



Annual Activity Report

2010

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PART 1. Implementation of the REA's Annual Work Programme

1.1. Introduction

1.1.1. The role of the REA in the management of FP7

The Research Executive Agency (REA) was set up on 14 December 2007 in order to implement parts of the seventh Framework Programme (FP7) for research and technological development. The Commission Decision of 31 July 2008¹ lays out in detail which parts and tasks are delegated to the REA, refers to the performance of the tasks linked to FP7 implementation and defines the responsibility for implementing the EU's budget appropriations. The tasks, their corresponding objectives and key performance indicators are defined in the Agency's Annual Work Programme (AWP); they will be presented in the following sections below.

As regards the management of the projects, the REA carries out the following tasks in close cooperation with its parent DGs (DG Research and Innovation, DG EAC and DG ENTR), other concerned services and its Steering Committee:

- managing all phases of the lifecycle of the projects and other implementing measures;
- disseminating project results, organising and/or contributing to meetings or conferences related to programme implementation;
- collecting, processing and distributing data on the progress and results of the projects to support parent DGs in their policy development and formulation of their work programmes;
- contributing to the evaluation of the impact of the programmes and their implementing measures.

A further important activity of the REA is to provide FP7 support services to all areas of the FP7 Specific Programmes: Capacities, Cooperation and People.

1.1.2. The REA's activities and performance in 2010

2010 was a year during which the REA stabilised its operations and expanded its activities in all areas of its mandate. It was the first year in which the Agency was responsible for all phases of programme implementation.

Performance in the management of calls delegated to the REA generally improved during 2010. New calls financed under the 2010 budget were evaluated and grant negotiations started. Grant negotiations for calls financed by the 2009 budget were successfully completed and grant agreements signed before the 31 December 2010 deadline.

The time-to-grant (TTG) considerably improved in 2010, for a majority of calls, in comparison to previous years. However, the REA experienced serious difficulties in using the FP7 project management IT tools for negotiation and production of grant agreements (CPM/NEF). These tools, made available by DG Research and Innovation and DG INFSO, had been subject to new releases which did not take into account the local tool used by the REA to meet some of the specificities of the People Programme. As a result, ad-hoc solutions had to be set up, impacting on the efficiency of the REA's operations and ability to reach TTG targets.

¹ C(2008)3980 final, as amended by Decision C(2010)5184 of 30 July 2010.

The Agency currently manages an increasing portfolio of running projects close to 5,000 by the end of 2010. Regular project monitoring is performed by the REA's project officers and interim/final payments are being processed on the basis of reviews of project deliverables. With respect to "time-to-pay" (TTP) the REA improved considerably compared to the previous year. About 97% of the grant pre-financing payments were made within the contractually defined time limits; 83% of interim and final payments were made on time. With respect to the more ambitious targets set by the Commission in April 2009 as part of the economic "recovery package", some 74% of pre-financing and interim/final payments, were done within these targets. This performance is comparable to that of other services within the research family of DGs.

Implementation of the FP7 ex-post audit strategy, which is common to all services of the research family and a crucial component of the REA's internal control structure, began during 2010. The targets for the launch of ex-post audits were reached. This will provide the REA in due course with information on the assurance with respect to legality and regularity of its grant spending. Moreover, it will enable corrections on any possible overcharging for a significant part of the budget managed.

The REA's TTP for implementing its administrative budget can be considered as successful since 96% of the payments were made on time. With respect to payments to experts, which are charged to the operational budget, more than 97% of all payments have been made within the 45 day target and 62% within the 30 day target of the "recovery package".

During the year the REA started providing support to the contracting and payment of expert evaluators to DG RTD.

The REA's central validation of participants involved in the Cooperation, Capacities and People Programmes has been managed very efficiently. Unlike previous years, the central validation is no longer experienced by other services of the research family as a bottleneck to their time-to-grant. During 2010, the REA started to provide additional services for the benefit of other clients within the research family. Support for financial capacity checks has been provided, as has centralised assessment of participants' requests to be exempted from the obligation to open interest yielding bank accounts. Despite a lack of functionality to enable effective workflow monitoring in the central IT application (PDM/URF), the REA managed to execute these tasks to the full satisfaction of its clients.

During 2010 the Research Enquiry Service handled 7,171 questions within the targets in terms of timely response.

1.1.3. Objectives and key performance indicators of the AWP 2010

The AWP 2010 defines the following general and specific objectives and related Key Performance Indicators (KPI):

Table 1 – Objectives and Key Performance Indicators

Objective	Key Performance Indicator
(1) Full implementation of the budget per call as provided for in the work programme	<ul style="list-style-type: none"> – 100% budget implementation of 2010 appropriations – 100% implementation of 2009 global commitments by signing grants before 31 December 2010
(2) Rapid conclusion of grant agreements (TTG)	Time from call deadline to signature of grants accounting for 75% of the budget

Objective	Key Performance Indicator
(3) Short timescales for pre-financing payments, for the approval of project deliverables and subsequent payment ("Time to pay" -TTP)	<ul style="list-style-type: none"> - Pre-financing payments: 100% within 20 days - Interim and final payments: 100% within 90 days
(4) Providing efficient support services to the research DGs	<p>Time to pay for experts:</p> <ul style="list-style-type: none"> - 90% of expert payments files are collected at the end of the panel - 100% of experts are paid within 30 days <p>Time to validate participants' validation requests:</p> <ul style="list-style-type: none"> - 85% of requests are mapped against validated entities within 10 working days after lists are received (100% after 20 working days) - 85% of non-validated entities are screened (and either validated or returned for correction) within 15 working days after the mapping (100% after 25 working days) - systematic reminders are sent to non-respondents after 4 weeks in 85% of cases (100% within 6 weeks) <p>Timely handling of requests to the enquiry service:</p> <ul style="list-style-type: none"> - direct questions through the enquiry service answered or forwarded within 8 days with an average of 3 working days.

TTP targets are in line with the contractual deadlines set out in grant agreements and appointment letters for experts. However, the Commission has set shorter targets for all Commission services and Executive Agencies from 1 October 2009 onwards².

The following sections present the specific characteristics of the programmes and the individual core business results in terms of reaching objectives and targets for the four ABB³ activities.

1.2. Activity 08.11 – Management of the People Programme

1.2.1. Policy framework decided by the European Commission

The REA has been delegated the implementation of the People Programme, with the exception of some support activities which remain centrally managed by DG Research and Innovation (see section 2.1.3.1). During 2010 the policy coordination for the People Programme, with the exception of policy and support action linked to the "5th freedom"

² Communication on "Streamlining financial rules and accelerating budget implementation to help economic recovery" – SEC(2009)477 of 8 April 2009.

³ Activity-based budgeting

and the European Partnership for Researchers, was transferred from DG Research and Innovation to DG EAC.

Actions launched under this programme aim at making Europe attractive to highly trained researchers with a view to advancing science, strengthening innovation, and attracting and sustaining investments in research.

People Programme actions have the following **specific objectives**:

- to improve the recruitment of researchers, their mobility and career prospects;
- to support training, transfer of knowledge and structuring of the research careers through mobile researchers (European and International dimension);
- to foster inter-sectorial mobility and the participation of women in research.

In accordance with the 2010 work programme of the People Programme⁴, these objectives are pursued by mobility grants concluded following calls for proposals for the Marie Curie actions:

- **ITN** – Initial Training Networks: host driven actions offering initial training of researchers to enhance their career prospects;
- **IAPP** – Industry-Academia Partnerships and Pathways supporting partnerships between public and private research organisations;
- **IEF** – Intra-European Fellowships for career development supporting mobility of European Researchers to another country within the EU;
- **IOF** – International Outgoing Fellowships for career development giving the opportunity to European Researchers to move to another country outside the EU;
- **IIF** – International Incoming Fellowships giving opportunities to researchers from countries outside Europe to move to a European country; for some selected countries there is a possibility for an additional grant to support the return phase (**IIFR**);
- **RG** – Reintegration Grants allowing host institutions to offer long-term employment in research to (i) MC fellows having completed their training and mobility actions under a previous MC action (ERG – European RG) or (ii) researchers having worked outside Europe to be reintegrated in European research (IRG – International RG);
- **COFUND** – Co-funding of Regional, National and International programmes to enlarge and "Europeanise" existing or new programmes and provide for transnational mobility;
- **IRSES** – International Research Staff Exchange Scheme for strengthening research partnerships through staff exchanges and networking between European research organisations and selected non-European countries;
- **NIGHT** – Researchers' Nights supporting large outreach events aimed at bringing researchers closer to the general public.

1.2.2. Performance on budget implementation

The outputs produced by the REA in implementing these actions are further detailed below.

⁴ Commission Decision C(2009) 5892 of 29 July 2009.

1.2.2.1. Implementation of the 2010 budget for commitment appropriations

The REA implemented, through global commitments, 100% of its 2010 commitment appropriations under the People Programme. These global commitments are made on the basis of ranked lists of proposals positively evaluated. For a limited number of grants, for which negotiation and signature of the grant agreement was done before year-end, projects were effectively started up and initial pre-financing was already paid. The remaining grants will be signed by 31 December 2011.

The success rate for proposals submitted to the various Marie Curie actions varies significantly. The ITN action remains, as in previous years, oversubscribed while the COFUND, IRSES and Reintegration Grant actions remain clearly undersubscribed (with potential implications for the relative quality of the selected projects).

Table 2 – Implementation of the 2010 commitment appropriations

Action	Call deadline	Total budget allocated €Mio			Number of eligible proposals				Of which grants signed		Of which pre-financing paid € Mio	
		Call budget (per WP)	Additional appropriations (C4/C5/R0/transfers)	Total	Received (a)	Positively evaluated (b)	Retained for funding (c)	Success rate (c)/(a)	Number	€ Mio		
ITN	22/12/2009	243.79	10.97	4.5%	254.76	857	502	63	7%	59	218.00	76.62
IAPP	No call											0.00
IEF	17/08/2010	95.00	4.28	4.5%	99.28	2832	2161	504	18%			0.00
IOF	17/08/2010	28.00	1.26	4.5%	29.26	730	583	120	16%			0.00
IIF+IIFR	17/08/2010	28.00	1.26	4.5%	29.26	1160	798	137	12%			0.00
RG	9/03/2010	16.00	0.72	4.5%	16.72	294	247	201	68%	175	14.01	6.44
RG	7/09/2010	16.00	0.72	4.5%	16.72	433	372	217	50%			0.00
COFUND	18/02/2010	75.00	3.38	4.5%	78.38	53	35	30	57%			0.00
IRSES	25/03/2010	30.00	1.35	4.5%	31.35	168	109	89	53%			0.00
NIGHT	13/01/2010	3.50	0.03	0.9%	3.53	94	65	50	53%	50	3.53	2.87
TOTAL People		535.29	23.96	4.5%	559.25	6621	4872	1411	30%	284	235.54	85.93

1.2.2.2. Implementation of the 2010 budget for payment appropriations and stock of running projects

The implementation of the 2010 budget for payment appropriations was 100% and can be broken down, by type of payment, as follows:

Table 3 – Breakdown of payments by type

Type of payment	% of total budget	% of total number of operations
Initial pre-financing	95.1%	40.4%
Interim and final payments	2.7%	8.6%
Experts (see 1.5 below)	2.3%	51.1%
Total	100.0%	100.0%

Most payment appropriations were used to pay initial pre-financing and interim/final payments. Of those only a limited part related to initial pre-financing for projects launched under calls financed from the 2010 commitment appropriations (see pre-financing in Table 2 above). The larger share relates to initial pre-financing and interim/final payments for projects launched under calls of previous years (see Table 4 for budget execution related to calls financed from previous years' budgets).

Table 4 – Management of calls financed under previous years' budgets (2007-2009)

Action	Running projects as of 31.12.2009		Negotiations finalised / grants signed Jan-Dec 2010		Payments made Jan-Dec 2010		Projects closed Jan-Dec 2010		Running projects as of 31.12.2010	
	Number	Open balance €million	Number	Contr. amount €million	Number	€ million	Number	Decomm. €million	Number	Open balance €million
ITN	177	216.54	3	8.32	9	16.54	0	0.00	180	208.32
IAPP	88	30.32	64	68.63	75	46.39	0	0.00	152	52.57
IEF	891	47.76	573	99.25	588	69.71	19	1.42	1445	75.87
IIF	323	17.37	174	29.50	168	20.55	5	0.18	492	26.13
IOF	217	21.18	124	28.87	120	16.75	1	0.06	340	33.24
RG	707	20.36	311	24.73	411	15.45	16	0.71	1002	28.94
COFUND	24	31.38	26	66.28	21	31.25	0	0.00	50	66.42
IRSES	56	4.26	111	29.93	78	11.42	0	0.00	167	22.77
NIGHT	51	0.65	0	0.00	40	0.54	38	0.00	13	0.11
TOTAL People	2534	389.83	1386	355.51	1510	228.60	79	2.38	3841	514.36

This table shows that only a few projects launched under FP7 have been closed. As a result, the REA is managing a rapidly increasing stock of projects that will further increase by 1,411 projects as a result of the implementation of the 2010 calls (see Table 2 above).

1.2.2.3. Implementation of 2009 global commitments

For global commitments made in 2009, the REA made considerable efforts to conclude all grant agreements before 31 December 2010. The rate of implementation of these global commitments is presented in Table 5 below.

Table 5 – Implementation of 2009 global commitments by signing grants before 31.12.2010

Call ID	Call deadline	Total call budget in € Mio	CONCLUDED	
			in € Mio	in %
ITN* (2008 budget)	2/09/2008	194.10	194.10	99.8%
(2009 budget)		157.94	157.35	
IAPP	27/07/2009	68.90	68.63	99.6%
IEF	18/08/2009	100.70	99.25	98.6%
IOF	18/08/2009	29.68	28.87	97.3%
IIF+IIFR	18/08/2009	29.68	29.50	99.4%
RG	2/04/2009	16.43	16.25	98.9%
RG	8/10/2009	16.43	16.38	99.7%
COFUND	19/02/2009	73.46	66.28	90.2%
IRSES	27/03/2009	31.80	29.93	94.1%
NIGHT	14/01/2009	3.00	3.00	100.0%
TOTAL PEOPLE		722.12	709.55	98.3%

* The 2008 call for ITN was on the 2008 and 2009 budgets.

The budget for one COFUND proposal had to be significantly reduced because the beneficiary was unable to provide sufficient matching funds and there were no more proposals retained on a reserve list to make use of the available budget. Regarding IRSES, 6 positively evaluated projects withdrew at a late stage of the negotiations and, because of time constraints, only part of these savings could benefit other proposals from the reserve list.

1.2.3. Redress

Applicants wishing to contest the unfavourable outcome of the evaluation may submit their request to an internal redress panel, composed of REA staff not directly involved in the particular evaluation process. The number of redress cases currently managed by the REA for the calls listed above is:

Table 6 – Number of redress cases handled by action

Action	Redress for calls WP2009			Redress for calls WP2010		
	Call deadline	Nbr of redress cases		Call deadline	Nbr of redress cases	
		filed	upheld		filed	upheld
ITN	No call			22/12/2009	23	0
IAPP	27/07/2009	4	0	No call		
IEF	18/08/2009	111	5	17/08/2010	110	ongoing
IOF	18/08/2009	30	3	17/08/2010	34	ongoing
IIF+IIFR	18/08/2009	37	2	17/08/2010	44	ongoing
RG	2/04/2009	6	0	9/03/2010	7	1
RG	8/10/2009	14	0	7/09/2010	15	ongoing
COFUND	No call			18/02/2010	5	0
IRSES	27/03/2009	2	0	25/03/2010	5	0
NIGHT	14/01/2009	1	0	13/01/2010	5	0
TOTAL PEOPLE		205	10		248	1

Most of the cases upheld and submitted for re-evaluation involved evaluators being identified as insufficiently qualified to evaluate the proposal and/or mistakes in the evaluation summary reports. Given the high number of proposals to be evaluated, the likelihood of assigning insufficiently qualified experts (especially in a bottom-up programme which covers a wide range of scientific domains) can not be fully ruled out but the frequency of re-evaluations resulting from this aspect remains very low. In only one case did the re-evaluation eventually lead to a proposal being funded.

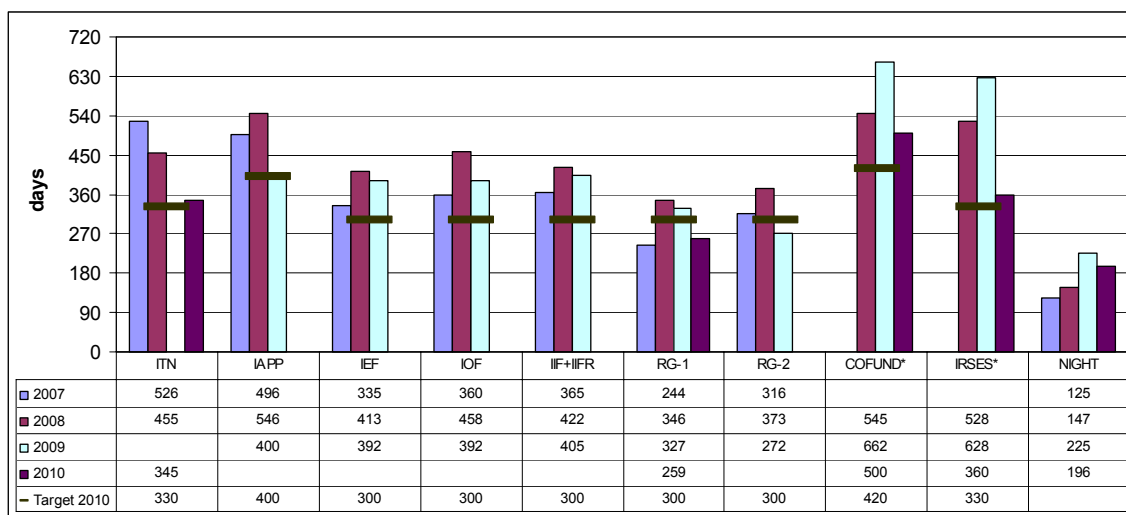
1.2.4. Time to grant (TTG)

Figure 1 outlines the REA's performance in terms of time to grant (from call closure to signature of grants accounting for 75% of the call budget), for the implementation of the 2009 global commitments (in comparison to previous years). It clearly demonstrates a trend of improved performance towards reaching the future target on TTG for implementation of the 2010 global commitments⁵.

Performance on TTG (especially for Individual Fellowships and IRSES) suffered from severe malfunctioning of the IT tools that are used during grant negotiation and production of grant agreements. These problems had been addressed by the end of the year and there is the prospect of improving TTG performance in the years to come. With respect to COFUND, the TTG target remains extremely challenging as this action is characterised by a negotiation concerning the levels of matching funding to be provided by the beneficiary and the assessment of flat rates that will be applicable during the project. In addition, the formal selection process for this action is longer than those of other Marie Curie actions.

⁵ No target was set for the implementation of the 2009 global commitments as it was clear from the outset that this target could not be reached because of the complexity of the hand-over of programme implementation tasks by the parent DGs to REA in mid-2009.

Figure 1 – Time to grant for the People Programme



* Note that the TTG reported for the implementation of the 2010 calls for COFUND and IRSES does not relate to actual performance by 31 December 2010 but reflects estimated performance for reaching the target of 75% during 2011.

1.2.5. Time to pay (TTP)

Figure 2 – Time to pay – People Programme

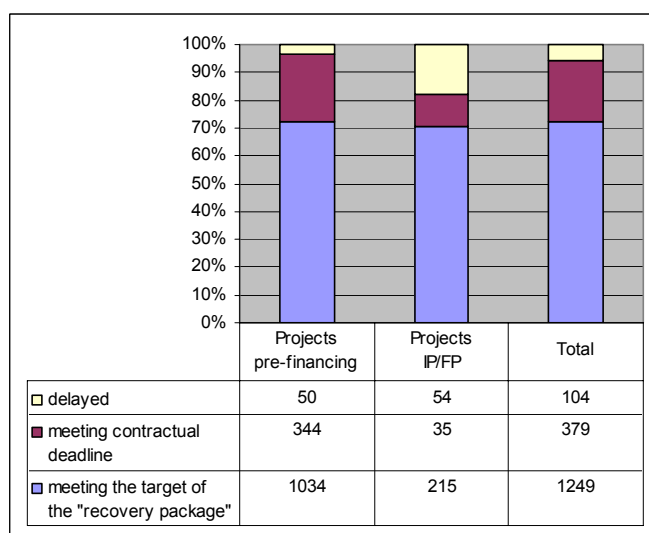


Figure 2 demonstrates the REA's performance on time to pay. For initial pre-financing payments there is a high level of compliance with contractually defined payment times. A more limited number of interim/final payments were made, for which meeting the contractual TTP target is more challenging as these payments are made after a detailed review of the deliverables that support the cost claims. Although targets have not been fully reached, performance is similar to that within the research family.

The more ambitious TTP targets set by the Commission in April 2009 were met for over 70% of payments made during the year.

1.3. Activity 08.13 – Management of the Capacities Programme – Research for the benefit of small and medium-sized enterprises (SMEs)

1.3.1. Policy framework decided by the European Commission

The REA implements the calls for proposals under the theme *Research for the benefit of SMEs* of the Capacities Programme. Policy coordination and some other actions (notably the Eurostars Programme) which are not implemented through calls for proposals remain under the control of DG Research and Innovation. The REA manages the full project cycle for the following actions:

- **SME actions:** actions which support individual SMEs in need of outsourcing research to RTD performers. The actions target mainly low to medium-technology SMEs with little or no research capability, but also research intensive SMEs who need to outsource research to complement their core research capability.

- **SME-AG:** actions which target industrial groups that represent their SME members (Associations and Groupings) and which are normally best placed to know or identify their members' most common technical problems, to act on their behalf and to promote the effective dissemination and take-up of the results.
- **ERA-NET:** Coordination of measures and programmes at national level: Activities managed by the REA include the ERA-NETs and projects that support the network of National Contact Points (NCPs).
- **CSA:** During 2009 a call for Coordination and Support Actions was launched for studies on regional, national and European SME research support programmes and actions.

Capacities Programme – Research for the benefit of SMEs theme actions have the following **specific objectives**:

- to support SMEs in carrying out or outsourcing research and technological development;
- to support the integration of national and regional programmes assisting SMEs in international RTD cooperation.

1.3.2. Performance on budget implementation

The outputs produced by the REA in implementing these actions are further detailed below.

1.3.2.1. Implementation of the 2010 budget for commitment appropriations

The REA implemented, through global commitments, 100% of its 2010 commitment appropriations under the Capacities Programme theme *Research for the benefit of SMEs*. These global commitments are made on the basis of ranked lists of positively evaluated proposals. For a significant number of grants, negotiation and signature of the grant agreement were completed before year-end, projects were effectively started up and initial pre-financing was paid. The remaining grants will be signed by 31 December 2011.

The success rate of 20% demonstrates that this theme is still oversubscribed and there is therefore potential to absorb planned increases in annual budgets for the last three years of the Framework Programme.

Table 7 – Implementation of the 2010 commitment appropriations

Action	Call deadline	Total budget allocated €Mio			Number of eligible proposals				Of which grants signed		Of which pre-financing paid € Mio	
		Call budget (per WP)	Additional appropriations (C4/C5/R0/transfers)	Total	Received (a)	Positively evaluated (b)	Retained for funding (c)	Success rate (c)/(a)	Number	€ Mio		
SME-AG	No call											
SMEs	3/12/2009	136.84	10.26	7.5%	147.10	660	260	132	20%	123	129.83	72.92
TOTAL SMEs		136.84	10.26	7.5%	147.10	660	260	132	20%	123	129.83	72.92

1.3.2.2. Implementation of the 2010 budget for payment appropriations and stock of running projects

The implementation of the 2010 budget for payment appropriations reached 100% and can be broken down, by type of payment, as follows:

Table 8 – Breakdown of payments by type

Type of payment	% of total budget	% of total number of operations
Initial pre-financing	94.3%	20.3%
Interim and final payments	5.1%	14.5%
Experts (see 1.5 below)	0.5%	65.2%
Total	100.0%	100.0%

Most payment appropriations were used for payments to projects, in particular for initial pre-financing for projects launched under calls financed from the 2010 commitment appropriations (see pre-financing in Table 7 above) and for initial pre-financing and interim/final payments for projects launched under calls of previous years (see Table 9 for budget execution related to calls financed from previous years' budgets).

Table 9 – Management of calls financed under previous years' budgets (2007-2009)

Action	Running projects as of 31.12.2009		Negotiations finalised / grants signed Jan-Dec 2010		Payments made Jan-Dec 2010		Projects closed Jan-Dec 2010		Running projects as of 31.12.2010	
	Number	Open balance €million	Number	Contr. amount €million	Number	€ million	Number	Decomm. €million	Number	Open balance €million
SMEs	203	43.60	1	0.92	90	10.14	1	0.01	203	34.37
SME-AG	35	17.06	39	80.05	42	53.98	0	0.04	74	43.10
ERA-Net	2	0.80	0	0.00	0	0.00	0	0.00	2	0.80
CSA	6	1.19	0	0.00	2	0.13	0	0.00	6	1.07
TOTAL SMEs	246	62.65	40	80.97	134	64.25	1	0.04	285	79.33

This table shows that only a few projects launched under FP7 have been closed. As a result, the REA is managing an increasing stock of projects that will further increase by 132 projects as a result of the implementation of the 2010 calls (see Table 2 above).

1.3.2.3. Implementation of 2009 global commitments

For global commitments made in 2009, the REA made considerable efforts to conclude all grant agreements before 31 December 2010. The rate of implementation of these global commitments is presented in Table 10 below.

Table 10– Implementation of 2009 global commitments by signing grants before 31.12.2010

Call ID	Call deadline	Total call budget in € Mio	CONCLUDED	
			in € Mio	in %
SME-AG	28/05/2009	94.80	93.73	98.9%
SME-CSA	27/01/2009	4.00	4.00	100.0%
SMEs (2008 budget)	11/04/2008	100.00	99.93	98.8%
(2009 budget)		10.00	8.70	
TOTAL SME		208.79	206.36	98.8%

1.3.3. Redress

Applicants wishing to contest the unfavourable outcome of the evaluation may submit their request to an internal redress panel, composed of REA staff not directly involved in the particular evaluation process. The number of redress cases currently managed by the REA is detailed below:

Table 11 – Number of redress cases handled by action

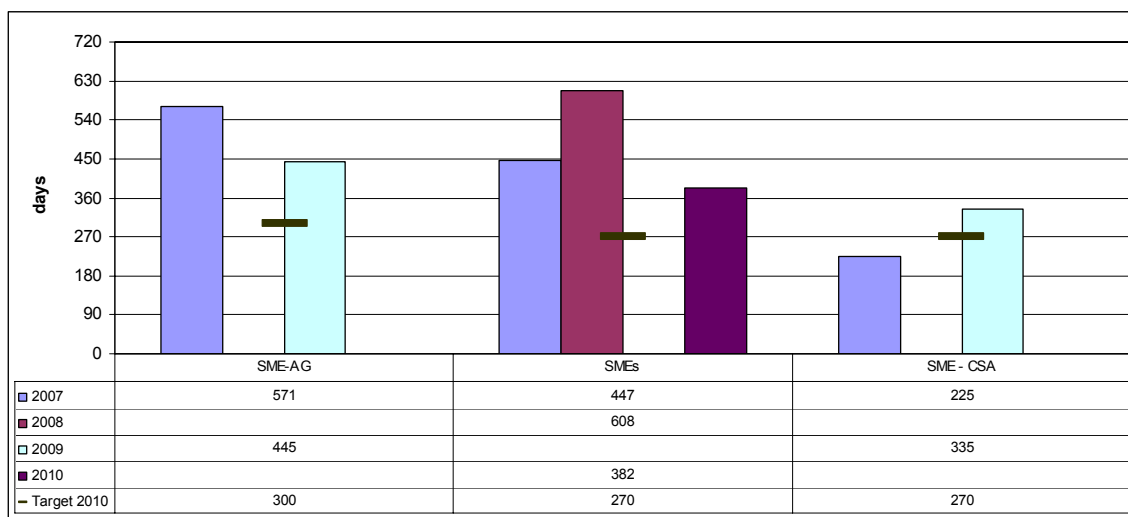
Action	Redress for calls WP2009				Redress for calls WP2010		
	Call deadline	Nbr of redress cases		Call deadline	Nbr of redress cases		
		filed	upheld		filed	upheld	
ERA-Net	No call			No call			
CSA	24/07/2009	2	0	No call			
SME-AG	No call			No call			
SMEs	No call			15/12/2009	13	0	
TOTAL SMEs		2	0		13	0	

None of these cases were upheld.

1.3.4. Time to grant

Figure 3 outlines the REA's performance in terms of time to grant (from call closure to signature of grants accounting for 75% of the call budget), for the implementation of the 2009 global commitments (in comparison to previous years). It demonstrates the significant improvement in TTG for the SME actions compared to previous years and a trend towards reaching the 2010 target⁶. It nevertheless needs to be underlined that the target set for the implementation of the 2010 calls (9 months) is extremely challenging and unique within FP7.

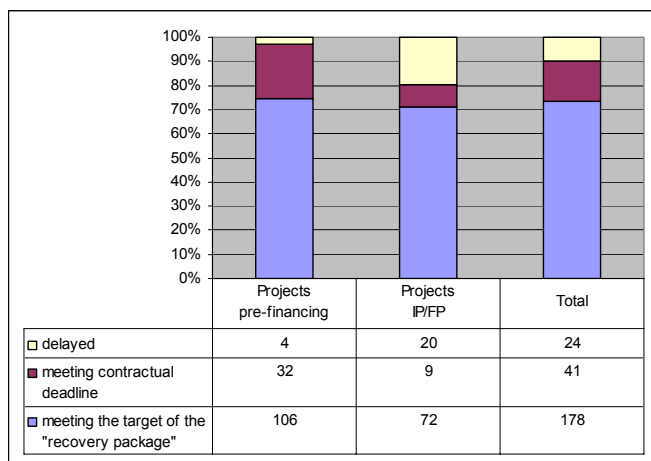
Figure 3 – Time-to-grant for the SME theme of the Capacities Programme



⁶ No target was set for the implementation of the 2009 global commitments as it was clear from the outset that this target could not be reached because of the complexity of the hand-over of programme implementation tasks by the parent DGs to the REA mid-2009.

1.3.5. Time to pay

Figure 4 – Time-to-pay



For initial pre-financing payments there is a high level of compliance with contractually defined payment times (45 days). For interim/final payments it has proven more difficult to meet the contractual TTP target (105 days) as these payments are made after a detailed review of the deliverables that support the cost claims. Although targets have not been reached fully, performance is similar to that within the research family.

The more ambitious TTP targets set by the Commission in April 2009 were met for over 70% of payments (20 days for pre-financing and 90 days for interim/final payments) made during the year.

1.4. **Activity 02.04 – Management of the Cooperation Programme – Space and Security**

1.4.1. Policy framework decided by the European Commission

As well as being strategic assets for Europe, the space and security sectors also provide an additional stimulus to innovation and growth within the European economy. Both sectors are crucial for the EU's competitiveness in areas that require access to critical technologies. The Commission supports these sectors with a view to generating applications and services that benefit European citizens (e.g. environmental monitoring, security) and to stimulate technology spin-offs that benefit other industrial sectors.

For the Space and Security themes under the Cooperation Programme, budget management is only partly delegated to the REA. For the Security theme, those projects expected to produce classified material are managed by DG ENTR, as specified in the related work programme. For the Space theme, only actions implemented under calls for proposals are managed by REA, actions implemented through the European Space Agency remain under the control of DG ENTR.

The Cooperation Programme – Space and Security themes have the following specific objectives:

Space: support a European Space Programme, focusing on research to develop applications such as "Global monitoring for environment and security" (GMES) with benefits for citizens and for the competitiveness of the European space industry, and support research to address the long-term needs of space exploration, transportation, science and key technologies.

Security: to develop technologies and knowledge needed to ensure the security of citizens and the optimal use of technologies for the benefit of EU civil security, to stimulate the cooperation of providers and users of civil security solutions and to improve the competitiveness of the EU security industry.

1.4.2. Performance on budget implementation

1.4.2.1. Implementation of the 2010 budget for commitment appropriations

The REA implemented, through global commitments, 100% of its 2010 commitment appropriations under the Cooperation Programme themes *Space and Security*. These global commitments are made on the basis of ranked lists of proposals positively evaluated. For a number of grants, negotiation and signature of the grant agreement were completed before year-end, projects were effectively started up and initial pre-financing was paid. The remaining grants will be signed by 31 December 2011.

The success rates, ranging from 20% to 39%, are in line with the average for FP7 and ensure that high quality proposals are being funded.

Table 12 – Implementation of the 2010 commitment appropriations

Action	Call deadline	Total budget allocated €Mio			Number of eligible proposals				Of which grants signed		Of which pre-financing paid € Mio	
		Call budget (per WP)	Additional appropriations (C4/C5/R0/transfers)	Total	Received (a)	Positively evaluated (b)	Retained for funding (c)	Success rate (c)/(a)	Number	€ Mio		
Space	8/12/2009	114.00	9.00	7.9%	123.00	180	118	71	39%	34	58.27	31.82
Security	26/11/2009	110.70	2.47	2.2%	113.17	197	104	40	20%	4	10.71	4.73
TOTAL SPACE & SECURITY		224.70	11.47	5.1%	236.17	377	222	111	29%	38	68.98	36.55

1.4.2.2. Implementation of the 2010 budget for payment appropriations and stock of running projects

The implementation of the 2010 budget for payment appropriations reached 100% and can be broken down, by type of payment, as follows:

Table 13 – Breakdown of payments by type

Type of payment	% of total budget	% of total number of operations
Initial pre-financing	74.9%	15.4%
Interim and final payments	24.3%	9.0%
Experts (see 1.5 below)	0.8%	75.7%
Total	100.0%	100.0%

Most payment appropriations were used for payments to projects, in particular for initial pre-financing and interim/final payments for projects launched under calls of previous years (see Table 14 for budget execution related to calls financed from previous years' budgets), and to a lesser extent for initial pre-financing for projects launched under calls financed from the 2010 commitment appropriations (see pre-financing in Table 12 above).

Table 14 – Management of calls financed under previous years' budgets (2007-2009)

Action	Running projects as of 31.12.2009		Negotiations finalised / grants signed Jan-Dec 2010		Payments made Jan-Dec 2010		Projects closed Jan-Dec 2010		Running projects as of 31.12.2010	
	Number	Open balance €million	Number	Contr. amount €million	Number	€ million	Number	Decomm. €million	Number	Open balance €million
Space	22	69.55	24	50.20	41	60.44	0	0.00	46	59.31
Security	46	56.09	24	102.68	47	71.83	1	0.00	69	86.93
TOTAL Space & Security	68	125.64	48	152.88	88	132.28	1	0.00	115	146.24

This table shows that only one project launched under FP7 has been closed. As a result, the REA is managing an increasing stock of projects that will further increase by 111 projects as a result of the implementation of the 2010 calls (see Table 12 above).

1.4.2.3. Implementation of 2009 global commitments

For global commitments made in 2009, the REA made considerable efforts to conclude all grant agreements before 31 December 2010. The high rate of implementation of these global commitments is presented in Table 15 below.

Table 15– Implementation of 2009 global commitments by signing grants before 31.12.2010

Call ID	Call deadline	Total call budget in € Mio	CONCLUDED	
			in € Mio	in %
SPACE	4/12/2008	55.05	54.63	99.2%
SECURITY	4/12/2008	102.90	102.68	99.8%
TOTAL SPACE & SECURITY		157.95	157.30	99.6%

1.4.3. Redress

Applicants wishing to contest the unfavourable outcome of the evaluation may submit their request to an internal redress panel, composed of REA staff not directly involved in the particular evaluation process. The number of redress cases currently managed by the REA is detailed below:

Table 16 – Number of redress cases handled by action

Action	Redress for calls WP2009			Redress for calls WP2010		
	Call deadline	Nbr of redress cases		Call deadline	Nbr of redress cases	
		filed	upheld		filed	upheld
Space*	3/09/2008			8/12/2009	5	0
Security*	3/09/2008			26/11/2009	7	0
TOTAL SPACE & SECURITY		0	0		12	0

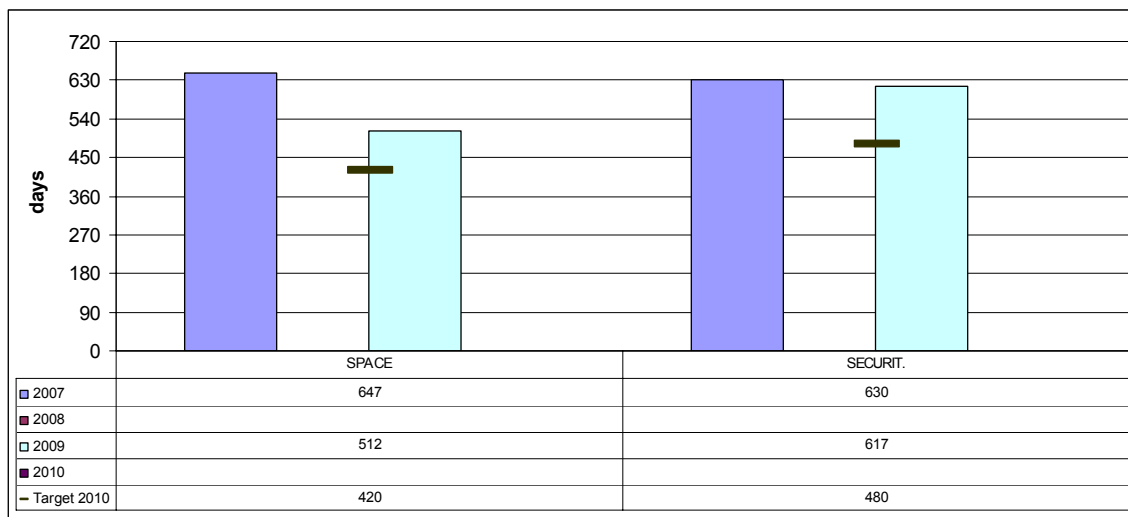
* The evaluations for the SPACE and SECURITY calls published under the WP 2009 were managed by DG ENTR and the handling of redress-I cases remained with the DG.

None of these cases were upheld.

1.4.4. Time to grant

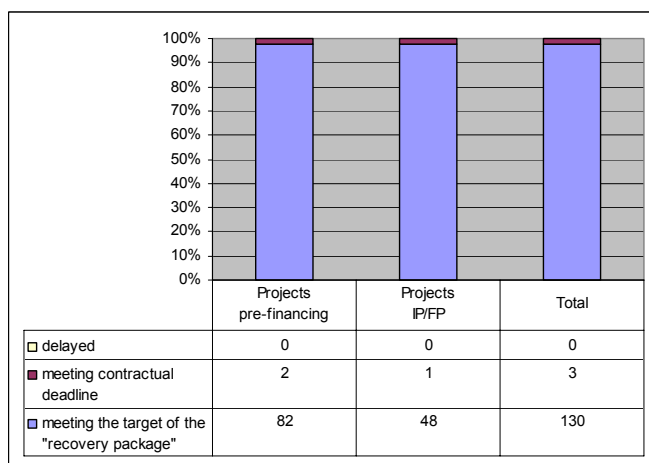
Figure 5 outlines the REA's performance in terms of time to grant (from call closure to signature of grants accounting for 75% of the call budget), for the implementation of the 2009 global commitments (in comparison to previous years). Performance for the Space theme has significantly improved and is approaching the target set for the implementation of the 2010 calls. For the Security theme, performance is more stable, partly due to complex security screening processes. The REA is confident that improved performance can be achieved for the implementation of the 2010 call which will be the first call where performance will not be influenced by the hand-over of operations from the parent DG to the REA in June 2009.

Figure 5 – Time to grant for the Space and Security themes of the Cooperation Programme



1.4.5. Time to pay

Figure 6 – Time to pay



All payments were made within contractual deadlines (45 days for pre-financing and 105 for interim/final payment) and there has also been a high level of compliance with the more ambitious TTP targets set by the Commission in April 2009 (20 days for pre-financing and 90 for interim/final payment).

1.5. Activity – FP7 Support Services

In addition to its implementation tasks for the People, Capacities and Cooperation Programmes, the REA also provides general FP7 support services to other parts of these programmes not managed by the REA.

By providing such support services, the REA facilitates access to FP7 for the European research community and supports the Commission services in FP7 implementation. Service provision includes administrative and logistical support for evaluations, participant validation and operation of the Research Enquiry Service.

Evaluation support services: the REA organises the appointment of experts for the evaluation sessions as well as the related payments. It operates the reception and support services for evaluation sessions hosted at the Covent Garden building. A full scale support service in terms of appointment and payment of experts is currently limited to those programmes fully delegated to the REA. Restrictions in the legal basis and delegation decision mean that, contrary to initial intentions, support to other programmes not managed by the REA is limited to preparatory and clerical tasks without the REA

having formal responsibilities in the financial circuits for appointment and payment of these experts.

FP7 participant validation services and associated rules: the REA validates legal entities according to the FP7 Rules for Participation, supports Commission services and related bodies in their task of verifying the financial capacity of project participants and verifies the status of Small and Medium Sized Enterprises (SMEs) according to the Commission Recommendation 2003/361/EC. A new service was launched during 2010 which consists of central assessment and validation of participants' requests to be exempted from the obligation to open interest yielding bank accounts to manage the initial pre-financing received. The REA coordinates its activities with the RTD validation team which provides this service to other programmes which fall outside the REA's mandate.

Support services: the REA coordinates the activities of the Research Enquiry Service, an external service provider which answers questions on European research (in many cases after consultation of the relevant Commission/Agency service), including those specifically related to the EU research Framework Programmes. In addition, the REA assists in the call publication process, plans the use of the evaluation facilities and monitors the performance of the FP7 IT tools that support proposal submission and evaluation.

Performance on specific objectives:

Table 17 – Objectives, indicators and performance for the FP7 support tasks

SPECIFIC OBJECTIVES AND TASK DESCRIPTION	PERFORMANCE INDICATOR	TARGET 2010
(1) Support call publication for all FP7 programmes	Percentage of calls that are published on the agreed date	100%
<p>Performance in 2010: 100% of call passports for publication, submission and evaluation were sent on time to CORDIS/Participant Portal and to the external contractors providing support for electronic proposal submission (EPSS) and logistical evaluation support (ESS).</p>		
(2) Manage the electronic reception of proposals for all FP7 programmes	Percentage of calls for which EPSS has been set up on the date of publication	100%
<p>Performance in 2010: 100% target reached; the EPSS tool was set up on time for online submission of 80 FP7 calls (including for 8 Joint Technology Initiatives calls).</p>		
(3) Support remote and on-site evaluations by providing quality support services to expert evaluators for all FP7 programmes	Feedback provided by evaluators	High level of satisfaction expressed
<p>Performance in 2010: An online survey, managed by DG Research and Innovation, on proposal evaluation is sent to all experts who participated in an FP7 evaluation. The relevant questions refer to the reception ("<i>Was the registration efficient and welcoming?</i>") and the overall organisation ("<i>How do you rate the overall organisation of the evaluation?</i>"). The results of the survey are not yet available.</p>		

SPECIFIC OBJECTIVES AND TASK DESCRIPTION	PERFORMANCE INDICATOR	TARGET 2010
(4) Prepare appointment letters and payment to expert evaluators for the parts of FP7 delegated to the REA	% of payment files collected at the end of the panel % of experts paid within 30 days	90% of all cases 100% of all cases
<p>Performance in 2010:</p> <p>The first target was exceeded with 95% of payment files collected at the end of the panels for the REA programmes.</p> <p>From a total of 2615 payments made to expert evaluators, 97% of payments were made within 45 days and 62% of payments were made within the target of the "recovery package" of 30 days set by the Commission in April 2009. During the fourth quarter of 2010 this target of 30 days was reached for some 80% of payments made, which demonstrates the trend towards better performance on TTP for experts. During 2011 a new IT tool integrated in the FP7 Participant Portal will provide improved features for communication and information exchange with experts which may also have a beneficial impact on the TTP for experts.</p>		
(5) Support DGs Research and Innovation, ENTR, ENER, and MOVE in preparing appointment letters and paying expert evaluators for the parts of FP7 not delegated to the REA	Percentage of payment files collected at the end of the panel	90%
<p>Performance in 2010:</p> <p>The target was exceeded as 95% of payment files were collected at the end of the panels under the responsibility of DG Research and Innovation.</p> <p>During the year the REA successfully concluded a pilot project, for which the production of appointment letters and preparation of payments for approximately 600 experts was taken over from one DG Research and Innovation directorate. Based on this experience, the REA started expanding its services to further DG Research and Innovation directorates and other DGs.</p> <p>It has been shown that the logistical support services provided by the REA provide a significant contribution to the efficiency of expert handling by the parent DGs and other services involved in FP7 management. However, a full-scale service including contracting and payments cannot be offered because of the legal constraints.</p>		
<p>(6) Manage the Unique Registration Facility (URF) to ensure that legal entity registrations are validated in a timely fashion against the corresponding supporting documents</p> <p>The REA provides services related to the financial and legal verification of participant organisations. The decision on the assessment of the organisations' financial capacity remains in the remit of the services managing the calls, while the URF provides them with verified and standardised financial viability indicators.</p>	% of priority requests mapped against validated entities within 10 working days after lists are received	85% of all cases (100% after 20 working days)
	% of non-validated priority entities screened (and either validated or returned for correction) within 15 working days following the mapping	85% of all cases (100% after 25 working days)
	% of systematic reminder sent to non respondents after 4 weeks	85% of all cases (100% within 6 weeks)

SPECIFIC OBJECTIVES AND TASK DESCRIPTION	PERFORMANCE INDICATOR	TARGET 2010
<p>Performance in 2010:</p> <p>The central validation of participants involved in the Cooperation, Capacities and People Programmes has been managed with a high level of efficiency. As a result, the central validation of participants is no longer perceived by the services of the research family as a bottleneck to their time to grant. During 2010, the REA started providing additional support to other services of the research family: support to financial capacity checks and centralised assessment of participants' requests to be exempted from the obligation to open interest-yielding bank accounts. In spite of lacking functionalities for effective workflow monitoring in the central IT application (PDM/URF), the REA managed to execute these tasks to the full satisfaction of its clients.</p> <p>In 2010, the validation services validated 5,896 legal entities participating in research projects. All validation requests necessary for the execution of the 2010 budget commitments of the research DGs and the REA were done in a timely and efficient manner.</p>		
<p>(7) Manage the research enquiry service to ensure that queries are responded to in a timely and competent manner</p> <p>The task of the enquiry service is to provide external users with information about any aspect of European research in general and the EU Research Framework Programmes in particular. The service follows the one-stop shop concept, being the main contact point, through which questions are distributed to responsible services and after being answered, replies are sent back to the users.</p>	<p>Timeliness of responses to direct questions through the research enquiry service.</p>	<p>Answers provided or questions forwarded within 8 days with average of 3 working days; 100% answered within 15 working days</p>
<p>Performance in 2010:</p> <p>The research enquiry service responded to 7,171 queries in 2010.</p> <p>61% of enquiries were handled by the external service provider, EUROPE DIRECT Contact Centre (EDCC), and the remaining 39% were answered by the Commission and Agency help-desks.</p> <p>In terms of the timeliness of the EDCC responses, 98% were answered within 3 working days and the remaining 2% within 7 working days.</p> <p>In terms of the timeliness of the Commission and Agency help-desk responses, 91% were responded to in accordance with the "<i>code of good administrative behaviour</i>" i.e. within the 15-working day timeframe.</p>		

1.6. Conclusion

The REA's core business results in relation to the objectives, performance indicators and actions outlined above demonstrate that the Agency has been successful in responding to the challenges for improved programme implementation and high quality services delivered by a dedicated implementation structure.

The REA has not yet reached its full capacity in terms of staffing. However, the workload is expected to increase significantly as a result of increasing annual budgets and an increasing number of running projects to be managed. This increase in workload will be more than proportional to the planned increase in staff and the REA will have to invest further in efficiency gains and simplification in its internal processes and procedures to ensure that these high levels of performance can be maintained.

PART 2. Management and Internal Control Systems

2.1. Introduction to the REA

2.1.1. Inherent nature and characteristics of the Agency

The REA was set up by a Commission Decision of 14 December 2007⁷ and gained operational and administrative autonomy on 15 June 2009.

Its **mission** is to implement the parts of the Seventh Framework Programme (FP7) entrusted to it. To this end, the Agency delivers efficient and effective services to the research community and supports diverse Commission services dealing with research and innovation. By establishing close contact with final beneficiaries and providing a high visibility of the European Union, the REA acts as promoter of the European Research Area (ERA).

The REA is expected to have a staffing of a maximum of 558 (in 2013) and to manage an operational budget of approximately € 1.6 billion per year.

Its main **tasks** are to ensure the management of calls for proposals, award of grants and subsequent monitoring and payment to grant beneficiaries for programmes for which the Commission has delegated implementation tasks to the REA (as detailed in part 1 of this report). These tasks are performed in accordance with the objectives and the framework defined by the Commission in the Annual Work Programmes of the respective FP7 Specific Programmes.

In addition, the REA is also mandated to provide support services to all Commission DGs or other bodies implementing FP7 (with the exception of the Ideas Programme and FP7-EURATOM). The services comprise administrative and logistical support for evaluations, provision of a participant validation service and operation of the Research Enquiry Service.

The REA has its own legal personality and administrative budget for operating costs. Under its own responsibility, it adopts the instruments of budget implementation of revenue and expenditure. It carries out all activities required to implement the budget for the programmes within its mandate. The REA is therefore a means for the Commission to delegate certain implementation tasks under its control and responsibility. It is supervised and monitored by three parent DGs – DG Research and Innovation, DG EAC and DG ENTR – which continue to address all policy-related issues.

Through setting up the REA, the Commission decided to use the tool of executive agencies within the area of research as a cost efficient solution for dealing with the significant increase in budget over the duration of the Framework Programme that can no longer be managed with constant resources allocated to the Commission's research DGs. The Commission selected those parts of the Framework Programme where using an Executive Agency was considered particularly rewarding:

- **The Marie Curie actions of the People Programme and SME activities under the Capacities Programme**, which are characterised by large numbers of relatively

⁷ Commission Decision 2008/46/EC of 14 December 2007 setting up the "Research Executive Agency" for the management of certain areas of the specific Community Programmes People, Capacities and Cooperation in the field of research in application of Council Regulation (EC) No 58/2003, OJ L 11 of 15.1.2008.

small grants requiring time consuming administrative work and for which the outcome of the individual projects has no direct impact upon policy. The main goal of the Marie Curie actions is to promote and fund mobility and training of researchers. These activities help to attract and retain the best scientists from the EU and third countries. The SME activities help SMEs that need to outsource research to complement their core research capabilities. Both contribute to driving forward European innovation.

- **The Security theme under the Cooperation Programme** is a new area and, other than pilot actions, has not been part of previous Framework Programmes. **The Space theme** has seen a major (seven-fold) increase in budget in FP7 and introduced new activity areas since FP6. Both themes were delegated to an executive agency as a pilot to test feasibility of outsourcing research management in areas where specific subject matters expertise is required.

2.1.2. First year following autonomy

Throughout 2010, the REA has progressively recruited and trained new staff.

In parallel to the ongoing recruitment procedure, management has adapted planning and organisation to the increased workload of project and grant management activities under the REA's responsibility.

In the course of 2010, much effort has been devoted to finalising the work linked to the hand-over from parent DGs, to implementation of necessary processes and tools and to fine tune the internal control system.

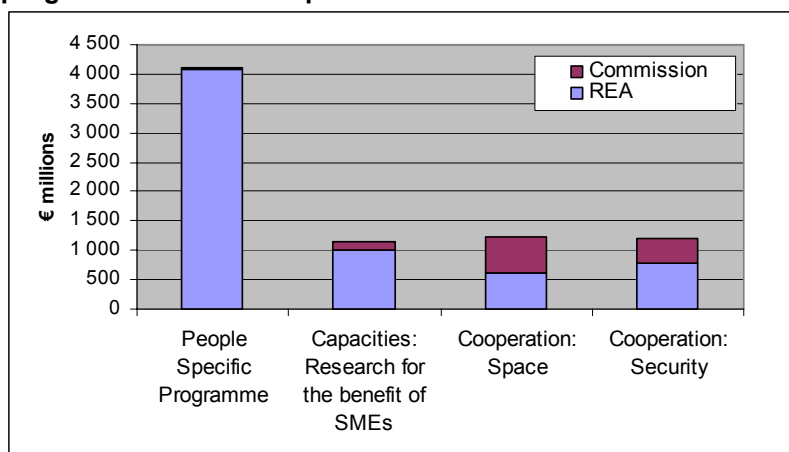
2.1.3. The budget managed by the REA

2.1.3.1. The operational budget

The REA has been delegated to manage an FP7 budget of approximately € 6.5 billion, representing about 13.5% of the total budget of FP7. In 2013, when the REA is at full strength, it will manage an annual operational budget of approx. € 1.6 billion.

The share of tasks between the REA and the Commission for programmes implementation under FP7 is detailed in Figure 7 below:

Figure 7 – Sharing of tasks between the REA and the European Commission for those FP7 programmes that are implemented via the REA



The activities remaining under the control of the Commission relate to:

- the implementation of the specific action 'Trans-national operation of the EURAXESS services network' and of other activities not related to calls for proposals, including

the support for a monitoring system on national policies on human resources in research and support for 'EURAXESS – Researchers in Motion Activities ' under the People Programme;

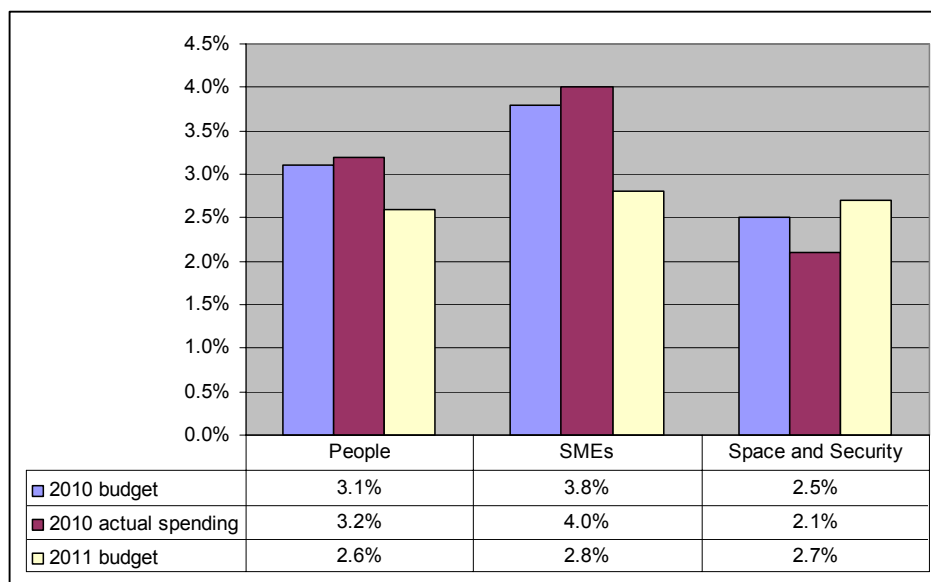
- the implementation of the Eurostars programme, set up under the provision of Article 185 of the TFEU and financed by the theme "Research for the benefit of SMEs" of the Capacities Programme;
- policy-related actions and actions managed by the European Space Agency financed under the Space theme of the Cooperation Programme;
- policy-related actions and grant agreements generating or treating security-sensitive information financed under the Security theme of the Cooperation Programme

2.1.3.2. The operating (administrative) budget.

The Agency receives an annual subsidy from the Commission's budget for its whole operating (administrative) budget to cover its running costs, i.e. mainly staff and logistical expenditure. At the time of the creation of the REA, the total administrative budget for the period 2008-2017 was estimated at 5.6% of the operational budget delegated to the REA. This estimate has proven too high, in particular for the build-up phase. For the years 2008-2011, the REA administrative budget is overall some 25% below the initial estimates. The cost saving, which is to the benefit of the operational budget of the programmes managed by the REA, stems partly from delays in the setting-up but is also a result of various savings in costs compared to initial estimates.

The annual cost of the REA for the period 2010-2011, expressed as a percentage of the operational budget managed, is summarised in Figure 8 below. Note that these percentages have excluded the cost of providing FP7 support services to the other parts of FP7 for which implementation remains with the Commission.

Figure 8 – REA's operating cost (in %) by programme managed



2.1.4. Organisation, administrative and accountability structure

2.1.4.1. Organisational structure

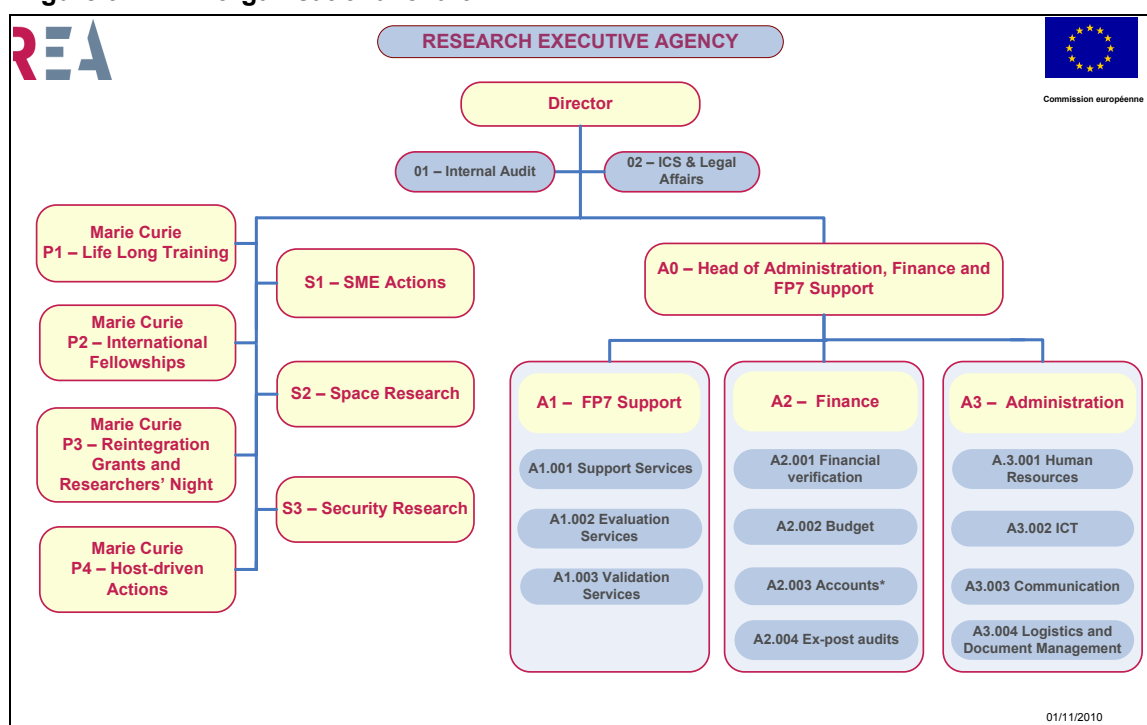
As of 31 December 2010, the REA employed 408 staff members: 309 contract staff and 99 temporary staff of which 20 seconded officials. This corresponds to 96% of the ceiling

of 424 fixed for 2010. By the end of 2010, 6 job offers for recruitment in 2011 had already been accepted, thereby anticipating recruitments on the 2011 budget. Most of the Deputy Head of Unit and Head of Sector posts available on the 2010 budget were filled throughout 2010 and three more positions are to be filled in 2011.

The Agency's **organisational structure** follows the operational objectives and horizontal tasks of the Agency. The Agency is managed by the Director who, together with the Steering Committee, represents the highest level of the Agency management. Directly attached to the Director's office are two sectors: (1) the internal audit capability (IAC) and (2) the sector dealing with Internal Control Standards and legal affairs.

There are seven operational units which are in charge of managing the delegated programmes and report directly to the Director. The Head of the Department for Administration, Finance and FP7 support also reports directly to the Director. This department is composed of three units: (1) FP7 support services, (2) administration and (3) finance. Units are divided into sectors, depending on the size and the tasks to be managed. When the Agency reaches full capacity in 2013, administrative and coordination activities will account for about 12% of the Agency's resources (administrative budget).

Figure 9 – REA organisational chart



2.1.4.2. Governance and interaction with stakeholders

The REA has its own legal personality, but is supervised and controlled by the Commission through its Steering Committee. This committee brings together senior staff from DGs Research and Innovation, EAC, ENTR, and HR. Representatives from DGs INFSO, MOVE and ENER also participate as observers. The Steering Committee has the task of ensuring that the Agency carries out its mission and performs the tasks assigned to it. It decides on the organisation of the Agency, adopts the Agency's administrative budget in accordance with the establishment plan and subsidy previously approved by the Budget Authority as part of the EU general budget. It adopts the Annual Work Programme, the subsequent Annual Activity Report and the annual accounts.

The Steering Committee met four times in 2010. Regular coordination meetings with each of the parent DGs were organised and enabled a good collaboration between the REA's units in charge of programme implementation and corresponding policy units in the parent DGs. With the appointment of the new Commission 2010-2014, the portfolios of the Directorates-General were redistributed. The Education and Culture DG (DG EAC) became, in February 2010, the REA's third parent DG with responsibility for the policy aspects of the People Programme. The Commission adopted the corresponding amendment to the Delegation Act in July 2010.

The Agency maintains close working relations with parent DGs, Commission services, Executive Agencies and other offices. Collaboration is particularly strong with the units in charge of policy relating to the programmes implemented by the REA and to the units in the DGs in charge of the more horizontal supervision of the Agency, notably in DG Research and Innovation.

In accordance with the REA Delegation Act⁸, the Agency reports regularly to the parent DGs and the Steering Committee on progress in implementing the programmes for which it is responsible. In June 2009 a Memorandum of Understanding was concluded between the REA and DGs Research and Innovation and ENTR setting out the detailed modalities for collaboration with and supervision by the Commission. The modalities concern particularly the interaction on operational activities, general management (ranging from internal control, training, IT and use of central FP7 applications, etc.), relations with other institutions and actors (e.g. relations with the European Parliament, the European Court of Auditors, OLAF, Ombudsman, etc.). This Memorandum of Understanding is currently undergoing revision.

As the REA's activities are closely linked to Commission responsibilities, it benefits from logistical support from various horizontal Commission services. At end 2010, the REA had signed Service Level Agreements with the Commission's administrative services (DG BUDG, DG HR and DG DIGIT) and with the offices (OIB, PMO, OP and the Translation Centre) to ensure administrative and technical support for the Agency.

A more detailed Memorandum of Understanding between the REA and all research DGs, covering the FP7 support services delivered by the REA, was drawn up during 2010 and will be finalised in early 2011.

2.1.5. Major events of the reporting year

At the time of its set-up, it was planned that the REA would offer a centralised FP7 support service for all of the Cooperation, Capacities and People Programmes of FP7 for the appointment and payment of experts. At the time of establishing the REA's constituent act it was assumed that the REA could take over all expert contracting and could prepare expert payments for subsequent liquidation and payment by PMO.

However, restrictions resulting from the Commission's internal rules on budget execution and an interpretation of the Commission's decision delegating tasks to the REA (the REA's mandate) prevent the REA from implementing the services as originally foreseen. As a consequence, the REA is unable to provide full support for expert contracting and payments to those parts of the Cooperation, Capacities and People Programmes that do not fall directly under its responsibility.

⁸ Commission's Decision C(2008) 3980 of 31 July 2008 on delegating powers to the REA, as amended by Decision C(2010) 5184 of 30 July 2010.

An audit performed in 2010 by the Internal Audit Service (IAS) recommended that the REA's mandate should be revised to address this anomaly. This was drawn to the attention of the Steering Committee and the Director-General of DG Research and Innovation by the Director. However, it was decided that, in accordance with the conclusions of the Research task force which operated under the chair of the Commission's Secretariat-General, changes to the legal framework for outsourcing (including to Executive Agencies) would be undertaken only in the context of preparing for Common Strategic Framework for Research and Innovation (for the next Multiannual Financial Framework).

Subsequently, the REA and the parent DGs have explored together the maximum extent to which logistical support services can be provided by the REA within the existing mandate. After a successful pilot project providing contracting and payment support to Directorate F of DG Research and Innovation, the REA began providing this service to four more Directorates of this DG during 2010.

2.2. The functioning of the internal control system

After the REA attained autonomy in June 2009 and throughout 2010, dedicated efforts were made to reach full compliance with all Internal Control Standards (ICS). Those standards for which the REA had already reached compliance in 2009 have been reviewed and fine-tuned as necessary.

As the operations managed by the REA are similar to research management by other Commission services, the REA's internal control system is streamlined with that of the parent DGs, particularly the operating procedures that were set up in accordance with DG Research and Innovation's provisions. The REA's internal control template for FP7 grant management (Annex 5) is closely aligned to those used within the research family of DGs.

The REA has appointed an Internal Control Coordinator (ICC) who supervises and coordinates the development of the ICS structure and systems.

The REA has an adequate internal control system commensurate with its size and relatively recent creation. The sections below outline the state of play of the internal control system as of 31 December 2010 and outline the standards for which further action is still required.

2.2.1. Compliance with the requirements of the Internal Control Standards

Throughout 2010, the REA has made great efforts to comply with the standards and their requirements. The REA is fully compliant with the following standards (and related requirements): ICS 1 *Mission*, ICS 4 *Staff evaluation and development*, ICS 5 *Objectives and performance indicators*, ICS 6 *Risk management process*, ICS 8 *Processes and procedures*, ICS 9 *Management supervision*, ICS 12 *Information and communication*, ICS 15 *Assessment of internal control systems* and ICS 16 *Internal audit capability*. ICS 14 *Evaluation of activities* is not applicable to executive agencies.

As a separate legal entity from the Commission, the REA needed to set up parallel structures and procedures for which it does not possess the resources or critical mass to implement independently. In such cases, the Agency is very dependent upon horizontal services of the Commission such as DG HR, DG DIGIT and the Secretariat-General. For instance, Commission services define general implementing provisions, applicable to all executive agencies, for various aspects of HR management. Common IT applications and central network facilities are provided by DG DIGIT. Being supported by and reaching agreement with these services adds coordination effort and complexity

to reach full compliance status. Finalisation of open actions has taken longer than initially anticipated during the setting up phase.

Outstanding actions to ensure full compliance with ICS can be summarised as follows:

Table 18 – Overview on pending actions to reach full compliance

	Detailed information on actions still pending	2009 target deadlines <i>Expected completion date</i>
FOR MOST PART COMPLIANT	<p>ICS 2 – Ethical and Organisational Values</p> <ul style="list-style-type: none"> - <i>Setting up a disciplinary committee</i> The setting up of the REA's Disciplinary Committee is ongoing. All Executive Agencies (EAs) decided to establish a common listing from which each Agency can draw in setting up its committee. In parallel, the REA is in contact with IDOC to agree on an arrangement about support by IDOC on disciplinary enquiries to the REA (to prepare for the work of the committee). - <i>Protection of the dignity of the person and preventing psychological and sexual harassment</i> The Decision on the policy has been adopted by the Steering Committee. Concerning the General Implementing Rules, the Data Protection Officers (DPOs) and legal advisers from the 6 EAs have revised the Guides, developed a Memorandum of Understanding (MoU) and a Code of Conduct for confidential counsellors. The EA Directors will formally approve these documents once the European Data Protection Supervisor has provided his opinion. Once the MoU is signed, the counsellors can be appointed. 	<p>- Early 2010 - <i>March 2011</i></p> <p>- June 2009 - <i>December 2011</i></p>
	<p>ICS 7 – Operational Structure</p> <ul style="list-style-type: none"> - <i>Development and implementation of a policy for sensitive functions</i> The establishment of an inventory of sensitive functions within the REA is in the final phase. The sensitive functions working group's draft report has been sent for comments to the REA Director in December 2010. Full compliance will be reached, once management feedback has been received and the inventory formally adopted. 	<p>- 31 Dec 2009 - <i>March 2011</i></p>
	<p>ICS 13 – Accounting and Financial Reporting</p> <ul style="list-style-type: none"> - <i>Establish a REA accounting manual, including accounting cut-off operations, for the operating budget.</i> The REA's accounting manual has been finalised in December 2010 for publication in January 2011. 	<p>- June 2010 - <i>January 2011</i></p>
PARTIALLY COMPLIANT	<p>ICS 3 – Staff Allocation and Mobility</p> <ul style="list-style-type: none"> - <i>Establishing a policy on equal opportunities</i> A first draft of the policy on equal opportunities is available and will be sent to the REA's staff committee for consultation. A working group has been established to draft an action plan on equal opportunities. - <i>Establishing a REA policy for promoting internal mobility</i> This strategy has not been treated with priority in 2010 as the Agency is still quite young. However, the topic will be addressed during 2011 and a policy document is under discussion with management. 	<p>- December 2010 - <i>March 2011</i></p> <p>- December 2010 - <i>June 2011</i></p>
	<p>ICS 10 – Business Continuity</p> <ul style="list-style-type: none"> - <i>Implementation of a full business continuity plan, including an IT</i> 	

	Detailed information on actions still pending	2009 target deadlines <i>Expected completion date</i>
	<p><i>disaster recovery plan (DRP) and the necessary measures to implement and test the plans on a regular basis.</i> Following the recent request from SG to DGs and EAs, the REA is working in parallel with DG Research and Innovation on the new templates to be used for the Business Impact Analysis (BIA) and the Business Continuity Plan (BCP).</p> <p>It is planned to put the IT DRP in place before the full migration of the data from the servers of DG Research and Innovation to the REA. The REA ICT has ordered through appropriate framework contracts all the necessary hardware and software necessary to implement the IT DRP.</p>	<p>- April 2010</p> <p>- June 2011</p>
	<p>ICS 11 – Document Management</p> <p>- <i>Full compliance with E-DOMEC rules not yet guaranteed for processing of documents linked to expert handling and participant validation.</i> Considering the large volumes of data, such compliance can only be achieved by upgrading the IT systems supporting these processes to make them <i>E-DOMEC</i> compliant sub-registers.</p> <p>For the PDM tool supporting the participant validation task, arrangements have been explored with DG DIGIT. For the EMPP application for expert management, the back-office systems are planned to become the basis for ARES registration, however further details still need to be explored. Similarly, the best possible arrangements for the SESAM tool used by beneficiaries for submission of project deliverables like technical reports, progress reports, etc. need to be explored as well.</p>	<p>- June 2010</p> <p>- July 2011</p>

Although some requirements for the reported Internal Control Standards above have not yet been implemented, these are not considered as prejudicial to the overall state of compliance in 2010. As 2010 was only the second year of the Agency's autonomy, mandatory staff mobility in relation to sensitive functions is not yet relevant for the Agency. In those cases where full compliance had not been reached by 31 December 2010, many actions have already been initiated to ensure early implementation. Reaching full compliance for all Internal Control Standards as soon as possible is a top priority for 2011.

2.2.2. Effectiveness of implementation of the prioritised control standards

Considering the recent creation of the Agency in 2009 and the expansion it underwent in 2010, it is inevitable that some procedures, processes and systems need to be further tested, refined and strengthened to become fully effective. At this early stage of the REA's development, with large numbers of relatively inexperienced staff and intensive recruitment, it was necessary to prioritise three areas on which future success would depend: (1) human resources (during a period of rapid expansion), (2) operations and control activities (operating with large numbers of new staff) and (3) accounting and financial reporting (2010 being the first year in which the REA would close its annual accounts and report on the accounts of the preceding year).

The REA prioritised, in its AWP 2010, the following 6 Internal Control Standards:

- **ICS 3 – Staff Allocation and Mobility**

As for 2009, staff recruitment and allocation was a major activity in 2010. 135 new colleagues joined the Agency during the year and, with 37 colleagues leaving, staff turnover was about 9%. The speed of recruitment was sometimes not optimal, and

some positions remain difficult to fill (financial and IT officers and some Head of Sector posts reserved for seconded officials).

A lack of experienced financial staff, especially in the operational units, was addressed by additional in-house training and intensive mentoring provided by the financial unit. A call for expressions of interest for financial contract staff enabled the REA to fill many vacant positions for financial actors in the REA's financial circuits.

The recruitment strategy for 2010-2011 was approved in 2010, as well as new procedures for recruiting contract agents. Future recruitment procedures of temporary agents will include written tests.

Workload indicators have been developed and provided input to the 2012 staff allocation plan.

Job descriptions for all staff were prepared early 2010 and are currently being uploaded in the HR-database (SYSPER2).

Apart from some exceptional moves in the interest of the service, staff have remained in their initial post during the build-up of the REA. For this reason, establishing an internal staff mobility policy has not been prioritised in 2010 – this will, however, be a priority for 2011.

A first draft of the policy on equal opportunities is available and will be sent to the staff committee for consultation in early 2011. A dedicated working group has been established to draft the REA's action plan on equal opportunities.

- **ICS 4 – Staff evaluation and development: Training of staff**

The learning and development framework (LDF) 2010 was approved in March 2010. The reporting on training activities and monitoring on compliance with mandatory training, as defined in the REA LDF, has been set up.

Staff members agree, with their manager, on a tailored annual training programme, building further on the basic programme of mandatory training courses established in the context of the REA's LDF. At the end of March 2010, 95% of the staff had completed their training map. During 2010, individual staff followed approximately 10.3 days of training (excluding language training) and completed about 80% of mandatory training.

Staff received individual objectives for 2010 and many staff received their probation period report providing them feedback on their performance during the first 6 or 9 months of service within the REA.

Implementing rules on appraisal for temporary agents (TA) have been adopted. Provisions for contract agents (CA) will be adopted by the Steering Committee early in 2011, following formal approval of the draft texts by the Commission. Annual appraisal guides for both CA and TA were finalised in 2010. The REA will conduct its first staff appraisal exercise in 2011.

General Implementing Provisions on prevention of harassment were adopted by the Steering Committee. Candidate confidential counsellors have successfully followed the compulsory training. The data protection officers and legal advisers from all 6 Executive Agencies have developed a Memorandum of Understanding and a Code of Conduct for the confidential counsellors. Agreement must be reached on these documents and the European Data Protection Supervisor must be notified prior to the confidential counsellors formally receiving their mandates from the Director.

- **ICS 8 – Processes and Procedures**

The REA's on-line manual of procedures is regularly updated and improved on the basis of feedback from units. A dedicated working group was tasked to regularly review business activities with the aim of continuously improving efficiency and quality of procedures in the context of a decentralised organisation. The REA has also enhanced efficiency through collaboration with the unit at DG Research and Innovation dealing with business procedures and reporting and by adapting, to its own requirements, processes developed and used at DG Research and Innovation. In mid-2010 a business process management task force has started to analyse possible efficiency gains through simplification of some parts of the grant management cycle prior to a possible introduction of electronic workflows.

The REA uses decentralised financial circuits with counterweight for the management of the operational budget. The independent financial verification by the finance unit provides guarantees to the delegated authorising officer that the extensive financial responsibilities of the REA, which have been further delegated to operational heads of unit, are being implemented in accordance with legality and regularity requirements. This is particularly needed in a context where the REA is still a young organisation with many new staff members and new procedures and processes which are being rolled out and tested.

As regards the Agency's administrative (operating) budget, the financial circuit is centralised. Its preparation and subsequent implementation is coordinated by the finance unit, acting on requests from units. Commitments are authorised by the Director and subsequent payments are processed under the control of the Finance Unit. The accounting for the administrative budget is managed by the REA's accounting officer.

- **ICS 9 – Management Supervision**

Management meetings take place every week, units and sectors meet regularly. Heads of Unit report each month to the Director on key issues, events and priorities. The sub-delegated authorising officers report twice a year to the Director. The Finance Unit and Administration Unit prepare regular reporting on budget spending and HR management, thereby supporting management supervision on the performance and quality of the financial and human resources management. Action plans in response to audit recommendations from the ECA, the IAS and the REA's IAC are registered electronically and monitored centrally.

The supervision strategy also provides for some targeted supervision campaigns to be organised on the basis of the "peer review" concept where staff having particular competencies in the selected subject verify processes and practices in other units, thereby contributing to an optimal sharing of good practices. The second supervision campaign (on cost claim processing and payments) took place between May and September 2010. Its results provided valuable information on financial workflows at the REA.

A staff survey, involving active participation from 70 % of all staff, was conducted in 2010. This identified the three best values of the REA as: quality of service, responsibility and efficiency. Staff suggested that procedures and communication related to the working environment could be further improved and there are opportunities for improving coordination amongst units to share and define best practices and new ideas.

- **ICS 10 – Business Continuity**

A revision of the Business Impact Analysis started in May 2010 and the template *Inventory of Critical, Essential and Necessary Functions* has been completed. In the meantime some basic Business Continuity Plan (BCP) provisions have been implemented and the BCP phone cascade was tested in October 2010.

The REA is currently working in collaboration with DG Research and Innovation on refining its BCP in accordance with new guidelines from the Secretariat General. The full IT Disaster Recovery Plan has been delayed due to technical and contractual limitations and will be fully implemented in 2011. The REA IT coordinator has performed a detailed analysis of the technical requirements concerning the design and implementation of an IT Disaster Recovery Plan. All necessary hardware and software has been ordered through the appropriate framework contracts.

- **ICS 13 – Accounting and Financial Reporting**

The administrative budget is handled directly by the Agency and is accounted for by the Agency's accounting officer. The operational budget is handled by the Agency on behalf of the Commission, through the Commission's accounting officer. In both cases, the accounts have sufficient quality to give reasonable assurance of the implementation of the budget in line with the financial regulation and implementing rules.

The REA has established systematic controls by producing monthly reports and updates on budget implementation at unit level as well as at the level of the Finance Unit. An accounting quality control programme is established and ensures that accounting data and related information used for preparing the annual accounts and financial reports are accurate, complete and produced in a timely fashion. Each authorising officer ensures that reliable and complete accounting information is provided to the Accounting Officer for the production of the accounts. The REA's Accounting Correspondent acts as helpdesk within the REA with a view to ensure the quality of the REA's accounting data and information supplied to the Commission central accounting system. The REA's accounting procedures and controls are adequately documented. An accounting manual including cut-off procedures has been finalised. Cut-off procedures were audited in 2010 by the European Court of Auditors, the IAS, DG BUDG and the REA's IAC.

Financial and management information produced by the REA, including financial information provided in the Annual Activity Report, is in conformity with applicable accounting rules and the Accountant's instructions.

Within the 6-monthly reporting the Heads of Units, as authorising officers by sub-delegation (AOSD), gave their opinion on the effectiveness of the prioritised control standards. In addition, a survey involving all AOSDs and a representative sample of non-management staff was conducted on the effectiveness of the non-prioritised control standards.

The REA's internal control system has been fine-tuned and its level of effectiveness strengthened in 2010. Since the Agency is still in a developing mode, reaching full effectiveness for all procedures and Internal Control Standards will demand further efforts.

2.2.3. Conclusion

The REA and its parent DGs invested significantly in setting up an internal control system that was sufficiently robust for the REA to be granted autonomy in 2009. During 2010, the REA has progressed with its ICS implementation plan and made many further improvements on the basis of the recommendations from audits and supervisory

campaigns or where staff have identified areas for improvement as a result of practical experience gained during programme implementation.

Whilst some actions have to be completed before the REA will attain full compliance with the ICS, the remaining issues are adequately compensated by the strong supervisory arrangements by senior management and the parent DGs. Full compliance and further improvements to the effectiveness of the REA's internal control system will be priorities during 2011.

Taking into account the results of the above assessments of compliance and effectiveness, together with the results of internal and external audits and the risk assessment performed in the context of the Annual Work Programme, the REA's internal control system is considered to be effective for assuring an adequate management of the risks to the achievement of the REA's objectives.

During 2011, as the REA continues to recruit, staffing issues will remain central to the REA's continued success and so ICS 3 – *Staff allocation and mobility* and ICS 4 – *Staff evaluation and development* will be prioritised. ICS 8 – *Processes and procedures* will also remain a priority as the REA continues the simplification and improvements that will be required to implement larger operational budgets. ICS 10 – *Business continuity* will also remain a priority until the REA has developed and tested a robust BCP. ICS 11 – *Document management* is prioritised during 2011 to ensure a smooth transfer from Adonis to ARES and the successful integration of ARES into the REA's internal procedures.

2.3. Information to the Commissioners

The main elements of this report and assurance declaration have been brought to the attention of the agency's Steering Committee and the parent DGs' Directors-General, who have taken these into consideration in their reporting to Commissioner Maire Geoghegan-Quinn, Commissioner Androulla Vassiliou and Commissioner Antonio Tajani.

PART 3. Building blocks towards the Declaration of Assurance

In expressing assurances on the use of resources for the intended purposes in accordance with principles of sound financial management and on the quality of internal control within the REA in terms of providing guarantees on legality/regularity of the underlying transactions within the REA, the Director has considered the following sources of information:

- the outcome of activities of the ex-post audit function,
- the AOSD reports submitted by the Heads of Unit,
- the 2010 activity report and the opinion on the state of control of the REA's Internal Control Coordinator (ICC),
- the 2010 activity report and the independent opinion of the REA's Internal Audit Capability (IAC) on the state of internal controls,
- the observations and recommendations reported by the Internal Audit Service (IAS),
- the observations and recommendations reported by the European Court of Auditors (ECA).

Given the particular mandate of the REA, the Declaration of Assurance is twofold:

- a Declaration of Assurance on the implementation of the Commission's operational budget delegated to the REA (see part 4.1), and
- a Declaration of Assurance on the implementation of the REA's own operating (administrative) budget (see part 4.2).

3.1. Building blocks towards reasonable assurance

The information from these sources is presented around three building blocks which support the assurance declaration: (1) the assessment by management of the information available; (2) the information reported by internal and external auditors; (3) the follow up of action plans and past audit recommendations. A fourth block (the assurance received from other authorising officers) is not applicable to executive agencies.

3.1.1. Building block 1: Assessment by management

3.1.1.1. Management's assessment of inherent risks of the programmes managed

All programmes – simplification measures for FP7

The Commission Decision of 24 January 2011 on measures for simplifying the management of FP7 grants has provided more flexibility in how personnel costs are calculated so that EU research grant-holders can apply their usual accounting methods when requesting reimbursement for average personnel costs and allows SME owners whose salaries are not formally registered in their accounts to be reimbursed, through flat-rate payments, for their contribution to work on research projects. These measures also have an effect on running grants and will provide for more clarity and legal security for beneficiaries, thereby reducing the risk of incorrect cost declarations.

All programmes – dependency on common FP7 IT systems

Project management depends heavily on the availability and effective functionality of the common FP7 IT applications. Experience shows that IT problems (e.g. the need for tailoring of tools to the programmes managed by the REA) are one of the reasons for delays observed in negotiations and other steps in the project cycle, having an impact on "time to grant" and "time to pay".

For this reason, the REA is fully involved in the IT governance structures set up by the DGs and services which are part of the research family and which share common tools and applications. Throughout 2010 the needs of the REA for such tailoring of common tools have been communicated and recognised by the system owners of the various applications. As a result, on instruction of these system owners, the various IT suppliers (mostly DIGIT and DGs Research and Innovation and INFSO) have been investing in such developments throughout 2010. However, this corrective process has been lengthy and generated significant delays and inefficiencies in handling routine operations related to grant negotiation/signature and project monitoring. In some instances, standard procedures and processes had to be replaced by manual processing, thereby bypassing various automated controls. In order to compensate for the increased risk of deficient IT tools during this period, the REA had to invest significant resources in strengthening the verification functions.

By the end of 2010, the REA had made significant progress and is confident that, for 2011 (and beyond), the efficiency of its operations and the effectiveness of its internal control system can be restored to normal levels.

People Programme

At this early stage of the implementation of FP7, where few interim reports and cost claims have been submitted, the REA is not yet in a position to estimate the risk of underpayment of researchers in running grants (see also Annex 5 for more details on the particularities of the financial design of the Marie Curie actions financed under the People Programme). The REA is communicating extensively with beneficiaries with a view to explaining the firm requirement to use the full flat rate mobility allowances for the benefit of the researchers. Experiences from FP6 management have demonstrated that the occurrence and impact of such errors remains fairly low (well below 2%).

In spite of the simplification provided by this extensive use of flat rates, the Marie Curie actions respond to a very specific financial design for each action, defined in the Annual Work Programmes. The consecutive work programmes for the years 2007 to 2011 provide for an iteration of simplifications in this design which contribute toward the ultimate goal of simple and streamlined modalities for implementing and financing Marie Curie actions.

However, these continuous adaptations impact very heavy on the functionality and efficiency of the IT systems in use. The systems are under constant adaptation, getting more and more complex over time. They are embedded into a comprehensive IT environment that is interacting with many interfaces. Ensuring that the IT systems are in place when needed, that they provide the right specifications and produce correct results has been a major problem in the past. The continuous IT adjustments cause lengthy delays in achieving time-to-grant. They also cause confusion and unintentional errors by grant beneficiaries in declaring costs against changing eligibility rules and by REA staff managing these grants. The REA staff and IT systems deal with this additional complexity, but it is essential that no additional variety is generated in the last years of FP7 unless absolutely necessary.

Capacities Programme – Research for the benefit of SMEs

The majority of EU funding provided under this scheme relates to expenditure incurred by SMEs (lacking or having little research capacity themselves) in outsourcing RTD work to RTD performers under a commercial contract at a price agreed between them ("the transaction").

The client-seller relationship under the SME action scheme presents several features which differ from normal business relationships and create a risk that the transaction does not reflect normal market conditions.

Under the existing control framework, the "effort" component (in person-months) of the budget for the transaction is monitored throughout the evaluation, negotiation and project monitoring phases and can be checked ex-post during technical audits / reviews.

However, the commercial rates invoiced by the RTD performer have not been assessed during the project evaluation/negotiation phases. It was assumed that the prices would be assessed ex-post upon performing on the spot checks at the level of the RTD performer. Only recently, following a detailed legal analysis, the REA became aware that the agreed price for the transaction has been fixed as part of the grant agreement, and cannot be challenged ex-post.

The following factors result in increased risks that rates agreed at the negotiation of the grant and invoiced by the RTD performers to the SMEs exceed normal market conditions (i.e. non respect of arm's length principle):

- although SMEs usually co-finance 25% of the cost of outsourcing to RTD performers, there are numerous cases where the consortium agreement (between all project participants – including SMEs and RTD performers) guarantees that total funding under the grant will suffice to cover this co-financing cost for the transaction, leaving other – unfunded – costs incurred by SMEs as their contribution in kind to the project,
- there is a relatively low number of RTD performers operating in the context of this scheme and relying on funding from this scheme. Their extensive experience contrasts with inexperienced SMEs who often participate for the first time in FP7. As a result, many projects are *de facto* controlled by RTD performers who are the driving actor behind the proposals and who often assume the role of project coordinator. This may result in strong pressure of RTD performers on SMEs to maximise the EU funding by increasing the cost of the transaction and provides weak negotiation powers to these SMEs.

This weakness results from the specific design of this scheme which contrasts with all other programmes operating under FP7 which are based on cost-reimbursement excluding major subcontracting at commercial rates. Standing proposal evaluation practices for FP7 as a whole focus primarily on scientific excellence and assessment of sound financial management in terms of planned use of resources. There has traditionally never been a need to assess commercial rates on their value for money.

Considering the legal impossibility to challenge the price of the transaction once it has been agreed as part of the grant agreement, the only approach to mitigate the risk of over-pricing is to reinforce ex-ante controls. This could be achieved through imposing a high level of transparency in the proposal on pricing policies applied by RTD performers in budgeting for the cost of the transaction and by focusing attention of evaluators on this aspect by including a dedicated evaluation criterion on the quality of the justifications provided for the pricing of the transaction and the plausibility of prices against principles of sound financial management. Although assessment against such

an evaluation criterion is intrinsically difficult, the competitive evaluation of competing proposals should allow evaluators to conclude on such an assessment.

This corrective action has been agreed with the Commission/DG Research and Innovation which is responsible for the preparation of the work programme and for updating the proposal evaluation criteria contained therein. This will be applied from the work programme 2012 onwards. With respect to the ongoing evaluation negotiation of the proposals financed under the work programme 2011, the REA will further mitigate this risk by reinforced attention to the price of the transaction during the project negotiations.

Cooperation Programme – Space & Security themes

The Space and Security projects managed by the REA and financed from the Cooperation Programme are characterised by a significant technological component which requires the REA project officers to invest in acquiring a certain level of subject matter expertise, complemented by a call on external experts for proposal evaluation and project review. The REA, as a newly established organisation, is gradually building up experience and expertise in order to meet the challenges for effective proposal negotiation and project monitoring. Meanwhile, compensating measures involve close interaction with and seeking advice from the Commission services managing parallel parts of these programmes.

FP7 Support services

The REA's management of the evaluation process on behalf of the Cooperation, Capacities and People Programmes can draw on long standing experience in the management of the evaluation platform.

The expert handling support services can not yet be fully deployed because of legal restrictions. Contracting and payment of evaluators for the programmes that are directly managed by the REA has been effective and performances in terms of paying expert evaluators on time is positive (see also indicators reported under Table 17). However, the REA's support to expert handling for programmes managed by other DGs of the research family is limited to some logistical support in preparing appointment letters (contracts) and payments, preventing research DGs from reaping maximum benefit in terms of efficiency gains and economies of scale that would result from centralising all expert handling tasks into one dedicated service.

The FP7 participant validation services offered by the REA are an essential component of the processes managed by the DGs of the research family. Performance in delivering this service therefore carries a significant reputational risk. Although the application (PDM/URF) supporting this routine data processing operation has been considerably improved, it still lacks certain functionalities for an effective management of the validation workflow and for effective monitoring and supervision. Priority setting for validations remains very much dependent on ad-hoc contacts with the various DGs and services and calls on significant resources from the REA staff in coordinating this process.

The REA support services on financial capacity checks are limited to encoding summary financial information on the financial standing of potential beneficiaries and verifying this information against official documents. It remains the responsibility of the authorising officers managing the various programmes to assess the capacity of beneficiaries to participate in any given grant. As such, this activity does not include a significant inherent risk for the REA.

The REA has been able to respond to all urgent needs for validation, especially with respect to the need for all DGs and services concerned to implement 2009 global commitments by signing all related grants before 31 December 2010.

Similar support services are required for other programmes (e.g. FP7 Euratom and non-FP7 programmes managed by DGs which are part of the research family and implement grant schemes according to modalities similar to those of FP7). As these programmes do not fall within the REA's mandate, a parallel support service is operated in the Commission. This duplication of service providers adds complexity, reduces accountability on data quality of central databases and increases resources spent on coordination and streamlining of processes and procedures.

3.1.1.2. Overall control strategy

The REA's activities for FP7 implementation are fully streamlined with the overall FP7 structures and processes applied within the Commission. This implies that the overall control strategy defined for FP7 is fully applicable to the REA.

This control strategy is characterised by investing significantly in issuing guidance to grant beneficiaries on modalities for the correct implementation of grants, ex-ante controls (although remaining of a rather limited scope), a strong emphasis on ex-post controls at the level of final beneficiaries, and creating a dissuasive impact on overcharging through penalties and a systematic application of liquidated damages for all cases of detected overcharging.

Ex-ante checks

Grants cover projects of several years with initial pre-financing tailored to the reporting periods defined (i.e. providing beneficiaries with a float), subsequent interim payments to reimburse incurred costs and a balance payment. The cumulative amount of pre-financing and interim payments can not exceed 90% of the grant and, as a result, part of the funding for accepted costs may not be reimbursed but cleared against previous pre-financing. Any remaining balance of pre-financing is cleared upon making the balance payment.

As a result, FP7 grants are finally paid out on the basis of declarations of actual costs incurred. The eligibility of declared costs is, among others, linked to the correct application of the beneficiaries' usual accounting principles, which implies that costs declared in support of claims for payment can not be effectively controlled through ex-ante desk controls. Nevertheless, the operational and financial agents who perform initiation and verification tasks in processing financial operations perform some verifications on plausibility by comparing performance reported in accepted technical progress reports with the reported level of spending of the total project budget (by cost category and beneficiary).

Grant beneficiaries are required to submit certificates on the financial statements issued by external independent auditors (public entities and assimilated bodies may opt for a competent public officer), insofar as their claims for funding from the European Union's budget exceed € 375,000. Unlike under FP6, these certificates for financial statements refer to an agreed upon set of audit procedures for which the auditors report detailed findings. This enables the REA to better identify and address possible deficiencies in accounting systems and cost declarations of beneficiaries. However, for FP7 as a whole, it is estimated that over 80% of all participations will remain below this threshold. Many grants managed by the REA, in particular the Individual Fellowships financed under the People Programme and some grants financed under the theme *Research for the benefit of SMEs* of the Capacities Programme, provide for participations below this

threshold. Assurance on legality and regularity of the underlying transactions that will result from these ex-ante certifications of financial statements will therefore remain limited in scope and coverage.

Grant beneficiaries may also opt for a certification on the methodology for personnel and overhead costs whereby they seek prior agreement from DG Research and Innovation (acting on behalf of all the research family DGs) on their methodology for calculating and allocating personnel and overhead charges to their various participations in EU projects. For beneficiaries declaring average personnel costs, a certificate on Average Personnel Costs (more limited in scope than the more global certificate on the methodology for personnel and overheads) is mandatory⁹. Both types of ex-ante certification have no relevance for the People Programme managed by the REA. This programme provides for standard flat rate financing for overheads and does not allow for the use of average personnel costs.

Although ex-ante checks on the financial capacity of beneficiaries have been significantly reduced compared to FP6 (e.g. limited to non-public beneficiaries which are either coordinators or request more than € 500,000 EU funding), the FP7 participant guarantee fund safeguards the EU budget against additional losses that may result from a higher level of risk tolerance on this aspect.

Ex-post controls

The REA and Commission services and DGs that are part of the research family have defined a common FP7 ex-post audit strategy which recognises the multi-annual nature of project spending. This ex-post audit strategy, to be implemented by the REA's ex-post audit team and with the support of external contractors (for outsourced audits), pursues the following objectives:

- Maximise impact of corrective and recovery mechanisms by targeting audit efforts on those beneficiaries which:
 - request significant contributions from the programme budgets managed by the REA. By auditing these "*top-beneficiaries*" which cumulatively account for 50% of the budget managed by the REA, and by extrapolating systematic errors found for such beneficiaries to all non-audited participations of such beneficiaries, the REA will be able to clear a significant share of the systematic errors from the managed budgets;
 - have been identified at risk (in terms of possible overcharging, fraud and/or irregularities).
- Assess the regularity and legality of financial transactions under FP7 and provide input to the annual Declaration of Assurance by providing estimates on the residual error rate in the population on the basis of audits on a representative sample drawn from cost claims received. Considering the REA's total capacity of 800 audits for the period 2009-2016, it is planned to audit between 300 and 400 operations through representative sampling and 400 to 500 participants selected on the basis of risk assessments or in view of their significant level of participation to the various programmes managed by the REA. As soon as a minimum of 100 transactions have been audited through representative sampling, the REA will be able to estimate the

⁹ The Commission has decided in early 2011 that the use of average personal cost can be allowed in accordance with usual accounting practice and will no longer require a mandatory prior certificate on methodology.

residual error rate in the population; further progressive sampling will increase the statistical precision of those estimates.

The purpose of this ex-post audit strategy is to enable the REA, by the end of FP7, to declare the budget managed under its control affected by errors below the materiality level specified in Annex 4. During the period 2011-2016 the share of interim and final payments in the total annual budget spending will increase gradually. In parallel, the REA will dispose of an increasing number of finalised audits, thereby providing information to estimate the residual error rate in the population with increasing statistical precision as input for the expression of reasonable assurance.

During 2010 the REA kicked off the full implementation of this common FP7 ex-post audit activity for the programmes managed under its control. For monitoring this implementation, the DGs of the research family have agreed on a set of standardised indicators – further detailed in Section 3.1.1.6 – relating to:

- inputs – resources used (financial and human resources),
- outputs – number of audits launched / audited (preliminary findings) / closed (after contradictory procedure) by programme and type of audit (random sample, risk based selection, top beneficiaries),
- results – level of implementation of results from closed audits and implementation of extrapolation cases to non-audit participations of audited beneficiaries,
- results – estimation of the residual error rate.

However, at this early stage of implementation of the ex-post audit strategy, the REA is not yet in a position to report on the result oriented indicators.

Impact of the absence of results from ex-post controls on the REA's ability to express reasonable assurance

As highlighted above, there is not enough information available yet that would allow the REA to estimate the impact of undetected and uncorrected errors in the underlying operations. As a result, the estimate of the residual error rate in accordance with the formula specified in the FP7 ex-post audit strategy (based on the representative error rate subsequently reduced by the impact of corrections resulting from representative and corrective audits) can not yet be calculated.

In order to quantify the exposure to risks of such overcharging on the total budget managed by the REA for 2010, the REA should consider the high proportion of pre-financing payments following grant signature (with no risk on overpayment resulting from overcharging) and the relatively low share of payments based on acceptance of declared costs or payments to expert evaluators/reviewers charged to the operational budget for which there is a risk of errors in the underlying operations:

Table 19 – Pre-financing payments versus payments against cost/claims

€ million	2010			2007-2010		
	Paid	Clearing of pre-financing	Total	Paid	Clearing of pre-financing	Total
People						
Prefinancing	297.86	-24.49	273.37	975.49	-28.16	947.32
Cost claims	8.39	24.49	32.89	9.54	28.16	37.70
SMEs						
Prefinancing	181.75	-33.16	148.59	413.90	-33.16	380.74
Cost claims	10.20	33.16	43.37	10.20	33.16	43.37
Space						
Prefinancing	52.91	-1.36	51.55	127.92	-1.47	126.45
Cost claims	32.58	1.36	33.94	34.84	1.47	36.31
Security						
Prefinancing	67.07	-17.02	50.04	141.53	-17.35	124.18
Cost claims	6.31	17.02	23.33	13.08	17.35	30.43
Expert Payments						
Prefinancing	-	-	-	-	-	-
Cost claims	9.44	-	9.44	13.99	-	13.99
TOTAL						
Prefinancing	599.59	-76.04	523.55	1,658.83	-80.14	1,578.69
Cost claims	66.93	76.04	142.97	81.66	80.14	161.80

The volume of 2010 payments based on cost claims (€142.97 million) remains low compared to the overall amount of payments made (€666.52 million). The REA's total level of materiality (2% of €666.52 million or €13.33 million) implies that the error in the total population of payments made on the basis of cost claims would have to be above 9.3% in order to become material.

Such a high percentage is not plausible when considering previous experience for FP6 management¹⁰ where error rates have been estimated below 5%. Moreover, at this early stage of implementation of the FP7 ex-post audit strategy where very little information is available on the likely rate of errors in the underlying operations, the REA has to base its assessment on other considerations like findings from internal and external audits, the REA's risk assessments and supervision campaigns. Section 1 provides for the REA's assessments of specific risks for each of the programmes managed. All these have been duly considered in expressing reasonable assurance.

Sanctions, financial penalties and liquidated damages

The REA has applied liquidated damages for all cases of detected overcharging that have lead to overpayment. During 2010 such liquidated damages were applied in two cases for a total amount of €7,824. The number of liquidated damages related to payments made up to 31.12.2010 is likely to increase as a result of the increasing ex-post audit activity.

3.1.1.3. Six-monthly reporting of the Authorising Officers by subdelegation (AOSDs)

The REA has implemented structured reporting from the Heads of Unit, in their capacity of AOSD, to the Director on:

¹⁰ Modalities for grant management under FP7 are rather similar to FP6, with the exception of lower requirements for ex-ante audit certificates. As a result, it is assumed that beneficiaries have used their experience from participating in FP6 in order to comply better with the rules under FP7. Therefore the FP6 error rate can be considered as indicative for the likely FP7 error rate.

- the implementation of the activities of the REA's Annual Work Programme assigned to them;
- the implementation of the internal controls within their unit (in accordance with the overall design for the REA as a whole) and internal control weaknesses observed during the reporting period;
- new risks related to the activities under their control;
- possible issues which may impact on the Annual Declaration of Assurance.

In preparing for this AAR, the REA's Internal Control Coordinator has organised bilateral meetings with each of the AOSDs to review their report and to extract the most relevant information for the drafting of this AAR.

3.1.1.4. The opinion of the Internal Control Coordinator (ICC) on the REA's state of control

Throughout 2010 the REA's ICC supervised the implementation of the internal controls across the Agency and promoted further improvements to them.

3.1.1.5. Risk assessment results

Three significant risks, identified during the 2009 risk assessment exercise, were signalled in the REA's AWP 2010.

Of these, one risk concerning IT support to the process of allocating proposals to experts and panels for the Marie Curie calls has been fully mitigated by the development of a local tool by the REA. A second risk, concerning potential double funding between the People and Ideas Programmes has been largely mitigated through formalising both the tools and procedures for detecting and resolving potential cases between the REA and the ERCEA. A third risk, associated with access to the Commission's central data network (S-Net), has not yet been resolved, but has not yet had any significant impact on the ability of the REA to implement its tasks.

In autumn 2010, the REA performed another structured risk assessment to feed into the REA's AWP 2011. This identified no critical risks. The REA and its parent DGs are discussing mitigating measures to address identified significant risks associated with the performance of common FP7 tools, changes to the financial engineering of the People programme, the design of the SME actions with respect to the "auditability" of RTD performers and the optimisation of FP7 support service delivery. Action plans have been established for all identified risks and these are carefully monitored by management.

3.1.1.6. Key indicators on legality/regularity

In accordance with the various stages for the management of FP7 outlined in Annex 5, the following set of indicators have been retained to assess performance and legality/regularity. The reported indicators are in line with the common indicators agreed by all research family DGs.

<i>Indicator</i>	2010 Measurement																																																																																																			
Call publication, proposal reception and proposal evaluation																																																																																																				
Number of reported deficiencies or failures to pass the legal compliance check on the priority list of positively evaluated proposals earmarked for funding	In launching an inter service consultation prior to adoption of the ranked list of proposals for funding, the REA collaborates with the parent DGs. No systematic weaknesses of substance have been identified by the REA services in preparing the file for inter service consultation or by the parent DG in reviewing such files.																																																																																																			
Number of redress cases which have been upheld (i.e. which concluded on the need to review the initial decision on eligibility or the evaluation)	See Part I on various statistics on redress by programme. Few cases were upheld and only one proposal was funded after re-evaluation.																																																																																																			
Contract negotiation and proposal selection																																																																																																				
Average adjustment resulting from negotiation (on 2009 global commitments)	<p style="text-align: center;">Table 20 – Adjustments resulting from negotiations</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="2">Programme</th> <th rowspan="2">Nbr. of grants signed</th> <th rowspan="2">Value per ranked list €</th> <th colspan="2">Differences between value of proposals in ranked list (A) versus value per selection decision (B)</th> <th rowspan="2">Value of selection decisions €</th> <th colspan="2">Differences between value of selection decision (B) versus value of signed grant (C)</th> <th rowspan="2">Value of grants signed €</th> </tr> <tr> <th>(A) > (B)</th> <th>(A) < (B)</th> <th>(B) > (C)</th> <th>(B) < (C)</th> </tr> </thead> <tbody> <tr> <td rowspan="2">People</td> <td rowspan="2">1635</td> <td>729,110,071</td> <td>-26,004,143</td> <td>6,485,871</td> <td>709,591,799</td> <td>-39,262</td> <td>0</td> <td>709,552,537</td> </tr> <tr> <td>100.0%</td> <td>-3.6%</td> <td>0.9%</td> <td>97.3%</td> <td>0.0%</td> <td>0.0%</td> <td>97.3%</td> </tr> <tr> <td rowspan="2">SMEs</td> <td rowspan="2">155</td> <td>208,916,161</td> <td>-2,485,122</td> <td>0</td> <td>206,431,039</td> <td>-70,479</td> <td>0</td> <td>206,360,560</td> </tr> <tr> <td>100.0%</td> <td>-1.2%</td> <td>0.0%</td> <td>98.8%</td> <td>0.0%</td> <td>0.0%</td> <td>98.8%</td> </tr> <tr> <td rowspan="2">Space</td> <td rowspan="2">27</td> <td>55,040,662</td> <td>-415,658</td> <td>0</td> <td>54,625,004</td> <td>0</td> <td>0</td> <td>54,625,004</td> </tr> <tr> <td>100.0%</td> <td>-0.8%</td> <td>0.0%</td> <td>99.2%</td> <td>0.0%</td> <td>0.0%</td> <td>99.2%</td> </tr> <tr> <td rowspan="2">Security</td> <td rowspan="2">24</td> <td>102,890,111</td> <td>-213,643</td> <td>0</td> <td>102,676,467</td> <td>0</td> <td>0</td> <td>102,676,467</td> </tr> <tr> <td>100.0%</td> <td>-0.2%</td> <td>0.0%</td> <td>99.8%</td> <td>0.0%</td> <td>0.0%</td> <td>99.8%</td> </tr> <tr> <td rowspan="2">Total</td> <td rowspan="2">1841</td> <td>1,095,957,004</td> <td>-29,118,567</td> <td>6,485,871</td> <td>1,073,324,309</td> <td>-109,741</td> <td>0</td> <td>1,073,214,568</td> </tr> <tr> <td>100.0%</td> <td>-2.7%</td> <td>0.6%</td> <td>97.9%</td> <td>0.0%</td> <td>0.0%</td> <td>97.9%</td> </tr> </tbody> </table> <p>Note that for the People Programme the approved ranked list and accompanying negotiation mandate only specify an indicative value for the grant; a ceiling is set only in terms of man/months mobility of researchers to be funded.</p>							Programme	Nbr. of grants signed	Value per ranked list €	Differences between value of proposals in ranked list (A) versus value per selection decision (B)		Value of selection decisions €	Differences between value of selection decision (B) versus value of signed grant (C)		Value of grants signed €	(A) > (B)	(A) < (B)	(B) > (C)	(B) < (C)	People	1635	729,110,071	-26,004,143	6,485,871	709,591,799	-39,262	0	709,552,537	100.0%	-3.6%	0.9%	97.3%	0.0%	0.0%	97.3%	SMEs	155	208,916,161	-2,485,122	0	206,431,039	-70,479	0	206,360,560	100.0%	-1.2%	0.0%	98.8%	0.0%	0.0%	98.8%	Space	27	55,040,662	-415,658	0	54,625,004	0	0	54,625,004	100.0%	-0.8%	0.0%	99.2%	0.0%	0.0%	99.2%	Security	24	102,890,111	-213,643	0	102,676,467	0	0	102,676,467	100.0%	-0.2%	0.0%	99.8%	0.0%	0.0%	99.8%	Total	1841	1,095,957,004	-29,118,567	6,485,871	1,073,324,309	-109,741	0	1,073,214,568	100.0%	-2.7%	0.6%	97.9%	0.0%	0.0%	97.9%
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Project and contract management																																																																																																				
Average error rate detected by the ex-post audit process	The indicators on the result of the implementation of the FP7 ex-post audit strategy, further detailed below, are also relevant to assess the quality of project and contract management. Another significant indicator is "time-to-pay" which is defined as the percentage of payments made within binding deadlines (contractually defined) and within more ambitious targets set by the Commission, as shown in part 1.																																																																																																			

<i>Indicator</i>	<i>2010 Measurement</i>					
	Ex-post controls					
Input indicator: – use of resources for the implementation of the ex-post audit strategy	Table 21 – Effort spent on implementing the ex-post audit strategy					
		2009	2010			
	Internal resources ex-post audits	3.8 FTE	6.5 FTE			
	Cost of outsources audits (in €)	0	869,192			
	Note that these resources do not include the impact on the operational services which will have to implement the audit findings through adjustments of payments to be made or through recovery.					
Output indicator: – volume of audits launched/ongoing/finalised	Table 22 – Indicator on coverage					
		planned	launched	of which		
				Preliminary findings	finalised	Corrections implemented
	2009					
	REA – Joint audits with the ECA		1		1	
	REA – Risk-based	10	1		1	
	REA – Top beneficiaries	0	0			
	REA – Representative sample	0	0			
	REA – TOTAL	10	2		2	
	2010					
	REA – Joint audits with the ECA		2		1	
	REA – Risk-based	11	14	6	0	
	REA – Top beneficiaries	29	20	9	7	
	REA – Representative sample	33	35	12	6	
	REA – TOTAL	73	71	27	14	
	Given the relatively low number of cost claims received so far, REA had to intensify its sampling for the representative audit strand of the FP7 ex-post audit strategy by a factor of 4. This was decided not only because of compliance with the initial plan to devote about (but not more than) half of the audit resources to such representative audits but also to accelerate the availability of information on the estimated error rate in the underlying operations financed by programmes managed by the REA with a view to contribute to REA's declaration of assurance in future years.					
	The 73 audits launched by REA over the period 2009-2010 refer to 96 cost claims and 72 projects. Table 23 shows the distribution of the audit activity by programme/theme/parent DG and provides indications on whether the audit has been performed by the REA auditors or whether it has been outsourced.					

Indicator	2010 Measurement																																																												
	<p data-bbox="788 252 1823 312">Table 23 – Overview of ex-post audit activities undertaken (by type of auditor and programme/theme/DG) for the period 2009-2010</p> <table border="1" data-bbox="792 322 1975 654"> <thead> <tr> <th colspan="2"></th> <th>DG ENTR (Sec./Space)</th> <th>DG EAC (People)</th> <th>DG RTD (SME)</th> <th>TOTAL</th> </tr> </thead> <tbody> <tr> <td colspan="6" style="background-color: #cccccc;">Distribution of cost claims</td> </tr> <tr> <td rowspan="2">In-house</td> <td>Risk-based</td> <td>4</td> <td>1</td> <td>3</td> <td>8</td> </tr> <tr> <td>Joint audits with the ECA</td> <td>3</td> <td>0</td> <td>0</td> <td>3</td> </tr> <tr> <td rowspan="4">Outsourced</td> <td>Risk-based</td> <td>10</td> <td>0</td> <td>0</td> <td>10</td> </tr> <tr> <td>Representative</td> <td>11</td> <td>8</td> <td>22</td> <td>41</td> </tr> <tr> <td>TOP beneficiaries</td> <td>18</td> <td>12</td> <td>4</td> <td>34</td> </tr> <tr> <td>TOTAL</td> <td>46</td> <td>21</td> <td>29</td> <td>96</td> </tr> <tr> <td colspan="6" style="background-color: #cccccc;">Distribution of projects</td> </tr> <tr> <td></td> <td>TOTAL</td> <td>25</td> <td>21</td> <td>26</td> <td>72</td> </tr> </tbody> </table> <p data-bbox="788 689 2114 839">The concentration of risk based audits for the projects of the Space and Security themes is explained by the fact that a number of SME/People related risk based audits had to be delayed until 2011 because of overlap with previously planned/launched audits by other services managing FP7 (in order to avoid that beneficiaries are confronted with numerous audits planned over a short period of time). Moreover, some risk based audits for these areas are planned for 2011.</p>							DG ENTR (Sec./Space)	DG EAC (People)	DG RTD (SME)	TOTAL	Distribution of cost claims						In-house	Risk-based	4	1	3	8	Joint audits with the ECA	3	0	0	3	Outsourced	Risk-based	10	0	0	10	Representative	11	8	22	41	TOP beneficiaries	18	12	4	34	TOTAL	46	21	29	96	Distribution of projects							TOTAL	25	21	26	72
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<p data-bbox="120 861 344 887">Result indicators:</p> <ul data-bbox="120 893 779 1015" style="list-style-type: none"> - detected error rates - estimated residual error rates - adjustments implemented (by implementation mode) 	<p data-bbox="788 861 1182 887">Table 24 – Detected error rates</p> <table border="1" data-bbox="792 896 1975 1139"> <thead> <tr> <th></th> <th>In 2010</th> <th>2007-2010</th> </tr> </thead> <tbody> <tr> <td>Total costs accepted by financial officers (EU share) (in € million)</td> <td>€142.97m</td> <td>€161.80m</td> </tr> <tr> <td>Costs for audited participations – closed audits only (in €)</td> <td></td> <td></td> </tr> <tr> <td>- Cost claimed*</td> <td>2,171,173</td> <td>2,171,173</td> </tr> <tr> <td>- Costs accepted by the auditors</td> <td>1,999,616</td> <td>1,999,616</td> </tr> <tr> <td>- Total adjustment (on costs) in favour of EU budget</td> <td>-220,000</td> <td>-220,000</td> </tr> <tr> <td>- Total adjustment (on costs) in favour of beneficiaries</td> <td>49,125</td> <td>49,125</td> </tr> </tbody> </table> <p data-bbox="788 1145 1330 1171">* Includes costs not accepted by financial officers</p> <p data-bbox="788 1177 2114 1331">These error rates are composed of a mixture of audits selected on the basis of representative sampling, risk assessments and top beneficiaries and are therefore not representative for the estimated residual error rate in the population (which itself is based on audit findings resulting from audits selected on the basis of representative sampling and assuming that all detected errors are corrected – including the extrapolation of systematic errors to non-audited participations of audited beneficiaries).</p> <p data-bbox="788 1337 1711 1362">The estimated residual error rate can not be estimated at this stage because:</p>						In 2010	2007-2010	Total costs accepted by financial officers (EU share) (in € million)	€142.97m	€161.80m	Costs for audited participations – closed audits only (in €)			- Cost claimed*	2,171,173	2,171,173	- Costs accepted by the auditors	1,999,616	1,999,616	- Total adjustment (on costs) in favour of EU budget	-220,000	-220,000	- Total adjustment (on costs) in favour of beneficiaries	49,125	49,125																																			
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- Cost claimed*	2,171,173	2,171,173																																																											
- Costs accepted by the auditors	1,999,616	1,999,616																																																											
- Total adjustment (on costs) in favour of EU budget	-220,000	-220,000																																																											
- Total adjustment (on costs) in favour of beneficiaries	49,125	49,125																																																											

<i>Indicator</i>	2010 Measurement							
	<ul style="list-style-type: none"> – the number of representative audits for which final findings are available (6 in total) is too limited to draw conclusions, – the corrective impact of the multi-annual strategy, especially with respect to all participations of beneficiaries audited on the basis of risk-based selections or because of their significant level of participation (top beneficiaries) being cleaned of systematic errors, will only become effective towards the end of implementing this ex-post strategy. 							
	Table 25 – Implementation of ex-post audit results in favour of the EU budget							
	Results from external audits		Adjustments pending		Adjustments implemented			
Audit closing year	Nbr. of participations	Funding adjustments (€)	Nbr. of participations	Funding adjustments (€)	Nbr. of participations	Funding adjustments (€)		
2009	0	0	0	0	0	0		
2010	16	49,059	16	49,059	0	0		
TOTAL	16	49,059	16	49,059	0	0		
	Implemented adjustments – by implementation mode							
	By the end of 2010 no adjustments have been implemented yet.							
	Table 26 – Implementation of extrapolation of systematic errors to non-audited participations of audited beneficiaries							
Year	Nbr. of participations		Implemented cases				Nbr. of cases with extrapolation managed centrally	Nbr. of cases to be implemented
	with expected systematic errors	of which no systematic errors confirmed	In favour of the EU budget		In favour of the beneficiary			
			Nbr.	Value	Nbr.	Value		
2009	0	0	0	0	0	0	0	
2010	3	1	0	0	0	0	2	
Total	3	1	0	0	0	0	2	

Indicator	2010 Measurement								
Impact indicator: – Impact on the declaration of assurance of the European Court of Auditors (ECA)	<p data-bbox="792 188 1659 217">Table 27 – Impact Indicators: Impact on the declaration of assurance</p> <table border="1" data-bbox="792 225 1986 459"> <thead> <tr> <th data-bbox="792 225 1807 256">ECA: overall assessment of supervisory and control systems:</th> <th data-bbox="1807 225 1986 256">2009</th> </tr> </thead> <tbody> <tr> <td data-bbox="792 256 1807 325">08.11 - People programme (part of Chapter 5 of the ECA's Annual Report 2009)</td> <td data-bbox="1807 256 1986 325">Partially effective</td> </tr> <tr> <td data-bbox="792 325 1807 394">08.13 - Capacities - Research for the benefit of SMEs (part of Chapter 5 of the ECA's Annual Report 2009)</td> <td data-bbox="1807 325 1986 394">Partially effective</td> </tr> <tr> <td data-bbox="792 394 1807 459">02.04 - Cooperation - Space and Security</td> <td data-bbox="1807 394 1986 459">Not effective</td> </tr> </tbody> </table> <p data-bbox="792 491 2107 703">The audit carried out by the ECA in 2009 reported that the ex-post controls for the Space and Security themes of the Cooperation Specific Programme delegated to the REA were "not effective". For the other programmes managed by the REA, although subject to an identical control strategy, the assessment was partially effective (as part of the assessment on all of research spending). The assessment was based on the fact that the first ex-post audits had only been launched, which was due to an insufficient number of cost-claims received by the REA. The ECA's concern has been effectively addressed in 2010 when the ex-post audit activity has come on stream.</p>	ECA: overall assessment of supervisory and control systems:	2009	08.11 - People programme (part of Chapter 5 of the ECA's Annual Report 2009)	Partially effective	08.13 - Capacities - Research for the benefit of SMEs (part of Chapter 5 of the ECA's Annual Report 2009)	Partially effective	02.04 - Cooperation - Space and Security	Not effective
ECA: overall assessment of supervisory and control systems:	2009								
08.11 - People programme (part of Chapter 5 of the ECA's Annual Report 2009)	Partially effective								
08.13 - Capacities - Research for the benefit of SMEs (part of Chapter 5 of the ECA's Annual Report 2009)	Partially effective								
02.04 - Cooperation - Space and Security	Not effective								

3.1.2. Building block 2: Results from independent audits during the reporting period

3.1.2.1. Audits by the European Court of Auditors (ECA)

The ECA has selected a total of 11 transactions in the context of the DAS 2009 audit and 9 for the DAS 2010. The REA responded to the Statements of Preliminary Findings (SPF) issued by the ECA. Only two findings received so far related to payments against cost claims, one concluding on overcharging by 16.5% and one on an adjustment in favour of the beneficiary by 26.5%.

The ECA also audited the REA's accounting handling and accounting cut-off for the operational budget (DAS audit on reliability of the accounts) without observations.

As regards the ECA audit on the REA's administrative budget, the draft report on the draft accounts 2009 (which the ECA sent in July 2010) provided a qualified opinion on the reliability of the accounts based on findings during the visits from the ECA in April 2010. These comments related to the accounting practices in the REA during this first cut-off exercise. After the ECA's visit, corrections for the cut-off and fixed asset accounting had already been included in the REA's final accounts (adopted by the REA Steering Committee on 15 June 2010). As a result, the ECA issued an unqualified opinion on the REA's final accounts for 2009 in its report published in November 2010.

3.1.2.2. The REA's Internal Audit Capability (IAC)

During 2010 the IAC finalised four operational audits. Two audits (covering recruitment and the negotiation of grant agreements) started in 2009 and were finalised at the beginning of 2010. Two other audits (covering (i) financial reporting and cut-off and (ii) validation services) were started and finalised in 2010.

In addition to its operational audit work, the IAC also carried out other tasks, such as participation at the REA's annual risk assessment exercise and attendance at the weekly REA management meetings.

The audit work is still limited in comparison with the large audit universe it should cover. Thus the IAC is not yet in a position to give an opinion on the state of internal control across the REA as a whole. However, based on the audits and other work which the IAC has carried out during 2010, together with the knowledge of the results of audits carried out by the IAS and the ECA, the IAC is not aware of any critical weaknesses in the REA's system of internal control which would jeopardise the achievement of its business objectives.

3.1.2.3. Commission's Internal Audit Service (IAS)

From March to July 2010, the IAS conducted an assessment of the design and set up of the REA's internal control systems that underpin the financial grant management process. The report highlighted some very important areas (FP7 support services, risk management process including IT risk, building up the assurance process, fraud prevention considerations and audit strategy) on which the REA's management is already actively engaged. It acknowledged the particular efforts that have been made by the REA to establish sound procedures, awareness of ethical implications and the importance of effective risk management. Due to the REA's relatively recent autonomy and the design focus of this audit, it was too early to conclude whether the control systems are working effectively in practice. The IAS plans to examine the effectiveness of REA's internal controls in practice in 2011. The IAS found that the internal control system in place provides reasonable assurance regarding the design and set up of the overall control environment and of the grant management process for managing programmes delegated to the REA.

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

The REA did not raise any reservation in the 2009 AAR. No IAC or IAS audits on the REA were concluded during 2009.

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

Executive agencies can not sub-delegate part of the programmes under its control to other Commission services.

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

The information reported in sections 3.1.1. to 3.1.4 stems from the results of management and auditor monitoring which are reflected in the reports listed. The reports result from a systematic analysis of the evidence available. This approach results in a complete coverage of the budget delegated to the REA and provides sufficient guarantees as to the completeness and reliability of the information reported.

The various building blocks, for which details have been highlighted above, allow the Director to express reasonable assurance. Although the ex-post audit strategy is not yet providing sufficient information to draw conclusions, management's assessment on the inherent risks of the programmes managed, the pro-active risk management implemented within REA and experiences from similar programmes managed under Framework Programme 6 are indicative of the anticipated effectiveness of this ex-post audit strategy which will show its full impact at the end of 2016 when a maximum of corrective impact on possible overcharging will be obtained.

The REA has been the subject of numerous audits from its own IAC, IAS and ECA during this first year and a half following its autonomy. Although these audits have highlighted a series of very important recommendations, these relate mostly to the incomplete set-up of internal control for this relatively young organisation and to the complexity of supervision arrangements between the REA and its parent DGs. These recommendations are helpful in defining priorities for further improvements in internal control but none of those are assessed as impacting directly on the declaration of assurance. The ECA's assessment on the effectiveness of the supervisory and control systems (partially effective and non-effective for Space and Security) has been addressed by intensifying the ex-post audit activity in accordance with initial plans outlined in the FP7 ex-post audit strategy.

3.2. Reservations

None

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

The REA Director has not identified issues requiring qualification of his annual Declaration and has therefore not raised any formal reservation.

PART 4. Declaration of Assurance

4.1. Declaration of Assurance by the Authorising Officer on the implementation of the operating (administrative) budget

I, the undersigned, Graham Stroud, Director of the REA,

In my capacity of authorising officer for the REA's operating budget

Declare that the information contained in this report gives a true and fair view¹¹.

State that I have reasonable assurance that the resources assigned to the operation of the REA have been used for their intended purposes 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 judgment and on the information at my disposal, such as the results of the self-assessment, the work of the internal audit capability and the lessons learnt from the reports of the European Court of Auditors.

Confirm that I am not aware of anything not reported here which could harm the interest of the REA.

Brussels, 16 March 2011

Signed

Graham Stroud

¹¹ True and fair in this context means a reliable, complete and correct view on the state of affairs in the service.

4.2. Declaration of Assurance by the Authorising Officer by delegation on the implementation of the Commission's operational budget delegated to the REA

I, the undersigned, Graham Stroud, Director of the REA,

In my capacity of authorising officer by delegation

Declare that the information contained in this report gives a true and fair view¹².

State that I have reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purposes 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 judgment and on the information at my disposal, such as the results of the self-assessment, ex-post controls and the work of the internal audit capability.

Confirm that I am not aware of anything not reported here which could harm the interest of the REA.

Brussels, 16 March 2011

Signed

Graham Stroud

¹² True and fair in this context means a reliable, complete and correct view on the state of affairs in the service.