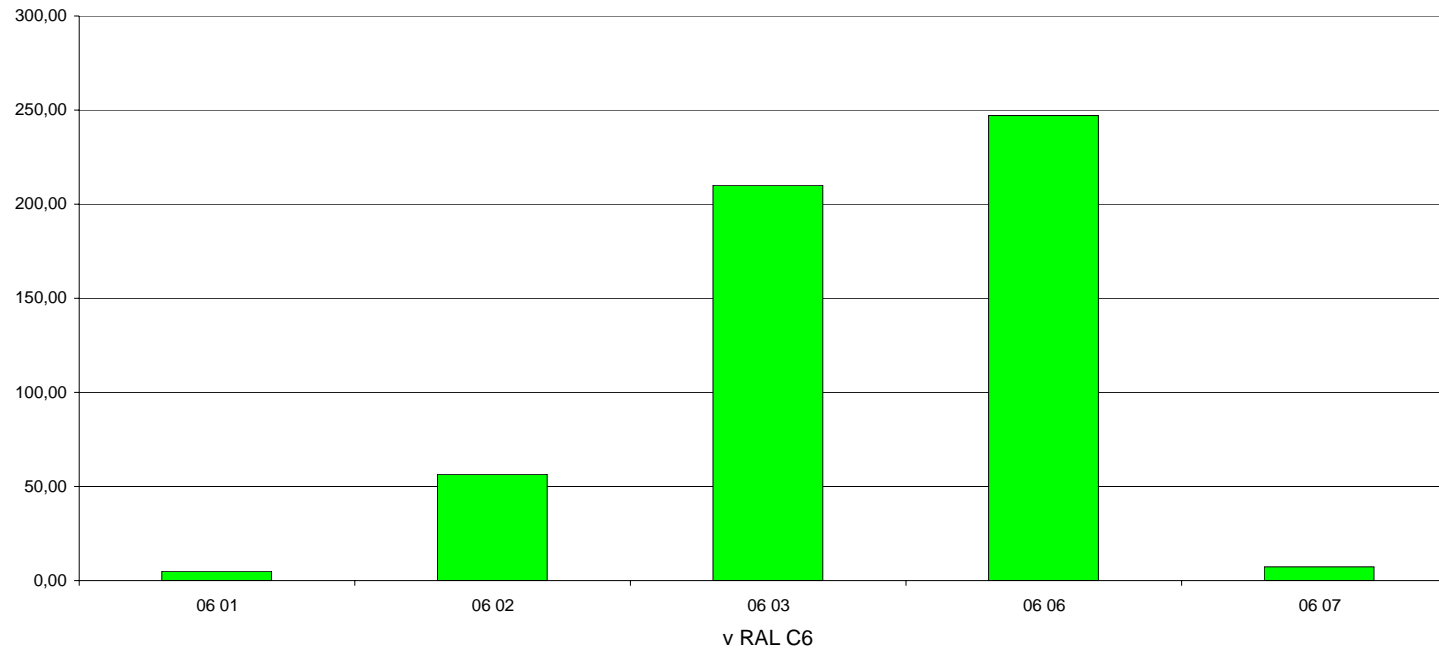


TABLE 3 : BREAKDOWN OF COMMITMENTS TO BE SETTLED AT 31/12/2010 (in Mio€)								
Chapter		2010 Commitments to be settled				Commitments to be settled from financial years previous to 2010	Total of Commitments to be settled at end of financial year 2010 (incl.corrections)	Total of Commitments to be settled at end of financial year 2009 (incl.corrections)
		Commitments 2010	Payments 2010	RAL 2010	% to be settled			
		1	2	3=1-2	4=1-2/1	5	6=3+5	7
Title 06 : Energy and transport								
06 01	Administrative expenditure of Energy and transport policy area	28,52	23,64	4,88	17,11 %	0,00	4,88	8,79
06 02	Inland, air and maritime transport	129,37	105,45	23,92	18,49 %	32,53	56,45	47,06
06 03	Trans-European networks	130,15	20,11	110,04	84,55 %	100,00	210,04	0,00
06 06	Research related to energy and transport	101,56	4,56	97,00	95,51 %	150,19	247,19	201,49
06 07	Security and protection of energy and transport users	2,15	0,71	1,44	67,01 %	5,94	7,38	8,29
Total Title 06		391,75	154,47	237,28	60,57 %	288,67	525,95	265,64
Total DG MOVE		391,75	154,47	237,28	60,57 %	288,67	525,95	265,64

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



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

TABLE 4 : BALANCE SHEET MOVE

BALANCE SHEET	2010	2009
A.I. NON CURRENT ASSETS	135.860.584,59	
A.I.1. Intangible Assets	86.564,50	
A.I.3. Long-term investments	121.425.989,19	
A.I.5. LT Pre-Financing	14.348.030,90	
A.II. CURRENT ASSETS	6.231.511,19	
A.II.2. Short-term Pre-Financing	3.456.108,03	
A.II.3. Short-term Receivables	2.775.403,16	
ASSETS	142.092.095,78	
P.III. CURRENT LIABILITIES	-48.010.307,08	
P.III.4. Accounts Payable	-48.010.307,08	
LIABILITIES	-48.010.307,08	
NET ASSETS (ASSETS less LIABILITIES)	94.081.788,70	
P.I.2. Accumulated Surplus / Deficit		
Non-allocated central (surplus)/deficit*		
TOTAL		

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

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

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

TABLE 5 : ECONOMIC OUTTURN ACCOUNT MOVE

ECONOMIC OUTTURN ACCOUNT	2010	2009
II.1 SURPLUS/ DEF. FROM OPERATING ACTIVT	466.195.498,55	
II.1.1. OPERATING REVENUES	-10.042.090,63	
II.1.1.1. Other operating revenue	-10.042.090,63	
II.1.2. OPERATING EXPENSES	476.237.589,18	
II.1.2.1. Administrative Expenses	32.075.572,59	
II.1.2.2. Operating Expenses	444.162.016,59	
II.2. SURPLUS/DEF. NON OPERATING ACTIVIT	-2.575.025,05	
II.2. FINANCIAL OPERATIONS	-2.575.025,05	
II.2.1. Financial revenue	-2.583.387,54	
II.2.2. Financial expenses	8.362,49	
ECONOMIC OUTTURN ACCOUNT	463.620.473,50	

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

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

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

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

Legal Times							
Maximum Payment	Total Number of Payments	Nbr of	Percentage	Average Payment Times (Days)	Nbr of Late Payments	Percentage	Average Payment Times (Days)
30	343	273	79,59 %	20,27	70	20,41 %	48,61
45	196	176	89,80 %	24,80	20	10,20 %	61,80
60	36	31	86,11 %	32,13	5	13,89 %	82,80
105	11	10	90,91 %	76,20	1	9,09 %	108,00
Total Number of	586	490	83,62 %		96	16,38 %	
Average Payment	28,70			23,79			53,76

Target Times							
Target Payment	Total Number of Payments	Nbr of	Percentage	Average Payment Times (Days)	Nbr of Late Payments	Percentage	Average Payment Times (Days)
20	46	25	54,35 %	14,24	21	45,65 %	28,62
30	529	375	70,89 %	20,37	154	29,11 %	47,73
90	11	5	45,45 %	52,80	6	54,55 %	101,00
Total Number of	586	405	69,11 %		181	30,89 %	
Average Payment	28,70			20,39			47,28

Suspensions							
Average Report	Average Payment Suspension Days	Number	% of Total Number	Total Number of Payments	Amount of Suspended	% of Total Amount	Total Paid Amount
46	44	114	19,45 %	586	57.144.079,65	32,24 %	177.256.702,27

Late Interest paid in 2010			
DG	GL Account	Description	Amount (Eur)
DG MOVE	65010100	Interest on late payment of charges New FR	8 362,49
			8 362,49

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

TABLE 7 : SITUATION ON REVENUE AND INCOME IN 2010

Chapter	Revenue and income recognized			Revenue and income cashed from			Outstanding balance	
	Current year RO	Carried over RO	Total	Current Year RO	Carried over RO	Total		
	1	2	3=1+2	4	5	6=4+5		
Title 5: REVENUE ACCRUING FROM THE ADMINISTRATIVE OPERATION OF THE INSTITUTION								
52	REVENUE FROM INVESTMENTS OR LOANS GRANTED, BANK AND OTHER INTEREST	2.324.582,62	8.123,18	2.332.705,80	2.324.582,62	8.123,18	2.332.705,80	0,00
59	OTHER REVENUE FROM ADMINISTRATIVE OPERATIONS	1.298.565,84	0,00	1.298.565,84	1.298.565,84	0,00	1.298.565,84	0,00
	Total Title 5	3.623.148,46	8.123,18	3.631.271,64	3.623.148,46	8.123,18	3.631.271,64	0,00
Title 6: CONTRIBUTIONS AND REFUNDS IN CONNECTION WITH COMMUNITY/EU AGREEMENTS AND PROGRAMMES								
60	CONTRIBUTIONS TO COMMUNITY/EU PROGRAMMES	189.000,00	0,00	189.000,00	189.000,00	0,00	189.000,00	0,00
66	OTHER CONTRIBUTIONS AND REFUNDS	7.730.170,38	1.024.204,17	8.754.374,55	6.694.430,41	282.558,32	6.976.988,73	1.777.385,82
	Total Title 6	7.919.170,38	1.024.204,17	8.943.374,55	6.883.430,41	282.558,32	7.165.988,73	1.777.385,82
Title 9: MISCELLANEOUS REVENUE								
90	MISCELLANEOUS REVENUE	107.021,69	42.709,92	149.731,61	37.260,78	0,00	37.260,78	112.470,83
	Total Title 9	107.021,69	42.709,92	149.731,61	37.260,78	0,00	37.260,78	112.470,83
Total DG MOVE		11.649.340,53	1.075.037,27	12.724.377,80	10.543.839,65	290.681,50	10.834.521,15	1.889.856,65

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

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

RECOVERY ORDERS ISSUED IN 2010 Year of Origin (commitment)	Follow Up		Irregularity		No error / irregularity		TOTALS	
	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount
2000			2	23.590,03			2	23.590,03
2001			4	63.301,81			4	63.301,81
2003			1	5.279,49			1	5.279,49
2004			16	504.224,75	12	90.577,19	28	594.801,94
2005			2	426.685,64	2	4.494,26	4	431.179,90
2006			1	1.661,28	4	19.144,13	5	20.805,41
2007			4	502.784,72	2	150.901,31	6	653.686,03
2008					1	41.481,04	1	41.481,04
2009	1	116.606,34			5	7.445.019,71	6	7.561.626,05
No Link					1	3.404,43	1	3.404,43
	1	116.606,34	30	1.527.527,72	27	7.755.022,07	58	9.399.156,13

EXPENSES

	Nbr	Amount
INCOME LINES IN INVOICES	0	

	Error		Irregularity		No error / irregularity	
	Nbr	Non-Eligible Amount	Nbr	Non-Eligible Amount	Nbr	Non-Eligible Amount
NON ELIGIBLE AMOUNT IN COST CLAIMS	16	351.216,20	11	1.886.752,27	13	7.271.254,52

	Error		Irregularity	
	Nbr	Credit Note Amount	Nbr	Credit Note Amount
CREDIT NOTES	22	-287.414,58	17	-300.236,55

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

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

Year of Origin	Number at 01/01/2010	Number at 31/12/2010	Evolution	Open Amount (Eur) at 01/01/2010	Open Amount (Eur) at 31/12/2010	Evolution
2002	1	1	0,00 %	42.709,92	42.709,92	0,00 %
2003	1		-100,00 %	148.123,18		-100,00 %
2007	1	1	0,00 %	490.960,77	490.960,77	0,00 %
2009	5	3	-40,00 %	393.243,40	250.685,08	-36,25 %
2010		22			1.105.500,88	
Totals	8	27	237,50 %	1.075.037,27	1.889.856,65	75,79 %

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

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

	Waiver Central Key	Linked RO Central Key	RO Accepted Amount (Eur)	LE Account Group	Commission Decision	Comments
1	3233100238	3240502123	-148.123,18	Private Companies		

Total DG MOVE	-148.123,18
----------------------	--------------------

Number of RO waivers	1
-----------------------------	----------

Justifications:

RO 3233100238 M.I.C OPERATIONS

Commission Decision C/2010/2862 adopted on 06/05/2010

Waiver on the basis of Article 87.1.b of the IR because of the insolvency of the debtor

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

NEGOTIATED PROCEDURES - Contracts > 60.000

Count:	1
Total amount:	239.850,00

Number of the contract	Contractor(s)		Type of contract	Description	Amount	Legal base
	Name	Address				
32855	Tetraplan A/S	Kronprinsessgade 46 E	negotiated procedure	Supplementary model calculations supporting TEN-T network planning and impact assessment (TEN-T connect 2)	248.000,00	Art 126 1(e)

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

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

Type of contract	2009 - DG TREN		2010 - DG MOVE	
	Count	Amount (€)	Count	Amount (€)
Service	42	253.197.748,28	12	20.745.758,37
Supply	5	1.832.799,00		
TOTAL	47	255.030.547,28	12	20.745.758,37

Procedures	2009 - DG TREN		2010 - DG MOVE	
	Count	Amount (€)	Count	Amount (€)
Negotiated Procedures	12	237.911.119,16	1	248.000,00
Open Procedures	35	17.119.428,12	11	20.497.758,37
Other	0	0,00		
TOTAL	47	255.030.547,28	12	20.745.758,37

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

TABLE 13 : BUILDING CONTRACTS

Total number of contracts :	0
Total amount :	

Legal base	Contract Number	Contractor Name	Description	Amount (€)
------------	-----------------	-----------------	-------------	------------

No data to be reported

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

TABLE 14 : CONTRACTS DECLARED SECRET

Total Number of Contracts :	0
Total amount :	

Legal base	Contract Number	Contractor Name	Type of contract	Description	Amount (€)
------------	-----------------	-----------------	------------------	-------------	------------

No data to be reported

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

COMPLEMENT TO TABLE 8

	Error		Irregularity		No error/irregularity	
	Nbr	Credit Note Amount	Nbr	Credit Note Amount	Nbr	Credit Note Amount
NON ELIGIBLE AMOUNTS IN COST CLAIM TREN MOVE	6	108.224,47	6	1.757.840,13	3	76.231,27

	Error		Irregularity		No error/irregularity	
	Nbr	Credit Note Amount	Nbr	Credit Note Amount	Nbr	Credit Note Amount
CREDIT NOTES TREN MOVE	8	-13.826,44	4	-80.638,44		

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

ANNEX 4: Materiality Criteria

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

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

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

Effectiveness of controls

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

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

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

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

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

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

Where:

resER%	is residual error rate, expressed as a percentage.
repER%	is the representative error rate, or error rate detected in the representative sample.

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

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

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

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

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

In case an adequate calculation of the residual error rate is not possible for a FP for reasons not involving control deficiencies³ 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

² 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.

³ 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.

error rates. The multi-annual planning should be reported in sufficient detail to allow the reader to form an opinion on whether the strategy is on course as foreseen.

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

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

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

Materiality is assessed for each Framework Programme

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

ANNEX 5: Internal Control Template for budget implementation

ICT: Budget implementation related to the Research Programme

Management mode:

Direct centralised management.

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

DG MOVE manages its research funds through direct centralised management.

Key figures:

Share of DG MOVE research FP projects	FP6	FP7
No. of projects	54	26
No of partners	990	421
Min	5	6
Max	55	37
Average	18	16
Average duration	40 months	36 months
Total EU contribution	€295,5m	€141,2m
Total eligible costs	€542,5m	€209,6m
EU contrib. min.	0,52	0,6
EU contrib. max.	18,95	17,8
EU contrib. average	5,47	5,4

Management and control systems : stages and main actors

Research projects co-financed through reimbursement of eligible costs

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

Key control risks inherent in this environment:

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

Accountability structures

- The Director General reports to the College on the management of the DG in the Annual Activity Report, a declaration of assurance. Furthermore, he reports to the Commissioner on the use of resources, audit follow up and internal control issues, including an update of OLAF inquiries.

- The Internal Control Coordinator certifies the accuracy and exhaustiveness of the information on management and internal control systems as well as its annexes.

- The Shared Internal Audit Unit provides the Director General with independent, objective assurance services. Their outcome is reflected in the annual summary of their finding and observations and its opinion.

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

Management and control systems: see Part 2 AAR 2010.

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

The evaluation of proposals is a critical step within the internal control system. Proposals are selected according to their research credentials (best value for public money). Key controls include the screening of submitted proposals for eligibility; the choice of independent expert evaluators, the evaluation by a minimum of three experts; and a panel review for quality control and ranking of proposals. Based on the prioritised list, the Commission establishes the final list of approved proposals and proceeds to negotiate the grant agreements with the successful applicants. The purpose of the negotiation is to clarify and adapt the work to be carried out and the operational objectives of the project, substantiate its costs and determine its duration and the maximum contribution from the EU budget. The Commission seeks to implement the advice of the independent expert evaluators and, where applicable, the recommendations resulting from the ethical review. This process generates significant efficiencies in the use of Community funds by discarding work which is not essential for the achievement of the scientific objectives of the project and ensuring that the budgeted costs are commensurate to the work to be carried out. Negotiation results are put forward to the Programming Committee, which must approve proposals over certain financial thresholds and funding levels. The grant agreements are then prepared for signature. This phase includes legal and financial verifications (the legal status of the beneficiary, its possible inclusion in the Early Warning System, its financial viability and its

	<p><i>capacity to co-fund the project) as well as safeguarding measures (the provision of the guarantee fund).</i></p>
<p>Communication and information measures to improve the quality of financial management and provision of supporting data by beneficiaries, contractors and intermediaries</p>	<p><i>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. In the context of FP7, initiatives have been taken to reinforce the ex-ante controls even further. Mainly aiming at reducing the most common misunderstandings and errors among beneficiaries (eligible personnel and/or indirect costs), the Research DGs have introduced 'agreed upon procedures' for better audit certificates and have submitted proposals on the possibility of having an ex-ante certification of the beneficiary's accounting methodology, in terms of average personnel costs and/or overall cost accounting (including indirect costs). In addition, a Guarantee Fund has been set up to offset unrecoverable recovery orders. The ex-post financial audit and desk control staff carry out preventive checks and thus are contributing to raising the overall awareness of the financial reporting rules amongst beneficiaries. Information sessions (FP7 and FP6) on the eligibility of costs (with focus on personnel costs) were also organised.</i></p>
<p>Detective and corrective controls:</p> <p>Checks and monitoring during the initial phases of the programme/contract</p> <p>Checks and monitoring during the final/closure phases of the programme/contract</p>	<p><i><u>Verification of pre-financing, interim payments and key milestones</u></i></p> <p><i>Beneficiaries submit progress reports, financial statements and an explanation of the use of resources. When required by the grant agreement, beneficiaries also submit a certificate covering the financial statements (the audit certificate) issued by an independent external auditor (the certifying auditor). The certifying auditor checks whether the claims made are actual, correctly recorded in the accounts and in the eligible project period. The certifying auditor must be independent from the beneficiary and qualified to carry out statutory audits of accounting documents.</i></p>

	<p><u>Checks and monitoring during the initial phases of the programme</u></p> <p>Before a payment is authorised, all relevant operational and financial aspects are verified by at least two independent members of staff. Scientific/Project officers verify that the work carried out by the beneficiary is in all respects in compliance with the grant agreement by evaluating the project reports and deliverables. To do so, they may seek the advice of independent experts. Financial officers carry out accounting and arithmetical checks to ensure financial statements and audit certificates have been submitted in accordance with the provisions of the grant agreement. The authorising officer confirms that these checks on the supporting documents have been done and validates the expenditure.</p>
<p>Preventive and corrective controls and audit:</p> <p>Desk reviews, on-the-spot audits carried out either <i>ex ante</i> or <i>ex post</i>.</p>	<p>- <u>Ex-post audits</u> are a key element of the control strategy. The control objectives of the ex-post audit functions are twofold: (1) to provide an adequate indication of the effectiveness of ex-ante controls; and (2) to ensure the accuracy of the expenditure and, therefore, the legality and regularity of the underlying transactions, on a multi-annual basis.</p> <p>The contracts to be audited are selected using a multi-annual, three-layered strategy ensuring comprehensive coverage of the audit population. The three strata are: (1) the 123 contractors representing the largest share of the budget (individually significant beneficiaries); (2) a representative, value based random sample from the remaining population; and (3) a risk-based selection focusing on potentially riskier contractors. The individually significant beneficiaries represent 50% of the expenditure under FP6. The systematic errors detected in the audited contracts are extrapolated to non-audited contracts. This will ensure, on a multi-annual basis, that a substantial share of the expenditure is free from systematic errors.</p> <p>All audit results are implemented by the authorising officers.</p> <p>Errors detected are corrected by issuing recovery orders or deducting amounts wrongly paid from future payments to the same beneficiary.</p> <p>- <u>Desk control</u> is an in-depth document review of the legality and regularity of expenditure of the</p>

	<p><i>underlying transactions. It is a level of ex-post control aimed at interim payments within a project lifetime. It contributes to the provision of reasonable assurance to AOSD that the claimed and paid expenditure are in accordance with the principles of sound financial management and that the requirements of legality and regularity were complied with.</i></p> <p><i>In 2010, the contractors to be desk controlled were randomly selected by using MUS sampling on a population of interim transactions carried over from previous years and partially selected on the basis of more risk-based factors, such as the size of the contribution received and the absence of previous audits. The desk control verifies the legality and regularity of the underlying transactions by checking the supporting documents for the declared and paid expenses.</i></p>
--	--

Feedback which enables control activities to be optimised

<p>Verification that processes are working as designed</p>	<p><i>Each year, DG MOVE invites its horizontal services in charge of the elements relevant for the internal control standards (SIAC, human resources, financial resources, evaluation and impact assessment, strategic planning, etc.) to review and assess the level of implementation of the internal control standards. This exercise, the self-assessment using iCAT, is done for all standards and serves several purposes. It allows the respect of the standards, whether prioritised or not, to be confirmed. It contributes to maintaining knowledge of the ICS and their implementation. It ensures a structured yearly "debate" on elements that can be improved.</i></p> <p><u><i>Risk management:</i></u></p> <p><i>- DG MOVE's risk environment is well mapped and controlled. Internal guidelines allow DG MOVE management to have a clear view of the different risks and the actions taken to mitigate them. Biannual structured and documented risk management exercises aim to identify and deal with all major risks and to plan appropriate action to bring them to an acceptable level; one of these is the exercise for preparing the Annual Management Plan. (ICS 6)</i></p> <p><u><i>Recording of Exceptions:</i></u></p> <p><i>Each deviation from an established policy or procedure made under exceptional circumstances is documented, justified and approved at an</i></p>
---	---

	<p><i>appropriate level before action is taken. A registry is maintained. (ICS 8)</i></p> <p><i>In addition, a monitoring system has been established, which has enhanced the supervision mechanisms by allowing easy identification of errors related to non-compliance with internal procedures and by enabling management to act upon them thereby increasing awareness amongst all staff</i></p> <p><u>SIAC/IAS/ECA</u></p> <p><i>The systematic monitoring of the implementation of audit recommendations aims to ensure that the internal control weaknesses and risks identified by both external (the European Court of Auditors) and internal auditors (the Internal Audit Service and the Shared Internal Audit Capability) are adequately addressed through defining appropriate action to remedy systemic weaknesses and monitoring the implementation of action plans.</i></p> <p><u>Direct observation</u></p> <p><i>In addition to the structured administrative and reporting processes mentioned above, any other relevant information brought to the attention of the management is duly analysed and considered.</i></p>
<p>Verification that processes are working as designed</p>	<p><i>Audits carried out by the Court of Auditors, Internal Audit Service and SIAC.</i></p> <p><i>Progress Reports submitted to the ABM Steering Group.</i></p>
<p>Monitoring of performance of independent bodies, 3rd party auditors, externally contracted auditors</p>	<p><i>Each year the Court requests information on the implementation of the ex-post control strategy, which it then integrates into its assessment, along with the information it gleans from the other members of the research family, in its declaration of assurance.</i></p>
<p>High level management reporting (e.g. to the Director General and its role in monitoring problem issues)</p>	<p><i>A monitoring system has been put in place for the follow-up of the implementation of action plans in response to internal audit recommendations. A report is made biannually to high-level management at the Comité de Suivi meetings.</i></p> <p><i>All deviations from an established policy or procedure made under exceptional circumstances are presented to the senior management at Comité de Suivi meetings and information notes.</i></p>

ANNEX 6: Implementation through national or international public-sector bodies and bodies governed by private law with a public sector mission

Non applicable