Foreword of the Director-General

Competitiveness is key to economic success. That's why we are working to maintain a high-performing industrial base in Europe. With Horizon 2020 we are promoting investments in innovation. The COSME programme is providing finance to hundreds of thousands SMEs in the context of the EFSI. We have proposed action to support start-ups and scale-ups. We have promoted better framework conditions for businesses in the European Semester and a fair access to markets in the negotiations of international trade agreements.

The Single Market is one of the pillars of Europe's prosperity. But we have to constantly modernise it to make the most out of it. Our ambition is to make EU single market laws less costly, yet more effective so that only safe products circulate and services are offered without undue restrictions. As a result of the car emissions scandal, we proposed to better enforce existing law. We tabled a services package making it easier for companies and professionals to provide services across borders. There is more to come in 2017: we want to improve mutual recognition of laws between Member States in the field of goods, make public procurement more efficient and better enforce intellectual property rights.

For our big European space projects, 2016 was a very successful year. Galileo started to offer initial satellite navigation and positioning services and we are now focusing on their market-uptake. The Copernicus earth observation services, which already help to tackle natural disasters, received new features last year. To give these activities a common vision we developed a European Space Strategy.

Other important new developments included the European Defence Action Plan and the Joint Framework on Countering Hybrid Threats. For the first time, the Union will work closer together to generate more efficient defence research and capabilities and to foster its resilience in face of the new phenomenon of hybrid threats. All this came timely in the face of demands for a stronger European role in defence and security.

These achievements were only made possible by hard work of all in the DG and in spite of a difficult context of decreasing resources. In light of this, I would like to express my gratitude for the dedication and professionalism of all colleagues in DG GROW.

Lowri Evans
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THE DG IN BRIEF

Mission of the DG

DG GROW works to create opportunities for all – European businesses & citizens.

Extended Mission Statement

"Every European citizen should benefit from a dynamic and sustainable economy, characterised by a favourable entrepreneurial climate and respect for core European values like cultural diversity, social cohesion and protection of the environment.

Working together at the European level allows us to make the best out of the opportunities and challenges arising from an increasingly digitalised global and rapidly changing world.

A vibrant economy will create ample job opportunities for a well-trained and well-skilled European workforce and offer to the consumer products and services that are safe, affordable, of good quality and produced under environmentally and socially sound conditions.

DG GROW is well placed to foster opportunities and welfare for all, allowing citizens, entrepreneurs, small and large businesses as well as their employees to reap the full benefits from a large, integrated and globally competitive single market.

Our aim is to help entrepreneurs with great business ideas obtain the necessary support to start up, grow and thrive. We want to also help them find opportunities for their innovative products and services in the global economy beyond the EU's borders.

Environment under which the DG operates

The general environment, in which the DG operates, in both executing budget and achieving objectives, is characterised by great variety of public and private stakeholders and entrusted entities involved. As a result, the DG has also to rely on external control systems, which are compliant with respective international standards.

Furthermore and in addition to the inherent risks related to the direct and indirect spending modes, the DG has to take into account other risks related to factors, which could not be necessarily directly influenced by the DG or even would develop despite our efforts made in one or another mitigation direction, e.g.: highly technical aspects of certain activities; non-occurrence of circumstances, which are an underlying assumption for an activity, extraordinary events or circumstances beyond the control of the DG, etc.

As the majority of the DG budget is managed indirectly via entrusted entities, challenges concern mainly the respective supervision of these entities, which support the DG in achieving its objectives.

---

1 This is a new mission statement created in March 2017 on the basis of work done within the context of the "GROWing Together" working group and approved by senior management.
Another significant challenge is associated to bringing down the error rate in the legacy spending programmes, particularly the Seventh Framework Programme and Competitiveness and Innovation Framework Programme, to an acceptable level and, at the same time, to balance trust and control.

**Structure**

In line with the organisation established in the Management Plan for 2015 of DG GROW, 1 167 establishment posts were assigned to the DG.

The administrative structure of the DG was organised in four main strands, composed of 11 directorates and 47 units, including the units of economic analysis and financial management of Space Programmes.

The first strand covers three directorates:

- Competitiveness and European Semester,
- Single Market Policy, Regulation and Implementation and
- Resources.

The results of the activities under this strand were directly reported to the Director-General.

The second strand, directly reporting to a deputy Director-General, included directorates leading in:

- Industrial Transformation and Advanced Value Chains,
- Consumer, Environmental and Health Technologies in the Single Market and
- Innovation and Advanced Manufacturing.

The third strand, directly reporting to a second deputy Director-General, included directorates leading in:

- Modernisation of the Single Market,
- Single Market for Public Administrations and
- COSME Programme.

The last strand, again directly accountable to a third deputy Director-General, included the Space Programmes directorates:

- Space Policy, Copernicus and Defence and
- EU Satellite Navigation Programmes.

The **accountability chain** established within the DG relies on input from other entities\(^2\) so as to allow the achievement of the DG’s policy and operational objectives:

---

\(^2\) The reader is referred to section 2.1.1.1.
With the executive agencies, REA\textsuperscript{3} and EASME\textsuperscript{4}, the DG steered the implementation of Horizon 2020 and COSME.

With the support of decentralised agencies, the DG led the successful implementation of: the regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), the European satellite navigation and Copernicus programmes for example. For the complete list of agencies, the reader is referred to Annex 8.

With the support of international organisations, the DG is paving the way for the establishment of a European capacity for Earth Observation, a dedicated satellite navigation system and is monitoring EU programmes and supporting SMEs through dedicated financial instruments. For the complete list of international organisations, the reader is referred to Annex 6.

The \textbf{funds managed directly} by DG GROW amount to 7.78\% of the EU budget. The reader is referred to Annex 3 for the payment execution of the DG for 2016. For the detailed distribution of the payments appropriations in 2016 the reader is referred also to Section 2.

\textbf{Budgetary and financial management in 2016}

The budget year 2016 was the third year of the 2014-2020 MFF with the major spending programmes COSME, Galileo, Copernicus and part of Horizon 2020 managed by DG GROW getting at full implementation speed.

Regarding the Commission’s prerogative on the operation and development of the Internal Market, the budgets related to goods, services and the internal market information tools were consolidated in DG GROW and mainly implemented through procurement contracts for studies and technical assistance.

In 2016, the DG together with the executive Agencies EASME and REA, achieved 100\%\textsuperscript{5} budget execution in commitments and 99.23\%\textsuperscript{6} in payments. The DG was working on numerous budget lines shared with other DGs such as DG ENV, DIGIT and DG SANTE.

2,24 \% of payments were made outside legal deadlines.

<table>
<thead>
<tr>
<th>Main overall time-based efficiency indicators for the DG’s transactions (all management modes and types of expenditure taken together)</th>
<th>DG results for the reporting year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Time to pay</strong> (average net payment time - TTP) Percentage of payments on time</td>
<td>19 days 97.8 % on time</td>
</tr>
<tr>
<td>Average days of suspension Percentage of payments suspended</td>
<td>42 days 10.5 %</td>
</tr>
</tbody>
</table>

\textsuperscript{3} Research Executive Agency  
\textsuperscript{4} Executive Agency for SMEs  
\textsuperscript{5} Based on the final voted budget appropriations (C1) for the 2016 exercise.  
\textsuperscript{6} Based on the final voted budget appropriations (C1) for the 2016 exercise.
The graph below gives an overview of the payments outturn per Activity Based Budget (ABB) chapter for the 'Enterprise and Industry' policy area, including also the administrative expenditure of 'Environment', 'Research and innovation' and 'Maritime affairs and fisheries' policy areas and the single market policy and free movement of services:
Total amount paid in 2016, i.e. EUR 1,548 billion
EXECUTIVE SUMMARY

a) Key results and progress towards the achievement of general and specific objectives of the DG (executive summary of section 1)

In 2016, DG GROW worked towards the achievement of two priorities of the Juncker Commission: "A New Boost for Jobs, Growth and Investment" and "A deeper and fairer Internal Market with a strengthened industrial base". DG GROW was also involved in the implementation of three other political priorities: Energy Union, Digital Single Market and A Stronger Global Actor. The DG contributed to achieving these priorities in 2016 as follows:

1) A New Boost for Jobs, Growth and Investment

- European Semester

  In the context of European Semester, DG GROW contributed to identify the obstacles to investment at Member State level in the context of the third pillar of the Commission Investment Plan.

- International affairs

  DG GROW helped to improve the access to third country markets by contributing to the negotiations of free-trade agreements (FTAs), namely TTIP, the FTAs with Japan, Mercosur, Mexico, Indonesia and Philippines, DCFTAs with Tunisia, the Trade in Services Agreement and the Investment Agreement with China. DG GROW contributed significantly to the development of the EU Economic Diplomacy and the effective application of Trade Defence Instruments.

- Space Strategy

  In October 2016, the Commission adopted a new Space Strategy for Europe. The Strategy responds to growing global competition, increasing private sector involvement and major technological shifts. The Commission proposes a range of actions to allow Europeans to fully seize the benefits offered by space, create the right ecosystem for space start-ups to grow, promote Europe's leadership in space and increase its share on the world space markets.

- COSME

  COSME aims to make it easier for small and medium-sized enterprises (SMEs) to access finance, helps businesses to access markets in the EU and beyond, supports entrepreneurs by strengthening entrepreneurship education, mentoring, guidance and other support services, and aims to reduce the administrative and regulatory burden on SMEs by creating a business-friendly environment.

  The successful implementation of the COSME financial instruments supporting access to finance for riskier SMEs is continuing under the Delegation agreement with the European Investment Fund, and current estimations show that foreseen 2017 milestones will be exceeded.

- Galileo

  The Galileo initial services started to become operational on 15 December 2016.
The declaration of Galileo initial services ensures that Galileo is positioned on the global satellite navigation market, taking into consideration that the US and Russian systems are being strengthened and the Chinese system is rapidly building up.

Galileo initial services are fully interoperable with GPS, and their combined use will bring many benefits to the end user. With more satellites available, more accurate and reliable positioning will be available to end users. Navigation in cities, where satellite signals can often be blocked by tall buildings, will particularly benefit from increased positioning accuracy.

Regarding space infrastructure deployment, six Galileo satellites were launched successfully in 2016. In particular, for the first time, four navigation satellites were launched at the same time with Ariane-5 in November 2016. This is an excellent achievement for Galileo and it is a deployment pace which has been rarely followed in the satellite navigation world until now.

- **Copernicus**

In 2016, Copernicus contributed to enhanced maritime safety and security, monitored the environment and climate change and provided support in emergency and crisis situations. The Climate Change Service has seen a steady increase of users reaching over 20,000 at the end of last year. In 2016, a total of 38 activations of the Emergency Management Service were made requesting 33 rapid mapping responses and 5 risk and recovery mappings. Floods and fires across Europa dominated these activations. In parallel, the Ground Segments for the reception, processing, distribution and archiving of data have been reinforced, so as to handle effectively the unprecedented amounts of data.

On the Infrastructure side, Sentinel 3-A and Sentinel 1-B were successfully launched in February and April. Both satellites are delivering excellent data products. Furthermore Sentinel 2-B was successfully launched in March 2017.

2) **A connected Digital Single Market**

The Digital Single Market (DSM) strategy was adopted on the 6 May 2015 and includes 16 specific initiatives to be delivered by the Commission by 2017.

The DSM can create opportunities for new start-ups and allow existing companies to benefit from a market of over 500 million people. Completing a Digital Single Market could contribute € 415 billion per year to Europe's economy, create jobs and transform our public services.

An inclusive DSM offers opportunities for citizens also, provided they are equipped with the right digital skills. Enhanced use of digital technologies can improve citizens' access to information and culture, improve their job opportunities. It can promote modern and open government.

DG GROW contributes to the implementation of the DSM in its area of competence, for example through the legislative proposals adopted on 25 May 2016 in the context of the e-commerce package on: (i) tackling unjustified geo-blocking and other forms of discrimination on the grounds of nationality, residence or establishment; and (ii) making cross-border parcel delivery more affordable and efficient across the EU. These proposals are expected to boost the potential for cross-border e-commerce in Europe and help consumers and companies, especially SMEs, to make the most of the EU Single Market.
In addition, DG GROW is contributing to several other work streams under the DSM such as: digitising industry, priorities for ICT standardisation, building a data economy and business to business relations on platforms.

3) A resilient Energy Union with a forward-looking climate change policy

In a situation of scarcity of resources and volatility of prices, the Commission adopted the Circular Economy Package in December 2015. It includes revised legislative proposals on waste to stimulate Europe's transition towards a circular economy which will boost global competitiveness, foster sustainable economic growth and generate new jobs.

As part of the package, DG GROW prepared a proposal to revise the EU Fertiliser Regulation, which was adopted by the Commission on in March 2016. The idea behind the Circular Economy package is to turn waste into opportunities, create new markets (e.g. for organic fertilisers), and boost competitiveness, innovation and job creation in the design, manufacturing, use, repair and recycling of products, and in waste management, in particular for construction and demolition waste.

In this context, the European Innovation Partnership (EIP) on Raw Materials, managed by DG GROW, supports innovation and jobs by creating a multi-stakeholder platform guiding EU policy.

In November 2016, the Commission adopted the "Clean Energy for all" package covering energy efficiency, renewable energy, the electricity market, security of electricity supply and governance rules for the Energy Union. Furthermore, the Commission proposed to accelerate clean energy in buildings and accelerate innovation for a competitive low-carbon economy in it. In this context DG GROW proposed in particular a roadmap for a construction initiative.

4) A deeper and fairer Internal Market with a strengthened industrial base

- Implementation of the Single Market Strategy

On October 28, 2015, the Commission adopted the Single Market Strategy to unlock the full potential of the Single Market. The Single Market is at the heart of the European project, enabling people, services, goods and capital to move more freely, offering opportunities for European businesses and greater choice and lower prices for consumers. It enables citizens to travel, live, work or study wherever they wish. But sometimes, these benefits do not materialise because Single Market rules are not known or implemented or they are undermined by other barriers. And in a rapidly changing environment, the Single Market needs to adapt to new ideas and business models. That is why the Commission has decided to give the Single Market an important boost by taking measures in several priority fields. DG GROW is leading the implementation of these measures within the 11 priority areas of the Single Market Strategy. Three measures can be taken as an example: the Start-up and scale-up initiative, the European Agenda for the Collaborative economy and the Standardisation Package.

- Start-up and Scale-up Initiative

The Commission adopted the Communication "Europe's next leaders: the Start-up and Scale-up Initiative" in November 2016. The objective is to improve the environment for start-ups in Europe by creating favourable conditions for entrepreneurs to start up and scale up their business. The initiative proposes
concrete actions that will contribute to help start-ups and scale-ups to overcome legal, regulatory and administrative barriers, remedy difficulties with access to finance and create more opportunities to engage with potential business partners, investors and innovation sources in better connected entrepreneurial ecosystems.

**Collaborative economy**

In June 2016, the Commission issued the Communication "A European agenda for the collaborative economy" which provides clarity on applicable EU rules and policy recommendations to help citizens, businesses and EU countries fully benefit from the new business models and promote the balanced development of the collaborative economy.

**Standardisation package**

Also in June 2016, the European Commission presented its vision on how European standard setting should evolve in the light of technological developments, political priorities and global trends through the adoption of a comprehensive standardisation package.

**Better Regulation**

DG GROW with its commitment to reduce red tape for enterprises and citizens has traditionally been amongst the biggest contributors to the Regulatory Fitness Programme (REFIT). Therefore, several evaluations and Fitness checks have been conducted in 2016, among them the evaluation of the Late Payments Directive, the Fitness Check on the Oil Refining Industry and the evaluation on Standardisation.

**Environmental / consumer protection and security**

On 27 January 2016, the Commission proposed a major overhaul of the EU type approval framework. The proposals will render the type approval system of vehicles in the EU more credible and will require from the Member States to establish effective market surveillance, including by introducing independent vehicle testing. Greater European oversight will strengthen the system as a whole. This will help improving the environmental and safety performance of the vehicles and will contribute to regaining customers' trust in this important industry. The proposals are still discussed by the European Parliament and the Council.

Likewise, a political agreement was found between the co-legislators at the end of 2016 on the firearms package, which was tabled in November 2015. The proposal will make it more difficult to acquire firearms in the European Union, better track legally held firearms, strengthen cooperation between Member States, and ensure that deactivated firearms are rendered inoperable. The Commission is hereby supporting Member States in their efforts to protect Europe's citizens and prevent criminals and terrorists from accessing weapons.

**Single Market Centres**

When it comes to the Single Market, citizens but also small business operators sometimes suffer from an information deficit: like citizens, they do not always know enough about their Single Market rights, nor about EU funding opportunities that are available to them nor are they sufficiently channelled to the right free-of-charge EU support network or e-tool such as the Enterprise Europe Network (EEN), SOLVIT, Points of Single Contact (PSC) and the Your Europe Portal when they need them. As a result, the DG has been working on a "Compliance and
Assistance" package, which it will unveil in 2017.

- **Communicating the Single Market**

In 2016, DG GROW continued with its corporate communication campaign to inform the EU business community (especially SMEs) on how they can benefit from the EU Single Market. The EU Open for business campaign targets SME owners in 5 Member States yearly with concrete "call to action" such as a visit the Your Europe Business portal and/or a contact with the local branch of the Enterprise Europe Network.

The 2016 campaign ran in Hungary, Poland, Ireland, Portugal and Denmark and brought more than 140.200 additional visits to the Your Europe Business portal. The target audience engaged with the campaign with 406,653 clicks/actions on social media and on the web. Regarding the newspaper and radio advertising we produced 85 print ads, published in 28 newspapers reaching 6,984,540 gross campaign audience and we produced 1569 radio spots aired through 7 radio stations with 3,576,000 gross daily audience.

One particularly satisfactory outcome of the campaign is that more than 200 additional entrepreneurs asked for help from the local Enterprise Europe Network offices after being exposed to the campaign.

Open for business was complemented by an online campaign raising awareness of consumers on how to benefit from the EU’s Single Market. The campaign targeted all EU Member States and brought about one million additional visits to the Your Europe Citizens portal.

**5) A stronger global actor**

The European Defence Action Plan (EDAP) was unveiled on 30 November 2016. In the plan, the Commission proposed a European defence fund to support collaborative research projects and joint development of defence capabilities; supporting SMEs through fostering investments and providing more cross-border opportunities in defence supply chains and ensuring Europe has an open and competitive single market for defence products. Together with the EDAP, the Commission adopted important deliverables in the area of the Single Market for defence: two Reports on the evaluation of the Transfers Directive and of the Defence Procurement Directive, two Recommendations on general licenses and a Notice providing guidance on government-to-government procurement.

**b) Key Performance Indicators (KPIs)**

<table>
<thead>
<tr>
<th>Result indicator: Number of firms benefiting from debt financing</th>
<th>Source: EIF (European Investment Fund) reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baseline</td>
<td>2017</td>
</tr>
<tr>
<td>2013 As of 31 December 2013, €16.1 billion</td>
<td>Financing mobilised from guarantees</td>
</tr>
</tbody>
</table>
in financing mobilised, reaching 312,000 SMEs (SMEG)\(^7\) under the former CIP programme; guarantees ranging from €14 billion to €21 billion; number of firms reached ranging from 220,000 to 330,000 under the current COSME programme.

**State of play:**
This KPI refers to the SME Loan Guarantee Facility (LGF) under COSME. The LGF provides guarantees and counter-guarantees for financial intermediaries (e.g. guarantee institutions, banks, and leasing companies) which in turn provide financing to riskier SMEs who would otherwise not be able to obtain funding. Its implementation started in 2014 under a Delegation Agreement signed with the European Investment Fund. It is the successor facility of the SME guarantee scheme of the predecessor programme CIP.

The latest available data as at 30 September 2016 shows that €4.2 billion of financing has already been made available to more than 117,000 SMEs under the LGF. Thanks also to the enhancement of the LGF with additional risk-sharing capacity made available from the European Fund for Strategic Investments (EFSI) since 2015, it is estimated that the 2017 milestone as well as the 2020 target will be exceeded.

**Result indicator: Percentage of the DG’s primary regulatory acquis covered by retrospective evaluation findings and Fitness Checks not older than five years.**

<table>
<thead>
<tr>
<th>Year</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>Between 2010 and 2014, 42 of 140 of the primary regulatory items under the responsibility of DG GROW were covered by evaluations or Fitness checks = 30%</td>
</tr>
<tr>
<td>2017</td>
<td>Positive trend compared to baseline</td>
</tr>
<tr>
<td>2020</td>
<td>Positive trend compared to interim milestone</td>
</tr>
</tbody>
</table>

**State of play:**
REFIT (=Regulatory Fitness) is a programme of the Commission to make EU legislation lighter, simpler and less costly. The Commission committed itself to achieving ambitious goals in several REFIT Communications, which are highly visible and go well beyond routine work. DG GROW is a main contributor to this programme. Between 2012 and 2016, DG GROW prepared evaluations or Fitness checks on 58 of 129 major pieces of legislations (this includes a few ongoing ones). Thus, 45 % of the acquis under the responsibility of DG GROW were covered by evaluation measures, which means that the positive trend compared to the baseline (=30%) was achieved in 2016. Ultimately, lighter and less costly legislation will help enterprises to become more competitive globally and thus help achieve the Europe 2020 goals.

**Result indicator: Cumulative number of operational satellites (Galileo and Copernicus)**

**Source: Public announcements**

<table>
<thead>
<tr>
<th>Satellite</th>
<th>Baseline</th>
<th>Interim Milestone 2015</th>
<th>Actually achieved 2016</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copernicus: Baseline 2014: 1</td>
<td>2 by 2015</td>
<td>8 by 2020</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**State of play:**
Galileo: The deployment of the space infrastructure was accelerated. The first launch was on 27 May with two satellites on board a Soyuz launcher and the second one on 17 November with four satellites on an Ariane-5 launcher. In December 2016 the space infrastructure consisted of 18 satellites.\(^8\)

Copernicus: The deployment is on track with the successful launch of 4 Sentinels and has already started to deliver

---

\(^7\) The baseline is from the SME Guarantee Facility under the 2007-2013 Competitiveness and Innovation Programme (CIP)

\(^8\) 18 Galileo satellites were in orbit, 1 of them is only operational for the SAR service, 4 are still in test, which means 13 satellites were fully operational.
earth observation and monitoring services in the form of high-resolution imagery (20m), maps and other information products to help rescue operations in cases of natural disaster.

**Result indicator: Duration of infringement procedures in key areas under DG GROWTH’s responsibility as defined in the Governance Communication (free movement of goods and market surveillance)**


<table>
<thead>
<tr>
<th>2014</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>24.4 months on average by end 2014</td>
<td>21 months on average by end 2016</td>
<td>18 months on average by end 2017</td>
</tr>
</tbody>
</table>

**State of play: 16.3 months as at 1.12.2016**

The duration of infringement procedures in key areas under DG GROW’s responsibility for end 2016 is better than what was foreseen. This is mainly due to the recent launching of an important number of non-communication cases. Their relatively short duration has a great impact on the calculation of the average duration of all infringement cases.

**Result indicator relating to Internal Control: Multiannual residual error rates per Activity Based Budgeting (ABB) chapters and/or per distinct control system**

*Sources: DG Grow control results*

<table>
<thead>
<tr>
<th>2016</th>
<th>2017</th>
<th>2019-2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Detected error rates are above the materiality for FP7 (5.03%) and CIP (7.65%). All other Activity Based Budgeting (ABB) are below materiality.</td>
<td>Multiannual residual error rate per Activity Based Budgeting (ABB) chapters and/or per distinct control system as close as possible to or below the materiality level, except for CIP and research expenditure, where (i) the multiannual residual error rate for FP7 is expected to remain slightly above the materiality level since DGs cannot greatly extend their controls without adversely affecting the other objectives of the research programme; (ii) the multiannual residual error rate for CIP is expected to remain above the materiality level, additional audits being foreseen in the Audit Work Program for 2017 in order to clean the relevant expenditure (iii) the multiannual residual error for H2020 is expected to be within a range of 2-5 % in line with Regulation of the European Parliament and Council establishing Horizon 2020.</td>
<td>Multiannual residual error rate at the end of the lifecycle of the expenditure programmes is below the materiality level, except for H2020 where the ultimate aim is to achieve a residual error as close as possible to 2 % at the closure of the multiannual programmes, once the financial impact of all audits, correction and recovery measures have been taken into account.</td>
</tr>
</tbody>
</table>

**c) Key conclusions on Financial management and Internal control (executive summary of section 2.1)**

In accordance with the governance statement of the European Commission, (the staff of) DG GROW conducts its operations in compliance with the applicable laws and regulations, working in an open and transparent manner and meeting the expected high level of professional and ethical standards.

The Commission has adopted a set of internal control standards, based on international good practice, aimed to ensure the achievement of policy and operational objectives. The
financial regulation requires that the organisational structure and the internal control systems used for the implementation of the budget are set up in accordance with these standards. DG GROW has assessed the internal control systems during the reporting year and has concluded that the internal control standards are implemented and function as intended. Please refer to AAR section 2.1.3 for further details.

In addition, DG GROW has systematically examined the available control results and indicators, including those aimed to supervise entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by internal auditors and the European Court of Auditors. These elements have been assessed to determine their impact on the management's assurance as regards the achievement of control objectives. Please refer to Section 2.1 for further details.

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director General, in her capacity as Authorising Officer by Delegation has signed the Declaration of Assurance, qualified by one reservation on CIP and one reservation on FP7.
d) Information to the Commissioner

In the context of the regular meetings during the year between the DG and the Commissioner on management matters, the main elements of this report and assurance declaration, including the reservations envisaged, have been brought to the attention of Commissioner Bieńkowska.
1. KEY RESULTS AND PROGRESS TOWARDS THE ACHIEVEMENT OF GENERAL AND SPECIFIC OBJECTIVES OF THE DG

1.1 Priority 1 - A New Boost for Jobs, Growth and Investment

1.1.1 Policy

European Semester

DG GROW joined the Group of core DGs working on the European Semester. DG GROW contributed with its expertise on specific topics and relevant areas of its competence (Services, SMEs, public administration, competitiveness, business environment, regulated professions, access to finance, etc.) for all Member States, and liaised with other non-core DGs to take on board their contributions.

In the exercise of 2016/2017, DG GROW continues liaising and working closely with other non-core DGs, while at the same time assessing the implementation of past recommendations and in-depth analysis in the fields falling within its remit.

International affairs

In 2016 through active participation in international trade negotiations we worked to ensure elimination or reduction of barriers for goods, services and access to public procurement opportunities in third countries. We mainly contributed to the following negotiations: TTIP, the free-trade agreements (FTAs) with Japan, Mercosur, Mexico, Indonesia and Philippines, DCFTAs with Morocco and Tunisia, the Trade in Services Agreement and the Investment Agreement with China.

In order to create and maintain a relationship of trust with the EU's main trading partners in its domains of competences, to create a level-playing field and encourage third countries to mould a predictable business environment based on the EU's law, rules and standards we hold regulatory and industrial dialogues with China, Japan, South Korea and Taiwan.

DG GROW has continuously supported DG NEAR in the enlargement process in five crucial chapters: Free Movement of Goods, Establishment and Services, Public Procurement, Intellectual Property Law, Enterprise and Industrial Policy.

DG GROW chaired Platform 2 on "Economic Integration and convergence with EU policies" of the Eastern Partnership supporting thus the economic integration and convergence of the policies of these countries to EU policies. DG GROW has contributed to the monitoring of the implementation of the Association Agreement including Deep and Comprehensive Free Trade Areas (DCFTAs) with Ukraine, Georgia and Moldova.

It also continued to coordinate a regional industrial cooperation process with eight Mediterranean neighbour countries (Morocco, Algeria, Tunisia, Egypt, Palestine, Israel, Lebanon, and Jordan), aiming at an increased convergence of industrial policies and improvement of the business climate.

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9 See footnote 2.
As a counterpart to DG TRADE, DG GROW also ensured that EU industries and SME interests are properly taken into account in the trade defence instruments proceedings (anti-dumping or anti-subsidy measures). The DG also contributed actively to important structural policy issues such as the Modernisation of Trade Defence Instruments or the Market Economy Status for China.

DG GROW also played a key role in the development of the EU economic diplomacy, organised regular meetings with the European business organisations and national trade promotion organisations and compiled an overview of all EU instruments contributing to the internationalisation of the European businesses – and particularly SMEs – which is widely appreciated by the businesses. The DG organised economic missions to Iran and Argentina opening thus the way for closer economic relations through support of the reform processes in these countries.

**Space Strategy**

The European Union is a major global space player. It has a strong and competitive industry, e.g. for satellites, launchers and related services/operations. The European space industry employs over 230 000 professionals and generates a value added estimated at EUR 46-54 billion. Europe is manufacturing a third of the world's satellites. It has achieved many successes in space with breakthrough technologies and exploration missions.

In its Space Strategy for Europe adopted on 26 October 2016, the Commission proposes a range of actions to allow Europeans to fully seize the benefits offered by space, create the right ecosystem for space start-ups to grow, promote Europe's leadership in space and increase its share on the world space markets. It is a strategy that responds to growing global competition, increasing private sector involvement and major technological shifts.

Under the new Space Policy for Europe the Commission will for example:

- promote the use of Galileo in mobile devices and critical infrastructures and improve connectivity in remote areas;
- make it easier for innovative companies and start-ups to access space data via dedicated industry-led platforms in order to develop services and applications;
- promote more private investment for such start-ups, in particular in the context of the Investment Plan for Europe;
- support the emergence of European industrial space hubs and clusters in European regions.

### 1.1.2 Programmes

DG GROW contributes to the achievement of the Juncker priority 1 through the following Programmes:

- The [programme for Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME)](https://ec.europa.eu/growth/cosme) (€ 2,3 billion)
- The [programme for Research and Innovation, Horizon 2020](https://ec.europa.eu/endowment_fund_en) including activities for space, raw materials, and innovation in SMEs (€ 3,6 billion)
- The [programme for Global Earth Observation (Copernicus)](https://ec.europa.eu/growth/cosme) (€ 4,3 billion)
1.1.2.1  Competitiveness of Enterprises and SMEs (COSME)

COSME runs from 2014 to 2020 and has a planned budget of €2.3 billion, out of which €1.3 billion funds financial instruments. The COSME financial instruments build on the success of the financial instruments set up under the Competitiveness and Innovation Framework Programme (CIP), which helped to mobilise more than €21 billion of loans and €3 billion of venture capital to over 387,000 SMEs in Europe. The final evaluation of the CIP demonstrated its positive contribution to strengthening competitiveness.

The first general objective of the programme is to strengthen the competitiveness and sustainability of the Union’s enterprises, particularly SMEs. Two pillars of COSME address this objective: access to finance and access to markets.

**COSME is improving access to finance for SMEs**

This is done through two financial instruments, the Loan Guarantee Facility (LGF) and the Equity Facility for Growth (EFG) that are available since August 2014. These financial instruments, managed by the European Investment Fund (EIF), facilitate access to loans and equity finance for SMEs where market gaps have been identified. They are expected to mobilise through leverage effects up to €25 billion in financing for SMEs which otherwise would not have been able to get the financing they need.

Since 2015, as part of the Investment Plan of the Juncker Commission, funding opportunities under the COSME Loan Guarantee Facility (LGF) are enhanced with the support of the European Fund for Strategic Investments (EFSI). Thanks to the EFSI support, the LGF was able in 2016 to make available much more financing to riskier SMEs than what would have been possible under COSME alone. Especially start-ups and smaller SMEs which find it hardest to access finance due to their perceived higher risk or lack of sufficient collateral will benefit from the enhanced LGF.

As of 30 September 2016, more than 117,000 SMEs already received financing for more than €4.2 billion under the enhanced LGF. These SMEs, out of which 92% with less than 10 employees and around 45% of start-ups existing for less than 5 years, are located in 19 countries as shown in the graph below:
Due to the specificities of the risk and venture capital market, the Equity Facility for Growth (EFG) had a slower start, with first fund agreements signed end of 2015.

At the end of September 2016, 9 fund agreements have been signed under the EFG (out of which 2 conditional), with 6 growth & expansion and 3 multi-stage funds. Under these agreements, a total amount of € 742 million is expected to be invested into SMEs in their growth & expansion stage. Currently € 28 million have already been invested into eligible final recipients located in 6 countries as shown below:

![Geographical distribution of Eligible Final Recipients](image)

**COSME is also facilitating internationalization of SMEs and access to market**

More than two thirds of the COSME budget for access to markets will be devoted to the Enterprise Europe Network (EEN), which helps SMEs to internationalise in particular by finding business and technology partners abroad. The Network was re-launched in 2015 with about 20% new organisations. With 5,088 partnerships signed between SMEs, the Network achieved beyond its targets in the first two years. The Network also helps SMEs making the most of the internal market by providing information, advice and brokerage. A new monitoring and reporting strategy was introduced in 2015 with a renewed focus on quality, efficiency and impact in Network activities. Network partners were asked to focus on advisory services bringing real added values (compared to information services). They were very active in providing these advisory services, with 56,244 advisory services delivered and 21,676 clients attending in brokerage events and company missions.

COSME will continue to support other specific actions assessed positively under CIP such as the EU-Japan Centre and Intellectual Property Rights (IPR) Helpdesks in third countries. Other activities include specific advice such as in the area of public procurement.

**The second general objective of COSME is to encourage an entrepreneurial culture and to promote the creation and growth of SMEs.**

In 2016 the **Erasmus for young entrepreneurs' (EYE) scheme** has already reached the level of 4600 exchanges between new and experienced entrepreneurs since the start of the programme, and proved to be successful in addressing the needs of entrepreneurs in the European market. In order to strengthen the scheme longer term Framework partnership agreements (2016-2021) were signed with experienced intermediary organisations of the programme. In 2016 the network of EYE MEP ambassadors was
launched that comprises around 30 Members of the European Parliament supporting the programme. The evaluation of the programme performed in 2014 already concluded that the overall concept of the programme proved to be successful in addressing the needs of entrepreneurs in the European market. About 36.5% of EYE participants started a business in the reference period and considerable shares of EYE entrepreneurs were able to hire more people.

In addition, work continued on Better Regulation and improving conditions for enterprises such as sharing best practices on clusters, developing sustainable products, improving SME policy development and continuing actions in the tourism sector.

1.1.2.2 Horizon 2020: research relating to enterprises

DG GROW is directly managing €3.6 billion out of €77 billion for Horizon 2020.

The General Objective is to build a society and an economy based on knowledge and innovation across the whole Union by leveraging additional research, development and innovation funding and contributing to attaining R&D targets.

The DG has a strong focus on promoting a higher participation of the private sector and of SMEs and more close-to-market research in the Horizon 2020 programme, as a lever to increase business investment in research and innovation. The DG implements these objectives in the areas where it directly manages funds (raw materials, SME and innovation as well as space research), and is well on track to meet all its milestone targets in these areas.

The DG also promotes these crosscutting objectives in other areas of the programme where it actively contributes to the implementation of the programme, while not being directly in charge (e.g. SME instrument, Key Enabling Technologies). Overall, the first results from 2014 show that the participation of the private sector and of SMEs has increased in Horizon 2020 compared to FP7.

Raw Materials

Horizon 2020-SC5 reserves a dedicated part for R&I on the challenges related to the sustainable supply of non-energy, non-agricultural raw materials, with a total funding of around €600 million, i.e. near 20% of the budget of SC5. Horizon 2020 is expected to contribute to the implementation of both the Raw Materials policy and the Strategic Implementation Plan (SIP) of the European Innovation Partnership (EIP) on Raw Materials. These actions aim to maximise the positive impacts of the EIP on Raw Materials and achieve its targets, including innovative pilot actions, finding substitutes for critical raw materials, creating an innovation-friendly regulatory framework, and developing a proactive international cooperation strategy.

In the first three years of the Programme (2014-2016), 39 projects gathering 418 individual participants from 43 countries have been selected in the topics on raw materials under SC5 or Waste Focus Area. These projects have received 203 million euro, i.e. the average project budget is 5.2 million euro. As shown in the Interim Evaluation document, private for-profit entities represent 41% of participations and 45% of funding received in the projects on raw materials. SMEs represent a level of participation of 25% and receive more than 18% of the funding allocated (these figures do not include the projects selected under the specific SME instrument). Around one third of the projects are closely related to "raw material commitments" selected under the EIP and two thirds of the projects cover critical raw materials to some extent. Focusing on 2016, 11 projects were selected with a total contribution of 65 million euro. 84% of the budget in the Work Programme 2016 was allocated to activities potentially generating patents.
SMEs

Ensuring the involvement of SMEs in Horizon 2020 has been a central consideration in the development of the Work Programme. The objective is that SMEs should receive, over the whole life of the programme, at least 20 % of the combined budgets of the "Societal challenges" and "Leadership in enabling and industrial technologies". 7 % of funds are allocated through the SME instrument designed specifically for highly innovative smaller companies. This dedicated SME instrument has been introduced to support close-to-market activities, with the aim to give a strong boost to breakthrough innovation. After the first two years, the results show that 23.7 % of the funding goes to SMEs (and 27% of participations). There were just under 20,500 applications to the SME Instrument across the two years with an average success rate of 7.5% (compared to 11.8% overall for Horizon 2020); this represented 5.9 % of the budget for the SME instrument (signed grants cut-off date 1/9/2016). These numbers are still increasing and considered as a successful start as regards the participation across the whole Horizon 2020 programme.

Space research

In 2016, the implementation of work programme resulted in 30 new grant agreements in the areas of Earth observation and technologies bringing the project portfolio managed by the Research Executive Agency to a total of 106.

The Executive Agency for SMEs has also concluded additional grant agreements for the phases 1 and 2 of the SME instrument bring the portfolio to a total of 47 phase 1 projects (feasibility studies) and 17 phase 2 projects (business plan development) focusing on technologies and Earth observation and satellite navigation services.

Key highlights include the roll out of projects underpinning numerous value chains in Earth observation and satellite navigation and the deployment of the Strategic Research Clusters in Electric Propulsion and Space Robotics.

The work programme 2017 was updated in July 2016, the calls opened in November with a deadline for submission of applications in March 2017.

Numerous information days were organised both in Brussels and across Member States. In addition, events were organised with the NL Presidency of the Council of the EU in The Hague. The Space Expo saw its last event in Brussels in October 2017 and served as a venue for a press event at the occasion of the adoption of the Space Strategy for Europe Communication and the associated signature of the joint EU-ESA declaration.

A number of studies were conducted in the context of the preparation of the Space Strategy for Europe Communication and looking at how research can be better coupled with policy. Among others, the following areas were addressed: the space services market both within and outside Europe, the access to space market and the update of the socio-economic benefits of space.

Last, the interim evaluation of Horizon 2020 space was conducted with a view to contributing to the interim evaluation process of Horizon 2020 due in 2017. The study showed that the implementation of space research is well on track although the demand by the constituency is much higher resulting in a success rate of just under 20%.

1.1.2.3 European satellite navigation programmes (EGNOS and Galileo)

In the period 2014-2020 the Galileo and EGNOS programmes will benefit from a financial
envelope of € 7 071 billion. The objective of the Galileo and EGNOS programmes is to provide the EU with independent infrastructure for satellite navigation. The goal is also to ensure that EU industry increases its market share in the worldwide GNSS downstream market as the new generations of high-performance satellite navigation services provide considerable economic opportunities.

The Galileo initial services were declared operational on 15 December 2016, with a very positive press coverage. All necessary conditions for providing the services were met, in particular the readiness of the ground and space infrastructure, successful completion of the validation campaign lasting for more than eight months and security accreditation. At this initial service stage, the Galileo services (Open Service, Public Regulated Service and Search and Rescue service) are provided continuously and delivered with the expected performance and availability.

Provision of Galileo initial services is the first step towards reaching full operational capability. The following key activities were carried out to ensure the completion of the deployment phase by 2020:

- successful qualification and operational validation of the Galileo system configuration to be transferred to the GSA;
- through the system delta CDR process, the final technical parameters of the Galileo system in 2020 were successfully defined and a roadmap of all activities and contractual arrangements until 2020 was finalised;
- the procedure for follow-up contracts for the ground segments and for additional satellites progressed well and the contract for system and service support has been signed;
- the Galileo Service Operator (GSO) was selected and administrative arrangements with Member States' hosting ground infrastructure are being finalised.

The transition from the Galileo deployment to the exploitation phase, i.e. transfer of responsibilities for ground segment and system operations towards GSA, progressed substantially. In particular, the programme implementation framework was updated, including a revision of the existing delegation agreements with GSA and ESA as well as the conclusion of the Galileo Working Arrangement between ESA and the GSA on 15 December 2016. As a precondition for delegating additional tasks to the GSA, the Commission carried out a review which concluded that the GSA is ready to take over additional tasks, provided that appropriate risk mitigation measures are put in place.

Additionally, Galileo infrastructure deployment continued. With regard to the Galileo infrastructure, the key features of the ground infrastructure that will be operated in 2017 include a redundant operational Ground Mission and Control Segment deployed at the Italian and German Galileo Control Centres (GCC-IT and GCC-DE) and a Galileo Security Monitoring Centre deployed at Saint Germain in Laye in France (GSMC-FR) complemented with a new Galileo Security Monitoring Centre (GSMC) to be deployed at the GSMC-UK.

The operational deployment of the Galileo SAR Ground Segment was completed in 2016. It includes the SAR Service Centre in Toulouse (France) and three MEOLUTS (in Norway, Cyprus and Spain). The Galileo SAR Ground Segment successfully supported the commissioning campaign of the COSPAS/SARSAT MEOSAR component.

The deployment of the space infrastructure was accelerated. Although only one Ariane-5 launch was initially planned in 2016, finally two satellite launches took place. The first launch was on 27 May with two satellites on board a Soyuz launcher and the second one on 17 November with four satellites on an Ariane-5 launcher. In December 2016 the space infrastructure consisted of 18 satellites.
Additional procurements of service facilities were launched in 2016. These include the Galileo Reference Centre (Noordwijk) and the upgrade of the European GNSS Service Centre (Madrid) that will be finalised in 2017. In parallel, the Commission decided that the Galileo Integrated Logistics Centre would be located in Transinne (Belgium).\(^\text{10}\)

Regarding security, key actions included measures to ensure the accreditation of the system and initial services, and the development of operational concepts and procedures for the Public Regulated Service (PRS). Furthermore, close coordination with EEAS took place to ensure that complete operational procedures are in place by end 2016. Finally, work has continued on establishing an administrative arrangement with ESA on access to PRS technology for the roll-out of the programme and this is planned to be signed in the first quarter of 2017.

To ensure the continuity of services beyond 2020, preparatory work was carried out to identify possible evolution areas, technological capabilities, constrains, signal and frequencies trends, evolutions of the GNSS international context and lessons learnt from the operation of the current system. Building on interactions with Member States and GSA, the first issue of a future High Level Document (HLD) was consolidated. It describes the major potential evolution scenarios – with the exception of the PRS and security issues.

The continuity of EGNOS services remained a priority in 2016 Work Programme. It was successfully achieved through 2016 by efficient implementation of recurrent activities and preparation of system updates. To guarantee the continuity of services beyond 2018/2019 and to ensure the full coverage of all EU Member States, a major EGNOS release (V2.4.1N) was qualified and deployed. The study phase (phase B) of the next major evolution was finalised (V2.4.2 phase) and the procurement for phase C/D was prepared. Moreover, the Service Definition Documents (SDD) for EGNOS Safety of Life service and EGNOS Open Service were published following the start of operations of the EGNOS V2.4.1N. For the new version of the system (EGNOS V3) the procurement was prepared in 2016.

Market uptake of Galileo and EGNOS services is essential as outlined the Space Strategy for Europe. Market uptake activities in 2016 focused on:

- **Single European Emergency number E112:** in January 2016 the Commission started a 12-months pilot project to analyse different solutions to deliver location information to emergency centres during a 112 call, carry out a cost-benefit analysis, propose an architecture for the 112 call using EGNOS and Galileo and to carry out end-to-end pilot projects in four countries (UK, Lithuania, Italy and Austria).
- **IMO recognition:** in May the International Maritime Organisation recognised Galileo as part of the World Wide Radio Navigation System, which is an important milestone for the adoption of Galileo for use in commercial shipping.
- **The interoperable EU-wide eCall:** following the adoption of the eCall Regulation in April 2015, which ensures compatibility of the eCall system with Galileo and EGNOS, the accompanying Delegated Regulation was adopted in September 2016 (C(2016) 5709, 12.9.2016).
- **Galileo Commercial Service:** The Commission Implementing Decision determining the technical and operational specifications of the commercial service has received a positive opinion of the Galileo Programme Committee.
- **Development of applications financed by the Union:** implementation of projects from 1st and 2nd H2020 call continued. The 3rd call opened on 8 November 2016.

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\(^{10}\) Commission Implementing Decision C(2016)1579
Preparatory work for the 3rd call for proposals under H2020 was finalised. Further projects were launched under the ‘Fundamental Elements’ set of activities.

- Development of standards supporting Galileo and EGNOS continued, focusing on aviation, maritime, LBS and multi-modal transport.
- Raising awareness about Galileo and EGNOS: this included in particular the European Space Solutions Conference in The Hague in May 2016 and the declaration of initial services in December 2016.

In the field of international cooperation:

- Negotiation mandates for the PRS Agreements with Norway and the US were adopted in June 2016 and negotiation rounds took place in October and November.
- Negotiations were concluded with the Agency for Aerial Navigation Safety in Africa and Madagascar (ASECNA), laying down the terms and conditions for the provision of space based augmentation system in Africa based on EGNOS. The proposal for a Decision authorising the signature was adopted by the Commission in September 2016. The Decision was adopted by the Council in November 2016.
  - The GNSS Agreement with Korea was concluded in June 2016.

### 1.1.2.4 Copernicus

The Copernicus programme has a budget of € 4,3 billion over 2014-2020.

Sentinel 1-A, and since 2016 also Sentinel 1-B contributed in particular for enhanced maritime safety and security, monitored the environment and climate change and provided support in emergency and crisis situations. In parallel, the Ground Segments for the reception, processing, distribution and archiving of data have been reinforced, so as to manage the unprecedented amounts of data.

Copernicus has already been providing observation data in cases of natural disasters. In 2016, a total of 38 activations of the Emergency Management Service were made, requesting 33 Rapid Mapping responses and 5 Risk & Recovery Mappings. Floods and fires across Europe dominated the activation picture. Examples of international activations during major disasters were the earthquakes in Ecuador (April 2016) and Cap Verde (August 2016), mud floods in Tajikistan (May 2016) and the tropical cyclones in Fiji (February 2016), and Taiwan, (July and September 2016).

The Copernicus Land Monitoring Service (CLMS) provides monitoring of high value biodiversity areas, functional urban areas, mapping land cover, land cover change, land use and vegetation changes is providing essential information for the development. At global level the CLMS answers to European commitments in International Conventions and its provision every ten days of information on the state of the environment allowed also the monitoring of crop conditions, essential for DG AGRI which is monitoring the international food market, and for DG DEVCO-ECHO which are monitoring food insecure countries which may need food aid.

The Copernicus Marine Environment Monitoring Service (CMEMS) has become fully operational in 2016 and supplies high value added products relevant to “Blue Growth” and European economic development, for example through its contribution to marine renewable energy development, the sustainable use of marine resources (fisheries, biodiversity) and the fight against pollution. The number of users regularly accessing the

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11 COM(2016) 574 final
products offered by CMEMS has steadily grown and has now passed the milestone of 8600 registered users (vs 5000 in 2015), for the most part from the EU’s coastal countries but also from 120 other countries from around the world.

The Atmosphere Monitoring (CAMS) service is now fully operational and supports public and commercial entities that inform European citizens about the air quality. CAMS has in particular documented the fire episodes which have occurred during the summer 2016 in Spain, Portugal and South-Eastern France, as well as the ones in Siberia (North of Lake Baikal). And also it has documented the build-up of the 2016 ozone hole, which was not exceptional (at variance with 2015). For the global products service improvements are especially expected in the area of aerosols. The interim Annual Regional Reanalysis for 2015 (based on non-validated surface observations) and the Annual Regional Reanalysis for 2014 (based on validated surface observations) have been computed during the period and the corresponding Assessment Reports are now being prepared.

The Climate Change service has achieved its first stage of proof of concept and it will launch its pre-operational phase in 2017. With a steady increase of users reaching over 20,000 at the end of 2016, it has already gained significant visibility from stakeholders. At the end of 2016, more than 130 different entities from 20 European countries are involved as a contractor or subcontractor contributing to the service. The proposal to further expand the climate mission of the Copernicus programme with the development of a capacity to monitor CO2 anthropogenic emissions has materialized, with the set-up of two task forces, one dedicated to the space borne observations and another one focusing on the ground infrastructure.

The security service of Copernicus is designed to provide information in support of the civil security challenges of Europe, improving crisis prevention, preparedness and response capacities, in particular for border and maritime surveillance and targeted support for the Union External Action. All three Delegation Agreements for the elaboration of the Copernicus Security Service were concluded in 2016. The signature of the last one with the European Satellite Centre marked the completion of the Copernicus Security Service institutional architecture.

The Copernicus in situ component is implemented by the Copernicus services. Overall coordination is provided by the European Environment Agency (EEA). The cross-cutting in situ component aims at providing reliable and sustainable access to in situ data for the Copernicus services. The first phase of Copernicus reference data access node (CORDA) enabling single access to the available national and regional geospatial reference data from the selected INSPIRE spatial data themes as required by Copernicus Emergency Management and Land Monitoring services was completed. Furthermore, in 2016, the scope of CORDA has extended broadening it from geospatial reference data to in situ data in general, and from Land Monitoring and Emergency Management to all Copernicus services.

The Copernicus cross-cutting in-situ component aims to provide coordinated access to in-situ data (meaning ground-based, airborne and seaborne earth observation data).

On the infrastructure side, the Copernicus satellite Sentinel 3-A was successfully launched on 16 February 2016. The satellite is performing well, and after successful in-orbit commissioning the first high quality products have been gradually released to users in Q4 2016. In addition, the second satellite of the Sentinel-1 constellation, Sentinel-1B, was successful launched on 25 April. After its successful in-orbit commissioning and the start of its product dissemination complementing the nominal routine operations of Sentinel-1A, the first Sentinel constellation has entered into operational phase with a very good performance that is highly appreciated by users. Meanwhile, Sentinel-2A is also performing well and in 2016 entered into routine operations. Due to schedule delays with the Russian Rockot launcher, attributed to export license issues between Ukraine
and Russia, the launches of Sentinel-5P and Sentinel-2B have been rescheduled to 2017, with the situation closely followed by the Commission services.

In 2016, DG GROW launched a comprehensive user uptake strategy to foster the use of Copernicus data and to stimulate new economic opportunities enabled by space data. This will ensure easy access to Copernicus data and services, support innovation by European companies providing added-value services based on Copernicus and maximise the use of Copernicus-based applications by public and private end users.

A data and information access service will be set up in 2017 to improve access to Copernicus and facilitate combination with other sources of data. The Commission has increased awareness about Copernicus, notably by setting up a Copernicus support office (which acts as a helpdesk), two networks of local multipliers (the Copernicus Relays and Academy) and developing an ambitious communication campaign. It has increased predictability by defining a clear delineation between the Copernicus services and the downstream sector. It supports young companies, through the Copernicus Masters and Accelerator Programme and via the development of training courses and material.

In parallel, the Commission pursued its cooperation with international partners to promote the uptake of Copernicus globally. Arrangements on Copernicus data access and data sharing have already been signed with the United States and Australia and similar discussions have been engaged with other countries and regions (including Africa, Latin American countries and Asia-Pacific countries).

1.2 Priority 2 - A Connected Digital Single Market

The Digital Single Market strategy was adopted on the 6 May 2015 and includes 16 specific initiatives which have been delivered by the Commission till January 2017. Legislative proposals are now discussed by the co-legislator, the European Parliament and the Council.

The DSM can create opportunities for new start-ups and allow existing companies in a market of over 500 million people. Completing a Digital Single Market could contribute EUR 415 billion per year to Europe's economy, create jobs and transform our public services.

An inclusive DSM offers opportunities for citizens also, provided they are equipped with the right digital skills. Enhanced use of digital technologies can improve citizens' access to information and culture, improve their job opportunities. It can promote modern open government.

DG GROW contributes to its implementation in its area of competence, for example through supporting European standards for Information and Communication Technologies (ICT) and improving the quality and affordability of parcel delivery services in the EU.

1.3 Priority 3 - A Resilient Energy Union with a forward-looking Climate Change Policy

A general objective of the Commission is to reduce the energy consumption across the European Union, both as concerns the primary energy consumption and the final energy consumption.

The primary energy consumption of the EU28 dropped from 1713 Mtoe in 2005 to 1507
Mtoe in 2014. This equals a reduction of primary energy consumption by 18.7% compared to 2020 projections, still a gap of 1.3% towards the 20% 2020 target.

Final energy consumption declined from 1191 Mtoe in 2005 to 1061.2 Mtoe in 2014. This equals a reduction of 21.8% in 2014 compared to baseline projections for 2020. This means that the EU28 has already achieved its final energy consumption target 2020. Therefore, the Union has to continue the efforts for keeping the final energy consumption at this level. In a situation of scarcity of resources and volatility of prices, the Commission adopted the Circular Economy Package in December 2015.

The Commission adopted in November 2016 the "Clean Energy for all" package including legislative proposals covering energy efficiency, renewable energy, the design of the electricity market, security of electricity supply and governance rules for the Energy Union. In addition the Commission proposed a flagship on 'Accelerating clean energy in buildings' to strengthen the competitiveness of the construction sector with measures on the digitalisation of the sector, skills and qualifications, the internal market of construction products and new initiatives to improve the environmental performance of buildings in line with the circular economy. Also, the Commission presented a strategy to accelerate innovation in view to build a competitive low-carbon economy by improving the regulatory and business environment and boosting investment in clean-energy research and innovation, in particular in four priority areas: buildings, renewables, energy storage and electro-mobility.

On 17 March 2016, the European Commission adopted a proposal to revise the EU Fertiliser Regulation as part of the implementation of the Circular Economy Package. The idea is to turn waste into opportunities, create new markets (e.g. for organic fertilisers), and boost competitiveness, innovation and job creation in the design, manufacturing, use, repair and recycling of products, and in waste management, in particular for construction and demolition waste.

The European Innovation Partnership (EIP) on Raw Materials, managed by DG GROW, supports innovation and jobs by creating a multi-stakeholder platform guiding EU policy.

### 1.4 Priority 4: A Deeper and Fairer Internal Market with a Strengthened Industrial Base

The Single Market is one of Europe’s greatest achievements, designed to allow goods, services, capital and people to move more freely. It offers opportunities for professionals and businesses and a greater choice and lower prices for consumers. It enables people to travel, live, work and study wherever they wish. DG GROW is the DG in charge for the internal market for products and services, with responsibility for 129 pieces of major legislation. This makes up of ca. 75% of all Single Market legislation.

“A deeper and fairer Internal Market” was one of the ten priorities as announced by Commission President Juncker. DG GROW translated this priority into the Single Market Strategy, which was adopted by the Commission on October 28, 2015. Ever since the Single Market Strategy has been the flagship initiative of DG GROW and its initiatives feature prominently in the Commission Work Programme.

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12 COM(2015) 614 final
13 COM(2016) 860 final
DG GROW is leading the implementation of the announced measures within the 11 priority actions. All measures will be delivered by the end of 2017. The Strategy has been presented to Member States in the Council and the European Parliament. Feedback has been generally very welcoming. The Council adopted its Conclusions on the Single Market Strategy on February 29, 2016. The report on the Single Market Strategy (MEP Comi) was adopted by an overwhelming majority (569 total votes, 423 in favour, 92 against, 54 abstention) in the European Parliament.

In the past 50 years, the Single Market has generated new opportunities. But these opportunities do not always materialise, because single market rules are not known, not implemented or simply jeopardised by unjustified barriers.

Therefore the Single Market Strategy proposes initiatives in different areas, ranging from services and goods, to Public Procurement and Intellectual Property. In 2016 the first initiatives have been delivered under DG GROW leadership:

May 25, 2016, legislative proposal to prevent discrimination against consumers based on nationality or residence (initiative on geo-blocking), as part of the e-commerce package:

The Commission proposed legislation to ensure that consumers seeking to buy products and services in another EU country, be it online or in person, are not discriminated against in terms of access to prices, sales or payment conditions, unless this is objectively justified for reasons such as VAT or certain public interest legal provisions.

1 June 2016, Standardisation package, including the Joint Initiative on Standardisation

The Joint Initiative on Standardisation is bringing together European and national standardisation organisations and bodies, industry, SMEs, consumer associations, trade unions, environmental organisations, Member States and the Commission. These partners have committed to modernising, prioritising, and speeding up the timely delivery of standards by the end of 2019. The Joint Initiative on Standardisation will better align standard setting priorities with research and innovation impetus, with support from the EU research and innovation programme Horizon 2020. The JIS will also promote the use of European standards at international level.

While services account for 70% of the EU economy, service standards only account for around 2% of all European standards. The fragmentation of standards acts as a barrier to the cross-border provision of services. Complementing other initiatives under the Single Market Strategy to facilitate the cross-border provision of services, the Commission proposed to prioritise and promote the targeted development of voluntary European service standards.

2 June 2016, European agenda for the collaborative economy

The Communication "A European agenda for the collaborative economy" provides guidance on how existing EU law should be applied to this dynamic and fast evolving sector, clarifying key issues faced by market operators and public authorities alike: What type of market access requirements can be imposed?, Who is liable if a problem arises?, How does EU consumer law protect users?, When does an employment relationship exist?, Which tax rules apply?

The Communication invites EU Member States to review and where appropriate revise existing legislation according to this guidance. DG GROW is monitoring the rapidly changing regulatory environment as well as economic and business developments. We follow trends on prices and quality of services, and identify possible obstacles and problems arising from divergent national regulations or regulatory gaps.
22 November 2016, Start-up and Scale-up Initiative

The Initiative brings together a range of existing and new actions to create a more coherent framework to allow start-ups to grow and do business across Europe, in particular: Improved access to finance: The Commission and the European Investment Bank Group are launching a Pan-European Venture Capital Fund of Funds. Second chance for entrepreneurs: The Commission has tabled a legislative proposal on insolvency law. Simpler tax filings: The Commission also proposed a Common Consolidated Corporate Tax Base (CCCTB), which proposes to support small and innovative companies that want to expand their business across borders. The Initiative also puts emphasis on helping navigate regulatory requirements, improving innovation support through reforms to Horizon 2020, and fostering ecosystems where start-ups can connect with potential partners such as investors, business partners, universities and research centres.

Furthermore DG GROW has worked on the following Single Market Strategy initiatives, which are planned for 2017:

- The Services package, including the European Services Card, improved notification procedure for Services legislation, guidance and proportionality test for regulated professions
- Review of the intellectual property rights enforcement framework (IPRED),
- Compliance and assistance package, including the Single Digital Gateway, the Single Market Information Tool and the Action Plan for SOLVIT
- Goods package, including initiatives regarding mutual recognition and addressing the increased rate of noncompliance within the Single Market for Goods.
- Public Procurement package including the set-up of a voluntary ex-ante mechanism for large infrastructure projects, promoting networking between first instance review bodies, and the establishment of contract registers to improve the transparency and the quality of national procurement systems.
- Also, several initiatives are ongoing in order to improve procurement data, including an Implementing Act on the Standard Forms used for public procurement. On 24 January 2017, the European Commission published the report, accompanied by a detailed evaluation, on the operation of the Remedies Directives14. The first instance review bodies network is being launched in March 2017.
- Communication setting out best practices to facilitate retail establishment within the Single Market.

Single Market Service Centre

In 2016, DG GROW continued to manage a number of services and tools of direct benefit to citizens and enterprises ensuring that the Single Market works well in practice. The use of these tools has been constantly increasing. Among those are the following

- The Your Europe portal informs EU citizens and businesses about their rights in the Single Market and explains how EU rules work in practice.

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SOLVIT helps solving citizens’ and businesses’ problems when national authorities in other Member States deny their EU rights.

The Your Europe Advice service provides free of charge personal advice to citizens and businesses on their EU rights in the internal market.

The Internal Market Information System (IMI) is a secure, multilingual on-line tool allowing public authorities across the European Economic Area to exchange information in the form of requests, notifications, alerts and centralised repositories, in accordance with provisions in Single Market legislation.
Better Regulation

In 2016, DG GROW finalised a number of REFIT actions, some of the main ones are listed below:

1) Evaluation of the Late Payments Directive

The recent evaluation, published in August 2016, showed that for each day of reduction in payment delays, € 158 million are saved by EU businesses in finance costs. Thanks to the Directive the average payment period in business transactions in the EU has dropped by more than 10 days since 2013.

2) Fitness Check on the Oil Refining industry

A Fitness Check finalised in Q1 2016 found that the costs borne by the refining sector can be considered proportionate relative to the benefits achieved. No regulatory gaps, overlaps, inconsistencies or obsolete measures to excessive administrative burdens have been identified.

3) Evaluation on European Standardisation

In the evaluation on European Standardisation of June 2016 no major problem in the application of the Regulation had been identified, concluding that the Regulation did not add any additional costs to the European Standardisation System.

Safe products for the Single Market

Better Regulation does not mean deregulation. The DG continued with its legislative work to ensure that safe products circulate in the Single Market.

In June 2016 a political agreement between the legislators was reached with regard to the new Regulations on Medical Devices and in-vitro diagnostic Medical Devices. This represents a major step forward in ensuring a more innovation friendly but also stricter controlled market for manufacturers and importers of medical equipment in the interest of patients and public health. The new legislation is expected to be finally adopted in 2017. With the aim of ensuring the safe use of cosmetic products seven amendments on the use of specific ingredients under the Cosmetics Regulation were adopted in 2016.

In 2016, DG GROW continued to update and implement a range of legislation strengthening a single market for goods while ensuring a high level of protection of human health and the environment. This included in particular restrictions on certain...
hazardous chemicals and decisions on the authorisation of specific uses of substances of very high concern under the umbrella of the REACH Regulation, and the harmonisation of information to be submitted to bodies giving medical advice in case of poisoning cases. Strong emphasis was also placed on the protection of children, with the introduction of stricter limits for carcinogenic substances in toys, through amendments to the Toy Safety Directive. The Commission also signed a delegation agreement with the European Chemicals Agency (ECHA) to set up an EU Observatory on Nanomaterials.

The adoption of modernised internal market rules on personal protective equipment, gas appliances and cableway installations in February 2016 are a concrete contribution to this objective. The regulations on personal protective equipment, gas appliances and cableway installations ensure that European citizens benefit from highest safety standards and that companies can operate in a fairer market place.

**Enforcement**

Supporting all this, the Commission will work with Member States and market participants to create a real culture of compliance for Single Market rules. Particular attention will be paid to the services sector and to public procurement, which is essential to spend taxpayer money efficiently. The Commission will strengthen mutual recognition to open up more opportunities to companies that want to expand cross-border. It will also reinforce market surveillance in the area of goods to keep non-compliant products from the EU market. And it will propose a market information tool, which will allow the Commission to collect comprehensive, reliable and unbiased information from selected market players with a view to improve the Commission's ability to monitor and enforce EU rules in priority areas.

**1.5 Priority 9: A Stronger Global Actor**

In his 2016 State of the Union speech, President Jean-Claude Juncker highlighted the importance of a strong Europe that can defend and protect its citizens at home and abroad - an ambition which cannot be achieved without innovating and pooling resources in the European defence industry.

On 30 November 2016, the European Commission proposed a European Defence Fund and other actions to support Member States' more efficient spending in joint defence capabilities, strengthen European citizens' security and foster a competitive and innovative industrial base.

Under the European Defence Action Plan, the Commission proposes to:

1 - Set up a European Defence Fund to support investment in joint research and the joint development of defence equipment and technologies: the proposed Fund would include two "windows" which are complementary but different in their legal structure and budget sourcing.

- A "research window" to fund collaborative research in innovative defence technologies such as electronics, metamaterials, encrypted software or robotics.

- A "capability window" which would act as a financial tool allowing participating Member States to purchase certain assets together to reduce their costs. The capabilities would be agreed by the Member States, who would own the technology and equipment. For example, Member States may jointly invest in drone technology or bulk buy helicopters to reduce costs. As an order of magnitude, this window should be able to mobilise about EUR 5 billion per year.
2 - Foster investments in SMEs, start-ups, mid-caps and other suppliers to the defence industry: The European Structural and Investment Funds and European Investment Bank (EIB) group already provide financial support for the development of a number of dual-use activities. The Commission will support EIB efforts to improve access to funding by the defence supply chains. It will promote EU co-financing of productive investment projects and the modernisation of the defence supply chains. Under the 'Blueprint for Sectorial Co-operation on Skills' the Commission will support cooperation in the defence sector to ensure people have the right skills and technological ability to generate innovation.

3 - Strengthen the Single Market for defence: The Commission will strengthen the conditions for an open and competitive defence market in Europe to help companies operate across borders and help Member States get best value for money in their defence procurement. To do so, the Commission will push ahead with the effective application of the two Directives on defence and security procurement and on EU transfers, facilitate the cross-border participation in defence procurement, support the development of industry standards, and promote the contribution of sectorial policies, such as EU space programmes, to common security and defence priorities.
2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL

This section answers to the question how the achievements described in the previous section were delivered by the DG. This section is divided in two subsections.

The first subsection reports the control results and all other relevant information that support management's assurance on the achievement of the financial management and internal control objectives. It includes any additional information necessary to establish that the available evidence is reliable, complete and comprehensive; appropriately covering all activities, programmes and management modes relevant for the DG.

The second subsection deals with the other components of organisational management: human resources, better regulation principles, information management and external communication.

2.1 Financial management and internal control

Assurance is an objective examination of evidence for the purpose of providing an assessment of the effectiveness of risk management, control and governance processes.

This examination is carried out by management, who monitors the functioning of the internal control systems on a continuous basis, and by internal and external auditors. Its results are explicitly documented and reported to the Director-General. The reports produced are:

- the AOSD reports submitted by the Directors, which include the outcome of internal control monitoring within each Directorate;
- the reports from Authorising Officers in other DGs managing budget appropriations in cross-delegation;
- the reports on control results from entrusted entities in indirect management as well as the result of the Commission supervisory controls on the activities of these bodies;
- the contribution of the Internal Control Coordinator (ICC), including the results of internal control monitoring at DG level;
- the results of ex-ante and ex-post controls;
- the analysis of reported weaknesses and exceptions of the internal control;
- the opinion, the observations and the recommendations reported by the Internal Audit Service (IAS);
- the observations and the recommendations reported by the European Court of Auditors (ECA).

These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to the Director-General of DG GROW.

This Section reports the control results and other relevant elements that support management's assurance. It is structured into (2.1.1) Control results, (2.1.2) Audit observations and recommendations, (2.1.3) Assessment of the effectiveness of the
internal control systems, and resulting in (2.1.4) Conclusions as regards assurance and (2.1.5) the Declaration of Assurance and reservations.

The systems and procedures for data collection available at DG GROW in 2016 are historically based on financial accounting and do not allow precise cost accounting reporting. As a result, information related to efficiency and cost-effectiveness of controls provided below is based on the best available information. DG GROW manages a large portfolio of heterogeneous activities in various domains, involving different ways of financial intervention. In view of this operations' array, the information on effectiveness, efficiency and cost-effectiveness of controls is presented to eloquently cover an activity by merging and generalising the information for several sub-activities. As a consequence, this information should be treated with caution and particularly when attempting to compare it with other DGs and/or programmes.

DG GROW is continuously exploring ways to enhance the collection, classification and recording of data related to the cost and benefits of its individual control activities.

DG GROW transactions are carried out under both the direct and indirect management modes. The following chart gives an overview of the types of payments made in 2016:

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15 This chart represents the outturn on payment appropriations made in 2016, i.e. €1 548 million, including the administrative expenditure and expenditure under cross-delegation executed by other DGs. The reader is referred to Table 2 in Annex 3.

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In 2016, the largest part of DG GROW expenditure was delegated to the European Space Agency (ESA) for the implementation of the GNSS (Galileo and EGNOS) and Copernicus space programmes.

With the entry into force of the 2014-2020 Multi-annual Financial Framework, DG GROW prolonged its mandate to existing entrusted entities: European GNSS Agency (GSA) and the European Environment Agency (EEA) by signing delegation agreements. Moreover, additional mandates were established with entrusted entities Mercator, the European Centre for Medium-Range Weather Forecasts (ECMWF), the European Organisation for the Exploitation of Meteorological Satellites (Eumetsat) for Copernicus programme services and infrastructure, as well as with the European Investment Fund (EIF) for the management of financial instruments.

In 2016, DG GROW continued the implementation of actions through delegation agreements concluded in 2015: one with ESA on the implementation of Horizon 2020-Framework Programme for Research and Innovation in Satellite Navigation; other with the European Agency for the Management of Operational Cooperation at the External Borders of the Member States of the European Union (FRONTEX) and another with the European Maritime Safety Agency (EMSA) for Copernicus security services; and a fourth one with the European Defence Agency (EDA) to develop cooperation between the European Commission and the EDA and to finance research and development in the field of the EU's Common Security and Defence Policy.

DG GROW also signed a Delegation Agreement with the European Foundation for the Improvement of Living and Working Conditions (EUROFOUND) for budget implementation tasks between 2015-2020 in the area of developing and strengthening the future of the manufacturing sector.

In addition, DG GROW concluded in 2016 two new delegation agreements (DA):
- DA with the European Chemicals Agency (ECHA) under the COSME programme. It aims to create the European Union Observatory for Nanomaterials and to conduct a feasibility study for the "EU Chemical Legislation Finder" to improve the business environment for EU companies and SMEs in particular with regard to access to information on regulation applicable to a given chemical substance and;
- DA with European Union Satellite Centre (SATCEN) completing the operational architecture of the Copernicus Security Service and enabling the deployment of its last component, the Support to EU External Action (SEA) service.

DG GROW implements its other expenditure under direct management, e.g. CIP and research legacy, EASME subsidy\(^1\), own procurements.

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\(^1\) It covers the Agency’s expenditure on staff and administration incurred as a result of the Agency’s role in the management of measures forming part of the Competitiveness of Enterprises and small and medium-sized enterprises programme (COSME).
2.1.1 Control results

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives\textsuperscript{16}. The DG's assurance building and materiality criteria are outlined in the AAR Annex 4. Annex 5 outlines the main risks together with the control processes aimed to mitigate them and the indicators used to measure the performance of the control systems.

\textsuperscript{16} Effectiveness, efficiency and economy of operations; reliability of reporting; safeguarding of assets and information; prevention, detection, correction and follow-up of fraud and irregularities; and adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments (FR Art 32).
<table>
<thead>
<tr>
<th>Grants</th>
<th>Procurement</th>
<th>Cross delegations to other DGs</th>
<th>Delegation agreements with EE</th>
<th>Assets</th>
<th>Error rate</th>
<th>Independent information from auditors</th>
<th>Reservation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Activity: European Earth observation programme (Copernicus)**

| 0 million | 9 million | 12 million | 567 million | 1,666 million | Annual detected error rate | < 2 % | Yes | No |

**ABB Activity: European satellite navigation programmes (EGNOS and Galileo)**

| 8 million | 0 million | No | 577 million | 2,216 million | Annual detected error rate | < 2 % | Yes | No |

**Activity: Research relating to enterprises, including FP7 and CIP**

| 12 million | 6 million | 1 million | 104 million | 5,03% detected error rate for FP7 | Yes for FP7 |
| 84 million | 22 million | 0 million | No | No | 0,89% detected error rate for Standardisation | Yes | No |

**Activity: Internal market for goods and sectorial policies and services**

| 8 million | 9 million | 0 million | 68 million | 164 million | 7,65% detected error rate for CIP | Yes | Yes for CIP |

**Activity: Competitiveness of enterprises and SME, including CIP**

| 0 million | 4 million | 20 million | 7 million | No | Annual detected error rate | < 2 % | No | No |

Operational budget line EASME for €28.844 million

**Reference to Annex 3 of the AAR**

| Overall total = € 1547 million |
For the 2016 reporting year, the cross sub-delegated AODs, GSA and Executive Agencies have reported reasonable assurance on the delegated budget managed by them on behalf of DG GROW, although for grants under the 7th Research Framework Programme (FP7), DG GROW has maintained its own reservation as explained in section 2.1.4. Thus, as the FP7 aspects touch upon all research family DGs, the FP7 payments made by the GSA have been included in DG GROW's own reservation on FP7. In addition, DG GROW maintains its reservation on CIP, as explained in section 2.1.4.

Notwithstanding this, no serious control issues were signalled by these services. From the monitoring and supervision work done, which includes regular contacts and monitoring of relevant management reports and audit reports, there are no indications that their reporting would not be reliable.

In terms of supervision of those entities as described below, the control cost is relatively limited. With regard to ESA, the Commission has reasonable assurance (see Annex 6 "DG GROW supervision of the funds entrusted to ESA") that the control mechanisms supporting the Agency's financial reporting about the implementation of the space component of the Copernicus programme and about the implementation of the EU satellite navigation programmes (EGNOS and Galileo) is reliable. Overall, the cost of monitoring and supervision controls of ESA, including the new delegation agreement signed and other international organisations, for the implementation of the space programmes represents 0,51 % (EC staff costs) of the total annual amount delegated.

In 2016, DG GROW continued the application of its monitoring and control strategy towards ESA and continued auditing all financial reports provided by the Agency.

The asset management fee paid for the fund management of the Financial Instruments capital is set up and monitored according to the relevant Service Level Agreement and Delegation Agreement.

The performance of the DG in terms of supervision of the cost-effectiveness is considered adequate.

Consequently, in view of the residual responsibility as "Parent DG" for the indirect management of parts of our budget sub-delegated to the AODs, executive agencies and entrusted entities mentioned above, it could be concluded that there are no control weaknesses affecting assurance in terms of the 5 Internal Control Objectives except for the indirect management of grants under the 7th Research Framework Programme (FP7).

Regarding, the EU funds managed directly by the DG via grants and procurement, including the administrative related expenditures, it could be equally concluded that there are no major control weaknesses affecting assurance in terms of the 5 Internal Control Objectives except for the direct management of grants under the 7th Research Framework Programme (FP7) and CIP.

The coverage of the Internal Control Objectives and their related main indicators are represented in greater detail as follows:
2.1.1.1 Control effectiveness as regards legality and regularity

DG GROW has set up internal control processes aimed to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments concerned.

The control objective is to ensure that the residual error rate or the risk of error does not exceed 2% cumulatively by the end of the programme implementation or annually, depending from the distinct control system, as determined in the materiality criteria in Annex 4.

In the context of the protection of the EU budget, at the Commission's corporate level, the DGs' estimated overall amounts at risk and their estimated future corrections are consolidated.

The financial controls carried out contribute to the compliance with the legality and regularity of the transactions and to the protection of the EU financial interests as any error detected will be corrected. In addition, they produce an important learning effect both for the beneficiary and for the Commission as they provide essential knowledge and understanding of any potential risks. It has a significant deterrent effect on beneficiaries with fraudulent intentions and contributes to the continuous review and improvement of internal control processes.

The DG GROW ex-post controls in 2016 were focused on amounts delegated to entrusted entities taking into account that regulatory agencies (mainly GSA, ECHA) are already in the audit scope of both ECA and IAS and thus reducing thus the risk of error for DG GROW.

In 2016 DG GROW paid:
- 1.30 % on Internal market, Industry, entrepreneurship and SMEs - administrative credits;
- 3.22 % on procurements;
- 7.18 % on grants directly (3.26%) and indirectly managed (e.g. ECHA 3.91%);
- 88.30 % on DA for implementing tasks entrusted to other DGs and entities.

2.1.1.1.1 Budget implementation tasks entrusted to other DGs and entities, i.e. 88,30 % of 2016 payments

DG GROW has entrusted the majority of its budget implementation to other Commission services, executive agencies, decentralised agencies and other entrusted entities. In all these cases, the DG’s supervision arrangements are based on the principle of intensive controlling of the relevant entity and where applicable participation in the entities' steering committees.

In the frame of the on-going 2014-2020 Multi-annual Financial Framework, DG GROW renewed its mandate to existing entrusted entities by signing new delegation agreements. Moreover, additional mandates were established with new entrusted entities, i.e. SatCen, for Copernicus programme services and infrastructure, as well as ECHA under the COSME programme.
Programme under which the funds have been delegated and paid | (in € million)
---|---
**INTERNATIONAL ORGANISATIONS**

**GNSS and Copernicus programmes**

<table>
<thead>
<tr>
<th>Programme</th>
<th>Amount (€ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget Delegation to the European Space Agency (ESA)</td>
<td>920,720</td>
</tr>
<tr>
<td>Budget Delegation to Mercator, Eumetsat and ECMWF</td>
<td>78,889</td>
</tr>
</tbody>
</table>

**AGENCIES**

**GNSS programme**

<table>
<thead>
<tr>
<th>Programme</th>
<th>Amount (€ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget Delegation to GNSS Supervisory Agency (GSA)</td>
<td>222,100</td>
</tr>
<tr>
<td>Budget Delegation to the FRONTEX and EMSA</td>
<td>16,155</td>
</tr>
</tbody>
</table>

**Defence**

European Defence Agency (EDA) | 0,497 |

**Copernicus programme**

<table>
<thead>
<tr>
<th>Programme</th>
<th>Amount (€ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Agency for Small and Medium-Sized Enterprises (EASME)</td>
<td>35,849</td>
</tr>
<tr>
<td>European Environmental Agency (EEA)</td>
<td>8,374</td>
</tr>
<tr>
<td>Satcen/EAS</td>
<td>2,000</td>
</tr>
</tbody>
</table>

**SPECIALISED UNION BODY**

**Financial Instruments under the COSME programme**

<table>
<thead>
<tr>
<th>Programme</th>
<th>Amount (€ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget Delegation to European Investment Fund (EIF)</td>
<td>67,547</td>
</tr>
</tbody>
</table>

**OTHER COMMISSION SERVICES**

<table>
<thead>
<tr>
<th>Programme</th>
<th>Amount (€ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-sub-delegations to other Commission services</td>
<td>14,065</td>
</tr>
</tbody>
</table>

**TOTAL** | **1,366,200** |

(A) European Space Agency (ESA), i.e. 59,51 % of 2016 payments

In 2016, the biggest part of DG GROW expenditure was delegated to the European Space Agency (ESA) for the implementation of the GNSS (Galileo and EGNOS) and Copernicus space programmes.

The elements that support the assurance on the achievement of the control effectiveness as regards legality and regularity are two types:
**ESAs control results and/or assurance:**

- **Opinion of the external auditor**
  An Audit Commission acting as ESA’s independent external auditor acknowledged the significant progress made by the Agency in addressing previous audit recommendations stemming from the qualified audit opinions on the 2010 and 2011 financial statements.

  The ESA’s external Audit Commission gave an unqualified opinion on the Agency’s 2012, 2013, 2014 and 2015 financial statements, as ESA made significant improvements and achieved full compliance with the International Public Sector Accounting Standards (IPSAS).

- **Statement of Internal Control of the Director-General**
  A Statement of Internal Control has been produced by ESA’s Director-General confirming that the internal control system in place during 2016 provides reasonable assurance of achieving its operation, reporting and compliance objectives.

- **Reporting quality control at ESA**
  In order to minimise any potential errors in the Annual Financial Reports submitted to the European Commission, the Agency developed a quality control on its reporting. All reports are verified by the Agency’s Compliance Office before submission. Following several audits performed by the European Commission and the European Court of Auditors, the quality of the reports was significantly enhanced.

**AOD’s own monitoring/supervision results on the ESA’s operations:**

- **Results of the audits of the 2016 reports**
  The DG GROW ex-post control team continued to audit all annual financial reports (AFRs) submitted by ESA. In 2016, the audits on the 2014 and 2015 financial reports were finalised with the exception of EGNOS were the results are still preliminary for both years. Overall detected error rate for ESA transactions under indirect management is not material, i.e. 0,04%. The reader is referred to Annex 6 for a breakdown per programme.

- **Implementation of corrections**
  The results of the previous financial audits are being implemented. These corrections are made at the time of the annual clearing of pre-financing payments to ESA. It can be concluded that the residual error rate is at a level far below the 2% materiality threshold.

- **Monitoring**
  Errors detected in the Annual Financial Reports have **no impact** on the legality and regularity of the amounts paid to ESA, because amounts paid depend both on costs declared and on cash-flows forecasts. In the framework of the regular working arrangement and top level meetings between the DG and ESA, DG GROW closely monitored ESA’s progress with the implementation of the programmes and the related reporting. In order to improve the financial supervision of entrusted entities regarding the financial use of EU funds, the role of the Unit GROW.02 has been reinforced as from 2017. This Unit will coordinate the financial management of the Space programmes within DG
GROW.

**GNSS Programme, i.e. 29,65 % of 2016 payments**

For the management of the EGNOS and Galileo programmes, the European Commission and the European Space Agency (ESA) signed Delegation Agreements on the related procurement activities, project management, system prime activities and design tasks to ESA. For procurement, the European Commission is represented by ESA who acts as its procurement agent by delegation. The Internal Control Template (ICT) for indirect management in Annex 5 demonstrates how the control system in place in the DG addresses the risks related to this type of expenditure.

Galileo is implemented through procurement procedures delegated to ESA for which, however, the European Commission remains the contracting authority. In implementing the tasks delegated to it under this agreement, ESA applies the EU procurement rules and its own audit, accounting and internal control rules and procedures which offer guarantees equivalent to internationally accepted standards. This was confirmed by the positive results of an externalised re-assessment of ESA’s control systems finalised in May 2012 and confirmed by a new assessment performed in 2013 following the entry into force of the Commission’s new Financial Regulation and ESA’s financial reform. In addition, a new ex-ante assessment was finalised early 2014, covering the pillars identified in Article 60.2 of the EU Financial Regulation.

Transfers of funds to ESA are based on annual and quarterly reports submitted by ESA together with forecasts of cash-flow needs for the next period, all of which are checked before payments are made. In addition, on a yearly basis, all costs reported by ESA are verified by means of on-the-spot checks. In view of the multiannual perspective, the annual implementation reports of ESA for 2016 are due in 2017 and will only be considered for the clearing of the related pre-financing once the ex-post audit will be finalised. They will be covered in the Annual Activity Report for 2017.

In addition, DG GROW entrusted in 2015 to ESA the implementation of Horizon 2020 Framework Programme for Research and Innovation in Satellite Navigation for the period 2016-2020. The entrusted tasks are related to GNSS evolution, infrastructure-related research and development activities within the activity "Space", whereas research and development of GNSS applications are outside the scope of the DA. The entrusted funds amount to € 230 million as indicative total maximum amount of contributions from the European Union. Two pre-financing payments of 15 million EUR each were paid in 2016 for two transfers of funds.

**Copernicus Programme, i.e. 29,86 % of 2016 payments**

For the management of the Copernicus programmes, the European Commission and the European Space Agency (ESA) also signed Delegation Agreements, where ESA applies its own audit, accounting, internal control and procurement rules and procedures which offer guarantees equivalent to internationally accepted standards. The transfers of funds to ESA are based on annual and quarterly reports submitted by ESA together with forecasts of cash-flow needs for the next period. On a yearly basis, actual expenditure on costs reported by ESA, is verified by means of on-the-spot checks.
(B) Other international organisations, e.g. ECMWF, MERCATOR and EUMETSAT

In 2016, pre-financing payments were made to these international organisations under the respective delegation agreements. The respective implementation reports will follow. As consequence, assurance by the entrusted entity has been provided either following dedicated audits carried out by DG GROW or in the form of a management declaration, stating that the information is properly presented, accurate and complete, and that the funds are used for the purpose identified in the agreement. These declarations ascertain that the controls provide the necessary guarantees concerning legality and regularity.

Copernicus Services

In line with the Copernicus Regulation, delegation agreements for Copernicus Services have been concluded with the European Centre for Medium-Range Weather Forecasts (ECMWF) covering Atmosphere Monitoring and Climate Change Services and with Mercator Océan for the Marine Environment Monitoring Service.

Copernicus Infrastructure

In line with the Copernicus Regulation, a delegation agreement has been concluded with the European Organisation for the Exploitation of Meteorological Satellites (EUMETSAT). According to its mandate and expertise, EUMETSAT has been entrusted with the operations of dedicated satellites and instruments – Jason-3, Sentinel 3 for marine observations and Sentinels 4, 5 and 6 – and the respective ground segment, including the distribution and dissemination of Copernicus data.

(C) Agencies

Decentralised Agencies

Besides the above delegation agreements, similar agreements have been concluded with the GNSS Supervisory Agency (GSA) in the area of GNSS exploitation activities. DG GROW also delegates to GSA the implementation of FP7 and Horizon 2020 funds. The total operational funds transferred to the Agency in 2016 amount to € 193,536 million, of which € 12.733 million is for Horizon 2020, 180.285 million for EGNOS and Galileo.

In the execution of the entrusted tasks, GSA paid a total of € 111,613 million of which € 1,892 million FP7 payments. The reader is referred to sections 2.1.4 and 2.1.5.

In complement to the above, DG GROW also paid a subsidy to the GSA to cover the administrative costs, i.e. € 29,086 million in 2016, incurred by the agency. Accountability the legality and regularity of these expenditures resides ultimately with GSA, which is audited by the ECA.

In addition, GSA carries out ex-post audits on the budget delegated to DG GROW for FP7 grants. Notwithstanding the fact that the GSA's beneficiaries' inherent risk profile appears lower than average based on the results of their non-representative audit sample, DG GROW included the amount of FP7 payments made in 2016 by the GSA from budget delegated to it by DG GROW in the FP7 reservation and calculation of the amount at risk. (see section 2.1.4.).

In March 2016, the GSA submitted to DG GROW the results from the audited Annual Implementation Reports for 2015 on the exploitation of GALILEO and EGNOS programmes and on the implementation of HORIZON 2020. According to the external auditor's opinion, (i) the financial information is, in all material respects, properly
presented, complete and accurate; (ii) the expenditure was used for its intended purpose and (iii) accounted for in compliance with the respective contractual obligations.

In addition, as further substantiated through audits on the management control system put in place by the GSA for the implementation of the Delegation Agreements on the exploitation of GALILEO and EGNOS programmes and the implementation of the Horizon 2020 and based on the respective management Declarations of Assurance, which were submitted in February 2017 by the GSA, DG GROW has the necessary guarantees concerning the legality and regularity of the related underlying transactions. It is worth mentioning that according to the IAS, one remaining recommendation is still to be implemented by the GSA relating to risk management, stemming from the audit on the internal control strategy of the GNSS Supervisory Agency (GSA). The reader is referred to section 2.1.2 for further details.

Based on the declaration of assurance provided by the Executive Director of the GSA, DG GROW considers the implementation of the delegated funds to be legal and regular, except for the FP7 grants, which are maintained to be included in DG GROW own reservation as explained in sections 2.1.4 and 2.1.5.

In relation to the Delegation Agreements with the European Environment Agency (EEA) on the support of the implementation of the Copernicus land monitoring service, DG GROW executed two pre-financing payments to EEA in 2016, totalling €8.374 million.

In the context of the Copernicus programme, the Delegation Agreement signed in 2015 with the European Agency for the Management of Operational Cooperation at the External Borders of the Member States of the European Union (FRONTEX) enables the implementation of the border surveillance component within the framework of the Copernicus Security Service. Accordingly, DG GROW entrusts €45.6 million operational funds for the period 2015-2020, which will allow the development and the implementation of the portfolio of border surveillance services for land, maritime and environment. To this end, DG GROW has executed two pre-financing payments of €12.721 million in 2016.

Within the same programme, the Delegation Agreement signed in 2015 with the European Maritime Safety Agency (EMSA), enables the normal functioning of the other leg of the Copernicus Security Service, i.e. the maritime surveillance component. Accordingly, DG GROW entrusts €38.2 million operational funds for the period 2015-2020, which will enable the implementation of the following thematically defined subservices: Fisheries Control, Defence, Maritime Security and Safety, Customs, General Law Enforcement. To this end, DG GROW has executed a pre-financing payment of €3.34 million in 2016.

The Delegation Agreement with the European Defence Agency (EDA) concerns a pilot project of DG GROW for enhancing the research in the field of the EU's Common Security and Defence Policy. This multiannual project is within €1 million, whereas DG GROW has contributed to it with a pre-financing of €0.445 million in 2016.

The supervision of these agencies is described in detail in Annex 8, together with that of the European Chemicals Agency (ECHA), of which DG GROW is also parent DG. In 2016 an amount of €60.545 million has been paid to ECHA as grant for functioning.

**Executive Agencies**

In the policy domain of the DG GROW, the programme management is supported by two executive agencies: the Executive Agency for Small and Medium-sized Enterprises (EASME) and the Research Executive Agency (REA). These two agencies respectively manage the former MFF legacy actions under the Entrepreneurship and Innovation
Programme (EIP) and the Space Themes of the Seventh Framework Programme for Research (FP7) as well as parts of the new MFF programmes COSME and Horizon 2020.

DG GROW only supervises the control systems\(^{17}\) of these agencies in the context of their direct delegations as AOD. Both agencies performed their ex-post audits in the context of a common audit strategy. The executive agencies’ control results are either in line with those within the policy family or are slightly modified to correspond to the different profile of its sub-population of beneficiaries. EASME and REA produce their own AARs. EASME’s 2016 AAR contains two reservations - one on the Intelligent Energy Europe II 2007-2013, on budget delegated by DG ENER and one on CIP Eco Innovation. REA made reservations in two areas of their operational budget, i.e. ‘FP7 Cooperation Specific Programme – Space and Security themes’ and ‘FP7 Capacities Specific Programme – Research for the benefit of SMEs’, which is in line with the reservation made by DG GROW, namely the reservation on the accuracy of FP7 grant cost claims.

In its capacity of parent DG, DG GROW pays to EASME’s administrative budget. The consumption of this administrative budget is duly monitored, and after the final closure of EASME’s accounts, any surplus will be recovered pro-rata by the agency’s parent DGs. The subsidy to REA is paid fully by DG RTD and therefore it is not covered in this report.

The supervision of the Executive Agencies continued throughout 2016. The preparation of the Annual Activity Reports of these Agencies was coordinated and reviewed by DG GROW and the Steering Committees of the Agencies. No unexpected issues arose which would need to be raised in this report.

Overall, DG GROW considers that its supervision of Executive Agencies is effective and appropriate.

\((D)\) Specialised Union bodies, i.e. 4,36 % of 2016 payments

In line with the Financial and Administrative Framework Agreement (FAFA) between the EU and the European Investment Fund, the COSME Delegation Agreement (DA) entrusts budget implementation of the COSME financial instruments to the European Investment Fund (EIF). The DA covers the implementation of the two financial instruments under COSME, i.e. the Loan Guarantee Facility (LGF) and the Equity Facility for GROW (EFG).

As a consequence of the changes in scope of the pillar assessment introduced by the legal provisions as currently valid in the Financial Regulation (FR), a 6 pillar assessment of the EIF was carried out in 2015, providing reasonable assurance to the Commission that the EIF meets the requirements of Articles 60 and 61 of the FR and confirming that the EIF can be entrusted with budget implementation tasks under indirect management.

Controls during the implementation of the COSME financial instruments relate to the selection of financial intermediaries, fund allocation between the LGF and the EFG, remuneration of the EIF, assessment of the effectiveness and efficiency of the internal control systems as well as the follow-up of any observations by internal or external auditors. The respective LGF and/or EFG steering committees ensure that the policy objectives are met and will regularly review the progress of implementation. The reader is referred to Annex 5 ICT on Financial Instruments for details on the control strategy.

In March 2017, the EIF submitted to DG GROW the results from the audited Financial Statements for 2016 of both LGF and EFG. According to the external auditor’s opinion, the Financial Statements of both LGF and EFG are prepared in all material respects in accordance with the respective accounting rules. Based on the audited financial

\(^{17}\) The control systems of the Executive Agencies are similar to those of their parent DGs.
statements provided for the COSME financial instruments and as further substantiated through the risk and performance report provided by the EIF for the assets under management, the AOD has the assurance that the balance on the respective fiduciary accounts for the LGF and the EFG, including the treasury assets, are managed in accordance with the Delegation Agreement. In addition, based on the management Declarations of Assurance on both financial instruments and the respective reports on audits and controls, which were submitted by the EIF in February 2017, DG GROW has a reasonable assurance in all material aspects that the EU funds transferred to EIF are used for the intended purposes, including regarding legality and regularity. This reasonable assurance is further substantiated by the audit assignment carried out by DG GROW as outlined in section 2.1.4.

DG GROW also considers that the operational and financial reporting requirements set out in the DA provide sufficient and relevant information and figures to ensure sound and efficient management of the policy aspects of these financial instruments. It is worth mentioning that the outstanding recommendations stemming from the compliance audits on the EIF and a Financial Intermediary are currently being implemented.

(E) Cross Sub-delegations, i.e. 0,96 % of 2016 payments

0,96 % of the amounts paid in 2016 from DG GROW budget lines were authorised under co- and cross sub-delegation to other DGs.

The amounts cross-subdelegated relate to services for which the Commission as a whole has decided to use the available Commission services: Pay Masters' Office (PMO), Publications Office (OPOCE), DG for Informatics (DIGIT), DG Human Resources and Security and Secretariat-General of the European Commission. Given that these Commission services duly report on these costs in the same manner as the relevant Authorising Officers by delegation such payments are mentioned, but not reported in detail in this AAR.

The Director-General of DG GROW remains ultimately accountable for the amounts sub-delegated, i.e. € 14.1 million, to other Commission services, even though the legality and regularity of the transactions implementing this budget is ensured by the management and internal control systems put in place by the Authorising Officers to whom the funds were sub-delegated. The reader is referred to a detailed list in Annex 10.

The conditions for granting a cross-delegation of powers are set out in Article 12 of the Internal Rules on the implementation of the general budget of the EU. Each year the delegate must report to the delegator on the projects and activities for which s/he received a sub-delegation. These reports include a description of the work programme, the objectives for the period and the results achieved; the utilisation of the financial resources; the risks linked to the management of these activities, signalling any relevant issues; and the operation and application of their internal control system.

For 2016, the reports received by DG GROW from the DGs to which it sub-delegated funds provided reasonable assurance on the regularity and legality of transactions. Nevertheless, for reasons of prudence, the amount sub-delegated to DG RTD (1.4 M€) relates to FP7 projects, which are subject to a reservation of DG RTD and, therefore, this sub-delegated amount is included in DG GROW own reservation. The reader is referred to section 2.1.4.
2.1.1.2 Procurement, i.e. 3,22 % of 2016 payments

Procurement under direct management represents 3,22 % of the total 2016 DG GROW expenditure. The payments made in 2016 on own procurement amount to 49.7 M€. The Internal Control Template (ICT) n°3 for procurement in Annex 5 demonstrates how the control system in place in the DG addresses the risks related to this type of expenditure. In 2016, 32 contracts with a value exceeding € 60,000 were awarded directly by DG GROW, representing a total contract value of € 111.4 million. The reader is referred to Annex 3, tables 11 and 12. 49 % of this amount was awarded following a negotiated procedure without prior publication. This high percentage is caused by exceptional needs and concern long term solutions. Similar needs are not expected to reoccur in the near future. It is due to the fact that in 2016 two large negotiated procedures were awarded amounting jointly € 54,56 million:

- € 46 million the Maintenance of the Galileo Search and Rescue Service at the COMPAS SARSAT centre in Europe and
- € 8,5 million as a participation in the BELLA project a transatlantic cable financed in majority from CONNECT and DEVCO budgets.

The use of this kind of procedures was duly justified considering that the services could only be provided by a single economic operator (competition was absent for technical reasons).

The contracts awarded in 2016, mentioned above, do not include, however, contracts signed by the European Space Agency (ESA) in the name and on behalf of the Commission under ESA Delegation Agreements. As mentioned in Section 2.1.1.1, the GNSS programme is executed principally by ESA as delegated procurement agent, signing contracts on behalf and in the name of the Commission, under indirect management.

The risks related to public procurement are effectively mitigated by means of independent ex-ante verifications. Those verifications represent a second layer of control performed by the Central Financial Unit beyond the ex-ante controls carried out by each operational unit. Tender documents need approval by the independent experts of the Financial Resources and Internal Control Unit before they are allowed to be published. Tenders are evaluated by evaluation committees, as foreseen by the Financial Regulation. The absence of conflicts of interest of the evaluators is ensured. Evaluation reports also need approval by the independent experts of the Financial Resources and Internal Control unit before the authorising officer takes the award decision. For high value procurements, an ad hoc committee of senior officials examines the evaluation report before the award decision can be taken. All procedures are documented in detail in the DG GROW Manual of Budgetary and Financial Procedures. Before any payment is completed, the timely execution of the contract is checked and a financial verification is performed. All errors detected are corrected. Materiality is defined as 2 % of the payment appropriations of the ABB activity. For the contracts signed by ESA on behalf of the Commission tender documents are not checked ex-ante, but there is an ex-ante assessment of the acquisition plan, which is subject to the approval of an Ad-Hoc Committee.

The following indicators demonstrate the effectiveness of the internal control system in relation to procurement:
The procurement procedures applied in DG GROW involve a number of specific controls, which are fully in line with the applicable regulatory requirements. The benefit of these specific controls provides assurance on legality and regularity, transparency, equal treatment and proportionality of the public procurement and mitigates the risk of reputational damage.

Given the low error rate there are no indications that a higher level of checks and controls would produce any supplementary benefits.

### 2.1.1.2.1 Grants managed directly by DG GROW, i.e. 7,18% of 2016 payments

DG GROW has set up internal control processes aimed to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments concerned.

In 2016, DG GROW budget was implemented through grants under several heterogeneous grants related to the research (0.01 %), internal market (ECHA 3.91%), pilot projects and preparatory actions, etc... (1.21 %), CIP (0.70 %), Standardisation (1.35 %).

Whereas, DG GROW applies consistently controls to all grants in line with its procedures, the available ex post controls for grants were dedicated to the grant payments, which have greater portion of the budget managed by the DG or with the highest risk: respectively standardisation grants with 1,35 % and CIP grants.
### Key DG indicators on control effectiveness

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Reporting Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of <strong>calls for proposals</strong> successfully concluded within the year following their publication in the DG’s Management Plan/Work Programme</td>
<td>83 %</td>
</tr>
<tr>
<td>Percentage of successful <strong>redress</strong> procedures**(^{18}) following evaluations of proposals</td>
<td>0 (i.e. no redresses)</td>
</tr>
<tr>
<td><strong>Value of errors detected</strong> in cost claims through targeted risk-based in-depth <strong>ex ante</strong> desk checks to EU contributions before being paid by the DG to beneficiaries</td>
<td>€ 309 714</td>
</tr>
<tr>
<td>Percentage of the errors value detected in comparison to the total value of cost claims being desk-checked</td>
<td>1,41 %</td>
</tr>
<tr>
<td><strong>Value of corrections</strong> to cost claims implemented by means of recovery**(^{19})</td>
<td>€ 436 640 via recoveries</td>
</tr>
<tr>
<td><strong>Number of ex-post audits</strong> finalised in 2016:</td>
<td>12</td>
</tr>
</tbody>
</table>

### Key DG indicators on control effectiveness

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Multiannual Results</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FP7 Research grants</strong>&lt;sup&gt;20&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>Representative Error Rate from the common research audit sample (CRaS)&lt;sup&gt;20&lt;/sup&gt;:</td>
<td>5,03 %</td>
</tr>
<tr>
<td>Research Residual Error Rate (RER)&lt;sup&gt;21&lt;/sup&gt;:</td>
<td>2,70 %</td>
</tr>
<tr>
<td><strong>Other grants</strong></td>
<td></td>
</tr>
<tr>
<td>% of population covered:</td>
<td></td>
</tr>
<tr>
<td>CIP:</td>
<td>20 %</td>
</tr>
<tr>
<td>Standardisation:</td>
<td>30 %</td>
</tr>
<tr>
<td>€ value coverage:</td>
<td></td>
</tr>
<tr>
<td>CIP:</td>
<td>€ 28 million</td>
</tr>
<tr>
<td>Standardisation:</td>
<td>€ 41 million</td>
</tr>
<tr>
<td><strong>Most Likely Error Rates</strong></td>
<td></td>
</tr>
<tr>
<td>CIP:</td>
<td></td>
</tr>
<tr>
<td>Cumulative detected error rate from non risk-based audits:</td>
<td>7,65 %</td>
</tr>
<tr>
<td>Residual error rate:</td>
<td>6,14 %</td>
</tr>
</tbody>
</table>

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**Notes:**

18 A redress procedure provides applicants with the possibility of filing a complaint if they think that there were shortcomings in the handling of their proposal during the evaluation.

19 Recovery is recuperating of debts, i.e. money, towards the EU.

20 The representative error rate is the error rate derived solely from the results of audits on a representative sample of beneficiaries, extended by a statistical method to the overall population. This error rate provides an estimate of the level of error in FP7 at the time of the audits, however, indicates (i) neither the follow-up as corrections undertaken by the Commission after audits (ii) nor the net final financial impact of errors. This error rate is calculated for FP7 as a whole.

21 The residual error rate, on a multi-annual basis, is the extended level of error remaining after corrections undertaken by Commission services following the carried out audits. The calculation of the residual error rate is shown in Annex 4. For more details, the reader is referred to the AAR of DG RTD for 2015.
The above indicators show that the majority of the calls for the year were performed as planned. As a result of the externalisation, however, the number of calls for proposals launched by DG GROW in 2016 was very limited.

In 2016, neither DG GROW, nor the Ombudsman received any complaints from unsuccessful call applicants regarding the evaluation of the proposals. There were no legal proceedings initiated in this respect. This provides a good indication of the robustness of the grant award process and assurance with respect to the internal control system.

The ex-post Control Team finalised 5 out of 6 audits carried out in 2016 on CIP and Standardisation programmes, reaching reasonable audit coverage. In general, audits have a strong deterrent effect within the programmes as the beneficiaries are aware of the possibility to be selected for an in-depth financial verification.

**(A) FP7 Grants, i.e. 0,01 % of 2016 payments**

The Research Framework Programmes are implemented mainly through direct management, which implies direct financial contributions through co-financed contracts signed with external parties, i.e. research organisations, companies. In 2016, € 0,140 million was paid as final payments in relation to grant agreements signed prior 2016. At the moment when the payment is authorised, the Commission does not intend and is not able to fully control, for every payment, that the amount paid is accurate and in compliance with the applicable legal and contractual provisions. That would require the Research DGs to add a huge administrative burden onto participants, and would be impossible with the human resources available. Instead, and in line with recommendations by the European Parliament and the Council, the Research DGs operate a trust-based system of controls before payment, with limited substantive controls. It bases its main assurance on in-depth checks carried out on a sample of beneficiaries after costs have been incurred and declared.

The Research DGs have defined and implemented a common strategy, the key elements of which are the ex-post audit strategy and the recovery of any amounts found to have been paid in excess of the amount due. These elements are intended to provide reasonable assurance on the legality and regularity of expenditure on a multi-annual basis by systematically detecting and correcting errors. They complement the ex-ante controls embedded in the Research FPs’ management processes.

Since 2012, a Common Representative audit Sample (CRaS) is used by the Research Family DGs to identify the common errors across the whole of FP7 operations. This sample was instrumental in lowering the audit burden on large beneficiaries who, before the implementation of this new approach, would have been audited by several Commission services. The CRaS is complemented by 'risk-based' audits; audits selected according to one or more risk criteria. These audits are intended to detect and correct as many errors as possible for instance by targeting the larger beneficiaries and identification of possibly fraudulent operators. These audits are also referred to as 'corrective' audits.

<table>
<thead>
<tr>
<th>Key DG indicators on control effectiveness</th>
<th>DG results for the reporting year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standardisation:</td>
<td>0,89 %</td>
</tr>
</tbody>
</table>
The results of the representative sample indicate a common **representative error rate** amounting to 5.03%\(^{22}\), whereas the residual error rate is 2.70%\(^{23}\). These results already include the partial results of the third and last Common Representative Audit Sample (launched in 2016). They are concordant with the general expectation that the Common Representative Error Rate resulting from audits of FP7 will be around 5% at the end of the programme. The residual error rate for DG GROW is expected at around 2.70%. These figures do not necessarily mean that there is a loss to the Community budget. Many of the projects spend more than the capped budget, and so the real loss to the Community budget will be lower than when estimating the financial impact by using the error rates above. This programme is now in its final stage of implementation, with a decreasing number of open projects and decreasing amounts of payment. After the closure of the last Common Representative Audit Sample, no new information is expected relating to the Error Rates, and their financial impact on the yearly expenditure will be limited. Nevertheless, the lessons learned from FP7 have been used in the development of Horizon 2020 programme's general framework.

For FP7, materiality is assessed in accordance with Annex 4 of this AAR. The objective is to ensure that the estimated residual risk of error is less than 2% cumulative by the end of the programme implementation. As a consequence, the FP7 reservation is maintained for 2016.

Research DGs will continue their actions in preventing some causes of errors in FP7 expenditure, however, it seems clear that the maximum 2% residual error target for FP7 will not be attained without a massive increase in the number of audits, or a considerable increase in the administrative burden imposed on participants through widespread ex-ante controls. Therefore, although the residual error rate remains above the target of 2%, account should be taken of the cost for achieving this target. As it was stated in the Financial Statement accompanying the Horizon 2020 legislation, attempts in the past to achieve the 2% target caused a number of unexpected and/or undesirable side-effects, e.g. excessive control burden, lower attractiveness of the programme, etc.

There is, however, an acceptance among stakeholders and institutions that an approach solely focussed on the achievement of a 2% target for legality and regularity may not be appropriate. Other objectives and interests, especially the success of the Union’s research policy, international competitiveness and scientific excellence should also be considered. At the same time, there is a clear need to manage the EU funds in an efficient and effective manner, and also to prevent fraud.

Taking these elements in balance, and in the light of the results of the FP7 audit campaign, the Research DGs consider that the overall control strategy ensures that trust, control and other policy objectives are kept in balance. Aiming to achieve a residual error rate of 2% at all costs is not a viable approach.

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\(^{22}\) This is the error rate derived solely from the results of the CRS, extrapolated to the overall population and calculated for each FP as a whole. This error rate provides an estimate of the level of error in the given framework programme at the time of the audits, but does not factor in the follow-up and corrections/recoveries undertaken by Commission services after the audit, nor does it provide information on the net final financial impact of errors. It is based on cost statements for which the audit is completed.

\(^{23}\) The residual error rate, on a multi-annual basis, is the extrapolated level of error remaining after corrections/recoveries undertaken by Commission services following the audits that have been made. The calculation of the residual error rate, as shown in Annex 4, is based on the following assumptions: (1) all errors detected will be corrected; (2) all non-audited expenditure subject to extension of audit findings is clean from systematic material errors so that the residual error rate can be estimated to be equal to the non-systematic error rate. The residual error rate develops over time and depends on the assumptions set out above. It remains an estimate as long as not all cost claims have been received and not all cases of extension of audit findings have been fully implemented yet.
Legal provisions will not be any more reviewed for the ongoing FP7 projects. Therefore, the efforts in order to avoid errors have to be allocated at the level of the monitoring of the projects, of the ex-ante controls before payments. The implementation of the ex-post control results also has a cleaning effect on the paid amounts, together with the correction of systemic errors. So as to reinforce the cleaning effect of the ex-post controls, a third Common Representative Audit Sample was launched in 2016.

Therefore, in order to prevent the repetition of these errors in future cost declarations, beneficiaries are informed about the correct way to calculate these costs and about the most frequent errors committed when calculating them. Certifying auditors who are found to have signed unqualified audit certificates for erroneous amounts of eligible costs are also directly informed about their errors and are invited to consult the available information in order to avoid similar errors in the future.

In complement to the audits of the CRaS, DG GROW follows up the implementation of the audit results by extending systematic errors detected during the audits to the other non-audited projects of the beneficiaries concerned.

Details on the Research services’ common control strategy and on the expected evolution of the common representative error rate can be found in the AAR of DG RTD for 2016.

In the frame of a delegation agreement, an amount of € 61.1 million was paid to ESA in 2016 under the « Completion FP7 » budget line. This amount has not been included in the reservation. The delegation agreement signed with ESA could not be assimilated to a FP7 grant. Besides, the audits performed by DG GROW revealed an error rate below 0.5% (see Section 2.1.1.2.2.). ESA significantly improved its financial management and received a clean audit opinion from its external auditor for three consecutive years.

(B) Standardisation, i.e. 1,35 %\(^{24}\) of 2016 payments

As part of its political objectives in the area of standardisation, the European Commission concludes operating and action grants with European standardisation organisations (ESO) which function in a monopoly situation, e.g.: European Committee for Standardization (CEN), European Committee for Electrotechnical Standardization (CENELEC) and European Telecommunications Standards Institute (ETSI). In 2016, one audit of standardisation agreements was finalised bringing the total number of audited standardisation agreements to 33 (2009-2016).

The total adjustments show a detected cumulative average error of 0,89 %. Typical errors concern personnel, subcontracting and indirect costs categories. The error is immaterial compared to the standard materiality criterion, which is used for the ABB activity. The low error rate is a result of, on the one hand, the correct application of the Framework Partnership Agreement (FPA) provisions, which clearly define eligible costs, and on the other hand, the application of the related control strategy.

(C) CIP grants, i.e. 0,70 % of 2016 payments

In 2016, DG GROW also made payments under grant agreements with beneficiaries in the area of Competitiveness and Innovation Programme (CIP), which ran from 2007-2013 and is currently phasing out.

Although the beneficiaries and the terms of the grant agreement provisions under the different strands of the CIP programme are not fully homogeneous, typical errors concern personnel – in-house consultants, owner manager costs – and subcontracting.

\(^{24}\) The amount related to operating grants is included in section 2.1.1.1.
Therefore, DG GROW performs preventively in-depth ex-ante controls in order to obtain further reasonable assurance for high degree of confidence that information is valid and unaltered. Consequently, these controls aim at achieving error-free payments for grants, i.e. to reduce the error rates below the materiality threshold of 2 %. Main pillars of the dedicated ex-ante controls are (i) detailed financial statement, i.e. breakdown of all cost categories and justification of their calculations, submitted by beneficiaries and (ii) judgemental sampling of declared costs from all cost categories for verification against supporting documents.

In addition, DG GROW continues also with the detective ex-post controls. Based on the results of a non-representative sample of audits performed between 2010 and 2016 and excluding targeted risk-based audits, the indicative detected error rate is 7,65 %. Though this error rate is rather high, corrections are consistently made during the years following ex-post controls. As a result, it is at least a 20 % cleaned amount of total payments executed to the audited entities between 2008 and 2016, without taking into account the in-depth ex-ante controls. Thus, the ex-post controls bring down the above indicative detected error to the cumulative residual level of 6,14 %.

Even if not representative, the detected and residual error rates calculated over the last years does not decrease significantly. However, similar measures decided to lower the error rate for FP7 have already been applied for the CIP and considering that the need to balance legality and regularity with other objectives, such as the attractiveness of the programme, cost of control, less administrative burden, etc., is already met, additional controls might not be appropriate.

The methodology applied by DG GROW in calculating the error rate is established on a multiannual basis in order to produce the most accurate data for outstanding error rate. The reader is referred to annexe 4, where the methodology for calculating the residual error rate is laid down.

DG GROW expects that the residual error rate is not likely to decrease under the materiality threshold at the end of the programme and therefore maintains the reservation on the legality and regularity of these payments. This transparency reservation, similarly to FP7, is a result from the most conservative approach even though the amount at risk, similarly to FP7, is immaterial in comparison to the ABB activity and, especially, vis-à-vis the overall budget managed by the DG.

Considering that a simplification of the existing legislative framework for CIP, similarly to FP7, is not an option and that the legality and regularity objective has to be balanced with other objectives such as the attractiveness of the programmes and the cost of controls, it is unlikely that the error rate will further reduce without affecting the effectiveness of the programme.

Therefore, despite the immateriality of the amounts concerned and the phasing out of the programme, DG GROW will continue the efforts of the ex-DG ENTR in cleaning as much as possible the outstanding error rate by duly taking into account the available resources, the significance of the budget concerned and the political priorities of the EU agenda. As a result, corrective measures, such as in-depth ex-ante controls and risk-based ex-post audits, are applied to the remaining payments under the CIP legacy grant agreements, which have shown to be the most error prone.
2.1.1.2.2 Conclusion

In the context of the protection of the EU budget, at the Commission's corporate level, the DG's estimated overall amounts at risk and their estimated future corrections are consolidated.

For DG GROW, the estimated overall amount at risk\textsuperscript{25} for the 2016 payments made is €16.109 million. This is the AOD's best, conservative estimated amount of the total authorised expenditure during 2016 (being €1 548 million) which is not in conformity with the applicable contractual and regulatory provisions at the time the payment is made.

Because of the importance of the amounts paid to the EGNOS, Galileo and Copernicus programmes, DG GROW decided to fix the error rate at 0.5%, even if the audits performed by DG GROW in 2016 on the space audited entities ESA, Mercator, ECMWF and EUMETSAT revealed lower error rates or absence of errors since these audits are carried out before the clearing of the costs.

For activities delegated to agencies and other grants, an error rate range between 0 % and 1.99 % is applied. The reason for this is that at the one hand they were not covered by audits in 2016 but on the other hand, these payments concern either pre-financings (not considered risk-prone) or payments where the error rate is estimated to be below the materiality threshold, as ex-ante desk checks have been performed.

The 2016 payments will be subject to ex-post controls and a sizeable proportion of the underlying error will be detected and corrected in successive years. The conservatively estimated future corrections\textsuperscript{26} on these 2016 payments amount to €4.124 million.

This is the total amount of errors that DG GROW conservatively estimates to identify and correct from controls that it will implement in successive years. This is calculated on the basis of 7 years historic average rate of recoveries and corrections (column 8) provided by DG BUDG on the relevant expenditure (column 5). This average rate is specific to DG GROW and amounts to 1.1%.

The difference between the amount at risk and the estimated future corrections leads to an estimated overall amount at risk at closure of 11.985 million €.

The table below provides an overview of the estimated overall amount at risk at closure. The estimated overall amount at risk "at closure" is the best, conservative estimation of the expenditure authorised during the year in breach of applicable regulatory and contractual provisions by the end of implementation of the programme, in value terms. It is a kind of "forward-looking residual amount at risk", i.e. when by the end of the programme(s) all corrective measures will have been applied. It is calculated by subtracting the estimated future corrections from the estimated overall amount at risk at payment. For the Competitiveness and Innovation and Standardisation grants, the applied error rate, and respectively the amount of risk for CIP, is based on the results of previous audits performed by DG GROW.

\textsuperscript{25} In order to calculate the weighted average error rate (AER) for the total annual expenditure in the reporting year, detected, estimated or proxy error rates have been used (not the RER).

\textsuperscript{26} This estimate is based on past performance, namely on the average recoveries and financial corrections (ARC) implemented since 2009 and applied to the payments of the year.
With regard to the amount at risk for the FP7 grants (payments to ESA excluded), the applied error rate corresponds to the residual error rate of the Common Representative Audit Sample, calculated by the Common Support Service. It is based on the specific funded and audited population of DG GROW.

The internal control strategy foresees the implementation of further controls during subsequent years aimed at detecting and correcting errors in the parts of the budget which have not yet been audited, e.g. implementation of the ex-post controls for financial instruments, as well as other delegation agreements.

Taking into account the conclusions of the review of the elements supporting assurance and the expected corrective capacity of the controls to be implemented in subsequent years, it is possible to conclude that the internal controls systems implemented by DG GROW provide sufficient assurance to adequately manage the risks relating to the legality and regularity of the underlying transactions, with the exception of the FP7 and CIP expenditure. The reader is referred to the section 2.1.4. The DG will implement results from ex-post audits based on cost-effectiveness considerations, including with the respective recovery actions to ensure a further reduction of the residual error rate.

Considering the overall annual expenditure, it can be concluded that the internal control systems provide sufficient assurance with regard to the achievement of this internal control objective27, except for the FP7 and CIP grants. The reader is referred to the section 2.1.4.

---

27 related to control effectiveness as regards legality and regularity
<table>
<thead>
<tr>
<th>Program</th>
<th>Entrusted Entity</th>
<th>Scope/ Payments made in 2016</th>
<th>New Prefinancing [a]</th>
<th>Clearing pre-financing [b]</th>
<th>Relevant expenditure [c]</th>
<th>Error rate (range in %)</th>
<th>Estimated overall amount at risk at payment (range in €) = (5) x (6)</th>
<th>Average Recoveries and Corrections [d]</th>
<th>Estimated future corrections ($5x (8))</th>
<th>Estimated overall amount at risk at closure (7) - (9)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative credits</td>
<td></td>
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<tr>
<td>Own Procurement</td>
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<tr>
<td>Grants</td>
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<td>Standardisation</td>
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<tr>
<td>CIF grants</td>
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<td>Research grants</td>
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<td>Other grants</td>
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<tr>
<td>International organisations</td>
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<tr>
<td>Delegated to entrusted entities</td>
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<tr>
<td>Agencies</td>
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<td>Specialised Union body</td>
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</tr>
</tbody>
</table>

[1] Several heterogeneous grants related to space programmes, internal market, COSME 2014-2020, pilot projects and preparatory actions.

[a] New PF actually paid by unit the DG itself during the FY (i.e. excluding any PF received as transfer from another DG).

[b] PF actually having been cleared during the FY (i.e. their balance in FY actually, not their bulk-based estimated consumption).

[c] For the purpose of equivalence with the EC's scope of the EC funds with potential exposure to L&R errors (see the EC's AR methodological Annex 1 point 7), also our concept of "relevant exposure" includes the payments made, subtracts the new pre-financing paid out (i.e. adds the retainments made), and adds the previous pre-financing actually cleared (i.e. adds the retentions released and any deductions of expenditure made by MR in the annual accounts during the FY). This is a separate and hybrid concept, intentionally combining elements from the budgetary accounting and from the general ledger accounting.

[d] Even though based on the 7 years' historic average of recoveries and financial corrections (AFC), which is the best available indicator of the corrective capacity of the ex-post control systems implemented by the DG over the past years, the AOD has adjusted this historic average. Any coding errors, ex-ante elements, one-off events, (partially) cancelled or waived Recovery Orders, other factors from the past years that would otherwise be relevant for current programmes (e.g. higher ex-post corrections of previously higher errors in earlier generations of grant programmes) have been adjusted in order to come to the best but conservative estimate of the expected corrective capacity average to be applied to the reporting year's relevant expenditure for the current programmes in order to get the related estimated future corrections.

This includes considering that the ex-post future corrections would be 0.0%, since we are a DG with entirely ex-ante control system.
2.1.1.3 Cost-effectiveness and efficiency

Based on an assessment of the most relevant key indicators and control results, DG GROW has assessed the cost-effectiveness and the efficiency of the control system and reached a positive conclusion on cost-effectiveness and control efficiency. The one on cost-effectiveness is mainly based on the overall cost of control, which indicators are: 8,04% for grants and 10% for procurement regarding the EU funds managed directly by DG GROW and, respectively, 0,72% for decentralised agencies, 0,51% for international organisations and 3,69% for EIF concerning the funds managed through entrusted entities. The control efficiency is mainly based on time to pay and time to inform, which day-indicators are 19 and 106 days respectively. The conclusion is predominately based on respective targets and benchmarks, when available.

The AOD currently considers the possibility foreseen in Article 66.2 of the FR to differentiate the frequency and/or the intensity of the DG’s controls. Potential re-direction of control resources towards more stringent controls where needed while having leaner and less burdensome controls are to be considered with due care and caution since the current control systems are assessed as adequately equipped and functioning. The different risk-profiles among DG transactions are well covered by dedicated controls as described at Annex 5 and, moreover, the measured soundness of controls indicates for an optimum in the control differentiation as currently established.

Based on the preparatory work made with the DG GROW financial community in 2016, a financial rationalisation has been implemented in 2017 aiming to rationalise and streamline the flow of the financial transactions at DG GROW, in order to increase efficiency. A full electronic workflow for all the payments tested end 2016 is now in force as from 2017. Other measures such a very simplified workflow for payments below €5,000 with only 2 actors, have been launched in 2017. These measures prepared in 2016 will be evaluated in 2017.

The results for 2016 per activity are as follows:

- **Budget implementation tasks entrusted to other DGs and Entities**

  The following indicators demonstrate the efficiency and the cost-effectiveness of the internal control system in relation to International Organisations:

<table>
<thead>
<tr>
<th>Common indicators on control cost-effectiveness</th>
<th>DG results for the reporting year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of overall cost of control of supervision process in comparison to the total annual amount delegated excluding any remuneration paid.</td>
<td>0,51%</td>
</tr>
</tbody>
</table>

28 The reader should consider the following three facts when reading those figures. Firstly, the respective costs are legally necessary to reassure adequate level of controls, namely, to address legality and regularity requirements, especially in the context of the FP7 and CIP reservations. In addition, the amount of the funds directly managed by DG GROW, i.e. the denominator of the indicators, is relatively insignificant to the overall budget for 2016. Last, but not least, DG GROW does not enjoy economies of scale as for example other Research DGs dealing exclusively and predominantly with direct management. As a result after considering these three facts, it would be clearly demonstrated that the costs of DG GROW for direct management are, in fact, rather modest, especially in comparison with the criteria for entrusted entities for example as per Annex 5.

29 As above.

The cost of controls is highly outweighed by their benefits. The European space programmes are major industrial programmes of significant size and complexity. It is the first time that the EU, in particular the Commission, implements such programmes. In its capacity of programme manager, the European Commission is responsible for the management and coordination of these programmes and bears the overall responsibility for their implementation and operation to schedule, cost and performance. Furthermore, the European Commission owns the assets of the Copernicus and GNSS programmes on behalf of the EU. Considering the above responsibilities, the European Commission implemented controls at governance, technical, operational and financial levels. Acting as programme manager it applies control mechanisms to ensure that the technical and security requirements are fully respected. Compared to 2015, the time to entrust was reduced substantially to 379 days, which concerned only one delegation agreement signed in 2016 with SatCen.

The following indicators demonstrate the efficiency and the cost-effectiveness of the internal control system in relation to EU agencies:

<table>
<thead>
<tr>
<th>Common indicators on control cost-effectiveness</th>
<th>DG results for the reporting year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of overall cost of control of supervision process in comparison to the total annual amount delegated excluding any remuneration paid</td>
<td>1,55 %</td>
</tr>
<tr>
<td>Percentage of remuneration fees paid to entrusted entities in comparison to the total annual amount delegated excluding any remuneration paid</td>
<td>13,80 %</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key DG indicators on control cost-effectiveness</th>
<th>DG results for the reporting year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of costs of control related to the establishment or prolongation in comparison to the total annual amount delegated</td>
<td>0,18 %</td>
</tr>
<tr>
<td>Percentage of costs of control related to the reporting and subsequent monitoring of the execution in comparison to all payments executed</td>
<td>0,25 %</td>
</tr>
<tr>
<td>Total cost of ex post audits</td>
<td>€437,552,08</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key DG indicators on control efficiency</th>
<th>DG results for the reporting year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average time to entrust</td>
<td>379 days</td>
</tr>
</tbody>
</table>
Percentage of costs of control related to the **establishment or prolongation** in comparison to the total annual amount delegated 0,27 %

Percentage of costs of control related to the **contracting and subsequent monitoring** of the execution in comparison to the all payments executed 0,72 %

### Key DG indicator on control efficiency

<table>
<thead>
<tr>
<th>DG results for the reporting year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average <strong>time to entrust</strong></td>
</tr>
<tr>
<td>180 days</td>
</tr>
</tbody>
</table>

Despite that the agencies are subject to a distinct discharge report, DG GROW dedicates the necessary efforts, within acceptable limits, to exercise appropriate controls in order to reassure adequate use of the expenditure delegated. This follow-up resulted also in a significant reduction (50 %) of the time to entrust compared to 2015.

The following indicators demonstrate the efficiency and the cost-effectiveness of the internal control system in relation to **EIF**:

### Common indicators on control cost-effectiveness

<table>
<thead>
<tr>
<th>DG results for the reporting year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of <strong>overall cost of control</strong> of supervision process in comparison to the total annual amount delegated excluding any remuneration paid 3,69 %</td>
</tr>
<tr>
<td>Percentage of <strong>remuneration fees paid</strong> to entrusted entities in comparison to the total annual amount delegated excluding any remuneration paid 7,04 %</td>
</tr>
</tbody>
</table>

### Key DG indicators on control cost-effectiveness

<table>
<thead>
<tr>
<th>DG results for the reporting year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of costs of control related to the <strong>set-up, design and designation</strong> in comparison to the total annual amount delegated 0,06 %</td>
</tr>
<tr>
<td>Percentage of costs of control related to the <strong>implementation by the Institution via financial</strong> 0,18 %</td>
</tr>
</tbody>
</table>
intermediaries in comparison to the all payments executed

• **Procurement**

The following indicators demonstrate the efficiency and the cost-effectiveness of the internal control system in relation to procurement:

<table>
<thead>
<tr>
<th>Key DG indicators on control <strong>efficiency</strong></th>
<th>DG results for the reporting year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average <strong>time to publication</strong> of selection results</td>
<td>72.23 days</td>
</tr>
<tr>
<td>Coverage of <strong>first level ex ante</strong> controls</td>
<td>100 % of all commitments and payments, 100 % of all tender documents and evaluation reports</td>
</tr>
<tr>
<td>Coverage of <strong>second level ex ante</strong> controls</td>
<td>100 % of all tender documents and evaluation reports</td>
</tr>
<tr>
<td>Number of <strong>positive / suspensive / negative opinions</strong> issued on the launch and evaluation of procurement procedures</td>
<td>160/33/0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Common indicators on control <strong>cost-effectiveness</strong></th>
<th>DG results for the reporting year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of <strong>overall cost of control</strong> of procurement process in comparison to total expenditure executed during the year</td>
<td>10,37 % (^{31})</td>
</tr>
<tr>
<td>Percentage of costs of control related to the <strong>contracting and subsequent monitoring</strong> of the execution in comparison to the all procurement payments executed</td>
<td>5,42 %</td>
</tr>
</tbody>
</table>

\(^{31}\) The result of this indicator might be perceived by the reader as rather elevated; however, the reader should also consider the following three facts. Firstly, the respective costs are legally necessary to reassure adequate level of controls, namely, to address legality and regularity requirements, especially in the context of the FP7 and CIP reservations. In addition, the amount of the funds directly managed by DG GROW, i.e. the denominator of the indicators, is relatively insignificant to the overall budget for 2016. Last, but not least, DG GROW do not enjoy economies of scale as for example other Research DGs dealing exclusively and predominantly with direct management. As a result after considering these three facts, it would be clearly demonstrated that the costs of DG GROW for direct management are, in fact, rather modest, especially in comparison with the criteria for entrusted entities for example as per Annex 5.
The procurement procedures applied in DG GROW involve a number of specific controls, which effectively contribute to assure excellence in the quality of the selected tenders and in the quality of the delivered goods and services. Given the significant overall value of procurement managed by DG GROW under direct and indirect management, DG GROW is of the opinion that the level of efficiency and cost-effectiveness of the controls operated is adequate.

### Grants

The following indicators demonstrate the efficiency and the cost-effectiveness of the internal control system in relation to grant management:

<table>
<thead>
<tr>
<th>Common control efficiency indicators</th>
<th>DG results for the reporting year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average <strong>time to grant</strong>(^{32}) (Art. 128.2 FR) (TTG)</td>
<td>24,05 days</td>
</tr>
<tr>
<td>Average <strong>time to inform</strong> applicants of the outcome of the evaluation of the application (Art. 128.2 FR) (TTI)</td>
<td>105,55 days</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key DG indicators on control <strong>efficiency</strong></th>
<th>DG results for the reporting year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average days of <strong>suspension</strong></td>
<td>56,04 days</td>
</tr>
<tr>
<td>Percentage of payments suspended in comparison to all payments executed</td>
<td>33,50 %</td>
</tr>
</tbody>
</table>

---

\(^{32}\) The Financial Regulation which entered into application on 1 January 2013 set out new time limits for time to grant. The time to grant is split in (i) average time to publication of selection results targeted at 6 months and (ii) the average time from the publication till the signature of grant agreements targeted at 3 months (FR 128.2). These new targets apply to the calls published after 1 January 2013.
The ex-ante and ex-post controls significantly reduced errors in the beneficiaries' cost claims. In terms of costs, it should be considered that a significant part of them is related to the legal requirements for performing payments, namely to ensure a minimum set of controls for each transaction. In addition, the evaluation of the proposals provides assurance that only the most excellent projects, which will best contribute to the achievement of the policy objectives of the call for proposals, are selected within the respective legal framework.

The process also enables the Commission staff to identify areas of potential policy and implementation issues, which can feed into the elaboration of future policies in the same domain.

It is considered that the audit and recovery processes are cost-effective. The limitation to the number of audits is justified by policy considerations, namely to ensure a good balance between trust and control and to minimise the administrative burden for participants.

Audits have an overall deterrent effect as many beneficiaries will take extra care for the preparation of their cost claims knowing that audits may follow. The auditors can also help the beneficiaries avoiding errors by providing guidance. Communication campaigns organised by the Research Family in the past were

<table>
<thead>
<tr>
<th>European Commission common indicators on control cost-effectiveness</th>
<th>DG results for the reporting year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of overall cost of control of grant process in comparison to the total expenditure executed(^\text{33}) during the year</td>
<td>8,04 %</td>
</tr>
<tr>
<td>Percentage of costs of control related to the evaluation and selection procedure in comparison to the total value of grants contracted</td>
<td>2,50 %</td>
</tr>
<tr>
<td>Percentage of costs of control related to the contracting and subsequent monitoring of the execution in comparison to the all grant payments executed</td>
<td>4,96 %</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key DG indicators on control cost-effectiveness</th>
<th>DG results for the reporting year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average number of ongoing grant agreements managed per full time equivalent</td>
<td>13,68</td>
</tr>
<tr>
<td>Average value of ongoing grant agreements managed per full time equivalent</td>
<td>€8,398 million</td>
</tr>
<tr>
<td>Average project management costs per ongoing grant agreement</td>
<td>€9,782</td>
</tr>
<tr>
<td>Total costs of ex post audits</td>
<td>€432,528</td>
</tr>
</tbody>
</table>

\(^{33}\) From the expenditure is excluded the amount delegated or subject to a distinct discharge report.
beneficial for the quality of financial statements submitted. In addition, the experience of auditors on the ground has been important in many improvements proposed in the legislation and rules for the new generation of grant programmes, such as COSME and Horizon 2020. For example, one of the drivers for a flat rate for indirect costs was the regular identification of errors in the use of real indirect costs, and the lack of understanding of the complex real indirect cost rules by the participants. DG GROW quantified the costs of resources and inputs required for carrying out the controls described in annex 5 and estimates, insofar as possible, their benefits in terms of the amount of errors and irregularities prevented, detected and corrected by these controls.

DG GROW considers that the necessity of these controls is undeniable, as they are imposed by the Financial Regulation and the totality of the funds would be at risk in case they would not be in place.

Given that the overall cost of management and control of grants is 8,04 % of the grants value concerned, this is considered to be cost-effective, both overall and also when taking into account the relative number and size of the grants to be processed.

Further controls would not add significant value to the quality of the delivered results. Therefore, DG GROW does not intend to increase them, as this would adversely affect the other objectives of the programmes – attractiveness, reduction of administrative burden, etc. – and the overall result would be less cost-effective.

2.1.1.4 Fraud prevention and detection

DG GROW has developed and implemented its own Anti-Fraud Strategy (AFS) since 2011, elaborated on the basis of the methodology provided by OLAF. It has been updated on 09 September 2013.

The AFS is an essential element in the development of a strong anti-fraud culture within the DG. It draws on existing best practices and uses existing procedures and tools as much as possible so as to avoid any new or additional burden for the services.

DG GROW puts a strong emphasis on fraud prevention by encouraging proportionate and targeted preventive ex-ante controls. The fraud awareness campaign continued also in 2016. As part of the AFS Action Plan, a specific contract has been signed under a DG HR framework contract for Lobbying trainings with an external consultant.

In this context, several trainings related to effectively and appropriately dealing with external stakeholders have been given in 2016 opened for all staff of the DG. A dedicated intranet page provides relevant guidance and tools to staff, including a list of red flags for detecting potential fraud. An anti-fraud desk is established in the financial resources and internal control unit.

In principle, the controls aimed at preventing and detecting fraud are similar to those intended to ensure the legality and regularity of the transactions. Still, DG GROW considers the population of beneficiaries in order to identify those at a higher risk of fraud and subjects them to more in-depth monitoring controls. During the reporting year, one beneficiary was subject to in-depth risk-based controls following high error rates and indices of fraud detected during prior random audits.
Anti-Fraud Effectiveness Indicators (2016)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>nº of cases processed by the CGI³⁴:</td>
<td>0</td>
</tr>
<tr>
<td>nº of cases transferred to OLAF:</td>
<td>0</td>
</tr>
<tr>
<td>nº of risk-based audits finalised:</td>
<td>1</td>
</tr>
<tr>
<td>average detected error rate:</td>
<td>4,02 %</td>
</tr>
<tr>
<td>total amount to recover:</td>
<td>€ 20 065</td>
</tr>
<tr>
<td>nº of overriding decisions taken by the Director-General:</td>
<td>0</td>
</tr>
</tbody>
</table>

DG GROW is an active member of OLAF’s Fraud Prevention and Detection Network (FPDNet) and of the Research DG family’s Fraud and Irregularities in Research Committee (FAIR).

Since 2013 the fraud risk assessment is integrated in the annual risk assessment exercise. As the DG has externalised the majority of its budget implementation, the AFS will be reviewed in 2017 and re-targeted towards the supervision of the implementation of anti-fraud strategies by the DG's entrusted entities.

2.1.1.5 Other control objectives: safeguarding of assets and information, reliability of reporting

Reliability of reporting

DG GROW delegates the majority of its budget implementation to other entities. In addition to preliminary controls performed by DG GROW prior to delegating budget to these entities, it also relies on the declarations of assurance provided by its entrusted entities. These consist of signed declarations by the managing directors of these entities, providing assurance on the overall sound financial management of the delegated resources whilst highlighting key issues and describing the efficient functioning, cost-effectiveness and benefits of the entities internal control systems.

As a result of the efforts deployed by the DG in the past, the reliability of the financial data provided by the delegated bodies under the space programmes in 2016 is considered reliable. In 2016 ESA completed the last year of its transition from cash to full accrual accounting, and received for a third year in a row clean opinion by its statutory auditor. All controls performed by DG GROW on ex-ante and ex-post level revealed no material misstatements on the accounts presented by ESA under the space programs managed by DG GROW.

Valuation and Safeguarding of assets and information

The total asset value on the Balance sheet at end 2016 is €7,1334 million. The non-current assets cover € 5,337 million of intangible assets, property plant and equipment and long-term pre-financing. Furthermore, € 1,592 million of current assets consists predominantly of pre-financing managed and controlled in the context of the DG's direct and indirect management and the cash and cash equivalents located on the fiduciary accounts or invested by EIF in short term deposits for an amount of€ 199 million.

³⁴ DG GROW Consultative Group on Irregularities
Regarding property, plant and equipment, the EGNOS, Galileo and Copernicus assets are included in the Commission's accounting system since respectively 2009, 2011 and 2014. The accounting treatment of these assets is a complex task requiring tailored procedures and systems to ensure proper valuation and control.

With regard to **Copernicus**, in 2016 two of the Sentinels (1B and 3A) are recognised as fixed assets as they passed the In Orbit Commissioning Review in 2016. Together with Sentinel 1A and 2A that had been launched in prior years, their net value after application of depreciation based on 7 years expected life time, amounts to € 1,073 million. The Sentinels that have not been launched yet are considered as assets under construction until their future launch. Their value is € 1,133 million.

In December 2016 the **Galileo** programme was declared operational with Galileo Initial Services going live. The SAR and the open navigation services of Galileo were released and became available to all citizens. Following the achievement of this operational milestone, the accounting treatment of Galileo assets had to be adjusted in the 2016 accounts. Since the whole Galileo system was treated as Assets under Construction before the Initial Services, all elements of the system that contribute to the Initial Services were moved to Properly Plant and Equipment line, and depreciation for one month (December 2016) was calculated. In practice, all satellites which had passed the in-orbit testing were transferred to fixed assets, as well as all ground segment assets belonging to version of the system which had passed validation. As a result, at the end of 2016 DG GROW showed € 2,920 million of gross Galileo fixed assets, which includes € 756 million of assets under construction. € 20 million of costs on depreciation were incurred and booked in the Statement of Financial Performance.

During 2016 the controls performed on the data provided by ESA and GSA for the valuation of the space assets were maintained. In November, three asset workshops were organised with the participation of DG GROW, DG Budget, GSA and ESA, during which detailed explanation was obtained on the status of the contracts allowing for in-depth analysis of the data provided during the closure process.

Additionally, the EGNOS and Copernicus equipment lists were uploaded into the EC accounting system on a quarterly basis. This system provides assurance as to the correct registration and valuation of assets on equipment level. The current controls and reporting requirements are sufficient to ensure accurate, complete and timely accounting data.

Throughout the year, 9 sites have been subject to on-the-spot physical inspections by the DG GROW accounting team and by GSA, mainly on the premises of industrial suppliers. The results of these inspections allow reasonable assurance as to the existence and safeguarding of the assets.

With regard to cash and cash equivalents located on the fiduciary accounts, based on the audited financial statements provided for the COSME financial instruments and as further substantiated through the risk and performance report provided by the EIF for the assets under management, the AOD has the assurance that the balance on the respective fiduciary accounts for the LGF and the EFG, including the treasury assets, are managed in accordance with the Delegation Agreement.

In conclusion, the current control arrangements for accounting and financial reporting are sufficient and work in practice as intended. Resources were used for their intended purpose. Proper safeguarding of the DG GROW assets, i.e. € 7 133 million, including Copernicus amounting to € 2,207 million net value, GNSS amounting to € 3,005 million as well as the financial assets managed by the EIF, i.e. € 199 million, has been ensured.
2.1.2 Audit observations and recommendations

This section assesses the observations, opinions and conclusions reported by auditors in their reports as well as the opinion of the Internal Auditor on the state of control, which could have a material impact on the achievement of the internal control objectives, and therefore on assurance, together with any management measures taken in response to the audit recommendations. The DG is audited by both internal and external independent auditors: the Internal Audit Service (IAS) of the European Commission and the European Court of Auditors (ECA).

The Directorate-General has not received any critical recommendations arising from the IAC and IAS audits. The Director General is informed on the conclusions and the main recommendations stemming from the work of the internal and external auditors. The timely implementation of all recommendations is ensured by a regular monitoring, performed by the Internal Control Coordinator during the year.

Based on the assessment of the risks underlying the auditors’ observations combined with the management measures taken in response, the management of DG GROW is confident that the recommendations issued do not raise any material assurance implications. The relevant action plans are implemented as planned. Therefore, the current state of play does not lead to any assurance related concerns.

It is worth mentioning that in January 2016, DG for Budget finalised its audit on the validation of local systems of DG GROW. The report contains two important recommendations related to continuous update of the DG accounting procedures. The recommendations have been implemented on time and closed. There are still two open recommendations from the European Parliament resolutions on the 2014 discharge which are on track towards being implemented on time.

Internal Audit Service (IAS)

In 2016, the IAS carried out the following assignments: finalised three performance audits: "Setting of Objectives and Measurement of Performance in DG GROW", "IT governance and portfolio management" and "The new Better Regulation (BR) agenda in the Commission - what is the state of play approximately one year after its adoption?"; established an action plan of the audit on the performance of "DG GROW’s supervision of ESA’s implementation of Galileo"; announced and started an audit about "Accuracy of Information on the Internal Market" but decided to close it due to overlapping with a similar IAS multi-DG audit; and finally the audit on the "Effectiveness of the EC Financing of Standardisation in DG GROW" has been officially postponed due to IAS scheduling issues.

The audit on "IT Governance and Portfolio Management in DG GROW" covered issues of governance and management of data and knowledge assets and the impact of IT centralization on the alignment with the businesses, which are all new governance areas for the Commission. The one on "The new Better Regulation agenda in the Commission - what is the state of play approximately one year after its adoption?" covered DG GROW, SG as well as DGs EMPL and ENV. Here IAS noted positively that an internal training has already been organised in DG GROW. The flowchart on the Better Regulation process and more explanatory material have already been developed and will be published soon on the new local intranet GROWNet.

In the audit report on "Setting of Objectives and Measurement of Performance in DG GROW" IAS concluded that the performance management has to be further improved to demonstrate how the DG’s actions effectively contribute to achieving the strategic objectives.

In relation to the audit “DG GROW’s supervision of ESA’s implementation of Galileo”, all “Very Important” recommendations have been closed. Moreover, IAS downgraded two
recommendations from "Very Important" to "Important" as the related risks concerning ESA are considered to be partially mitigated.

In its contribution to the 2016 AAR process of DG GROW, IAS concluded that the internal control systems audited are overall working satisfactorily although five very important findings remain to be addressed, in line with the agreed action plans. From the five, the one concerning GSA is delayed. The other four are on track to be implemented on time. These affect ICS nº5 and nº6 which are considered as partially effective by DG GROW.

Furthermore, IAS mentions that a particular attention should be given to the impact of the delay observed in implementing the recommendation on risk management from the "Audit on the internal control strategy of the GSA budget delegated by DG ENTR, focusing on procurement" (from 2014). On 23rd January 2017, GSA directly informed IAS that this recommendation was implemented. It is now submitted for review to the IAS. Most probably this recommendation will be downgraded from "Very Important" to "Important" because several steps have already been performed by GSA.

The four remaining recommendations concern 2 audits from 2016: "Audit on setting of objectives and measurement of performance in DG GROW" and "Audit on IT governance and portfolio management in DG GROW". These are on track to be implemented on time.

**European Court of Auditors (ECA)**

**ECA's Annual Report**

On 13 October 2016, the Court presented its Annual Report on the execution of the Commission's 2015 budget. The assessment of the legality and regularity of DG GROW transactions and the effectiveness of its supervisory and control systems are treated in Chapter 5 - Competitiveness for GROW and jobs - of the Court's Report.

Out of the 6 transactions audited by the Court only one DG GROW (REA) transaction on a budget entrusted and implemented by REA was qualified with an error. The Court's finding is the unreliable time recording system of the beneficiary. No financial corrections were applied. Recommendation 4 in the Court's Report stating that: "the Commission [should] closely monitor the implementation of extrapolated corrections based on its ex-post audits of reimbursed costs under the Seventh Research Framework Programme" has been addressed through a closely monitoring of the ex-post audit results and eventual extrapolations coordinated by the Common Audit Service at DG RTD for all projects managed by DG GROW. For the fourth year in a row the Court's report did not contain a single criticism related to the implementation of the EU budget by DG GROW.

For all payments covered by this chapter, the Court concluded that the most likely error rate is 4,4% in 2015, versus 5,6% in 2014, and therefore material, as it exceeds the 2 % materiality threshold set by the Court.

ECA also examined the AAR of DG GROW for 2015 and consider that the AAR generally provide a fair assessment of financial management in relation to the regularity of transactions, and the information provided corroborated to ECA findings and conclusions in most respects.

**ECA's 2016 audits**

For the Declaration of Assurance (DAS) on the year 2016, eleven DG GROW transactions were sampled by the Court. For three of the six transactions for which the preliminary audit results were received, the Court had no findings. The fourth transaction, from budget entrusted to REA, had a finding where ineligible costs were included in the cost claim. The fifth transaction, concerning clearing of annual contribution to an executive agency, still needs to be clarified with the Court. In the sixth transaction an error rate of 6,25% has been detected due to ineligible costs, late and incorrect distribution of funds and incorrect payment and weakness in DG GROW's ex-ante checks. Preliminary results of the remaining transactions were not available at the time of drafting this report.
observations of the Court received so far do not impact the 2016 assurance.

ECA Special Reports
In 2016 DG GROW was lead DG in the published special report: "Has the Commission ensured effective implementation of the Services Directive?". Further, DG GROW was associated in the performance audits leading to the publication of the special reports: "Combating Food Waste: an opportunity for the EU to improve the resource-efficiency of the food supply chain" and "Is access to public procurement by the EU Institutions well managed?".

Follow-up of open ECA recommendations
Overall, seven ECA recommendations for which DG GROW is lead DG are open: one resulting from the Special Report "Efforts to address problems with public procurement in EU cohesion expenditure should be intensified”35 and six new recommendations stemming from the Special Report "Has the Commission ensured effective implementation of the services Directive"36. All are on track towards being implemented on time.

2.1.3 Assessment of the effectiveness of the internal control systems

The Commission has adopted a set of internal control standards, based on international good practice, aimed to ensure the achievement of policy and operational objectives. In addition, as regards financial management, compliance with these standards is a compulsory requirement.

In 2016, the Commission undertook a revision of its Internal Control Framework in order to ensure robust internal control with a consistent assessment throughout the services, while providing the necessary flexibility to allow departments to adapt to their specific characteristics and circumstances. It was proposed to move from a compliance-based to a principle-based system, in line with international best practices and in particular with the 2013 COSO Framework.37 The proposal has been the subject of extensive inter-service consultation where DG GROW was involved and took part in the workshops foreseen by DG BUDG in order to exchange views and best practices on the definition of pertinent baselines.

DG GROW has put in place the organisational structure and the internal control systems suited to the achievement of the policy and control objectives, in accordance with the standards and having due regard to the risks associated with the environment in which it operates.

37 COSO is a framework released in 1992 in the United States, that was originally aimed at private companies. It is now widely applied by both private and public sectors worldwide. COSO issued an updated framework in May 2013 which introduced 17 principles that are all necessary for effective internal control. The new COSO requirements have a greater focus on governance concepts.
DG GROW annually assesses the effectiveness of its key internal control system, including the internal control processes in place at the level of its implementing bodies in accordance with the applicable Commission guidance. The assessment relies on extensive monitoring throughout the reporting year, supported by various information sources such as: an assessment of compliance and effectiveness with the internal control standards; an assessment of audit findings and the implementation of recommendations; a register of detected exceptions, non-compliance events and internal control weaknesses, identified both by the management and by auditors in their audit reports; management declarations outlining the control environment and any control issue; and regular risk assessment. The opinion of the IAS was duly taken into account. Based on these elements the Internal Control Coordinator reported on the state of internal control and provided her recommendation to the Director-General.

Concerning the overall state of the internal control system, the DG complies with the three assessment criteria for effectiveness, i.e. (a) staff has the required knowledge and skills, (b) systems and procedures are designed and implemented to manage the key risks effectively, and (c) there are no instances of ineffective controls that have exposed the DG to its key risks.

The functioning of the internal control systems has closely been monitored throughout the year by the systematic registration of exceptions and non-compliances with the rules and procedures, and of internal control weaknesses. The underlying causes behind these exceptions and weaknesses were analysed and mitigated. All related audit recommendations were either successfully implemented as reaffirmed by auditors in their follow-ups or are currently under implementation, mitigating any significant risks. An assessment of the audit findings and the implementation of recommendations has been carried out as part of the overall assessment of the internal control system. A number of very important recommendations were issued by the IAS in the context of the Audits on the "Setting of Objectives and Measurement of Performance in DG GROW" and on "Audit on IT governance and portfolio management in DG GROW" (see more details and status of implementation under section 2.1.2), implying an impact on the level of control of the internal control system concerning on ICS 5 and ICS 6. Therefore, taking a conservative approach, the implementation of the building block on "Planning and Risk Management Processes" is considered partially effective.

In its management plan for the reporting year 2016, DG GROW did not prioritise any Internal Control Standards.

Further enhancing the effectiveness of the DG GROW control arrangements in place by inter alia taking into account any control weaknesses reported and exceptions recorded, is an on-going effort in line with the principle of continuous improvement of management procedures, while taking into account the cost-effectiveness and risk differentiation of controls.

For the achievement of its objectives DG GROW largely relies on executive and regulatory agencies, as well as on a close cooperation with various partners and international organisations, in particular with the European Space Agency and the European Investment Fund. With the further externalisation of budget implementation, DG GROW focuses more on policy making and supervision and less on direct project management.

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38 "State of the internal control at DG GROW for 2016" report to be finalised in March 2017.
As a consequence, the DG main inherent risk endangering the achievement of its political objectives lies in the supervision of these entrusted entities. In view of the Space programmes, the Commission acting as a programme manager has the overall responsibility for the successfully building of Galileo and Copernicus systems, which by definition bear important inherent risk due to their complexity and technological uncertainties. Irrespectively of this risky environment, the DG is committed to deliver and correct any challenge in this respect.

As mentioned above, one of the main inherent risks concerns supervision of externalised activities of the DG implemented by regulatory, executive and decentralised agencies. In this context, there might be reputational risks linked to sensitive matters\(^39\). However, this does not have per se an impact on the declaration of assurance of DG GROW for 2016. It shall be duly reported if the risk materialises. However, this does not have per se an impact on the declaration of assurance of DG GROW for 2016. It shall be duly reported if the risk materialises.

An additional significant inherent risk is related to maintaining the residual level of errors in the Research framework programme (FP7) and CIP below the materiality threshold of 2 %, while balancing trust and control. The reader is referred to sections 2.1.4 and 2.1.5.

As a result of the effective and timely implementation of mitigation measures, none of the prominent risks for the reporting year materialised. It is worth mentioning that DG GROW enhances, as a continuous effort, the management of the available resources so to ensure smooth achievement of objectives. In this context, as of January 2016, the general principle was to put in place designated cells for financial initiation in each Directorate with a central verification counterweight in the central financial unit (GROW.R1):

- for the Directorates A, B, C, D, F, H, these financial cells are staffed with financial agents together with a Budgetary Correspondent for the budgetary coordination;
- for Directorates R, E, G and Unit 01, due to the limited number of financial transactions, the financial initiation was centralised in Unit GROW.R1 allowing for economies of scale and improved quality of the transactions;
- for Directorates I and J (Space), the Unit GROW.02 is in charge of the financial coordination and the initiation of all the financial transactions (fully in place as from 2017).

This reorganisation in the financial actors will only start in 2017 to positively affect the cost of control over the budget managed. The financial rationalisation launched end 2016 became effective as from 2017 with the optimisation of the financial workflows by reducing the number of involved actors and simplifying the workflows applicable for low-value transactions in view of reaching cost effectiveness of controls. By adequately reallocating resources and risk-differentiating controls, the DG shall improve its cost-effective execution of the control operations.

Further improvements will take place in 2017 in the area of optimising and automating the contents of the financial files (e-procurement). A full use of e-signatories will be applicable for payments with a continuous updates of the checklists and of the DG GROW Manual of budgetary and financial procedures.

In conclusion, the internal control standards are effectively implemented and functioning, and, consequently, there is no impact on the assurance as provided in section 2.1.5.

\(^{39}\) The compliance with the Commission’s Guidelines on the prevention and management of conflicts of interest in EU decentralised agencies, is closely monitored. For example, ECHA participates to the exchange of good practises organised by DG SANTE’s task force with the agencies.
2.1.4 Conclusions as regards assurance

This section reviews the assessment of the elements reported above, in Sections 2.1 and 2.3, and draws conclusions supporting the declaration of assurance and whether it should be qualified with reservations.

The information reported in Section 2 stems from the results of management and audit monitoring contained in the reports listed. These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a comprehensive coverage of the budget delegated to the Director-General of DG GROW.

For financial operations managed by the DG in 2016 under FP7 and CIP, the materiality criterion is that the estimated residual risk of error is less than 2% cumulative by the end of the programme’s implementation. Since the residual error rate from the Common Representative audit Sample (CRaS) is material at the end of 2016, DG GROW, in accordance with the other members of the Research Family, maintains its reservation on FP7 expenditure for 2016, even though this reservation has a minimal impact given DG GROW’s limited FP7 activity.

Similarly, based on its own ex-post controls and according to the audit results, DG GROW maintains in 2016 its reservation on CIP grants since the residual error rate is above the materiality threshold of 2%. The main corrective actions in 2017 to reduce the error rate consist of continuing the in-depth ex-ante and ex-post controls and the performance of targeted audits in case of identified specific risks.

Except for the FP7 and CIP reservations, management has reasonable assurance that overall suitable controls are in place and work as intended, risks are being mitigated and/or monitored, and improvements and reinforcements are being implemented.

The lessons learned from the indicators of ex-ante and ex-post controls together with the strengths and weaknesses highlighted in the audits conducted in 2016 lead to the conclusion that DG GROW has reasonable assurance that its internal control system is adequately designed and works as intended.

Overall Conclusion

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director General, in her capacity as Authorising Officer by Delegation has signed the Declaration of Assurance qualified by reservations concerning the 7th Research Framework Programme and the Competitiveness and Innovation Framework Programme:

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40 Even an effective internal control system, no matter how well designed and operated, has inherent limitations – including the possibility of the circumvention or overriding of controls – and therefore can provide only reasonable assurance to management regarding the achievement of the business objectives and not absolute assurance.
<table>
<thead>
<tr>
<th>Title</th>
<th>Type (Financial or Reputational)</th>
<th>2016 amount at risk, i.e. exposure</th>
<th>ABB activity and amount affected, i.e. scope</th>
</tr>
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<tbody>
<tr>
<td>Reservation concerning the rate of the residual error with regard to the accuracy of cost claims in the <strong>7th Research Framework Programme (FP7)</strong>.</td>
<td>Financial</td>
<td></td>
<td>Partially ABB 02 04, i.e. <strong>Article 02 04 51</strong> 'Completion of previous research framework programmes — Seventh Framework Programme — EC (2007 to 2013)' &amp; <strong>Article 02 04 50 01 &amp; 02 04 50 02</strong> € 1,54 million of FP7 grants in 2016 of which: + € 0,140 million final payments executed by DG GROW + € 1.411 million delegated to DG RTD + € 14.198 million cleared pre-financing GSA</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>€ 15.749 million FP7 grants in 2016 of which: + € 0,140 million final payments executed by DG GROW + € 1.411 million delegated to DG RTD + € 14.198 million cleared pre-financing GSA</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>FP7 residual error rate: <strong>2,7 %</strong> ABB materiality: &gt; <strong>2 %</strong> € <strong>0,425 million</strong> as maximum potential impact on FP7 relevant expenditure (payments and clearings) during 2016</td>
</tr>
<tr>
<td>Reservation concerning the rate of the residual error with regard to the accuracy of cost claims in <strong>Competitiveness and Innovation Framework Programme 2007-2013 (CIP)</strong>.</td>
<td>Financial</td>
<td></td>
<td>Partially ABB 02 02 and 02 04, i.e. <strong>Article 02 02 51</strong> 'Completion of former activities in the competitiveness and entrepreneurship domain' And <strong>Article 02 04 53</strong> 'Completion of Competitiveness and Innovation Framework</td>
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In 2016, DG GROW has managed the resources for which it was responsible to the best effect for the intended purposes, in line with the Financial Regulation and according to the principles of sound financial management, legality and regularity.

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

In the area of the accuracy of cost claims in the Seventh Research Framework Programme (FP7) the errors detected lead the Director-General to maintain the

<table>
<thead>
<tr>
<th>Title</th>
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<th>2016 amount at risk, i.e. exposure</th>
<th>ABB activity and amount affected, i.e. scope</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>+ € 10,822 million payments executed by DG GROW</td>
<td>€ 10,822 million of CIP grants in 2016 of which:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+ € 8,769 million of pre-financings cleared by DG GROW</td>
<td>+ € 3,426 million payments executed under ABB 02 02 51</td>
</tr>
<tr>
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<td></td>
<td>CIP residual error rate: 6,14 %</td>
<td>+ € 7,396 million payments executed under ABB 02 04 53</td>
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<tr>
<td></td>
<td></td>
<td>ABB materiality: &gt; 2 %</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>€ 1.203 million as maximum potential impact on CIP relevant expenditure (payments and clearings) during 2016</td>
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</tbody>
</table>
reservation on the reasonable assurance. This decision was taken in consultation with the other members of the Research and Innovation family. The scope from this reservation, however, represents €15.7 million, which is 0.86% of the relevant expenditure (payments and clearings) for 2016. Similarly, in the area of the accuracy of cost claims in the Competitiveness and Innovation Framework Programme 2007-2013 (CIP), the errors detected lead the Director-General to maintain the reservation on the reasonable assurance. The scope from this reservation represents €19.6 million, which is 1.07% of the relevant expenditure (payments and clearings) for 2016.
2.1.5 Declaration of Assurance and reservations
DECLARATION OF ASSURANCE

I, the undersigned, Lowri Evans,

**Director-General** for Internal Market, Industry, Entrepreneurship and SMEs

**In my capacity as authorising officer by delegation**

Declare that the information contained in this report gives a true and fair view\(^1\).

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

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

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

However the following reservations should be noted:

1) Reservation concerning the rate of the residual error with regard to the accuracy of cost claims in the 7\(^{th}\) Research Framework Programme 2007-2013 (FP7).

2) Reservation concerning the rate of the residual error with regard to the accuracy of cost claims in the Competitiveness and Innovation Framework Programme 2007-2013 (CIP).

**Brussels, 31st March 2017**

*e-Signed*

Lowri Evans

**Director-General of DG for Internal Market, Industry, Entrepreneurship and SMEs**

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\(^1\) True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG/Executive Agency.
Reservation 1

<table>
<thead>
<tr>
<th>DG</th>
<th>Internal Market, Industry, Entrepreneurship and SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Title of the reservation, including its scope</strong></td>
<td>Reservation concerning the rate of the residual error with regard to the accuracy of cost claims in the 7th Research Framework Programme 2007-2013 (FP7).</td>
</tr>
<tr>
<td><strong>Domain</strong></td>
<td>Research, direct management of grants under the 7th Research Framework Programme (FP7).</td>
</tr>
<tr>
<td><strong>ABB activity and amount affected (&quot;scope&quot;)</strong></td>
<td>02 04 – “Horizon 2020 - Research relating to enterprises”, in particular Article 02 04 51 'Completion of previous research framework programmes — Seventh Framework Programme — EC (2007 to 2013)': € 122,835 million as outturn on payments made in 2016 for AAB 02 04, of which € 63,4 million within Article 02 04 51, where € 1,55 million as FP7 grants.</td>
</tr>
<tr>
<td><strong>Reason for the reservation</strong></td>
<td>At the end of 2016, the residual error rate is not below the materiality threshold foreseen for the multi-annual period.</td>
</tr>
<tr>
<td><strong>Materiality criterion/criteria</strong></td>
<td>The materiality criterion is the cumulative residual error rate, i.e. the level of errors that remain undetected and uncorrected, by the end of the management cycle. The control objective is to ensure that the residual error rate on the overall population is below 2 % at the end of the management cycle. As long as the residual error rate is not below 2 % at the end of a reporting year within the FP's management lifecycle, a reservation would be made.</td>
</tr>
<tr>
<td><strong>Quantification of the impact (= &quot;actual exposure&quot;)</strong></td>
<td>The residual Error Rate for 2016 is 2,7 %. The maximum impact is calculated by multiplying the residual error rate in favour of the Commission, i.e. 2,7 %, by the sum of FP7 relevant expenditure based on cost statements actually processed in 2016, i.e. € 0,140 million final payments executed by DG GROW + € 1,4 million delegated to DG RTD + € 14,198 million cleared pre-financing GSA. Hence, the sum of FP7 relevant expenditure based on cost statements actually processed in 2016 results in € 15.749 million. This yields € 0,425 million as maximum potential impact on FP7 relevant expenditure during 2016 based on the 2.7 % residual error rate for FP7.</td>
</tr>
<tr>
<td><strong>Impact on the assurance</strong></td>
<td>Legality and regularity of the affected transactions, i.e. only payments made against cost claims, interim payments and payments of balance. The assurance is affected by the above quantified maximum potential impact, which represents 0,02 % of the relevant expenditure made by DG GROW in 2016.</td>
</tr>
<tr>
<td><strong>Responsibility for the weakness</strong></td>
<td>The responsibility for the weakness lays within the Legislative Authorities for the complexity of the underlying rules as laid down in the basic acts, the Commission services for the management and control systems in place, and the beneficiaries and certifying auditors for the correctness of cost claims and audit certificates. The remedial action of the services of the Commission is carried out through audit campaigns and the full and timely implementation of audit results as well as by better informing the beneficiaries and certifying auditors.</td>
</tr>
<tr>
<td><strong>Responsibility for the corrective action</strong></td>
<td>The main corrective actions, as set out in the common FP7 audit strategy, consist of exhaustive auditing of the biggest participants, coverage of an additional sample of beneficiaries randomly selected according to international audit standards and the performance of targeted audits in case of identified specific risks. In addition to the audits performed, the implementation of the audit results on systematic errors to non-audited projects and the application of liquidated damages, in case the beneficiary fails to implement audit results on these systematic errors, provide for an...</td>
</tr>
</tbody>
</table>
additional extension of the audit coverage. The remaining scope to reduce errors will be addressed in particular through the following actions:

- continuing on-going efforts to give guidance and feedback to the participants and certifying auditors to prevent errors occurring;
- Continuing control and audit work in order to further reduce the FP7 residual error rate.

The possibilities to simplify the FP7 rules have been exhausted, but the simplification measures introduced in 2011 should continue to have a positive impact on the error rate.
Reservation 2

<table>
<thead>
<tr>
<th>DG</th>
<th>Internal Market, Industry, Entrepreneurship and SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Title of the reservation, including its scope</td>
<td>Reservation concerning the rate of the residual error with regard to the accuracy of cost claims in the Competitiveness and Innovation Framework Programme 2007-2013 (CIP).</td>
</tr>
<tr>
<td>Domain</td>
<td>COSME and Research, direct management of grants under the Competitiveness and Innovation Framework Programme 2007-2013 (CIP).</td>
</tr>
</tbody>
</table>
| ABB activity and amount affected (="scope") | 02 02 – "Competitiveness of enterprises and small and medium-sized enterprises (Cosme)"
and
02 04 – “Horizon 2020 - Research relating to enterprises”,
in particular
Article 02 02 51 'Completion of former activities in the competitiveness and entrepreneurship domain': € 85,891 million as outturn on payments made in 2016 for AAB 02 02 for DG GROW, of which € 4,278 million within Article 02 02 51, where € 3,426 million as CIP grants.
and
Article 02 04 53 'Completion of Competitiveness and Innovation Framework Programme – Innovation part (2007-2013)’: € 122,835 million as outturn on payments made in 2016 for AAB 02 04 for DG GROW, of which € 10,328 million within Article 02 04 53, where € 7,396 million as CIP grants. |
| Reason for the reservation | At the end of 2016, the residual error rate is not below the materiality threshold foreseen for the multi-annual period. |
| Materiality criterion/criteria | The materiality criterion is the cumulative residual error rate, i.e. the level of errors that remain undetected and uncorrected, by the end of the management cycle. The control objective is to ensure that the residual error rate on the overall population is below 2% at the end of the management cycle. As long as the residual error rate is not below 2% at the end of a reporting year within the CIP management lifecycle, a reservation would be made. |
| Quantification of the impact (= "actual exposure") | The residual error rate for 2016 is 6,14%. The maximum impact is calculated by multiplying the residual error rate in favour of the Commission, i.e. 6,14%, by the CIP relevant expenditure (payments and clearings) based on cost statements actually processed in 2016, i.e. € 19,591. This yields € 1.203 million as maximum potential impact on CIP payments during 2016 based on the 6,14% residual error rate for CIP. |
| Impact on the assurance | Legality and regularity of the affected transactions, i.e. only payments made against cost claims, interim payments and payments of balance. The assurance is affected by the above quantified maximum potential impact, which represents 0.065% of the relevant expenditure made by DG GROW in 2016. |
| Responsibility for the weakness | The responsibility for the weakness lays within the Legislative Authorities for the complexity of the underlying rules as laid down in the basic acts, the Commission services for the management and control systems in place, and the beneficiaries for the correctness of cost claims and audit certificates. Within these limits the remedial action of the DG GROW is carried out through audit campaigns and the full and timely implementation of audit results as well as by better informing the beneficiaries and in-depth ex-ante checks. |
| **Responsibility for the corrective action** | The main corrective actions consist of in-depth ex-ante and ex-post controls and the performance of targeted audits in case of identified specific risks. The remaining scope to further reduce the CIP residual error will be addressed in particular through continuing control and audit work in 2017. |
2.2 Other organisational management dimensions

### 2.2.1 Human resource management

#### STAFFING

<table>
<thead>
<tr>
<th># Officials</th>
<th>2016</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Target</td>
<td>1st quarter</td>
<td>2nd quarter</td>
<td>3rd quarter</td>
<td>4th quarter</td>
<td>Comments</td>
</tr>
<tr>
<td>AD</td>
<td>588</td>
<td>581</td>
<td>560</td>
<td>558</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ASTvSC</td>
<td>327</td>
<td>321</td>
<td>313</td>
<td>306</td>
<td></td>
<td></td>
</tr>
<tr>
<td>% (AD)</td>
<td>0.9%</td>
<td>0.9%</td>
<td>0.9%</td>
<td>0.9%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AD/AST</td>
<td>1.8</td>
<td>1.8</td>
<td>1.8</td>
<td>1.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ratio of statutory staff working &gt; 65</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### # External staff (excluded SLB)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Target</td>
<td>1st quarter</td>
<td>2nd quarter</td>
<td>3rd quarter</td>
<td>4th quarter</td>
<td>Comments</td>
</tr>
<tr>
<td>Contract agents</td>
<td>137</td>
<td>138</td>
<td>127</td>
<td>126</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interimaires</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ENDs</td>
<td>57</td>
<td>55</td>
<td>49</td>
<td>47</td>
<td></td>
<td></td>
</tr>
<tr>
<td>External staff / Total staff</td>
<td>17.7%</td>
<td>17.6%</td>
<td>16.9%</td>
<td>16.7%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NEPT</td>
<td>3</td>
<td>2</td>
<td>0</td>
<td>2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Vacant jobs

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Target</td>
<td>1st quarter</td>
<td>2nd quarter</td>
<td>3rd quarter</td>
<td>4th quarter</td>
<td>Comments</td>
</tr>
<tr>
<td>Vacancy rate</td>
<td>2.4%</td>
<td>3.0%</td>
<td>3.4%</td>
<td>2.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AD</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ASTvSC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vacancy duration (months)</td>
<td>/</td>
<td>/</td>
<td>N/A. Due to DG GROW</td>
<td>staff reduction package</td>
<td>vacant posts cannot</td>
<td>immediately be</td>
</tr>
<tr>
<td>Management</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AD</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ASTvSC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Sensitive posts and functions

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Target</td>
<td>1st quarter</td>
<td>2nd quarter</td>
<td>3rd quarter</td>
<td>4th quarter</td>
<td>Comments</td>
</tr>
<tr>
<td>Managers on the same post &gt; 5 years</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- of which &gt; 7 years</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overheads</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% overheads *</td>
<td>8.28%</td>
<td>8.28%</td>
<td>8.28%</td>
<td>8.28%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### MOBILITY

| Internal mobility (cumulative) | 2016 |      |      |      |      |      |
|                               | Target | 1st quarter | 2nd quarter | 3rd quarter | 4th quarter | Comments |
| AD                           | 5     | 10    | 20    | 29    |      |      |
| AST                          | 35    | 40    | 45    | 52    |      |      |

| External mobility (cumulative) | 2016 |      |      |      |      |      |
| AD arriving                  | 11    | 17    | 22    | 26    |      |      |
| - of which laureates         | 1     | 1     | 2     | 2     |      |      |
| AD leaving                   | 7     | 15    | 35    | 38    |      |      |
| Net balance                  | 4     | 2     | -13   | -12   |      |      |
| AST arriving                 | 0     | 2     | 2     | 2     |      |      |
| - of which laureates         | 0     | 1     | 1     | 1     |      |      |
| AST leaving                  | 1     | 4     | 4     | 5     |      |      |
| Net balance                  | -1    | -2    | -2    | -3    |      |      |

| Staff on the same post > 5 years | 2016 |      |      |      |      |      |
| reduce                         | 133   | 152   | 152   | 158   |      |      |
| AD                            | 73    | 85    | 86    | 96    |      |      |
| AST                           | 60    | 67    | 66    | 62    |      |      |

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Internal/non formalised target

Target as set in management plan
2.2.2 Better regulation (only for DGs managing regulatory acquis)

In 2016, DG GROW continued to be among the main providers of the Commission's REFIT (=Regulatory Fitness) Programme. REFIT aims to make sure that EU law remains fit for purpose and delivers the results intended by policy makers in the most efficient and effective way. Among 181 REFIT measures listed in the REFIT Scoreboard published in October 2016, the DG is responsible for 26 of them. In 2016, the DG finalised the following REFIT measures:

- the evaluation of the Late Payments Directive;
- the Fitness Check on the oil refining industry;
- the Cumulative Cost Assessment on the forest-based industry;
- the Cumulative Cost Assessment on the chemicals industry;
- the evaluation standardisation and
- the evaluation on pre-packaging.
2.2.3 Information management aspects

The Document Management team provided assistance to the DG services to ensure that the documents drawn up or received in DG GROW were managed in accordance with the rules on Document Management. Overall, in 2016 the team treated 4,624 Inter-service Consultations (sum of received + launched), assigned 496 Complaints (CHAP) and 980 EU restricted documents (RUE), dealt with 1,199 mails type "Courrier de la Commission" (CdC) and "Courrier du President" (CdP), created 1,891 Ares documents, completed 4,719 tasks in Ares and followed up 6,799 requests via email. An annual quality check on the electronic files was conducted, trainings for the staff in charge of files creation were put in place, updates to the document management rules were notified via info sessions and by updating the guidelines published on the intranet. The percentage of documents registered not filed, which was 0.72% (for former ENTR) and 3.54% (GROW) in 2015, it decreased respectively to 0.14% (ENTR) and 1.01% (GROW).

In view of the modernization of the working conditions in DG GROW, in 2016, Unit O3 initiated the implementation of a collaborative platform, i.e. GROWNET. GROWNET facilitates collaborative working methods and knowledge sharing, allows transparent flows of information and improves internal communication. As a result, GROWNET allows for exchange of opinions and ideas through online forums; storage of information and documents, creation of databases and effective search of information. GROWNET also allows creating documents in an individual or collaborative manner. In view of the launch of the collaborative platform, a necessary analysis of issues such as access to documents and treatment of classified and sensitive information was made, some of the internal workflows were analysed and simplified as well as a specific IT training was delivered to at least one person from all the units of DG GROW. The envisaged launch of GROWNET should take place in mid-March 2017.

2.2.4 External communication activities

During 2016 the Access to documents team processed 520 requests for internal and public documents of which 103 sensitive. This compares to 44 in 2015. Out of the total number of requests for 2016, 470 of them (90%) were replied on time. The team also participated in an Ombudsman investigation following a complaint alleging that the Commission wrongly denied public access to certain documents on a medical device. Of particular note during 2016 the team played an important role and had an additional workload linked with the handling of the EMIS Committee.