

European Research Council  
Executive Agency



Established by the



2011

# Annual Activity Report

European Research Council  
Executive Agency

Figures related to the financial statements are based on provisional accounts,  
as final accounts are to be adopted by July 1st, 2012.

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# INTRODUCTION

The European Research Council Executive Agency (ERCEA) was set up by Commission Decision of 14 December 2007 for the management of the specific Community Programme 'Ideas' (the Ideas Programme) in the field of frontier research in application of Council Regulation (EC) no 58/2003<sup>\*</sup>.

The "Ideas" Programme seeks to reinforce excellence, dynamism and creativity in European research by financing 'frontier research', i.e. highest quality research at the frontiers of knowledge that brings about new opportunities for scientific and technological advance, and is instrumental in producing new knowledge leading to future applications and markets. By doing this, the ERC provides a vital link in the innovation chain and contributes to one of the main priorities of the Europe 2020 strategy, which requires every link in this chain to be strengthened, from 'blue sky' research to commercialization.

In this way, it helps attracting the world's best researchers to Europe, encourages industrial research investment, and strengthens EU capacity to generate new knowledge that will feed back into the economy and society. The Ideas Programme is implemented the European Research Council (ERC), composed by the Scientific Council and the European Research Council Executive Agency (ERCEA). Since its inception in 2007, the ERC has already become a recognised success of the FP7 programme, having established itself as an indispensable component of the European Research Area with a high reputation for the quality and efficiency of its operations. The ERC has reached an extraordinary level of prominence on the European and international stage and achieved to increase confidence and enthusiasm in EU research. By the end of 2011 more than 2,000 frontier-research projects were up and running in around 470 prestigious research institutions in Europe, run by top researchers enthusiastically pursuing their innovative ideas at the frontiers of knowledge.

The ERC supports individual research teams, as opposed to collaborative research, in particular with two grant schemes which form the core of its activities: the Starting Grants (StG), supporting researchers at the early stage of their careers, with the aim of providing working conditions that enable them to become independent research leaders; and the Advanced Grants (AdG), designed to support outstanding and established research leaders by providing resources necessary to enable them to continue the work of their teams, seeking new breakthroughs in their line of research.

A third funding initiative - the Proof of Concept – was launched in March 2011 with the aim to contribute to stimulating innovation by making available additional funding to researchers already holding ERC grants to bridge the gap between their research and the earliest stages of an innovation. This additional funding possibility was introduced because the type of high-risk/high-gain research at the frontiers of knowledge that the ERC promotes often generates new discoveries and unexpected opportunities for innovative applications. With this new initiative the ERC is committed to ensure the full exploitation of the excellent ideas it funds and to capture the maximum value from frontier research by supporting excellent ideas in their first steps towards the market.

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<sup>1</sup> Decision 2008/37/EC, OJ L 9 of 12.1.2008, p.15.

Finally, the Synergy Grants have been introduced in the 2012 "Ideas" Work Programme to enable small groups of researchers to bring together complementary skills, knowledge, and resources, in order to jointly address research problems at the frontier of knowledge going beyond what the individual researchers could achieve alone. As of 2011, thirty-six ERC grantees have received prestigious international scientific prizes and awards, among which 4 Nobel Prizes; 3 Field Medals; and 6 other highly prestigious research prizes (often considered "Nobel Prize" in their areas and seen as equally prestigious). The number of articles acknowledging ERC-funding published in peer-reviewed journals increased from over 1,200 for 2010 to an additional 1,750 in 2011, totalising more than 3,400 since 2008<sup>2</sup>.

The ERC has become an important agent of change and the 'Ideas' Programme is bringing added value to the European research system, with its European-wide competitive funding structure and capability to draw on a wider pool of talents and ideas than would not be possible for any national scheme.

ERC applicants have to perform at the highest level, independent of the local bottlenecks or the availability of national funding while the prestige of hosting ERC grantees and the accompanying "stamp of excellence" also intensify competition between European universities and other research organisations in offering the most attractive conditions for top researchers. In addition, Member States' national and regional authorities are analysing the ERC call results as to improve their policies and practices accordingly.

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<sup>2</sup> For more details, please refer to ERC report "Early Signs of Wide –Ranging Impact of the Ideas Programme" dated November 2011 and to the Annual Report on the ERC activities and achievements in 2010.

## PART 1. IMPLEMENTATION OF ERCEA ANNUAL WORK PROGRAMME 2011

The ERCEA strives to make an important contribution to Europe's long term vision of turning the EU into a smart, sustainable and inclusive economy, delivering high levels of employment, productivity and social cohesion.

The ERCEA fulfils its mission by ensuring the scientific and financial management of the "Ideas" programme.

### 1.1 Scientific Management of the Ideas programme

The main 2011 activity of the ERCEA with regard to the scientific management of the "Ideas" Programme was to successfully deliver on the 2010 and 2011 ERC Calls for Proposals and the follow-up of implementation from the previous calls, through various steps, which have been achieved as follows:

KEY ACTIONS TO BE UNDERTAKEN BY THE END OF 2011	TARGETS FOR 2011 (NUMBER/%)	Results as of 31/12/2011
Publication of calls (as per call identifier number)	7 calls	7 (100%)
Organisation of grant proposal evaluation, eligibility check, ethical review, preparation of selection/rejection lists, processing redress cases etc.	7 calls (Compared to 2010 the number of applications for StG calls 2011 is expected to increase by 40 % (~4000 applications) and to remain stable for AdG calls (~2000))	7 calls (To confirm – see table § 1.1.1) StG2011: 42% increase of submitted proposals / StG2010 AdG2011: 13.5% increase of submitted proposals / AdG2010
Contracting based on ranked lists following the approval of evaluation results	100% of the 2010 calls ranked lists  60% of the StG 2011 calls ranked lists  3% of the AdG 2011 calls ranked lists	2010 calls (StG/AdG): 100%  StG-2011 call: 84,54%  AdG-2011 call: 19,11%
% of mid-term and final scientific reports reviewed within 30 days upon receipt	75% StG 2007 final reports 75% StG 2009 mid-term reports 75% AdG 2008: 225 mid-term and 2 final reports (all within 30 days)	100% StG2007 final reports 70% StG2009 mid-term reports 55% AdG2008 mid-term reports (within legal limit of 60 days: 100% StG2007, 100% StG2009 and 98% AdG2008)
% of ongoing projects visited on-site	2% of all ongoing StG projects (estimated 14 projects visited) 2% of all ongoing AdG projects (estimated 14 projects visited)	1% of all ongoing StG projects (12 site visits) 0.4% of all ongoing AdG projects (3 site visits)
% of technical audits carried out	~2% on the reporting projects for both StG and AdG (estimated 9 audits)	0% for StG 0% for AdG

Detailed information on the calls for proposals, evaluations and scientific follow up is provided below.

## 1.1.1 Calls for proposals

The following table lists the calls launched in 2011<sup>3</sup> according to the 2012 ERCEA Annual Work Programme, which is subject at the time of writing to the adoption by ERCEA's Steering Committee upon the approval of the Commission:

Call identifier	Indicative budget (EUR)	Opening date	Closing date
ERC-2012-StG - Physical Sciences and Engineering	321.192.353 €	20/07/2011	12/10/2011
ERC-2012-StG - Life Sciences	284.693.222 €	20/07/2011	09/11/2011
ERC-2012-StG - Social Sciences and Humanities	124.097.045 €	20/07/2011	24/11/2011
ERC-2012-AdG- Physical Sciences and Engineering	299.191.200 €	16/11/2011	16/02/2012
ERC-2012-AdG - Life Sciences	265.192.200 €	16/11/2011	14/03/2012
ERC-2012-AdG- Social Sciences and Humanities	115.596.600 €	16/11/2011	11/04/2012
ERC-2012- SyG - Synergy Grant	150.000.000 €	25/10/2011	25/01/2012

Three types of ERC grants were available in 2011. The two established schemes will remain as the core of the ERC's operations for the duration of the 7th Framework Programme:

The ERC Starting Grants boost the independent careers of excellent researchers by providing adequate support at the critical stage where they are starting or consolidating their own independent research team or programme, whilst the ERC Advanced Grants encourage substantial advances at the frontier of knowledge by supporting excellent, leading advanced investigators to pursue ground breaking, high-risk/high gain research.

The ERC Synergy Grants is a pilot scheme which enables small groups of Principal Investigators (with a designated Lead Principal Investigator) and their teams to bring together complementary skills, knowledge, and resources, in order to jointly address research problems at the frontier of knowledge going beyond what the individual Principal Investigators could achieve alone.

In addition, ERC grantees can apply since 2011 for additional Proof of Concept funding to establish the innovation potential of ideas arising from their ERC-funded frontier research projects. In line with ERCEA 2011 Annual Work Programme, the first call was launched in March 2011 and closed in January 2012, with an indicative budget of € 10Million.

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<sup>3</sup> The proof of Concept 2012 call, although included in ERCEA Annual Work Programme 2012, is not reflected in the below table as it was launched in 2012.

A total of 4737 proposals were submitted in response to the Starting Grant Call 2012, representing an increase of 42% compared to the previous call, in line with ERCEA increase forecast. Out of this total, 2055 proposals submitted concerned the Physical Sciences and Engineering (PE) domain, 1652 for the Life Sciences (LS) domain and 1030 for the Social Sciences and Humanities (SH), representing respectively 43.4%, 34.9% and 21.7%, consistent with the Starting Grant Call 2011.

The evaluation results of the 2012 Advanced Grant, Synergy Grant and Proof of Concept calls are not yet available.

The Scientific Management Department's dedicated IT Team contributed to these achievements by addressing the needs resulting from the increased number of scientific officers involved and the implementation of the 2 new instruments, the ERC Proof of Concept and the ERC Synergy Grant, by supporting all IT tools with user friendly guides and video tutorials, by further expanding its Intranet based communication portal, a collaborative platform, with new facilities, as the integration of Business Objects real time reports, IT user's documentation and key performance indicators.

Following the ERC 2011 external communication strategy, the ERCEA continued and increased its efforts to raise the visibility of ERC calls and awareness of the ERC's funding opportunities both in and outside Europe.

The new calls were widely published, via the website and news alerts, but also by coordinated efforts with DG Research and Innovation, at the occasion of the campaign on new FP7 calls in July 2011. To raise awareness of both its existing and new funding opportunities (such as the Synergy and Proof of Concept Grants), the ERC ensured its presence at and involvement in more than 18 major international research conferences and exhibitions, as well as career fairs and workshops outside its member countries. Special efforts were deployed in European countries with low participation or awareness of the ERC calls, like in Hungary, Latvia and Poland, as well as outside Europe, in targeted countries, mostly the US, China, Brazil, India and South Africa.

The ERC received much **media** attention in Europe but also worldwide throughout the year, both as an organisation and through the funded projects/grantees, thanks to the dissemination to the media of around 10 press releases and 10 highlights/updates and more than 40 ERC projects were highlighted on the ERC website. Four press activities resulted in a great number of articles in both the scientific and more general press (over 1300 mentions) and further reinforced relations with the media. Two meetings with the ERC **National Contact Points (NCPs)** were held on the premises of the Agency with the aim of updating the NCP network on ERC activities and calls results, as well as to reinforce their communication activities.

Concerning ERC communication tools, 2011 was marked by two important new developments: first of all, a completely **new website** was put on line in September, with a new look-and-feel, a new layout, a clearer and more user friendly navigation, more functionalities and more dynamic impact. The website was consulted during 2011 by a total of 336,766 unique visitors for a total of 629,250 visits (+ 13 % compared to 2010). Finally, a quarterly **electronic newsletter** called "ideas" was published as from March, to offer more in-depth information and presentations of ERC achievements, news, projects, grantees and partners. The newsletter is sent to over 15.000 recipients and has received much praise.

## 1.1.2 Evaluation of proposals

During the period under review, the ERC-2011-StG, ERC-2011-AdG and the ERC-2011-PoC call for proposals were evaluated and the related evaluation results are shown in the table below:

Starting Grants Call ERC-2011-StG	Budget (€)	Submitted proposals	Eligible (% of submitted proposals)	Retained for funding (% of submitted proposals) <sup>4</sup>
Physical Sciences and Engineering (PE)	<b>661.370.399</b> 40% for PE (264.548.160) 15% for SH (99.205.560) 35% for LS (231.479.640) 10% for interdisciplinary projects (66.137.040)*	1690 (41.4%)	1662 (98.3%)	217 (12.8%)
Social Sciences and Humanities (SH)		950 (23.3%)	930 (97.9%)	86 (9.1%)
Life Sciences (LS)		1440 (35.3%)	1413 (98.1%)	166 (11.5%)
<b>Total</b>		<b>4080</b>	<b>4005 (98.2%)</b>	<b>469 (11.5%)</b>
<b>Advanced Grants Call ERC-2011-AdG</b>	<b>Budget (€)</b>			
Physical Sciences and Engineering (PE)	<b>661.370.399</b> 40% for PE (264.548.16) 15% for SH (99.205.560) 35% for LS (231.479.640) 10% for interdisciplinary projects (66.137.040)*	917	908 (99%)	134 (14.6%)
Social Sciences and Humanities (SH)		578	562 (97.2%)	52 (9%)
Life Sciences (LS)		789	786 (99.6%)	107 (13.6%)
<b>Total</b>		<b>2284</b>	<b>2256 (98.8%)</b>	<b>293 (12.8%)</b>
<b>Proof of Concept Call ERC-2011-PoC</b>	<b>Budget (€)</b>			
<b>Total</b>	<b>10.000.000</b>	<b>151</b>	<b>139 (92%)</b>	<b>52 (34.4%)</b>

\* for StG-2011, projects invited include 16 projects from the interdisciplinary domain and for AdG-2011 projects invited include 20 projects from the interdisciplinary domain.

In response to the 2011 calls, a total of 6364 (4080 for Starting and 2284 for Advanced Grants) proposals were submitted, representing a 30.3% increase compared to 2010, which is higher than the budget increase, showing a steadily increasing interest towards the ERC. The Proof of Concept scheme received 151 proposals.

The rate of eligible proposals remained high in 2011, almost at 99% for Advanced Grants and 98.2% for Starting Grants. For the Proof of Concept call, the rate was lower at 92%.

The 2011 evaluation process resulted in a total of 469 Starting Grants proposals and 293 Advanced Grants proposals being retained for funding within the call budget. This compares to the 450 Starting Grants and 400 Advanced Grants proposals foreseen in the

<sup>4</sup> Retained for funding within the ERCEA budget (without taking into account the Associated Countries funds).

Annual Work Programme 2011. The budget was slightly redistributed and the biggest part of all additional funds was allocated to the Starting Grant Scheme due to the high increase in the number of applications. The 469 Starting Grants proposals were awarded € 658.902.206 at an average of € 1.38 million per proposal, in line with 2010 average. The 293 Advanced Grants proposals were awarded € 659.946.466 at an average of € 2.25 million per proposal, also in line with 2010 average.

The success rates (proposals retained for funding within call budget over total submitted proposals) were 11.5% and 13% for Starting Grants 2011 and Advanced Grants 2011 respectively. For the PoC2011, the success rate was above 34%.

The ERCEA introduced in its draft Annual Work programme 2012 a key performance indicator measuring the effectiveness of its evaluation process: the Time to decision<sup>5</sup>. The results thereof at year end was 168 days for the Starting grant 2011 call and 164 days for the Advanced Grant 2011 call. The 2012 target has been defined at 160 days for both calls.

The review sessions for the Starting Grants 2011 were carried out from January until July 2011 (Panel Chairs meeting included) with the participation of a total of 503 independent experts (step 1) and 2277 independent experts (step 2). The evaluation process for Advanced Grants 2011 was carried out from May to November 2011, with the participation of a total of 336 independent experts (step 1) and 1939 experts (step 2). The Proof of Concept involved 16 experts in 2011.

The evaluation process was supported by the IT evaluation platform being upgraded to support the existing and new granting schemes, the Proof of Concept and the Synergy Grant. Also, the new web-interface supporting the updated process of issuing appointment letters of independent experts and related assignment of tasks was a key 2011 IT deliverable, which contributed to implement the amended ERC Rules for Submission, entered into force on January 1, 2011. The first IT users' survey on the IT panel meeting evaluation system performed in May 2011 showed a high user's satisfaction (90% of responders) as regards the application and its release management. Further internal and external users' surveys are planned in 2012.

The following table shows the results of the evaluation of the 2011 calls: the percentage per call and domain of the grant agreements signed versus the number of proposals awarded at year end regarding is:

StG 2011	Total invited	Signed	Under preparation	Preparation failed	% signed
LS	172	137	35	0	79,65%
SH	90	61	29	0	67,78%
PE	224	212	11	1	95,07%
<b>Total StG 2011</b>	<b>486</b>	<b>410</b>	<b>75</b>	<b>1</b>	<b>84,54%</b>
AdG 2011					
LS	107	7	100	0	6,54%
SH	53	0	6	0	0,00%
PE	133	49	84	0	36,84%
<b>Total AdG 2011</b>	<b>293</b>	<b>56</b>	<b>190</b>	<b>0</b>	<b>19,11%</b>
<b>PoC 2011 (total)</b>	<b>30</b>	<b>0</b>	<b>30</b>	<b>0</b>	<b>0,00%</b>

\* The total StG-2011 projects invited include 16 projects from the interdisciplinary domain, of which 12 were signed and 4 are in preparation. Compared with the projects retained for funding shown in the previous table, additional 15 projects were invited to the grant preparation phase using additional funding from associated countries and 2 were invited following their successful redress procedure.

\*\* The total AdG-2011 projects invited include 20 projects from the interdisciplinary domain, of which all were still under preparation.

<sup>5</sup> "Time to decision" reflects the number of calendar days from call deadline to the evaluation decision, weighted by the number of proposals concerned by the evaluation decision.

One Principal Investigator under StG-2011 decided to withdraw his proposal in order to remain in his post at the Boston University, and is therefore indicated as "preparation failed".

### 1.1.3 Scientific follow-up

The scientific follow-up was performed according to the guidelines approved by the ERC Scientific Council, balancing the extent of the reporting requirements with the administrative burden generated for the Principal Investigators.

In 2011, 255 mid-term reports and 2 final reports were assessed related to the Starting Grant 2007 call, whereas 10 mid-term reports related to the Starting Grant 2009 call. Concerning the Advanced Grant 2008 call, an assessment of 214 mid-term reports was performed. As can be seen from the table above reflecting the 2011 targets, 100% of the Starting Grant 2007 final reports, 70% of Starting Grant 2009 mid-term reports and 55% of AdG2008 mid-term reports were assessed within 30 days. Hence, the percentage of mid-term reports for Starting Grant 2009 and Advanced Grant 2008 that were assessed within 30 days was less than the AWP 2011 target of 75%. Various underlying reasons can be listed such as for example the concurrence of the evaluation period or the summer holidays and the submission of the scientific reports. Nevertheless, it should be pointed out that 100% of these reports were done within the legal deadline of 60 days, as the internal target of 30 days was specified in the methodology only in the second half of the year. In contrast, the Starting Grant 2007 final reports exceeded the set target for 2011 which can be explained by the fact that only 2 reports were submitted at a time where the scientific department was not yet overloaded due to evaluations.

The reports were assessed by ERCEA scientific officers; external review was only performed in exceptional cases, for a few Starting Grants projects (3 projects). Due to budgetary discipline, the site visits were limited to the cases where additional checks were needed during the assessment of the reports. At the same time, following the provisions of ERCEA internal methodology, no technical audits were considered necessary and therefore none was carried out.

The issues revealed by the scientific follow-up had no impact on payments: no payments were stopped or suspended based on scientific considerations. Such issues included a limited number of small deviations from the Description of Work, which were deemed as acceptable considering the frontier research peculiarities and of small magnitude therefore not affecting the fate of the project, and a few cases of projects with low outputs record, which were accepted after clarifications received from the Principal Investigator.

## 1.2 Financial Management of the Ideas Programme

### 1.2.1 Overview of the achievement of the 2011 key targets

The following results were achieved in the light of the key performance objectives and indicators of the Annual Work programme 2011:

Objectives	Performance indicators	2011 targets	Results as of 31/12/2011
Full implementation of the Ideas work programme tasks entrusted to the ERCEA	% of budget execution compared to initial budget appropriations for the ERCEA's operational budget	100% in commitments and payments	100%
Rapid conclusion of grant agreements	Time to contract a) Time from call deadline to signature of grants in at least 75% of grants of a given call  b) Time from invitation to signature of grants in at least 75% of grants of a given call.	365 days  146 days	StG-2010 = 428 AdG-2010 = 440 StG-2011 = 391  StG-2010= 153 AdG-2010 = 186 StG-2011 = 144
Short timescales of payments to grant beneficiaries	Time to pay used by the ERCEA to approve project financial reports (according to milestones and budget table specified in the Description of Work) and processing payments	Pre-financing payments: 100% within 20 days (expected 770 payment requests)  Interim payments: 100% within 90 days (expected 750 payment requests)	95,58% within 20 days (Average TTP=10,0 days)  100% within 90 days (Average TTP=13,6 days)
Short timescale for approval or rejection of valid requests for amendments	Number of days used by the ERCEA to approve or reject amendment requests from beneficiaries	Approve or reject 100% of valid requests within 45 days of its receipt	99,07% within 45 days  (Average Time to Amend=10,4 days)
Short timescale for payment of experts	Time to pay within financial rules deadlines for experts	95% of the payments made within 21 days  100% of payments made within 30 days	56,31% within 21 days and 80,9% within 30 days
Swift and effective termination of grants	% of grant terminations processed within a set deadline	100% of the grant terminations requested by the ERCEA within 75 days  100 % of the grant terminations requested by the beneficiary within 45 days.	No termination case by the ERCEA  1 termination initiated by beneficiary and dealt within 26 days.
Effective and short timescale to execute recovery orders	% of the set deadlines by the financial rules to issue recovery orders	100% within 45 days	96,02% of recovery orders issued within 45 days

Objectives	Performance indicators	2011 targets	Results as of 31/12/2011
Ensure a sound financial management of the operational budget of the ERCEA and overall budget execution in terms of legality/regularity and timely reporting on irregularities	% of ex post control audit 2011 plan execution	90%	63%
	Number of outreach events organised	Five outreach events to organise	Five outreach events organised

The Agency managed to consolidate its key performance indicators in relation to grant implementation in 2011 and largely met its targets, with the exception of the "time to grant (1)" referring to the time from call deadline to signature of grants. While the target was to sign grant agreements in at least 75% of grants within 365 days, the actual time in 75% of cases was 440 days (Starting Grants 2010), 428 days (Advanced Grants 2010) and 391 days (Starting Grants 2011) respectively. The target of 365 days was fixed in consideration of international benchmarks. The indicator "Time from call deadline to signature of grants" is made of evaluation time (about 2/3) on the one hand, and of grant preparation time (about 1/3) on the other hand. This is the usual indicator used in benchmarking with other programmes or agencies and the target was fixed in consideration to this. Although the grant preparation time has improved in 2011 (144 days for the "75%" indicator for StG2011, to compare with the target 146 days), the length of the evaluation process did not make it possible to meet the target.

As regards the target of 146 days for concluding the Grant Agreements counted from the invitation date, the 2011 Starting Grant call met this target with 144 days. At the same time, it should be noted that the number of Grant Agreements increased by 40% in 2011 compared to 2010.

Thanks to tight supervision and a performing follow-up system, the "time to pay" remained record with an average of 10,0 days for pre-financing and 13,6 days for interim payments.

The ex post control plan execution's deviation (-27%) is due to planned ex post controls of beneficiaries already covered by other RTD-family entities, delayed periodic financial management received from beneficiaries and a combination of staff turn over and long term absences.

Moreover, during the course of the year it materialised that too many beneficiaries of the ERCEA were blocked for ERCEA audits by audits performed by other services, i.e. 49 beneficiaries with 81 costs statements: 17 beneficiaries due to extrapolation (35 cost statements - 25 blocked because of FP6 extrapolation), 32 beneficiaries due to clashes (other RDG already auditing or too recently closed audits already existing - 46 cost statements, from which 8 blocked because of FP6 audits). As a consequence, end of June 2011, the Unit returned 390.000€ of administrative credits to the general budget of the ERCEA, which corresponds to a reduction of 30 outsourced audits. The original target was no longer realistic. Considering the revised target, the execution reached at year end 90% (which refers to 63 audits launched in 2011 out of 70 planned after budget revision). In a view to avoid re-occurrence, the ERCEA signed up to the common representative sample, and will in future years focus more corrective audits and reduced the number of planned audits for the coming years<sup>6</sup>.

The achievements of the Grant Management Department are based on a further fine-tuning of procedures and workflows for grant preparation and grant implementation, as

<sup>6</sup> Execution of the EPC plan is measured on the basis of launched versus planned audits.

well as the recruitment of additional well trained staff. Risks related to a high increase of transactions expected in the last trimester of the year due to the pick of grant signatures and pre-financing and to an important increase of interim payments that were due (45.5% of the total interim payment were executed during the last trimester), were effectively mitigated by the organisation of the grant implementation Unit in sub-teams, co-ordinated and supervised by Team Leaders. In addition the close monitoring of the deliverables and enhanced cooperation with the Host Institutions allowed the full implementation of activities as foreseen.

As regards experts payment, which are processed by the Scientific Management Department, the average time to pay was 21,9 days (versus 18,7 days in 2010), slightly above the target of 21 days set by the Scientific Council. This deterioration compared to 2010 appeared during the third quarter and was due to a backlog at the level of verification resulting from staff fall-out (long terms sickness and maternity leaves, not replaced in time). This will be avoided in 2012 with the reinforcement of the pool of financial agents and a more flexible distribution of initiation and verification tasks among them. Also worth to mention is the seasonality of the expert payment activity with most of transactions concentrated on the second and third quarters of the year, due to the high number of Principal Investigators' interviews (who are reimbursed) within a very tight calendar. To face this heavy workload, hiring "intérimaires" has proven to be a key factor of success.

## **1.2.2 Implementation of the 2011 operational budget appropriations**

The commitment credits for 2011 amounted to €1.3 billion and the payment appropriations for the operational budget to € 0.731 billion. In November, the payment and commitment appropriations were increased by € 0.4 million following a transfer from the ERCEA administrative budget reflecting the adjusted needs till the end of the year, resulting in an amount of payment appropriations for the operational budget of € 731.4 million. The consumption of payment and commitment appropriations reached the 100% by the end of year 2011.

### **1.2.1.1 Commitment appropriations execution**

At the end of 2011, the execution of commitment appropriations for C1 reached 100% and for C8 credits 99, 8%<sup>7</sup>, the majority relating to ERC Grants, and some 0,4% to experts management. The execution of C8 credits linked to L1 commitments for 2010 calls reached 100%.

The commitment credits (C1) voted for 2011 amounted to € 1.3 billion for the operational budget, and have been implemented through global commitments on the basis of ranked lists of proposals positively evaluated, as described in part 1.2.2. The C1 credits for the 2011 calls were fully executed. The main commitment activity focused on the execution of L1 commitments<sup>8</sup>, which are created after the end of the evaluation of each call. As to the 2011 Advanced Grants Call, the granting process was launched in October 2011. Consequently, the corresponding L1 commitments were made during the fourth quarter of 2011, leading at year end to 100% execution of voted credits for 2011.

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<sup>7</sup> Following one grant termination of an ERC-2009-StG project and an amendment of an ERC-2008\_AdG project, the C8 credits de-committed in 2011 from the relevant individual commitments could not be used for funding another project. Hence, the consumption of C8 credits could not attain 100%.

<sup>8</sup> The L1 commitments correspond to global commitments created at the end of each call, while L2 commitments correspond to individual commitment created for the maximal EC contribution once the individual grant agreement is signed.

This resulted in already 56 signed Grant Agreements for Advanced Grants for this Call.

The table below provides an overview of the **operational budget's commitments execution** 2011 by the main fund sources:

COMMITMENTS EXECUTION 2011 BY FUND SOURCE <sup>9</sup>						
		C1	C4	C5	C8	RO
	<b>Total Credits</b>	1.329.565.798,00	1.956.638,99	396.109,25	1.732.063.707,49	203.189.562,08
	<b>Available Commitment Appropriations 2011</b>					
A	<b>Grants</b>	1.323.949.802,22	1.892.287,22	396.109,25	690.981.698,76 <sup>10</sup>	46.389.264,82 <sup>11</sup>
	<b>Experts</b>	5.965.995,78	64.351,77	N/A	1.785.332,92	N/A
B	<b>L1 Commitments</b>	1.323.657.612,22	1.882.287,22	182.784,45	N/A	46.389.264,82
C	<b>Indirect L2 Commitments</b>	682.555.804,17	85.295,60	177.381,90	689.409.646,35	29.405.439,73
E	<b>% consumption of L2 Indirect against the L1 commitments For C1, RO = (C/B) ; For C8 = (C/A)</b>	51,6%	4,5%	97,0%	99,8%	63,4%
G	<b>Direct L2 Commitments</b>	5.965.995,78 (Experts) 292.190,00 (Grants)	64.351,77 (Experts) 10.000,00 (Grants)	213.324,80	N/A	0,00
H	<b>% consumption of L1 and L2 Direct against the available Commitment Appropriations (B+G/ A)</b>	100%	100%	100%	N/A	100%

Overall, 834 Grant Agreements (transactions processed) were signed throughout the year<sup>12</sup>, representing a total amount in commitments of € 1.405 millions. In line with the timing for the Call for proposals which is structurally "bridging" 2 calendar years, the commitment activity focused during the first semester on finalising the 2010 calls, and concentrated on the 2011 calls in the second semester. The graph below reasons in terms of commitment activity for the major calls, while the table above focuses on the balances of the appropriations.

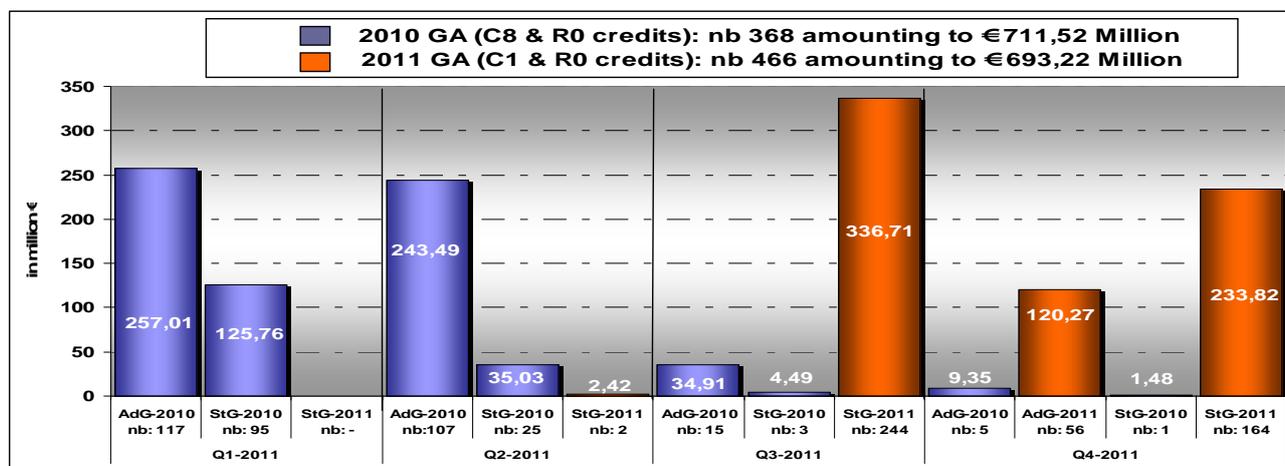
<sup>9</sup> Explanation of Fund Sources: C1 = voted credits of the current year; C8 = carried-forward credits of last year C1 credits; RO = contribution from Third Countries; C4 = credits of income generated mainly from interest on pre-financing; C5 = carried-forward of C4 credits of last year.

<sup>10</sup> The initial C8 available commitment appropriations for 2011 was € 691.994.011,58 (this amount include the available credit appropriations at the end of 2010 on L1 commitments on C1 fund source and available credit appropriations of C4 fund source). The difference of € 1.012.312,82 with the actual figure of 690.981.698,76 is mainly an outcome of de-commitments occurred through the year. Consequently, as these commitments are not any longer available for consumption, they are not taken into consideration for the calculation of the consumption rate. The available commitment appropriations of € 1.059.603,02 at the end of 2011 include a de-commitment of a direct commitment of € 47.290,20, which has been re-committed after. The total credits include grants and experts.

<sup>11</sup> The RO total available commitment appropriations for 2011 have reached the amount of € 46.389.264,82 after the latest instalment of additional € 15.982.559,24 in mid November 2011, including a de-commitment of a direct commitment of € 34.000,00, which has been re-committed after the de-commitment.

<sup>12</sup> Including Grant agreements signed on the 2010 calls.

### Total amount and number of transactions of L2 commitments<sup>13</sup>



#### 1.2.1.2 Payment appropriations execution

The total payment appropriations for the operational budget amounted to € 731,4<sup>14</sup> million, of which € 6.3 million were made available for the payments of the experts.

The table below shows the consumption over the year, including the revenue assigned from third countries (R0). At the end of 2011, 100% execution of payment appropriations (C1) was reached.

#### Operational Budget: Payments execution

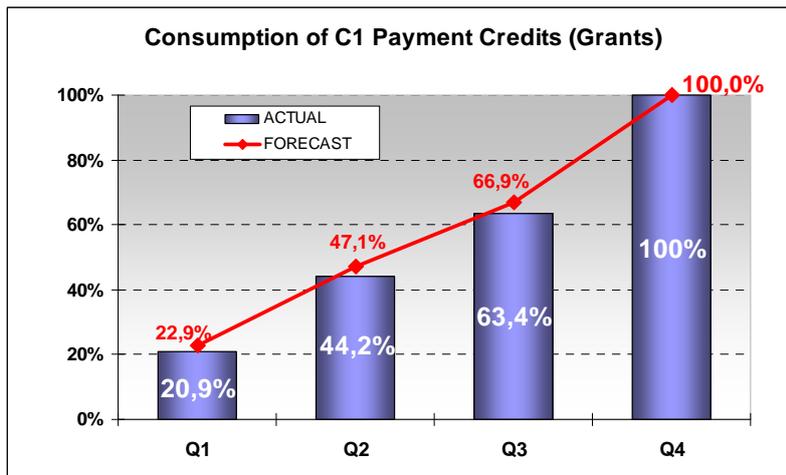
		PAYMENT EXECUTION BY FUND SOURCE			
		C1	C4	C5	R0 <sup>15</sup>
<b>Payments Appropriations 2011</b>	Grants	725.136.026,41	1.880.396,72	388.348,62	203.189.562,08
	Experts	6.304.697,53	76.242,27	0	0
	<b>Total</b>	<b>731.440.723,94</b>	<b>1.956.638,99</b>	<b>388.348,62</b>	<b>203.189.562,08</b>
<b>Payments</b>	Grants	725.136.026,41	1.880.396,72	388.348,62	31.872.662,03
	Experts	6.304.697,53	76.242,27	0	0
	<b>Total</b>	<b>731.440.723,94</b>	<b>1.956.638,99</b>	<b>388.348,62</b>	<b>31.872.662,03</b>
<b>% Payment Consumption</b>	Grants	100%	100%	100%	15,7%
	Experts	100%	100%	N.A.	N/A
	<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>15,7%</b>

<sup>13</sup> Minor projects (e.g. support actions) are not included in the graph.

<sup>14</sup> 0.4million were transferred by RTD.

<sup>15</sup> For Assigned Revenue 100% yearly consumption is not obligatory.

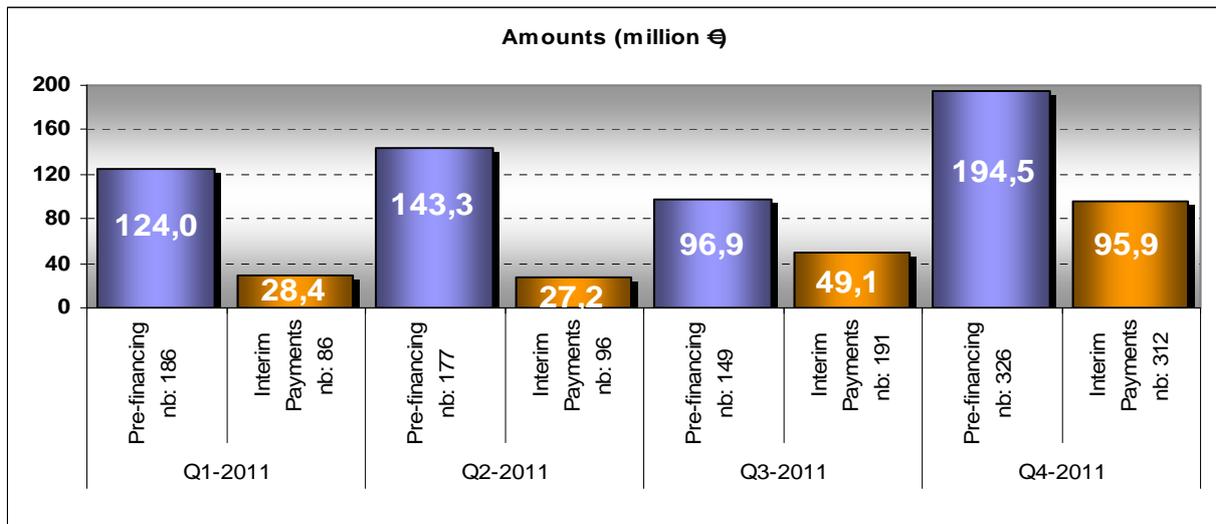
## State of play on payments related to Grants



As illustrated by this figure, the evolution of the payment activity was in line with the forecast.

Further, the graph below presents the 2011 payment activity by interim and pre-financing payments per quarter. A total of 1.523<sup>16</sup> transactions were carried out in 2011 (versus 1.138 in 2010), representing an amount of € 759.3 million (considering all fund sources). Out of these, 838 related to pre-financings, representing € 558, 7 million and 685 to interim payments for € 200, 6 million.

## Payments related to Grants



In 2011 the split (in percentages) between pre-financings and interim payments was comparable as in 2010 (respectively 55% and 45%). The amount of pre-financing payments represented 74% of all payments executed in 2011. Payments were in general 26,6% lower than the initial budget estimation shown in the Description of work (annex 1 to the Grant Agreement), which made it challenging to elaborate a reliable payment forecast. There were also 2 final payments in 2011.

As regards expert payment/appointment, 2.956 payments were processed during the year, totalling to € 6,4 million, representing a increase of 22,6% compared to 2010.

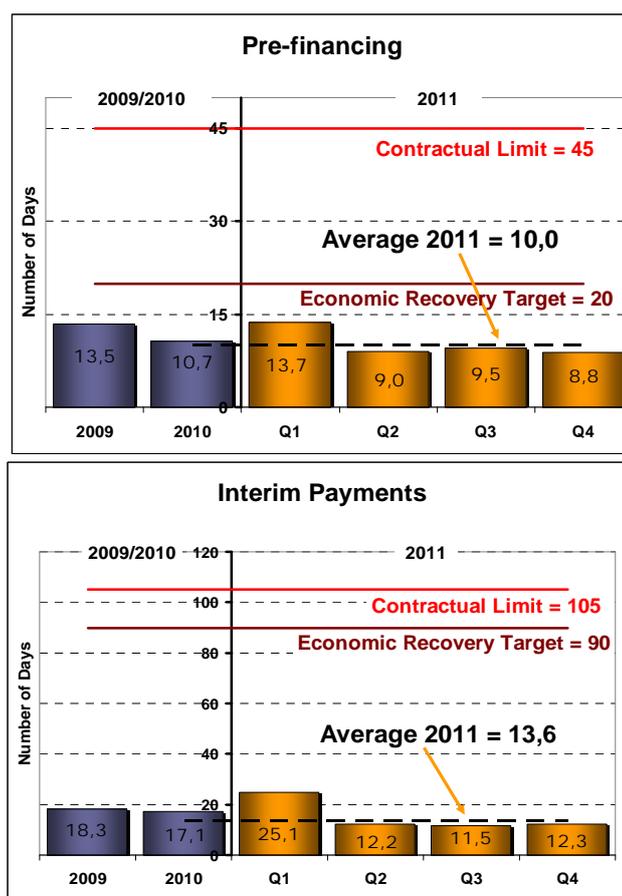
<sup>16</sup> There are 9 pre-financings and 11 interim payments that have been excluded in the Annex 3 because they have been compensated with other debts by the Commissions Accountant. Nevertheless, as they have been part of the yearly payment activity and paid from the ERCEA budget line, they are counted and reported in the AAR.

## 1.2.3 Time to pay<sup>17</sup>

### 1.2.3.1 Time to pay related to grants<sup>18</sup>

During the reporting period, 1.523 payments for grants (pre-financing and interim payments) were processed. The Agency managed to keep its very good key performance indicators stable with an average time to pay of 10,0 days for pre-financing and 13,6 days for interim payments.

#### Time to pay for transactions related to Grants



100 % of the payments were executed on time, when compared to the contractual time limits defined in the ERC Grant Agreements (i.e. 45 days for pre-financing and 105 days for interim payments).<sup>19</sup>

When compared with the economic recovery targets adopted by the Commission<sup>20</sup>

<sup>17</sup> In conformity with the ERC work programme and the note of SEC(2009) 477 of 8 April 2009 on the financial crisis and delay of payment by the European Institutions, the ERC Executive Agency gave priority to the execution of transactions in the shortest possible delay.

<sup>18</sup> Difference in the time to pay between Annex 3 and the figures presented above is due to the different number of transactions taken into consideration (9 pre-financings and 11 interim payments have been excluded in the Annex 3 because they have been compensated with other debts by the Commissions Accountant).

<sup>19</sup> As defined in art. II.6.1.a and art. II.5.1 of the General Conditions.

<sup>20</sup> In conformity with the ERC work programme and the note of SEC(2009) 477 of 8 April 2009 on the financial crisis and delay of payment by the European Institutions, the ERC Executive Agency gave priority to the execution of transactions in the shortest possible delay.

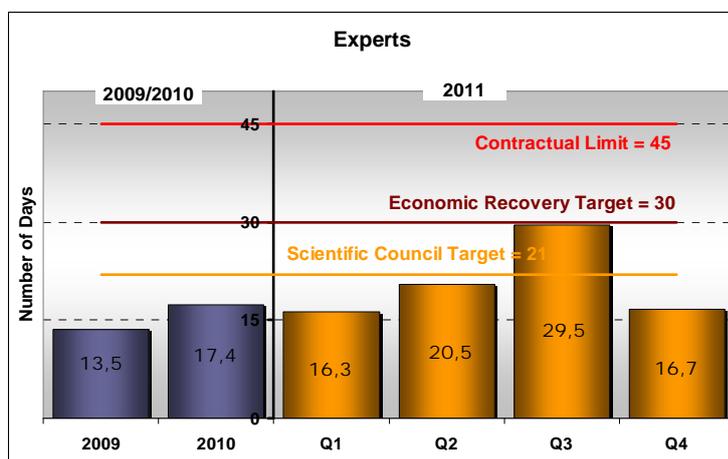
(i.e. 20 days for pre-financing and 90 days for interim payments), 95,6% of the pre-financing and 100% interim payments were executed on time.

These results could be achieved thanks to an adequate allocation of staff, in line with the expanding volumes executed, together with a clearly designed and efficiently organised workflow and procedures, without compromising the necessary level and number of controls.

The financial circuits were adapted and sub-delegation for the authorisation of interim payments had been given to 2 Team Leaders in Unit C2 to address the higher amount of transactions. In addition 11 new staff were recruited and trained.

### 1.2.3.2 Time to pay related to experts

The yearly time to pay was on average 21,9 days. The figure below shows the average time to pay for experts for each quarter of the reporting period, indicating as well the different time limits as the contractual limit of 45 days, the economic recovery target limit of 30 days set by the Commission and the time limit suggested as optimum by the ERC Scientific Council of 21 days.



97, 1 % of the payments were executed on time, when compared to the contractual time limits (45 days). 56, 3% were paid on time according to the Scientific Council target of 21 days and 80, 9 % were paid on time according to the target adopted by the Commission (30 days).

This resulted in a yearly average time to pay was 21,9 days (versus 18,7 days in 2010), slightly above the target of 21 days set by the ERC Scientific Council. This deterioration compared to 2010 is appeared in the third quarter and was due to a backlog at the level of verification, as explained above (section 1.2.1).

## 1.2.4 Recovery Orders

A total of 151 recovery orders were issued during the reporting period, amounting to € 1, 9 million, out of which 96% were issued within 45 days after the establishment of the debt. The types of recovery orders are shown in the table below highlighting that almost 75% (versus 90% in 2010) of the number of recovery orders issued refers to recovery orders for interests earned on pre-financing payments exceeding € 750,000 (Financial Regulation art. 5a). In addition, it should be noted that the number of recoveries linked to audit results increased from 6 in 2010 to 30<sup>21</sup> in 2011, representing an increase of € 260,150.

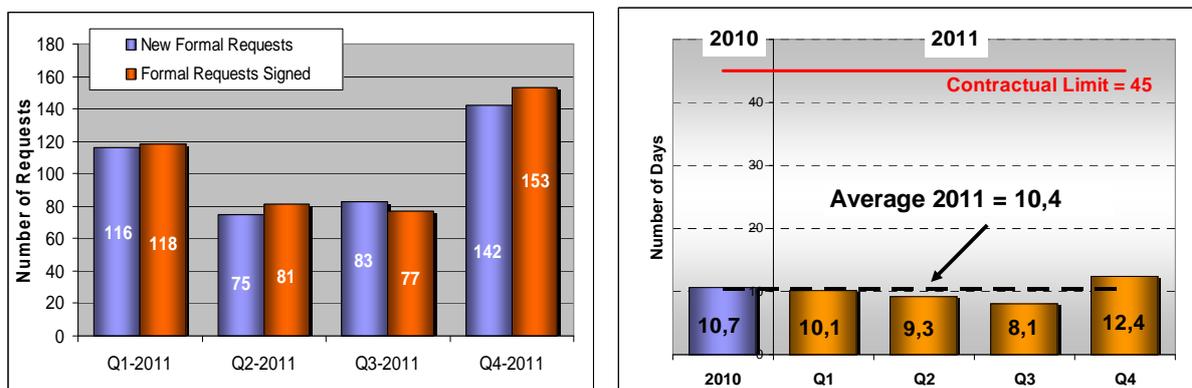
<sup>21</sup> Count based on projects audited (one audit may include more than one project).

Reason for recovery	Number of recoveries issued by project in 2011 <sup>22</sup>	Amount recovered
Recovery of interest earned on pre-financing payments <sup>23</sup>	113	463.699,01
Recovery due to termination by beneficiary <sup>24</sup>	4	1.111.537,41
Recovery due to results of external audits, including liquidated damages	30	296.573,41
Other (recovery of pre-financing payments and experts)	4	33.691,52
<b>Total RO issued 2011<sup>25</sup></b>	<b>151</b>	<b>1.905.501,35</b>
<b>Total RO cashed in 2011<sup>26</sup></b>	<b>156</b>	<b>1.813.887,12</b>

## 1.2.5 Grant amendments and termination

During 2011, 416 new requests for amendments by beneficiaries were received and 429 were signed<sup>27</sup>. So far one quarter of the signed contracts have been amended out of which 17,7% were amended in 2011. In 2011 the average time to amend reached only 10,4 days, which is significantly lower than the time limit of 45 days contractually foreseen and slightly better than in 2010 (10,7 days in average).

### Amendments requested by beneficiaries in 2011 and Time to Amend



As in 2010, amendments remained in 2011 more common for Starting Grants, due to the fact that beneficiaries for Starting Grants form young/new teams. Also grants for earlier calls were subject to more frequent changes than grants for the latest calls. Changes of Host Institutions and modification of the Annex I of the grant agreement (Description of work) represented 18,7% of the amendment cases and remained stable compared to 2010, whilst the remaining amendments were of an administrative nature, relating to updates of contact details, of the authorised representative and banking details.

Furthermore, in 2011, one grant agreement has been terminated on the request of the beneficiary and another one signed and terminated in the previous year was cashed in 2011. The reasons for termination in both cases were the departure of the Principal

<sup>22</sup> All Recovery Orders issued are reported in order to show the initial amount. 3 cancellations of €8.457,21, which have followed thereafter, are not taken into consideration in the issued amount, but only in the cashed amount.

<sup>23</sup> One recovery order of interest earned on pre-financing payments of €1.614,39 has been authorised in ABAC in 2011, but only validated by the Accounting Officer of the Commission in 2012 and therefore is not included in the report.

<sup>24</sup> For each termination of one project two recovery orders were launched (1 recovery order to the beneficiary and 1 recovery order to the Guarantee Fund in order to return the beneficiary's contribution to the initial budget line).

<sup>25</sup> The difference to Annex 3 is due to cancellations and the recovery order authorised in 2011, but only fully validated in 2012.

<sup>26</sup> Including two Recovery Orders issued in 2010, but cashed in 2011.

<sup>27</sup> The difference represents amendments still in progress and not finalised at the year end and requests received in 2010 but signed in 2011.

Investigator to another research institution located outside the EU and/or Associated Countries. For these two cases, the corresponding L2 commitments were de-committed for a cumulative amount of € 4, 3 million.

## 1.3 Implementation of ERCEA administrative budget

The initial administrative budget 2011 amounting to € 35,950,737 has been amended by less than 1% once during the budget year to € 35,600,737.

At year end 2011, the ERCEA has almost reached its targets related to the administrative budget execution, with 98,3% commitment and 92, 5% payment execution, compared respectively 99,6% and 94,1% at year end 2010.

At year end 2011, the 1,7% not executed commitments represented an total amount of € 610,984.14, reflected in 32 different budget lines., Main not committed amounts, representing a total of €420,643.57 or 69% of the total not committed appropriations, concern the annual adjustment of salaries (€236,821.43, based on the European Council decision) , IT consultants (€53,339.41, due to a 1% over estimation of budgeted compared to actual man days) , recruitment expenses (€43,534.71, representing a budget overestimation of 33,3% related to uncertain recruitment costs as travel and removals), "interimaires" (€41,184.22or 12% budget overestimation and external meetings (€45,763.80 or 16% budget overestimation, reflecting the unexpected no or partial attendance of external experts). The remaining non committed amounts concern other budget lines for amounts of maximum €30,000.

To better achieve the 2012 targets, measures will be implemented to improve the quality of budget planning regarding some specific budget lines (recruitment, "intérimaires").

The 7,5% not executed payments at year end 2011 represented a total €2,666,968.50, of which 23% (€610,984.14) were linked to the not executed commitments, as referred to above.

The remaining €2,055,984.36 "Reste A Liquider (RAL)" to be carried forward to 2012 as C8 appropriations, represents 5,88% of committed budget and corresponds to goods and services delivered but not invoiced yet: €744,749.95 relating to IT consultants to be invoiced as per contract end of January 2012, €482,556 relating to ex post controls performed by external audit firms which encountered delays in obtaining supporting evidence from Host Institutions (beneficiaries), €226,920.17 related to communication expenses, €217,907.77 related to IT software and hardware, €167,337.46 related to building charges (2011 city taxes), €105,703.54 for training (SLAs with DG HR, DIGIT, EAS). Overall these six budget lines represent 94% of the amounts carried forward to 2012.

As regards the 2010 RAL amounting to € 1,552,880, the execution rate was 87,34%, as an amount of € 196,581.70 was de-committed.

Although the administrative budget is made of non-dissociated appropriations that are meant to be paid over two budget years, any measure that would decrease the volume of appropriations to be carried forward will be looked at in 2012 (e.g. external audit annual planning).

Thanks to an improved follow up implemented in 2011, the late payments were reduced compared 2010 in number (from 166 to 52) and in percentage of payments executed (from 11% to 2%).

## PART 2. MANAGEMENT AND INTERNAL CONTROL SYSTEMS

### 2.1 Introduction to the ERC Executive Agency

#### 2.1.1 Organisational structure and IT

##### 2.1.1.1 Human resources

At the end of 2011, the Agency employed a total of 350 agents, representing an overall increase of 10% compared to year end 2010, and corresponding to 97% of the maximum number of staff authorised in the 2011 administrative budget and to 100% of the target set in the Annual Work Programme 2011.

During the period reported, 56 staff members were recruited, the majority of newcomers (73%) being allocated to the operational departments (Departments B and C). This results in 68% of total Agency staff being allocated to ERCEA operational activities, which is the same proportion as in 2010. The Scientific Management Department accounts for 41% (-1% compared to 2010) and the Grant Management Department accounts for 27% (+1% compared to 2010) of total staff.

A total of 15 selections for contract staff were completed in 2011, as well as one selection of temporary agent staff. The average time to select was 2.5 months (time span between decision to launch a selection procedure and establishment of shortlist of candidates). A selection of Seconded National Experts (SNE) was organized for the first time by the Agency leading to the recruitment of 5 SNEs. Two external publications of posts were launched in view of the recruitment of new staff in 2012.

In 2011, a total of 15 interim agents worked in ERCEA to ensure business continuity in cases of long absence of ERCEA staff members or in situations of exceptional workload.

A turnover of 6,3% of average active staff in 2011 was observed; the staff turnover thus remaining at a stable level (6,8% in 2010) and being mainly due to the attraction of official positions in the European Commission and temporary agent positions in other EU agencies.

The table below shows staff growth since December 2008 to year end 2011 and highlights the importance of Contract agents within the Agency (70%):

ERC Executive Agency	Temporary Agents (seconded)	Temporary Agents (external)	Contract Agents	SNEs	Total
31/12/2008	1	0	49	11	61
31/12/2009	13	80	162	7	262
31/12/2010	13	81	218	4	316
<b>31/12/2011</b>	<b>13</b>	<b>84</b>	<b>245</b>	<b>8</b>	<b>350</b>

With regard to its organisational structure, ERCEA saw its Head of the Grant Management Department nominated as Director ad interim by a Commission decision. Subsequently, the Head of Unit "Grant Implementation" was nominated Acting Head of the Grant Management Department. In addition, the new Head of the Scientific Management Department was selected and took up functions in February 2011.

In view of an effective management of a growing organisation, several team leaders were appointed in 2010. Further to the appointment of 16 new team leaders in October 2011, the ERCEA organizational structure is sub-divided into 30 teams managed by Temporary agents.

In compliance with the CEOS and the Agency's Implementing Rule on the engagement and use of temporary agents, written tests were organized for all temporary agents externally recruited. In July and September 2011, 79 temporary agents concerned were subject to tests and all successfully passed and are thus eligible for the renewal of their contract.

The Data Protection Officer (DPO) function has been moved from the Human Resources Unit to the Unit in charge of Programming, Monitoring, Legal Affairs and Risk management to allow for a better coordination of data protection related tasks with the legal department. A new DPO has been nominated with effect on 1 December 2011.

Acknowledging the important role of professional development in staff performance and motivation, ERCEA's Learning and Development Framework 2011-2012 was adopted in February 2011 identifying 11 priority training areas that are essential in supporting staff development in view of the fulfilment of the overall mission of the Agency, as in the area of Business Process Management. On average, ERCEA staff followed 12.4 training days in 2011, slightly more than in 2010 (11.7 days).

During the period under review, the ERCEA launched a number of public procurements, including 58 "negotiated procedures" for low value contracts (less than 60.000€), to cover for example training, web marketing services, subscription to specialised journals. In addition, 2 framework contracts, awarded by open procedure, have been signed early 2012; one of them for the organisation of stands and exhibitions linked to ERCEA communication activities. Other 2 negotiated procedures for single tender<sup>28</sup> were concluded and 7 Service Level Agreements (SLAs) and addenda were signed by the ERCEA with Commission services out of which 2 SLA's with HR and DS. Finally, the ERCEA signed 115 specific contracts/order forms under inter- institutional framework contracts.

#### 2.1.1.2 IT

In 2011, the IT activities continued to be aligned to the long term objectives of the IT Strategy, adopted in mid-2010, and which stressed the importance of IT as an enabler for organisational efficiency. The benefits of IT are to: simplify, consolidate and integrate the IT architecture; facilitate and enhance knowledge management; provide robust solutions for office automation; move towards paperless workflows and processes; and, provide shared IT services for the ERCEA's proposal applications portfolio.

In 2011, various activities have been undertaken in the field of security with the intent to reinforce the Agency's security posture. Major outcome were the engagement of external expertise to collaborate in the analysis and completion of the IT security policy, the IT security plans and the intertwining of the IT security in the IT governance to a higher degree.

Concerning the IT specific Business Continuity Plan (BCP), as part of the overall BCP, significant progress has been made with the achievement of a key milestone: the successful execution of a Disaster Recovery test of the local server infrastructure in December 2011, thereby guaranteeing the continuity of the key services of the ERCEA.

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<sup>28</sup> According to art. 90 of the Financial Regulation and to art. 126 of the Implementing Rules.

The IT governance structure was refined and consolidated in 2011. The IT Steering Committee (ITSC), as a key structure in the governance, has met on a quarterly basis and has gradually involved also the internal auditors as observers and staff of the DG RTD, as guests. The ITSC was kept up to date by means of the IT quarterly report, which is tabled during its meetings, and took the necessary decisions regarding budget and resources allocation for the various local IT projects.

In 2011, the internal audit on the IT Governance has highlighted some important areas that need to be reinforced. With the audit action plan, that lists a number of actions in the spirit of the various audit recommendations, the ERCEA is further professionalising its IT activities. In particular, the important recommendation related to the reinforcement of the project management skills and practices in the ERCEA has been started by embracing the PM2 initiative proposed by DIGIT and organising dedicated workshops. Another example is the reinforcement of the IT Governance building blocks with a renewed approach to the drafting of the IT Master Plan. Finally, the reporting in the area of the IT service/help desk have been improved and introduced as standard documentation in the ITSC meetings.

Furthermore, the ITSC has approved the use of an IT development cost follow-up system (i.e. MICE) which is intended to contribute to the transparency of IT related activities and investments.

The IT master plan for 2012 was approved in December 2011 by the ITSC. The IT master plan is closely aligned with the principles of Information System rationalisation in the Commission which are imperative in the years to come. The IT strategy of the ERCEA foresees to develop local systems that complement corporate ones in order to enhance the business efficiency. As new corporate systems become available (e.g. SEP, SYGMA, COREFLOW), the ERCEA may even replace local systems completely. This is complemented by a harmonisation and reduction of the size of the local application portfolio by merging applications and reusing common services.

The new ERC web site was launched (third quarter 2011), allowing an increased visibility of ERC projects and its visitors to make more tailored searches and a range of improvements in the area of internal communication encompassing the common intranet and the dedicated collaboration sites for various Units.

The migration of all the ERCEA computers and laptops to Windows 7 & Office 2010 has been postponed to 2012. A new application for supporting the management of payments to beneficiaries has been developed in a view to facilitate the activities performed by project officers and financial officers.

IT related key performance indicators were all achieved with 99.96 % data availability (target: 99%, during the year, only one outage of 1 hour has been experienced), with 97.32 % helpdesk calls answered within specific timeline (target of 95%). No security incidents were reported at the ERCEA level.

## 2.1.2 Working relations with key stakeholders

### 2.1.2.1 ERC Scientific Council

The Agency executes the scientific strategy as established by the **ERC Scientific Council** and is accountable to the European Commission, which is responsible for ensuring the "ERC's full autonomy and integrity".

As the term of office of the initial Scientific Council was coming to an end in early 2011, the independent ERC Identification Committee appointed by the European Commission in

September 2010 with the task of identifying future ERC Scientific Council members renewed the term of office of twelve of the founding Scientific Council members and selected seven new members. Three other members of the Scientific Council were appointed in 2009 so they were not affected by the 2011 renewal exercise.

As reported in the 2010 Annual Activity Report, the proposed merger of the two positions of ERC Executive Agency Director and ERC Secretary-General recommended by the external review in 2009 and intended as an interim solution in the larger context of addressing the governance issue, was not taken up and the two functions will continue to co-exist in the present framework. In line with the "Ideas" Specific Programme, the recruitment process of a new Secretary General was conducted autonomously by the Scientific Council and based rigorously on relevant experience and scientific qualifications. Prof. Donald Dingwell, a prominent geoscientist and Professor at Ludwig Maximilian University in Munich, was selected by the members of the Scientific Council and took office on 1 September 2011.

Due to the specific governance model, the Scientific Council's plenary meetings and regular meetings of its members with ERC stakeholders are prepared with the organisational and administrative support of the Executive Agency. The Agency also provides advice and analysis to facilitate the Scientific Council to fulfil its tasks as described in Annex 1 of the "Ideas" Specific Programme. In 2011 the Agency, in collaboration with the Scientific Council, established a series of Key Performance Indicators, objectives and feedback procedures covering the interaction between the Agency and Scientific Council which clearly define the role of the Agency in supporting the Scientific Council in establishing the ERC scientific strategy; planning and organising the logistics of Scientific Council meetings and providing analysis to the Scientific Council for their monitoring and measuring activities.

In response to relevant requests by the Scientific Council, the Agency continuously advises them in their activities by providing analysis and intellectual input. This is done by drafting various documents, including the ERC Annual Report and the ERC Annual Work Programme, which reflect the Scientific Council's main orientations. The ERCEA also facilitates the finalisation of these documents including the adoption of the "Ideas" Work Programme by the European Commission, respecting the calendar set by the latter.

In addition, the Agency provides support to the operational activities of the Scientific Council's Standing Committees. Following the recommendations of the Panel on the Review of the ERC's structures and mechanisms in 2009, the Scientific Council established two Standing Committees: one providing guidance on conflicts of interest, scientific misconduct and ethical issues and another one dealing with the selection of evaluation panellists. The two committees met twice in 2011.

The Scientific Council meets also in Working Groups addressing specific issues. In 2011, various meetings of the ERC Working Groups on "Innovation and Relations with Industry", "Open Access", "Internationalisation" and "Gender Balance" were organised by the Executive Agency. The Working Groups carry out analysis and contribute to the ERC scientific strategy through proposals to be adopted by the Scientific Council in plenary in the areas covered by their mandates: examine the ERC's relationship with the industrial/business sector and the impact of ERC-funded research on innovation; develop an ERC position on open access; explore suitable mechanisms to boost the participation of non-European researchers, particularly from Brazil, Russia, India and China (the BRIC countries) and South Africa, in the ERC schemes; ensure that the ERC is at the forefront of best practice regarding the gender balance of grantees.

A series of working documents, such as the Gender-equality plan, containing analysis and key messages on the specific issues dealt with by the Working Groups and by the Standing Committees, were prepared by the Agency, in conjunction with members of the groups.

The Agency also provides comprehensive, up to date and reliable analysis to the Scientific Council aiming at fulfilling its responsibility to monitor the implementation and measure the impact of the ERC activities. In addition, to support its ongoing monitoring and evaluation strategy, the Scientific Council relies on a range of project results and studies. This is implemented through "Coordination and Support Actions"<sup>29</sup> which are scientific projects selected according to EU public procurement rules and funded by the ERCEA operational budget.

For example, a survey was undertaken in the project "Eurecia" offering insights on how ERC grantees perceive the differences between ERC's and national funding and showing that the ERC grants are perceived as an opportunity to move towards a more radical, high innovative research by offering significant funding and by changing the researchers' perceptions about risky projects. The project is close to finalisation.

Numerous articles on the ERC and interviews with the ERC President, ERC Secretary General and Scientific Council members have been published, also in major daily newspapers. The ERC **Communication strategy** for 2012 was adopted by the Scientific Council in December 2011.

#### 2.1.2.2 Steering Committee

The Agency is working closely with its **Steering Committee**, which has the management responsibility of the Agency and whose members are appointed by the Commission. It adopts the Agency's annual work programmes, administrative budget and annual reports. The Steering Committee is composed of five members. On 11 July 2011, the membership of the Steering Committee changed and included Professor Sierd Cloetingh, Member of the ERC Scientific Council, who replaced Professor Mathias Dewatripont who notified his resignation as from 1 June 2011 by written request. During 2011, the other four members of the Steering Committee have been: the Director-General of DG Research and Innovation, Chairperson of the Committee, the Director for Resources in DG Research and Innovation, Vice-chairperson of the Committee, the Director of DG HR responsible for the Consultative Committee on Appointments and Catherine Césarsky, Haut-Commissaire à l'Energie Atomique. The new ERC Secretary General, Professor Donald Dingwell has observer status in the Steering Committee since he took office on 1 September 2011.

During 2011, the Steering Committee approved 17 decisions , 10 decisions (such as on the draft administrative budget 2012, on the modifications to the administrative budget 2011, on the adjustments to the financial circuits of the Agency) in its four meetings which took place on 22 February 2011, 29 June 2011, 25 October 2011 and 19 December 2011, and 7 decisions via written consultation, such as the decision adopting the Agency final accounts for 2010, the Implementing Rules on the reclassification of contract agents, or the revision of the rules applicable to Seconded National Experts.

#### 2.1.2.3 DG Research and Innovation

The **Operational Committee** composed of representatives from DG Research and Innovation and the Agency, chaired by the Agency Director, deals with more detailed operational issues related to the implementation of the Agency's Work programme, provides advice to the Steering Committee and promotes a smooth cooperation with the parent DG. Its scope is specified in the Memorandum of Understanding (Article 7.3)<sup>30</sup>. The Committee met twice in the first half of 2011 and tackled issues such as cooperation in the IT area or the preparation of the ERC EA Steering Committee meetings. In July

<sup>29</sup> At year end 4 CSA projects were ongoing.

<sup>30</sup> The Memorandum of Understanding was signed upon the ERCEA autonomy on 15<sup>th</sup> July 2009 between the parent DG and the Agency, further to the Delegation Act (C (2008) 5694, dated 8<sup>th</sup> October, 2008).

2011, the "ERC Taskforce", chaired by Robert-Jan Smits, Director-General of DG Research and Innovation concluded inter alia that the Memorandum of Understanding be dispensed with and pleaded for a relaxation of the parent DG's supervision of the ERCEA and giving the ERCEA Steering Committee the focal role for administrative oversight.

Finally, as another main area of interaction with its parent DG, the ERCEA communication activities have been implemented in close cooperation with DG RTD and its communication Unit, through structured channels ("media planning" of the RTD Spokesperson, CRIG and Director's working group on dissemination) and also continuous ad hoc contacts between the two communication Units.

## **2.2 The functioning of the entire internal control system**

In 2011, the ERCEA monitored on a quarterly basis the progress made towards achieving compliance and effectiveness of the internal controls standards, in particular through the local internal control coordinators' network, which provides regular updates, documented in the ERCEA internal control standards action plan. In addition, at year end an assessment of the compliance all ICS has been performed using the methodology and guidance of DG Budget<sup>31</sup>. Furthermore, an assessment of the effectiveness of the ICS prioritised in the ERCEA's Annual Work Programme 2011 has been performed by management, via an assessment questionnaire. Finally, the internal control system's robustness continued to rely as in 2010 on adequate segregation of duties, established processes and procedures, the promotion of ethical behaviour and on an adequate follow up mechanisms of the implementation of audit recommendations.

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

At year end 2010, compliance with Internal Control Standards was assessed by management at 80%, due to the partial compliance of ICS 3 (Staff allocation and mobility), ICS 9 (Management supervision) and ICS 10 (Business Continuity). During 2011, full compliance with these 3 standards has been achieved, in particular thanks to the adoption in October 2011 of the staff mobility policy, the implementation of the ICS 9 management supervision strategy and to the adoption of the Business Continuity Plan in December 2010 and the IT Security Policy and Framework (ICS10). However, it should be noted that the pending inventory of sensitive functions, due for 2012, has no impact on the compliance of the related ICS 4 and 7, as at year end 2011 no staff member had seniority of more than 5 years.

Furthermore, in line with ICS 12, in 2011, ERCEA's DPO sent 7 notifications to the EDPS, of which 3 were combined by the EDPS as they cover similar topics in the HR area, and 2 were drafted in cooperation with all Executive Agencies. The ERCEA received 4 opinions from the EDPS, of which the recommendations were implemented and the follow-up reported back to the EDPS. One opinion is being implemented at the beginning of 2012 as it was received in December 2012. The ERCEA also followed up on one opinion that was received end of 2010. Additionally, the ERCEA published privacy statements on a number of topics on the intranet and internet. The DPO provided advice on various topics, including security, IT security, Human Resources issues related to data protection. Finally, a number of procedures will be prior checked with the EDPS in 2012 (minimum: 3) in accordance with Article 27 of Regulation 45/2001 and notified to the DPO (minimum: 3) in accordance with Article 25 of Regulation 45/2001. Measures to raise

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<sup>31</sup> ICS compliance and effectiveness assessment tools (DG BUDG).

awareness on data protection will be put in place, such as the organisation of a lunchtime conference on data protection.

## **2.2.2 Effectiveness of implementation of internal control standards**

The prioritisation in the Annual Work Programme 2011 of ICS 5 (Objectives and Key Performance Indicators), ICS 6 (Risk management), ICS 9 (Management Supervision), ICS 10 (Business Continuity) and ICS 15 (Assessment of Internal Controls) derived from the results of the ICAT survey performed in 2010, in particular from the comments made by participants, from the results of management risk assessment exercise or from their importance in the overall internal control system and management of ERCEA activities.

The assessment of the internal control system was achieved through management knowledge gained from daily operations using various monitoring reports, scoreboards, staff survey ,beneficiaries' and principal investigators' feedback and audit reports issued as reflected in part 3.1.2 below. In addition, management formally assessed the effectiveness of the prioritised 2011 ICS, via an assessment questionnaire.

Significant progress has been achieved in 2011, allowing Management to assess the prioritised 2011 Internal Control Standards as effective, except for the ICS 10 (Business Continuity).

A higher level of ICS2 (Ethics and organisational values) effectiveness was achieved by conducting a number of activities to increase the awareness of staff, based in particular on ERCEA fraud prevention and detection strategy adopted in April 2011. The whistle blowing procedure was adopted in March 2011 providing ERCEA staff a formal channel to report suspected fraud. The new procedure was promoted by an e-mail communication from the ERCEA Director as well as in ICS trainings. In addition, by the end of 2011, more than 70% of all ERCEA staff members had participated in the ethics training and fraud aspects were specifically included in the ICS6 risk assessment exercise. Finally, an ethics and fraud awareness survey, via a questionnaire, was conducted to gather information on the level of understanding and knowledge of some of the basic aspects of the ethical standards as well as fraud and irregularity prevention. 68% of those responded (48%) had a good knowledge of ethical and fraud issues. In addition, a policy to protect the dignity of the person and prevent psychological and sexual harassment is in place in ERCEA since June 2011. Following the signature of a Memorandum of Understanding by the Directors of the 6 Executive Agencies, a network of Confidential Counselors is operational.

The Internal Control Standards related to Objectives, Key Performance Indicators and risk assessment process (ICS 5 and 6) achieved a higher effectiveness by organising dedicated workshops for all Agency Units (all management and selected staff members) to identify objectives, key performance indicators and risks. The exercise was designed to both improve the ICS effectiveness by enhancing the awareness, understanding and ownership of developing and implementing meaningful and clear objectives and key performance indicators to underpin an effective risk management process. The results of this exercise was reflected in the Annual Work Programme 2012 and serve as a basis to further strengthen ICS 9 (management supervision), ICS 12 (Information and Communication) by the development in 2012 of an internal scorecard and the promotion of regular updates of the risk register. In addition, in a view to continuously monitor risks identified, a formal process to follow up on risk management on a quarterly basis has been implemented as from January 2012. Finally, in 2011, no critical risk was identified and risk action plans related to the 2011 most important risks were implemented as planned; no risk materialisation was reported.

In line with ERC EA's Management Supervisory strategy 2010-2011 (ICS 9), the 2011 exercise focused on arrangements at the highest level of the organisation, the Director's Office, aiming at assessing the effectiveness of its supervision by drawing and analysing an inventory of its existing supervisory arrangements. The exercise concluded that the frequency and the combination of the various reporting mechanisms in 2011, allowed the Director to: effectively supervise the progress towards the achievement of the Agency objectives and targets set in the AWP 2011; evaluate the efficiency and effectiveness of the Agency's core activities; and meet the Director's needs for his oversight responsibilities.

As regards ICS 10 (Business Continuity), only partial effectiveness was assessed due to the limited Business Continuity Plan implementation in 2011. However, a first test of the disaster recovery plan (DRP) was carried out in December 2010 showing only minor flaws to the system.

In addition, although the implementation of 5 very important recommendations was postponed by 3 to 6 months in 2011, due to delays in the approval chain (Scientific Council, IT Steering Committee) or in the coordination process (RTD), management assess the delays of 3<sup>32</sup> of these recommendations as implemented at year end, the 2<sup>33</sup> remaining ones were closed by the auditors based on their follow up audits performed in 2011.

### 2.2.3 Conclusion on the functioning of the overall internal control system

On the basis of the information given in parts 2.2.1 and 2.2.2 as above, and considering the absence of any major instance of ineffective control failure, staff's collective knowledge, skills and experience as well as the adequacy of its processes and procedures, management assesses its overall internal control system as effective and reliable allowing ERC EA to achieve its objectives and commensurate to adequately manage its risks. However, recognising that internal control effectiveness should be maintained as well as further reinforced, the ERCEA will in 2012, review for improvement its mission statements to be aligned with its objectives (ICS1/ICS5), design and implement a new management supervision strategy (ICS9), implement an internal scorecard to better monitor and report upon its activities (ICS12/ICS 9), and continue to implement its fraud prevention and detection strategy (ICS2). Finally, the Business Continuity Desk Officer is preparing a number of measures to be taken in 2012 to ensure the effective implementation of the BCP, as for example the implementation of the Duty Officer system (rotating Heads of Unit) early January 2012, the testing of the Duty Officer system and of the telephone cascade and the request addressed to the Secretariat General to include the ERCEA in the next corporate BCP test (ICS 10).

### 2.2.4 Information to the Commissioner

The ERCEA's Quarterly Report to DG Research and Innovation is annexed to the Quarterly Report by the parent DG and addressed to **Commissioner Máire Geoghegan-Quinn**. In addition, the ERCEA is regularly requested to contribute to briefings for the Commissioner that are received by ERCEA through the office of the Director General. The contributions have provided the Commissioner with the necessary

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<sup>32</sup> All relating to IAO audit on Grant management.

<sup>33</sup> One concerning the IAO audit on Human Resources management and one concerning the IAS audit on the set up of Internal Controls and Financial Management systems design.

information when meeting inter alia ERC grantees in the Netherlands (July 2011), Ireland (September 2011) and Germany (October 2011). Finally, the Director General of DG Research and Innovation, as chair of the Steering Committee was regularly informed about the progress made by the ERCEA towards the achievement of its objectives.

Thus, the main elements of this report and assurance declaration have been brought to the attention of the ERCEA's Steering Committee and to DG Research and Innovation Director General, who has taken these into consideration in his reporting to Commissioner Máire Geoghegan-Quinn, responsible for Research, Innovation and Science.

## **PART 3. BUILDING BLOCKS TOWARDS THE DECLARATION OF ASSURANCE**

### **3.1 Building blocks towards reasonable assurance**

A reasonable level of assurance as to the accuracy of payments and the regularity and legality of their under transactions is best supported through ex post checks performed after the costs have been incurred, declared by and to beneficiaries. Such level of assurance is obtained through the implementation of the "FP7 Ex post control audit strategy", the objective of which is to provide, for the 7<sup>th</sup> Framework Programme, comparable data on a multiannual basis through a structured, systematic and coordinated approach. To this end, as described in annex 4, it considers the "residual error rate" (which includes a "representative" error rate), with a threshold of 2%, as the appropriate materiality criteria.

Although the ERCEA further contributed in 2011 to the execution of the F7 ex post control audit strategy, the number of its ex post controls results remains too low as to rely on a meaningful representative error rate, as to assess the level of undetected errors, in accordance with the materiality criteria defined in annex 4. Therefore, the ERCEA relies for the purpose of its declaration of assurance essentially on the results of its ex ante controls and defines its materiality threshold at 2% of the ABB activity line. Consequently, ERCEA declaration of assurance should be qualified in the event an amount at risk would exceed the materiality threshold of € 15 million<sup>34</sup>, the latter representing 7% of all 2011 interim payments.

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

##### **3.1.1.1 Legality and regularity of Operational budget's underlying transactions**

The "Ideas" programme is implemented through the "centralised management" mode, which implies direct contributions through financing research grant agreements signed with beneficiaries. The financial contribution is paid first as a pre-financing and subsequently as interim and final payments. The latter require the submission and approval of Periodic Financial Management Reports and of Scientific Reports, at mid-term and at the end of the project.

ERCEA control strategy builds on its performance results as described in part 1 of the present report, as well as on an adequate mix of ex ante and ex post controls embedded throughout the whole scientific and grant management cycles, commensurate to its risk profile, as described in annex 5. It focuses on preventing, detecting and correcting costs being overcharged and errors affecting the regularity and legality of underlying transactions by providing guidance to grant beneficiaries on financial modalities of grant implementation and performing in depth ex ante controls. It is further underpinned by the results of its yearly management risk assessment and the effective implementation of related action plan, by the assessment of its overall internal control system, as reflected in the Internal Control Coordinator's contribution the Assurance process. Finally, it relies on a robust segregation of duties between financial and operational functions and between initiation and verification tasks, on the outcome of its exception reporting and the results of its ex post controls.

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<sup>34</sup> Representing 2% of the 2011 payments executed.

The table below provides the relative weight of each payment type for 2011<sup>35</sup>:

	<b>Operational Expenditure</b>		
	<b>Pre-financing</b>	<b>Payments against cost statements<sup>36</sup></b>	<b>Total</b>
<b>FP7 IDEAS</b>	558.671.542,41	200.605.891,37	759.277.433,78

The implementation of the Ideas Programme is organised along 4 distinct phases, with specific key control mechanisms forming ERCEA control strategy, described hereafter:

### **Stage one: Scientific management processes**

The scientific management processes encompass the implementation of the peer review process for the selection of ERC grants, the management of the calls for proposals, the evaluation and selection of proposals and the processes for scientific monitoring of grants.

Results of key controls indicating the robustness of the grant award process and providing assurance as of the legality and regularity of underlying transactions are provided hereafter:

- Controls on eligibility of proposals: For the Starting Grant 2011 call, a total of 53 proposals were rejected as ineligible, representing 1.3% of submitted proposals, following the eligibility checks and, where appropriate, the in-depth review of eligibility criteria by the Eligibility Committee. For the Advanced Grant 2011 call, a total 28 proposals were rejected as ineligible, representing 1.3% of submitted proposals. Regarding the Proof of Concept 2011 call, 13 proposals were found ineligible, representing 8% of submitted proposals.
- Evaluation quality controls: The processing of evaluation results include specific quality control procedures which provide assurance that the evaluation procedure and results were subject to a quality control in conformity with ERC rules for submission of proposals and related evaluation and "Ideas" Work Programme. These documents signed by respectively the evaluation panel (chair and members), the call coordinator, the relevant Head of Unit and Head of Department ensure the President of the Scientific Council, who approves the "evaluation dossier" including the main rank list of proposals to be funded, that the evaluation process has been performed in compliance with rules and procedures. In 2011, no exceptions to rules and procedures were reported via the quality control procedures and the evaluation results were duly approved by the President of the Scientific Council.
- Fraud prevention and detection: One case of plagiarism was detected by a panel member. The Host Institution was contacted, the proposal was subsequently withdrawn and the case was sent to OLAF.
- Ethical review: Overall, in 2011 the ethical Review involved 55 external experts and covered 100% of proposals, out of which only 3 were flagged as dealing with Human Embryonic Stem Cells. These proposals will be transferred into the dossier of the parent DG.

<sup>35</sup> The amounts include all fund sources.

<sup>36</sup> This amount corresponds to the payments done against cost statements and is net (clearing amount is already deducted).

- Redress I: In 2011, 234 requests for redress were received, representing 3.6% of total proposals submitted, a significant decrease compared to 2010 (4.6%) when considering the 30% increase of proposals submitted. The increase in the number of re-evaluations compared to 2010 is mainly due to the assessment of the wrong criteria and to the use of confusing scoring by some panels in Step1 of Starting Grant 2011. The evaluation criterion in the "Ideas" Work Programme 2012 has introduced substantial improvements. The two successful redress requests were originated in both cases by errors on an individual assessment in Step 1. In both cases the re-evaluation ended with the Principal Investigator being invited for interview, passed to Step2 and being selected for granting.

Total number of grant proposals received	6515
Number of redress request received	234*
Redress request % of the proposals received	3.6*
Number of redress request treated	231
Number of redress requested in pending	3
Number of redress cases which led to re-evaluation	30*
Redress cases which led to re-evaluation (% of proposals received)	0.5*
Number of successful redress request	2*
Number of re-evaluations pending	0

(\*) figures not definitive

- Ombudsman cases: In 2011, one new Ombudsman complaint on the Redress I procedure has been addressed to the Ombudsman. The complainant claimed that the reviewers failed to review the actual proposal submitted. In its reply to the Ombudsman dated 25 November 2011, the ERCEA confirms that the evaluation was performed in compliance with the ERC guidelines given to the peer reviewers and the established legal framework. It further confirms that the Redress Committee has properly examined the complainant's request of redress and ascertained that there had been no shortcomings during the evaluation procedure.

Furthermore, 3 complaints were closed during the period under review. The first one related to a complaint concerning the first ERC-2007-StG call, which was submitted to the Ombudsman in 2008 by an applicant who was unhappy with the handling of his Redress I request. The Ombudsman issued a critical remark requesting the Commission / ERCEA to ensure that the peer reviewers apply the correct evaluation criteria and do not use additional ones, not provided by the "Ideas" Work Programme. Furthermore, he noted that the Redress I Committee failed to acknowledge this error in the evaluation procedure. In reply to the Ombudsman's request, the Commission and ERCEA amended the Redress I Guidelines, addressing a specific note to the Redress I committee. The complaint was closed at year end 2011 and the Ombudsman welcomed the improvements introduced by the Commission / ERCEA<sup>37</sup>.

Finally, two other complaints submitted to the Ombudsman respectively in 2009 concerning the Advanced Grant call 2008 and in 2010 related to Advanced Grant call 2009 have been closed in 2011 by the Ombudsman who concluded that no maladministration by DG RTD and/or ERCEA occurred.

<sup>37</sup> Reference: Ombudsman's "Study of follow-up given to critical and further remarks made in 2010" (ARES(2011)1347668 of 13.12.2011)

## Stage two: Grant preparation and signature

In addition to the Internal Control and Management Control Systems in place for the entire Framework Programme 7 additional controls were put in place by the ERCEA taking into account the specificity of the "Ideas" specific programme, namely the fact that the projects are driven by principal investigators, in the majority of cases mono-beneficiary grants. The grant preparation and signature process does not entail any negotiation on the maximum financial contribution, as this is part of the grant award decision. Starting Grants may be awarded up to € 2.0 M per grant (normally up to € 1.5 M per grant) and Advanced Grants up to a maximum of € 3.5 M per grant (normally up to € 2.5 M).

Host Institutions are required to fulfil the conditions set for participating in the Ideas Programme: the control systems (including the DG research and Innovation centralised IT systems) impose the Host Institution to be a legal entity registered as a participant in the Framework Programme 7. Systematic checks include the verification that the Host Institution (the coordinator if the Grant Agreement is multi-beneficiary) is established in a Member State or in an Associated Country, in accordance with the FP7 rules to ensure verification of the existence and legal status of participants as well as their operational and financial capacities<sup>38</sup>.

Furthermore, the financial viability of beneficiaries (Host Institutions which are non public bodies and non higher education establishments, as well as any such other beneficiary which applies for a financial contribution in excess of € 500.000) is checked according to the common FP7 procedure. In 2011, 68 financial viability checks were performed out of 779 projects invited for the 2011 Starting and Advanced Grant calls. Due to an insufficient result for one beneficiary, this led to the exclusion of this beneficiary and the PI had to change Host Institution. For Host Institutions showing a weak financial viability, a reduction of the pre-financing was agreed with the Host Institution, as a financial protective measure. Four Host Institutions obtained a weak financial viability result, which translates into 6 projects, as one of these Hosts was the beneficiary of 3 projects. Projects with a weak result following the financial viability check are flagged for ex post control audits.

In view of the specific nature of the "investigator driven" approach of ERC grants, the ERCEA checks systematically all projects invited to the preparation of the draft Grant Agreement phase the conditions of employment of the Principal Investigator and the existence of a legally binding Supplementary Agreement signed between the Principal Investigator and the Host Institution. In 29 cases, the Principal Investigator wished to change Host Institution during the Grant preparation and signature phase, and the award decision was consequently amended and all approved by the ERCEA Director.

During the grant preparation, as a measure to safeguard the ERCEA assets, including to prevent and detect potential irregularities or fraud, beneficiaries are systematically checked to ascertain whether they are flagged in the Early Warning System (EWS), and if yes, at which level. This check is also formally signed off during the preparation of the individual budgetary commitment, which needs to be in place before the legal commitment is signed (in accordance with Article 77.1 of the Financial Regulation). In case of warning, the individual commitment file includes due justification. Three beneficiaries were flagged in the EWS, but not at a level deemed to suspend commitments.

A network of EWS correspondents exists within the ERCEA to monitor and report on cases where a beneficiary is flagged or needs to be flagged in the EWS. One beneficiary has been flagged at EWS 5, which is preventing from signing new contracts.

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<sup>38</sup> Commission Decision C(2007)/2466 – 13/06/2007

### Stage three: Grant implementation

This stage covers the legal and financial management of grant agreements, starting after the signature of the Grant Agreement with the pre-financing payment and ending with the final payments. It also covers grant amendments as well as the handling of all other questions in relation to the grant.

For all payment types, adequate ex-ante controls have been embedded in the respective procedures, checklists and accordingly organised financial circuits. During the year, the entire range of procedures had been consolidated and approved in line with the applicable Internal Control Standards.

The main points of control are based on the following:

- For the pre-financing payment: a systematic verification according to established checklists on the details of the Grant Agreement, the third party and the special clauses linked to the contract, in accordance with the Financial Regulation and the Internal Control Standards.
- For the interim and final payments, the controls consist in the analysis of the submitted Financial Management Report (PFMR), which provide an explanation of the use of financial resources in comparison with the Description of Work and notably the budgetary annex (milestones), a cost declaration submitted by Host Institutions in cooperation with Principal Investigators and, depending on the amount claimed for reimbursement, the Certificate on Financial Statement<sup>39</sup> (i.e. for expenditure above € 375,000).
- The established check lists designed to verify the content of the Financial Report, of the Certificate of Financial Statement itself and of the payment ensure proper and complete ex-ante control for each single payment.
- In order to ensure that key controls are effectively functioning all transactions above € 500.000- are systematically checked by the Head of Unit. 77 interim payments representing 11,2% have been authorised by the Head of Unit.
- Preventive actions have been undertaken with a view to reduce the risk of ineligible costs being paid: since 2009, 12 outreach events (including 5 in 2011) designed to raise the awareness of beneficiaries have taken place so far. These activities covered 276 participants representing Host Institutions having cumulatively contracted more than 80% of the Agency's committed budget and covering key countries. The workshops are focused on updates in grant management, best practices, typical errors and advice to improve the quality of Financial Statements. These events generally received a very positive feedback and provided a valuable source of information for the Agency.
- The ERCEA applies as all other FP DG-s liquidated damages on detected overstatements in paid cost claims. This practice has a dissuasive effect on the beneficiaries and contributes to more care put into the preparation of Financial Statements.
- Result of the EWS screening: One beneficiary has been flagged in EWS during 2011 in the category W2, for which 3 pre-financing payments were launched after consultation with DG BUDG and internal validation of the financial risk. Another beneficiary has been flagged in the category EWS 5. This beneficiary has received 4 grant agreements from ERCEA. A total amount of € 2,4 million was paid in terms of pre-financings, out of which € 0,3 million were directly transferred to the FP 7 Guarantee Fund. This entails a potential risk exposure of a maximum of € 2 million. Depending on the outcome of the legal proceedings underway, the FP 7 Guarantee Fund will intervene as appropriate, thus not justifying a reservation.

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<sup>39</sup> A report on standardised agreed upon procedures performed by a qualified independent auditor on a Financial Statement whenever the cumulated amount of € 375 000 is reached.

- Results of the scientific follow up: For 28% of the ongoing projects paid in 2011 a scientific report was due. In these cases before the interim payment is launched, a confirmation related to the progress of the project is requested to the scientific department.
- Fraud prevention and detection: No files have been sent to OLAF for further investigation.
- Results of exceptions reporting: In 2011 one exception was reported. A grant agreement has been signed with a host institution seated within one of the Member States but established under the United Nations Statutes and not under the national Law of a Member State or an Associated Country and therefore the provisions of article 5 and 9 of the FP7 Rules for Participation were infringed. Due to the ambiguous formulation of this article, ERCEA has assumed that the conditions were fulfilled. The error became evident once an interpretation of DG RTD was received stating that at least one legal entity has to be established under the national law of a Member State or in an associated country. As the project was already launched positively and the error was to be traced back to the ERCEA, an exception was made for this project informing the Host Institution that in the future no further grant agreements can be signed.
- As to amendments, the verification of completeness and correctness of the amendment preparation is done respecting the principle of segregation of duties at three stages of the procedure - starting by a specially appointed Quality Verifier (ex-ante) then by the Amendments Supervisor (ex-ante) and at the end of the process (ext-post) again by the Quality Verifier. Checks are also made in order to ensure that the amendment (requests and ERCEA's letters) are properly encoded in CPM, NEF and ABAC.

The controls put in place have led to the rejection of costs claimed by the beneficiary, either on the basis of the analysis of the PFMR or of the results of Certificate on the financial statement, as shown in the table below:

	Number of Invoices	Amount	% of ineligible costs in amounts on total validated invoices
<b>Cost claimed by beneficiary (of Invoices validated in 2011)- prior payment</b>	<b>693</b>	<b>219.623.650,38<sup>40</sup></b>	<b>N/A</b>
<b>Of which Ineligible costs declared</b>	<b>69</b>	<b>555.848,31</b>	<b>0,25%</b>

#### **Stage four: Ex post controls audits**

As concerns materiality of errors present in the cost declarations of beneficiaries, it should be noted that due to multi-annual nature of the "Ideas" Programme, the effectiveness of the ex post control strategy can only be fully measured and assessed at the final stages in the life of the Framework Programme, once the ex-post strategy has been fully implemented and systematic errors have been detected and corrected. The control objective is to ensure that the most likely residual error rate, i.e. the level of errors which remain undetected and uncorrected, does not exceed 2% by the end of the management cycle (audit cycle 2009-2016). This objective is to be re-assessed annually,

<sup>40</sup> In addition, it should be noted that the amount of €18.231.318,37, which is included in the total invoiced amount, was cleared against the pre-financing paid for the relevant projects. Equally important is the fact that the total invoiced amount is not in line with the total paid amount as presented in page 32, since part of the invoices that validated in 2011 will only be paid in 2012.

in view of the results of ex-ante controls and the implementation of the ex-post audit strategy and taking into account both the frequency and importance of the errors found as well as a cost-benefit analysis of the effort needed to detect and correct them. A high level of assurance regarding the payments processed by the ERCEA and their compliance with applicable legal and contractual provisions can be best achieved through checks performed at the premises of the beneficiaries. These checks are performed by Agency staff as well as with the help of External audit firms and joint audits with the European Court of Auditors. Depending on their nature and scope, audits are grouped essentially in two categories and selected from the cumulative auditable population amounting to € 430 millions at year end 2011: **representative audits**, which contribute to the calculation of a representative error rate and **corrective audits**.

Following the FP7's Common ex-post audit strategy agreed and coordinated across the framework programme, which follows the multi-annual character of the programme and aims at providing a multi-annual residual error rate, the **representative audits** are sampled by using the methodology of monetary unit sampling. In order to address the growing volume of interim and final payments, ERCEA applied incremental sampling and wanted to base the calculation of a representative and residual error rate on a sample drawn from the first € 250 million of interim and final payments executed since the beginning of the programme. The related cumulative coverage represents 5% of the year end cumulative auditable population (€ 430 million) and the cumulative audit coverage of representative financial statements paid and based on the first € 250 M sample represented 2.6 % of the sample (6.5M€ audited).

The cumulated number of closed representative audited financial statements at year end is 19 and hence still too low to consider the representativeness of the results obtained<sup>41</sup> for the purpose of substantiating the declaration of assurance<sup>42</sup>.

As from 2012, the Research Family will abandon the approach of a representative sample by DG/ Executive Agencies and opt for a Common Representative audit Sample (CRaS), which is expected to reduce the number of audits and audit costs, as well as to produce a common error rate within a calendar year. As a consequence, all Financial Statements in audits launched under the ERCEA representative sample (75 Financial Statements - 19 are closed) will be re-classified as corrective audits as from the reporting year 2012 onwards. In 2012, it is also intended to report in a coordinated manner across the 7<sup>th</sup> FP on the financial impact on the errors found. The ERCEA has to follow a dual objective in assuring the legality and regularity as well as minimising the economic impact of the errors. The economic impact of the error rate is intended to address scenarios where detected errors are linked to timing effects in the accounting or those cases where the project at the end of its life overshoots the budgeted costs thus compensating the detected errors.

Regarding the **corrective audits**, the ERCEA selection approach focused on the Top 100 beneficiaries (representing around 70% of the contracted budget so far) and beneficiaries with a higher risk profile. The error rate detected in the risk-based sample (2,51%) is comparatively low to the one found by other Research -DG's in their corrective strand, but significantly higher than in the representative sample. It shows that projects with higher risk are effectively detected and confirms the lower risk in the population as compared to the rest of the FP. Further analysis is ongoing to confirm that the most suitable parameters are used to detect high risk Financial Statements.

One priority of the corrective audits was to audit in order to assess the reliability of Financial Statements accompanied by a Certificate on the Financial Statement, which is

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<sup>41</sup> For information only, the preliminary non representative error rate obtained here for ERC is 0.79%.

<sup>42</sup> ERCEA grants are less error-prone thanks to a population with a high share of mono-beneficiaries, to direct costs being reimbursed at 100% and overheads on the basis of a flat rate and to the high coverage of cost statements by a Certificate of Financial Statements.

seen as an essential ex-ante control<sup>43</sup>. The comparison of audits performed on Financial Statements either with or without a Certificate of Financial Statement confirms that it helps to reduce errors (average error rate of 1,22% in payments with Certificate of Financial Statement, compared to 2,29% in payments without Certificate of Financial Statement). This observation is particularly relevant as the Ideas programme has a high coverage of its expenditure first verified through the Certificate of Financial Statement.

Overall, at year end 2011, the multiannual detected error rate <sup>44</sup> is 1,99% (risk based: 2.50%, representative: 0.79 %). However, considering the insufficient available information obtained to date through the ex post controls, no reasonable estimate of the impact of undetected and uncorrected errors in the underlying operations can be drawn. As a result, a reliable residual error rate cannot yet be calculated. In addition, the percentage of systematic errors in representative as well as risk based audits performed by the ERCEA was low as a result of good and continued cooperation with the beneficiaries. As of 31 December 2011, only 2 systematic errors were detected in the cumulative 85 audited financial statements. These errors concerned 2 beneficiaries and affected in both cases the interest earned on pre-financing. As at 31.12.2011, one of the beneficiaries accepted the finding and the reply to the finding for the other one was received early January 2012. In the context of other audits carried out under the FP7 programme, 139 ERC beneficiaries have been audited by other Research family members (by adding ERCEA closed audits, there are a total 176 ERCEA beneficiaries which have been audited i.e. 36% of the whole IDEAS population). The percentage of systematic errors in representative as well as risk based audits is low as a result of good and continued cooperation with the beneficiaries (as of 31 December 2011, only 2 cases of material systematic errors were detected by ERCEA audits). As regards extrapolation cases detected by others, these concerned 16 beneficiaries of the ERCEA and 45 Grant agreements with comparatively low error rates.

The Commission and the Court of Auditors qualify as limited and acceptable with the nature of research expenditure a 2% or less most likely error rate on all payments. For the ERCEA, this translates in 2011 to a materiality threshold of € 15 million<sup>45</sup>, representing 7% of all interim payments executed in the year, based on the relative low share of interim payments (27%) versus pre-financing payments (73%), which are considered free of errors as they are not based on cost declarations from beneficiaries.

Management assesses that the controls results covering the scientific and the grant implementation management of the "Ideas" programme provided sufficient assurance as to the legality and regularity of their underlying transactions executed the start of the programme and up to 31/12/2011. Indeed, management assesses such a high percentage as unlikely to materialise, when considering previous experience of the Framework programme, where error rates were estimated below 5%.

### **Execution of the ex-post control strategy**

Below table shows the execution of the ex-post control audit strategy for 2010, 2011 and on a cumulative basis for the period 2009 to 2011. It should be noted that audits selected for the representative sample also included, for cost benefit reasons, additional financial statements, selected following a risk analysis. Therefore, the detailed information on representative and corrective (risk based) audits can not be provided.

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<sup>43</sup> See also the CoA opinion in the DAS 2010 exercise.

<sup>44</sup> This error rate is calculated on the FP6 methodology: sum of negative adjusted amounts divided by the total of audited amounts (costs accepted by Financial Officers).

<sup>45</sup> Representing 2% of the 2011 payments executed.

	Ex post audit planned AWP	Ex post audits launched	Of which (end of 2011)		
			Ongoing	Closed	
<b>2010</b>					
<b>TOTAL</b>	<b>20</b>	<b>43</b>	<b>7</b>	<b>36</b>	
<b>2011</b>					
<b>TOTAL</b>	<b>100<sup>46</sup></b>	<b>63</b>	<b>51</b>	<b>12</b>	
<b>2009-2011</b>					
<b>TOTAL cumulative</b>	<b>125</b>	<b>109*</b>	<b>60**</b>	<b>49</b>	

\* An audit may comprise 1-3 Financial Statements.

\*\* At the date of writing, 8 more Audit reports passed the contradictory procedure with the auditee agreeing on the audit findings.

### Results of ex post control strategy impact indicator

	<b>2011</b>	<b>2009-2011</b>
Total cost accepted by Financial officers (€) on audited FS	20.647.609€	22.619.852€
<b>Total amount audited (€) closed audits only<sup>47</sup></b>	20.306.980€	22.245.169€
Thereof Risk based sample	14.459.616€	15.699.165€
Thereof Representative sample	5.847.364€	6.546.004€
<b>Total adjustments in favour of the ERCEA (€):</b>	410.653€	449.473€
Risk based sample €	371.558€	403.180€
Representative sample €	39.095€	46.293€
<b>Detected error rate (%)</b>	1,99 %	1,99%
Risk based sample	2.51%	2.50%
Representative sample <sup>48</sup>	0,76%	0,79%
<b>Estimated residual error rate (%)<sup>49</sup></b>	n/a	0,60%

The implementation of ex post controls results represented 7% of 2011 adjustments and 51% of cumulated 2009-2011 adjustments in favour of the ERCEA and was done either by issuing related recovery orders or by deducting the amounts to recover from the subsequent financial statement. Issued recovery orders were recorded and authorised in ERCEA accounting systems at year end and its internal control system provide sufficient assurance on effective correction.

#### 3.1.1.2 Legality and regularity of Administrative budget's underlying transactions

The materiality threshold for the administrative budget is derived by applying 2% to the 2011 payments<sup>50</sup> and represents an amount of 658,7K€.

All financial transactions on the administrative budget go through an ex-ante check, done by one of the two highly experienced financial verifying agents. All errors detected are

<sup>46</sup> Revised to 70 audits in the course of the 2011 as explained in section 1.2.1.

<sup>47</sup> Based on issued Letter of conclusions.

<sup>48</sup> Following the annex II of the FP7 Ex-post audit strategy 2009-2016 agreed in the CAR of 30/09/2009 amongst Research family members, the representative error rate is equal to the sum of error rates (in %) detected on Cost statements of the representative sample (adjustments only in favour of the Commission, divided by the costs accepted by financial officers), divided by the total number of representative audited Cost statements.

<sup>49</sup> As explained above, a reliable residual error cannot be calculated yet; nevertheless, we provide the current result of our abandoned audit campaign, following the calculation in annex 4 hereunder.

<sup>50</sup> The 2011 payments equal € 32, 934 Million.

corrected. As a single transaction (for example, a commitment) can be checked at several steps of its workflow (creation, modification, de-commitment), in the following paragraph, a "transaction" refers to a workflow. Therefore the total number of "transactions" is bigger than the simple addition of all payments, commitments and recovery orders, which is estimated to 2.613 (2.318 payments, 246 commitments and 49 recovery orders).

Although the ex ante control results are systematically recorded only since November 2011, the 2011 ex ante results are considered as a representative sample of approximately 50% of all transactions executed and covering 2.565 transactions of all types (commitments – creation or modification, payments, legal commitments and recovery orders).

These ex ante controls resulted in an estimated error rate of 3,27% representing a number of 84 transactions, out of which 50% were rejected due to misallocation to PECUNIA<sup>51</sup> budget accounts, with no impact on the legality and regularity of underlying transactions and another 10 linked to the staff transport cost reimbursement scheme where the error was mainly due to incorrect "message to beneficiary" or "incorrect" bank account.

In addition, ex-ante check detected five transactions requiring a "non-compliance event report" linked to an a-posteriori commitment. These were all recorded in the ERCEA exception register. To avoid recurrence of such exceptions in 2012, communication to financial correspondents on the necessity to have a prior budgetary commitment will be reinforced.

As regards procurement files initiated in 2011 by operational and horizontal Unit, representing 281 "transactions"<sup>52</sup> were all verified by the independent ERCEA procurement cell. Although a relatively high number of errors were identified (estimated at 78), such as erroneous templates used, missing supporting documents, errors in contracts and annexes not in line with tender specifications, all errors were corrected and therefore provide the necessary guarantees regarding the legality and regularity of underlying transactions. In order to avoid the recurrence of such errors, following corrective actions have been implemented, including the close cooperation with and assistance of operational and horizontal Units for the preparation of the tender documents, provision of legal and financial advice in the preparation of tender specifications and the organisation of a one day dedicated training session on procurement, held in May 2011, for financial correspondents and staff involved in the preparation of public procurement.

Overall, based on the low number and the type of errors detected, the average amount of transactions rejected and the swift corrections of errors detected, it can be concluded that controls are effective. In addition, as 70% of payments relate to salaries and the rent for which no error was detected, the estimated error rate of 3,27% concerns only the remaining €9, 7Million, meaning that a cumulated undetected error of €317K€ is not only below the materiality threshold but also almost unlikely.

### 3.1.1.3 Results from implementation of the Fraud prevention and detection strategy

In April 2011 the ERCEA fraud prevention and detection strategy was adopted to further strengthen the control systems in place and promote fraud awareness in ERCEA. The

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<sup>51</sup> PECUNIA is an extra accounting system allowing a more detailed follow-up of the budget planning and execution – such rejections cannot be considered as financial errors.

<sup>52</sup> Similarly to the administrative accounting files, a procurement file or workflow may entail several "transactions".

strategy is also designed to minimise the adverse impact that fraud may have on the legitimacy, effectiveness and public trust on ERCEA. The strategy includes objectives, analysis of key fraud concepts and potential ERCEA weaknesses as well as an action plan. Out of the fourteen actions planned five had been completed at the year end, in particular a fraud questionnaire was carried out in February 2011 with an average % of correct answers 68% of which indicated that ERCEA staff had a good knowledge of reporting requirements, awareness of required ethical code of conduct and an understanding of what is considered amongst others fraud or conflict of interest. Further actions in 2011 included fraud risk assessment in conjunction with ICS6 during which a number of fraud risks were identified albeit their residual risk level was assessed low. The Early Warning System procedure was adopted as well a large number of both scientific and financial officers were trained to better detect potential irregularities. As part of ex-post control activities specific guidance is given for beneficiaries enabling them to better identify fraud risks.

Two cases of plagiarism were detected during the evaluation stage: one by a panellist and one based on information received from outside. In both cases the Host Institutions were contacted and they withdraw the proposals. Information on these cases was forwarded to OLAF. In addition, information on alleged scientific misconduct was received through ERC the webpage concerning an ongoing grant. The follow-up of this case is ongoing.

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

The European Court of Auditors performed an audit on the **ERCEA 2010 accounts** in February 2011. The final ECA report on the 2010 accounts was received on 8 June 2011 without comments.

In accordance with its annual audit plan, the IAO completed 2 assurance engagements, whilst 2 other ones were in progress at the end of the year. The IAO annual opinion reflects the outcome of the 2 audits completed in 2011 and states the IAO not being aware of anything left unreported that may impact the declaration of assurance.

- IAO's final report on the **administrative budget audit** was received on 28 July 2011 issuing three very important recommendations and six important recommendations providing thus a reasonable assurance regarding the achievements of the business objectives set-up for the management of the administrative budget. The Action Plan in response to the audit recommendations and agreed with IAO was approved on 26 October 2011. As at year end 2011, the implementation of the action plan is considered by ERCEA's management as completed.

- IAO's final report on the **IT governance audit** was received on 06 July 2011 issuing nine very important recommendations and three important recommendations leading to a negative opinion on the assurance of internal controls. The ERCEA services have prepared an Action Plan in response to these recommendations, which was approved by the Director on 10 October 2011 and has since been under implementation, with one recommendation related to Project Costing of internally generated intangible assets being postponed by 3 months due to data protection issues that are being dealt with. Progress has been made on all other very important recommendations, one being completed at end 2011. Moreover, it should be noted that there has been no instance of major IT failure in 2011. Hence, management considers that this negative opinion does not affect the 2011 declaration of assurance.

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

The AAR 2010 did not include a reservation.

The IAO conducted a **Human resources management audit**, on which the final report was received on 30 April 2010, making eight very important recommendations and twelve important recommendations and duly reported on in the 2010 AAR. IAO conducted a follow-up HR audit during the third quarter of 2011. In their final note to the ERCEA Director on audit conclusions from 21 October 2011, IAO assessed that the recommendations addressed to the Director ad interim that resulted from the Human Resources Management have been adequately and effectively implemented.

The IAS conducted an audit on the set- up of Internal Controls and Financial Management systems- design in 2010. The final audit report by the IAS was received on 31 July 2010 making four very important recommendations and duly reported on in 2010 AAR. During the fourth quarter of 2011, the **IAS conducted a follow-up audit** and their feedback was received on 3 January 2012. The IAS assessed that "7 out of 8 recommendations that resulted from the original audit have been adequately and effectively implemented and we propose to close them". The outstanding recommendation is an important recommendation and refers to the improvement of the working relationships between ERCEA and the parent DG.

During most of 2011, the implementation of actions related to the audit of Internal Audit Office on the ethical review management was ongoing following the agreement on the action plan on 17 February 2011. As per 31 December 2011, the ERCEA management considers six out of seven recommendations closed with one important recommendation outstanding, which is related to the revision of the Delegation Act of ERCEA (is it about the revision referred to in section 2.1.2.2; to be linked to the IAS recommendation which is still open after their follow up). The IAO will conduct a follow-up audit in the first quarter of 2012.

Furthermore, the implementation of actions related to the audit of Internal Audit Office **grant management audit** was in progress during most of 2011 on the basis of the action plan formulated and agreed on 1 April 2011. ERCEA's Management assesses the actions related to the 25 audit recommendations including five very important ones, as completed. The IAO is expected to carry out a follow-up audit in the first quarter of 2012.

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

Non applicable.

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

The information provided in the building blocks stems from the systematic analysis of evidence available and results in a complete coverage of the budget delegated to the Director of the ERCEA providing sufficient guarantees as of the completeness and reliability of the information provided.

Indeed, the information reported under building block 1 reflects management assessment, based on the results of ex ante controls in place, which operated effectively, as shown in the indicators outlined above. They provide sufficient evidence to substantiate an unqualified reasonable assurance on all ERCEA administrative and operational budgets, covering all related processes and underlying financial transactions (legal and financial commitments / payments).

In addition, the results of ex post controls performed on the operational budget, although not providing sufficient information to date to conclude on a representative error rate, confirm management assessment of the legality and regularity of underlying transactions.

Finally, the information reported under building block 2 and 3 is not assessed as impacting the declaration of assurance. Indeed, audits performed by the IAS, IAO, ECA and DG BUDG since ERCEA's autonomy highlighted various very important recommendations, which contributed to the improvements of the internal control system thanks to the implementation of related action plans.

## **3.2 RESERVATIONS**

None.

## **3.3 OVERALL CONCLUSIONS ON THE COMBINED IMPACT OF THE RESERVATIONS ON THE DECLARATION AS A WHOLE**

Non applicable.

## PART 4. DECLARATION OF ASSURANCE

"I, the undersigned,

Director- ad Interim of the European Research Council Executive Agency

In my capacity as authorising officer for the operating (administrative) budget and authorising officer by delegation for the operational budget

Declare that the information contained in this report gives a true and fair view <sup>53</sup>.

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

This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex-post controls, the work of the internal audit capability, the observations of the Internal Audit Service 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 European Research Council Executive Agency."

Place Brussels, 28/03/2012

*[signed]*

Pablo Amor

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<sup>53</sup> True and fair in this context means a reliable, complete and correct view on the state of affairs in the service.

## **ANNEX 1: Statement of the Head of Resources and Support Department**

I declare that in accordance with the Commission's communication on clarification of the responsibilities of the key actors in the domain of internal audit and internal control in the Commission<sup>54</sup>, I have reported my advice and recommendations to the Director on the overall state of internal control in the ERC Executive Agency.

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

Yves Paternoster  
Date and signature

*[signed – 28/03/2012]*

Head of Department D Resources and Support

Internal Control Coordinator

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<sup>54</sup> SEC(2003)59 of 21.01.2003.

## ANNEX 2: Human and Financial resources by ABB Activity

### Human Resources by ABB activity

Code ABB Activity	ABB Activity	Human Resources by ABB activity		
		Establishment Plan posts	External Personnel	Total
08.10	Management of the Ideas Programme	97	253	350

### Financial resources – Implementation of the ERCEA's operating (administrative) budget

Budget line	Budget line description	APPROPRIATIONS 2011 (C1)			APPROPRIATIONS carried forward (C8)	
		Available appropriations 2011	Commitments 2011	Payments 2011	Amount of appropriations carried forward from 2010	% implementation on appropriations carried forward from 2010
Title 1	Staff expenditure	22.387.987,00	21.982.639,50	21.829.019,28	280.816,06	93,41%
Title 2	Infrastructure and operating expenditure	13.212.750,00	13.007.113,36	11.104.749,22	1.272.064,89	86,00%
	<b>TOTAL</b>	<b>35.600.737,00</b>	<b>34.989.752,86</b>	<b>32.933.768,50</b>	<b>1.552.880,95</b>	<b>87,34%</b>

## **ANNEX 3: Draft annual accounts and financial reports**

### **Annex 3 Financial Reports - DG ERC - Financial Year 2011**

**Table 1 : Commitments**

**Table 2 : Payments**

**Table 3 : Commitments to be settled**

**Table 4 : Balance Sheet**

**Table 5 : Economic Outturn Account**

**Table 6 : Average Payment Times**

**Table 7 : Income**

**Table 8 : Recovery of undue Payments**

**Table 9 : Ageing Balance of Recovery Orders**

**Table 10 : Waivers of Recovery Orders**

**Table 11 : Negotiated Procedures (excluding Building Contracts)**

**Table 12 : Summary of Contracts (excluding Building Contracts)**

**Table 13 : Building Contracts**

**Table 14 : Contracts declared Secret**

**Additional comments**

**TABLE 1: OUTTURN ON COMMITMENT APPROPRIATIONS IN 2011 (in Mio €)**

Chapter	Commitment appropriations authorised *	Commitments made	%
	1	2	3=2/1
<b>Title 08 : Research</b>			
08 10 Ideas	1.332,27	1.332,27	100,00 %
08 22 Completion of previous framework programmes and other activities	41,96	41,96	100,00 %
<b>Total Title 08</b>	1.374,23	1.374,23	100,00 %
<b>Total DG ERC</b>	1.374,23	1.374,23	100,00 %

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

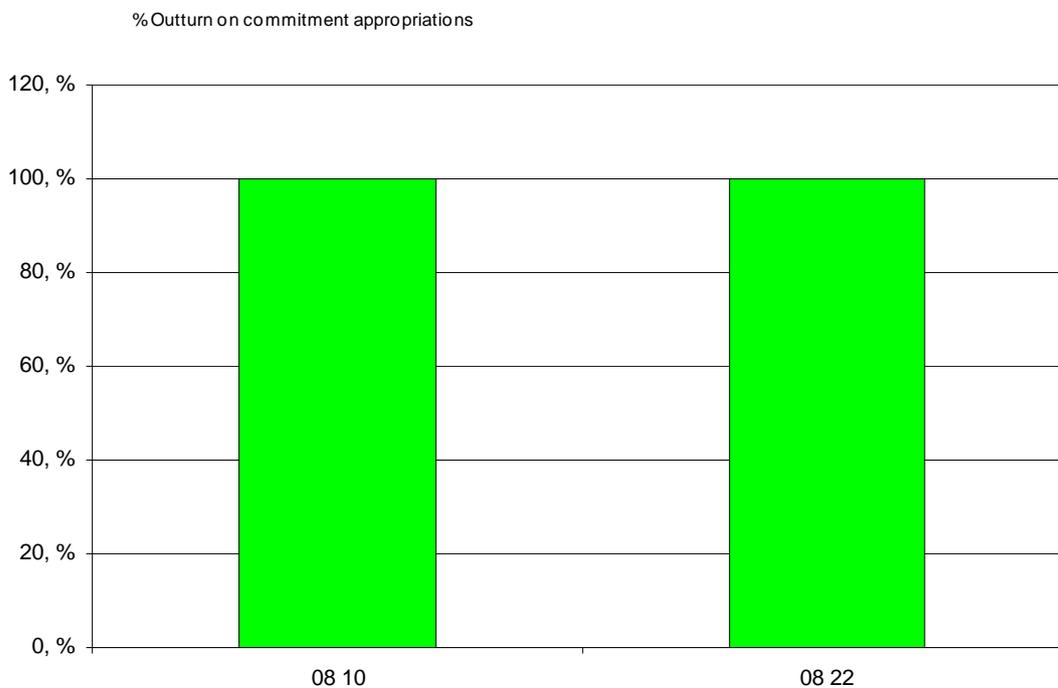
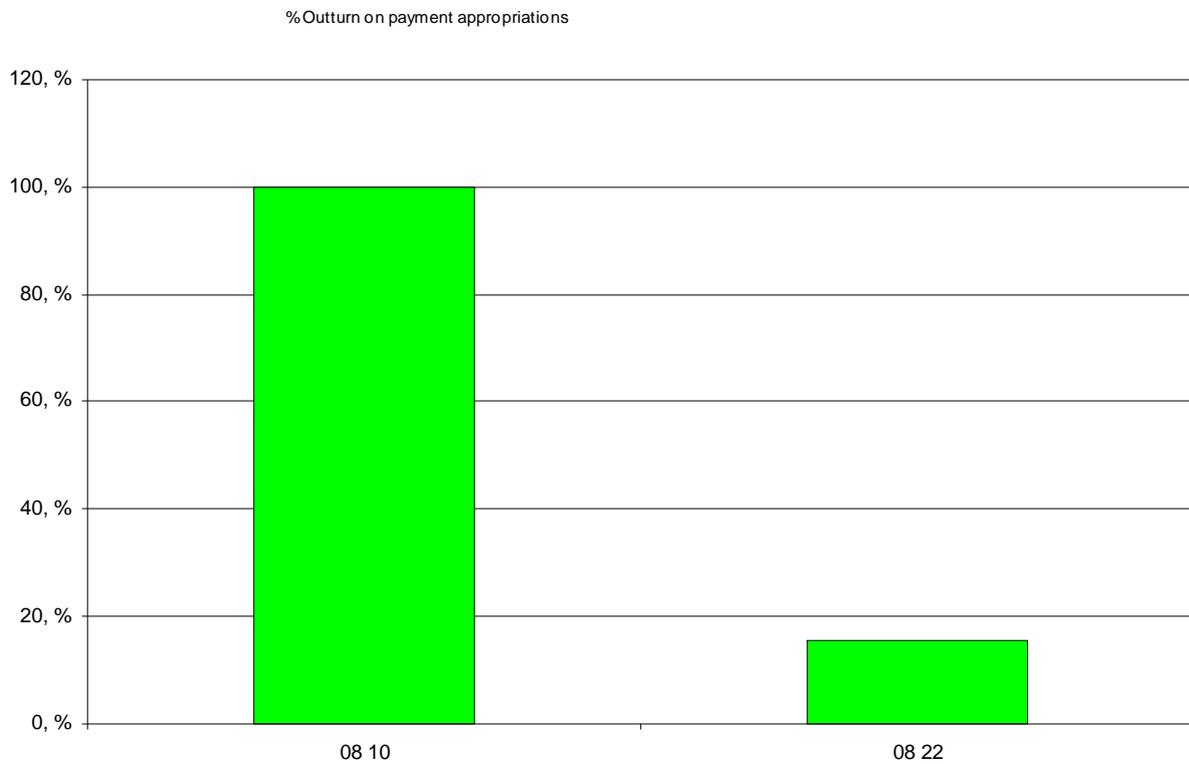


TABLE 2: OUTTURN ON PAYMENT APPROPRIATIONS IN 2011 (in Mio €)				
Chapter		Payment appropriations authorised *	Payments made	%
		1	2	3=2/1
<b>Title 08 : Research</b>				
08 10	Ideas	733,79	733,79	100,00 %
08 22	Completion of previous framework programmes and other activities	203,19	31,87	15,69 %
<b>Total Title 08</b>		936,98	765,66	81,72 %
<b>Total DG ERC</b>		936,98	765,66	81,72 %

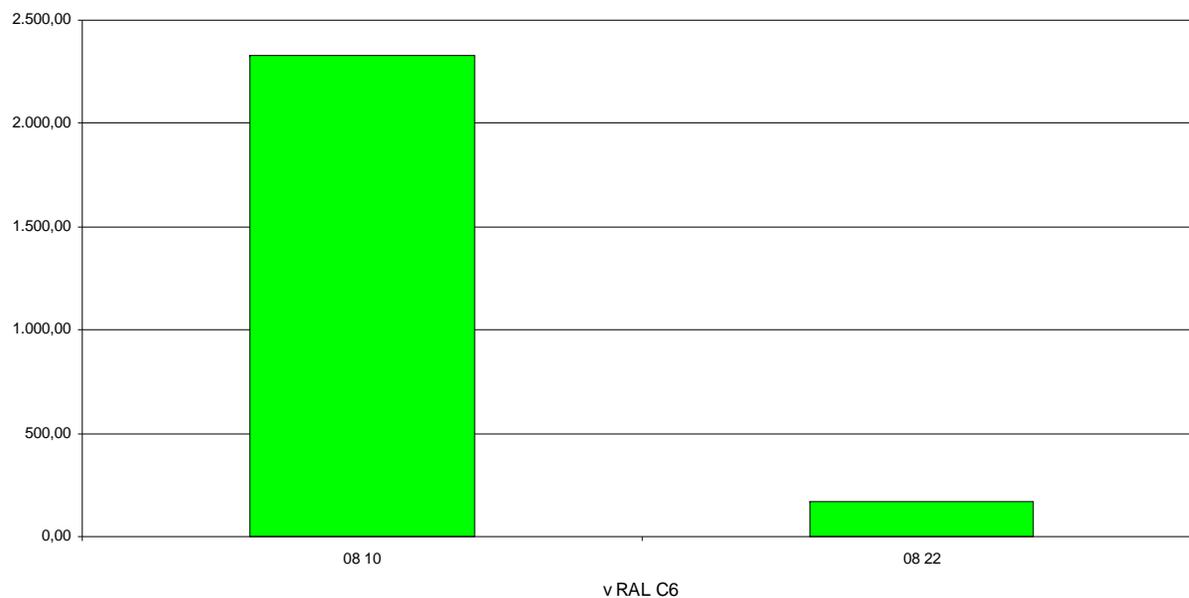
\* Payment appropriations authorised include, in addition to the budget voted by the legislative authority, appropriations carried over from the previous exercise, budget amendments as well as miscellaneous payment appropriations for the period (e.g. internal and external assigned revenue).



**TABLE 3 : BREAKDOWN OF COMMITMENTS TO BE SETTLED AT 31/12/2011 (in Mio €)**

Chapter		2011 Commitments to be settled				Commitments to be settled from financial years previous to 2011	Total of Commitments to be settled at end of financial year 2011 (incl.corrections)	Total of Commitments to be settled at end of financial year 2010 (incl.corrections)
		Commitments 2011	Payments 2011	RAL 2011	% to be settled			
		1	2	3=1-2	4=1-2//1	5	6=3+5	7
<b>Title 08 : Research</b>								
08 10	Ideas	1.332,27	237,95	1.094,32	82,14 %	1.236,23	2.330,55	1.733,12
08 22	Completion of previous framework programmes and other activities	41,96	11,80	30,16	71,88 %	141,15	171,32	163,40
<b>Total Title 08</b>		1.374,23	249,75	1.124,48	81,83 %	1.377,38	2.501,86	1.896,53
<b>Total DG ERC</b>		1.374,23	249,75	1.124,48	81,83 %	1.377,38	<b>2.501,86</b>	1.896,53

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



**TABLE 4 : BALANCE SHEET ERC**

BALANCE SHEET	2011	2010
A.I. NON CURRENT ASSETS	211.018.783,18	134.138.488,70
A.I.5. LT Pre-Financing	211.018.783,18	134.138.488,70
A.II. CURRENT ASSETS	519.581.453,52	353.584.219,39
A.II.2. Short-term Pre-Financing	519.171.708,10	352.695.779,11
A.II.3. Short-term Receivables	409.745,42	888.440,28
<b>ASSETS</b>	<b>730.600.236,70</b>	<b>487.722.708,09</b>
P.III. CURRENT LIABILITIES	-43.152.905,19	-24.992.784,91
P.III.4. Accounts Payable	-43.152.905,19	-24.992.784,91
<b>LIABILITIES</b>	<b>-43.152.905,19</b>	<b>-24.992.784,91</b>
<b>NET ASSETS (ASSETS less LIABILITIES)</b>	<b>687.447.331,51</b>	<b>462.729.923,18</b>
P.I.2. Accumulated Surplus / Deficit	0,00	0,00
Non-allocated central (surplus)/deficit*	-687.447.331,51	-462.729.923,18
<b>TOTAL</b>	<b>0,00</b>	<b>0,00</b>

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

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

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

**TABLE 5 : ECONOMIC OUTTURN ACCOUNT ERC**

<b>ECONOMIC OUTTURN ACCOUNT</b>	<b>2011</b>	<b>2010</b>
<b>II.1 SURPLUS/ DEF. FROM OPERATING ACTIVT</b>	<b>539.002.471,55</b>	<b>325.935.285,57</b>
II.1.1. OPERATING REVENUES	-302.498,64	-29.224,96
II.1.1.1. Other operating revenue	-302.498,64	-29.224,96
II.1.2. OPERATING EXPENSES	539.304.970,19	325.964.510,53
II.1.2.1. Administrative Expenses	0,00	0,00
II.1.2.2. Operating Expenses	539.304.970,19	325.964.510,53
<b>II.2. SURPLUS/DEF. NON OPERATING ACTIVIT</b>	<b>-511.612,18</b>	<b>-1.791.750,87</b>
II.2. FINANCIAL OPERATIONS	-511.612,18	-1.791.750,87
II.2.1. Financial revenue	-511.612,18	-1.791.750,87
<b>ECONOMIC OUTTURN ACCOUNT</b>	<b>538.490.859,37</b>	<b>324.143.534,70</b>

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

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

**TABLE 6: AVERAGE PAYMENT TIMES FOR 2011 - DG ERC**

<b>Legal Times</b>							
<b>Maximum Payment Time (Days)</b>	<b>Total Number of Payments</b>	<b>Nbr of Payments within Time Limit</b>	<b>Percentage</b>	<b>Average Payment Times (Days)</b>	<b>Nbr of Late Payments</b>	<b>Percentage</b>	<b>Average Payment Times (Days)</b>
30	23	21	91,30 %	15,38	2	8,70 %	32,50
45	3764	3677	97,69 %	18,13	87	2,31 %	69,56
105	674	674	100,00 %	13,73			

<b>Total Number of Payments</b>	<b>4461</b>	<b>4372</b>	<b>98,00 %</b>		<b>89</b>	<b>2,00 %</b>	
<b>Average Payment Time</b>	<b>18,46</b>			<b>17,44</b>			<b>68,73</b>

<b>Target Times</b>							
<b>Target Payment Time (Days)</b>	<b>Total Number of Payments</b>	<b>Nbr of Payments within Target Time</b>	<b>Percentage</b>	<b>Average Payment Times (Days)</b>	<b>Nbr of Late Payments</b>	<b>Percentage</b>	<b>Average Payment Times (Days)</b>
20	816	784	96,08 %	8,97	32	3,92 %	33,78
30	2971	2403	80,88 %	17,50	568	19,12 %	40,35
90	674	674	100,00 %	13,73			

<b>Total Number of Payments</b>	<b>4461</b>	<b>3861</b>	<b>86,55 %</b>		<b>600</b>	<b>13,45 %</b>	
<b>Average Payment Time</b>	<b>18,46</b>			<b>15,11</b>			<b>40,00</b>

Suspensions							
Average Report Approval Suspension Days	Average Payment Suspension Days	Number of Suspended Payments	% of Total Number	Total Number of Payments	Amount of Suspended Payments	% of Total Amount	Total Paid Amount
0	28	449	10,07 %	4461	75.706.887,65	11,03 %	686.609.099,86

Late Interest paid in 2011			
DG	GL Account	Description	Amount (Eur)

**TABLE 7 : SITUATION ON REVENUE AND INCOME IN 2011**

Chapter	Revenue and income recognized			Revenue and income cashed from			Outstanding balance	
	Current year RO	Carried over RO	Total	Current Year RO	Carried over RO	Total		
	1	2	3=1+2	4	5	6=4+5	7=3-6	
<b>Title 5: REVENUE ACCRUING FROM THE ADMINISTRATIVE OPERATION OF THE INSTITUTIONS</b>								
52	REVENUE FROM INVESTMENTS OR LOANS GRANTED, BANK AND OTHER INTEREST	1.092.470,98	20.421,51	1.112.892,49	1.090.632,74	20.421,51	1.111.054,25	1.838,24
	<b>Total Title 5</b>	<b>1.092.470,98</b>	<b>20.421,51</b>	<b>1.112.892,49</b>	<b>1.090.632,74</b>	<b>20.421,51</b>	<b>1.111.054,25</b>	<b>1.838,24</b>
<b>Title 6: CONTRIBUTIONS AND REFUNDS IN CONNECTION WITH UNION/COMMUNITY AGREEMENTS AND PROGRAMMES</b>								
66	OTHER CONTRIBUTIONS AND REFUNDS	1.427.294,61	26.808,80	1.454.103,41	1.295.265,63	26.808,80	1.322.074,43	132.028,98
	<b>Total Title 6</b>	<b>1.427.294,61</b>	<b>26.808,80</b>	<b>1.454.103,41</b>	<b>1.295.265,63</b>	<b>26.808,80</b>	<b>1.322.074,43</b>	<b>132.028,98</b>
<b>Title 9: MISCELLANEOUS REVENUE</b>								
90	MISCELLANEOUS REVENUE	14.351,59	2.416,16	16.767,75	13.800,93	2.416,16	16.217,09	550,66
	<b>Total Title 9</b>	<b>14.351,59</b>	<b>2.416,16</b>	<b>16.767,75</b>	<b>13.800,93</b>	<b>2.416,16</b>	<b>16.217,09</b>	<b>550,66</b>
<b>Total DG ERC</b>		<b>2.534.117,18</b>	<b>49.646,47</b>	<b>2.583.763,65</b>	<b>2.399.699,30</b>	<b>49.646,47</b>	<b>2.449.345,77</b>	<b>134.417,88</b>

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

RECOVERY ORDERS ISSUED IN 2011  Year of Origin (commitment)	Error		Irregularity		No error / irregularity		TOTALS	
	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount
2008	26	288.159,11	2	3.641,56			28	291.800,67
2009	5	30.215,32			5	1.111.537,41	10	1.141.752,73
2011					3	11.890,50	3	11.890,50
	<b>31</b>	<b>318.374,43</b>	<b>2</b>	<b>3.641,56</b>	<b>8</b>	<b>1.123.427,91</b>	<b>41</b>	<b>1.445.443,90</b>

**EXPENSES**

	Error	
	Nbr	Amount
INCOME LINES IN INVOICES	2	-6.081,37

	Error		Irregularity		No error / irregularity	
	Nbr	Non-Eligible Amount	Nbr	Non-Eligible Amount	Nbr	Non-Eligible Amount
NON ELIGIBLE AMOUNT IN COST CLAIMS	50	361.800,22	14	131.800,82	5	62.247,27

	No error / irregularity	
	Nbr	Credit Note Amount
CREDIT NOTES	2	-4.175,36

**TABLE 9: AGEING BALANCE OF RECOVERY ORDERS AT 31/12/2011 FOR ERC**

Year of Origin	Number at 01/01/2011	Number at 31/12/2011	Evolution	Open Amount (Eur) at 01/01/2011	Open Amount (Eur) at 31/12/2011	Evolution
2010	13		-100,00 %	49.646,47		-100,00 %
2011		4			134.417,88	
Totals	13	4	-69,23 %	49.646,47	134.417,88	170,75 %

**TABLE 10 : RECOVERY ORDER WAIVERS IN 2011 >= EUR 100.000**

Waiver Central Key	Linked RO Central Key	RO Accepted Amount (Eur)	LE Account Group	Commission Decision	Comments
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Total DG ERC

Number of RO waivers

0

No data to be reported

**TABLE 11 : CENSUS OF NEGOTIATED PROCEDURES - DG ERC - YEAR 2011**

Contracts > \_ 60.000

Negotiated Procedure Legal base	Number of Procedures	Amount (€)
<b>Total</b>		

No data to be reported

**TABLE 12 : SUMMARY OF PROCEDURES OF DG ERC EXCLUDING BUILDING CONTRACTS**

Internal procedures > €60,000	2010		2011	
	Count	Amount (€)	Count	Amount (€)
Service	3,	483.179,00		
Works				
<b>TOTAL</b>	<b>3,</b>	<b>483.179,00</b>		

Procedure Type	Count	Amount (€)	Count	Amount (€)
Negotiated Procedure without publication of a contract notice Art. 126 IR				
Open Procedure (Art. 122.2 IR)	3,	483.179,00		
Restricted Procedure(Art. 122.2 IR)				
Restricted Procedure involving a call for expressions of interest (AMI) (Art. 128 IR)				
<b>TOTAL</b>	<b>3</b>	<b>483.179,00</b>		

External procedures > €10,000
Contract Class
<b>TOTAL</b>

Procedure Type
<b>TOTAL</b>

**Additional comments**

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**TABLE 13 : BUILDING CONTRACTS**

Total number of contracts :	0
Total amount :	

Legal base	Contract Number	Contractor Name	Description	Amount (€)

No data to be reported

**TABLE 14 : CONTRACTS DECLARED SECRET**

**Total Number of Contracts : 0**

**Total amount :**

<b>Legal base</b>	<b>Contract Number</b>	<b>Contractor Name</b>	<b>Type of contract</b>	<b>Description</b>	<b>Amount (€)</b>
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**No data to be reported**

**Annex 3 Financial Reports - ERC - Financial Year 2011**

**Administrative Budget**

**Table 1 : Commitments**

**Table 2 : Payments**

**Table 3 : Commitments to be settled**

**Table 4 : Balance Sheet**

**Table 5 : Economic Outturn Account**

**Table 6 : Average Payment Times**

**Table 7 : Income**

**Table 8 : Recovery of undue Payments**

**Table 9 : Ageing Balance of Recovery Orders**

**Table 10 : Waivers of Recovery Orders**

**Table 11 : Negotiated Procedures (excluding Building Contracts)**

**Table 12 : Summary of Contracts (excluding Building Contracts)**

**Table 13 : Building Contracts**

**Table 14 : Contracts declared Secret**

**Additional comments**

TABLE 1: OUTTURN ON COMMITMENT APPROPRIATIONS IN 2011 (in Mio €)				
Chapter		Commitment appropriations authorised *	Commitments made	%
		1	2	3=2/1
<b>Title A-1 FRAIS DE PERSONNEL</b>				
A-11	Personnel en activité	20,99	20,68	98,53 %
A-12	Frais divers de recrutement, de prise de fonction	0,13	0,09	66,64 %
A-13	Frais de missions, de déplacements et autres dépen	0,37	0,36	97,72 %
A-14	Infrastructure à caractère socio-médical	0,60	0,56	92,81 %
A-16	Service Social, autres interventions	0,29	0,29	100,00 %
A-17	Frais de réception et de représentation	0,01	0,00	65,89 %
<b>Total Title A-1</b>		<b>22,39</b>	<b>21,98</b>	<b>98,19 %</b>
<b>Title A-2 FRAIS DE FONCTIONNEMENT</b>				
A-20	Immeubles et frais accessoires	4,57	4,53	99,33 %
A-21	Traitement des données	5,71	5,65	99,06 %
A-22	Biens, meubles et frais accessoires	0,20	0,19	95,42 %
A-23	Dépenses de fonctionnement administratif courant	0,10	0,08	79,07 %
A-24	Affranchissement et Télécommunications	0,89	0,89	99,89 %
A-25	Frais de réunions internes	0,01	0,01	61,15 %
A-26	Frais administratifs liés aux activités opérationn	1,49	1,41	94,28 %
A-27	Dépenses avec les entités consolidées	0,24	0,24	100,00 %
<b>Total Title A-2</b>		<b>13,21</b>	<b>13,01</b>	<b>98,44 %</b>
<b>TOTAL ERC%</b>		<b>35,60</b>	<b>34,99</b>	<b>98,28 %</b>

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

% Outturn on commitment appropriations

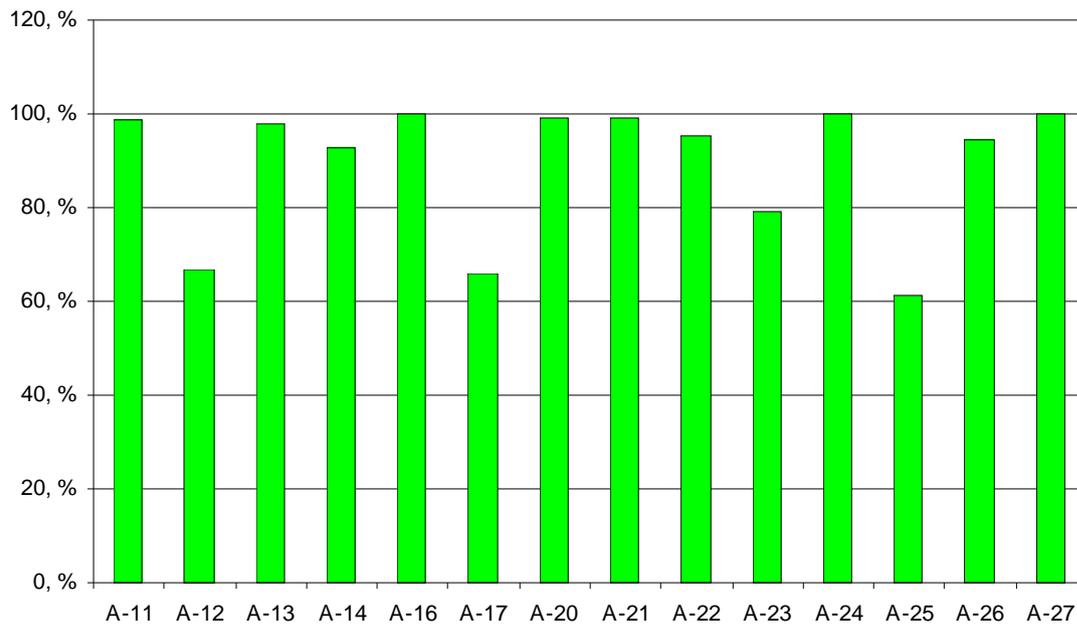
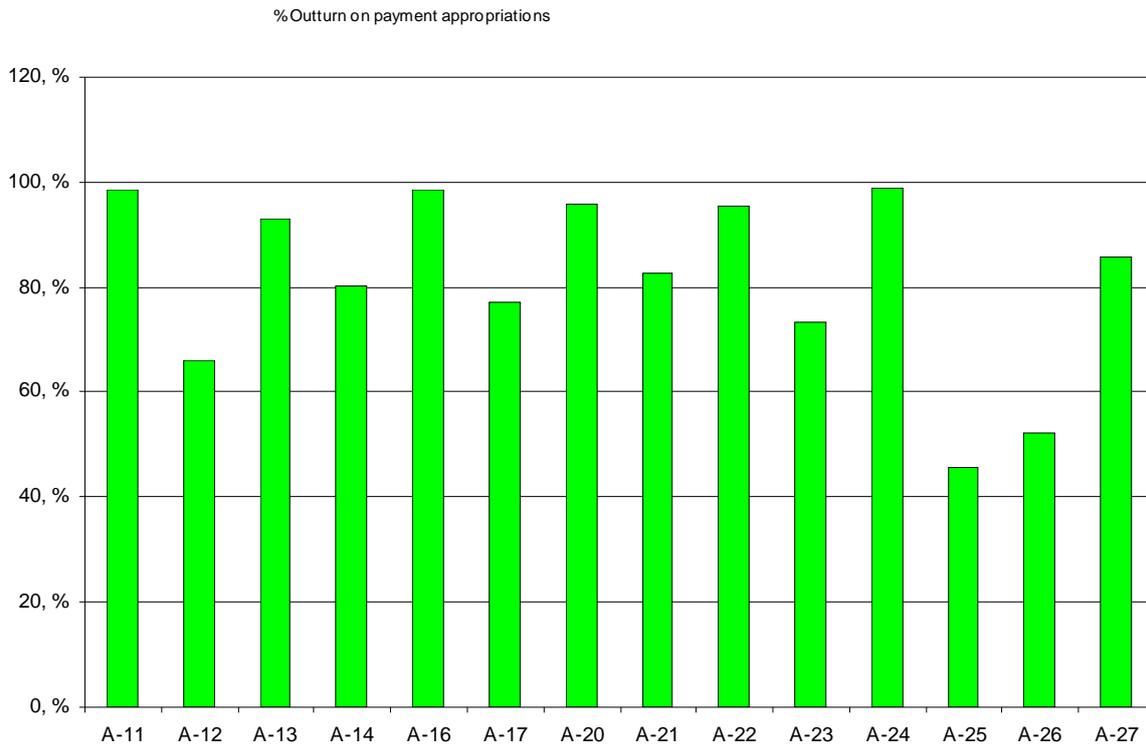


TABLE 2: OUTTURN ON PAYMENT APPROPRIATIONS IN 2011 (in Mio €)				
Chapter		Payment appropriations authorised *	Payments made	%
		1	2	3=2/1
TITLE A-1 FRAIS DE PERSONNEL				
A-11	Personnel en activité	20,99	20,66	98,41 %
A-12	Frais divers de recrutement, de prise de fonction	0,14	0,09	66,06 %
A-13	Frais de missions, de déplacements et autres dépen	0,41	0,38	92,97 %
A-14	Infrastructure à caractère socio-médical	0,79	0,63	80,07 %
A-16	Service Social, autres interventions	0,31	0,31	98,47 %
A-17	Frais de réception et de représentation	0,03	0,02	77,26 %
<b>TOTAL A-1</b>		<b>22,67</b>	<b>22,09</b>	<b>97,45 %</b>

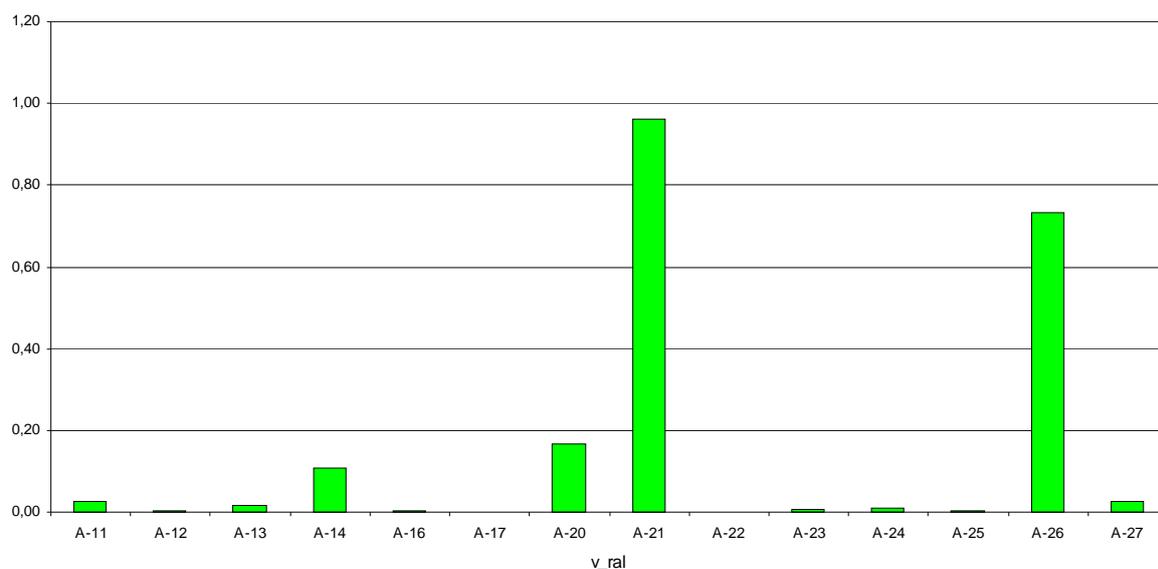
TITLE A-2 FRAIS DE FONCTIONNEMENT				
A-20	Immeubles et frais accessoires	4,81	4,61	95,83 %
A-21	Traitement des données	6,25	5,16	82,66 %
A-22	Biens, meubles et frais accessoires	0,22	0,21	95,36 %
A-23	Dépenses de fonctionnement administratif courant	0,10	0,07	73,29 %
A-24	Affranchissement et Télécommunications	0,89	0,88	98,93 %
A-25	Frais de réunions internes	0,01	0,01	45,52 %
A-26	Frais administratifs liés aux activités opérationn	1,90	1,00	52,39 %
A-27	Dépenses avec les entités consolidées	0,30	0,26	85,77 %
<b>TOTAL A-2</b>		<b>14,48</b>	<b>12,20</b>	<b>84,22 %</b>
<b>TOTAL ERC%</b>		<b>37,15</b>	<b>34,29</b>	<b>92,29 %</b>

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



<b>TABLE 3 : BREAKDOWN OF COMMITMENTS TO BE SETTLED AT 31/12/2011 (in Mio €)</b>					
<b>Chapter</b>		<b>2011 Commitments to be settled</b>			
		<b>Commitments 2011</b>	<b>Payments 2011</b>	<b>RAL 2011</b>	<b>% to be settled</b>
		<b>1</b>	<b>2</b>	<b>3=1-2</b>	<b>4=1-2//1</b>
<b>Title A-1 FRAIS DE PERSONNEL</b>					
A-11	Personnel en activité	20,68	-20,66	0,03	0,12 %
A-12	Frais divers de recrutement, de prise de fonction	0,09	-0,08	0,00	2,57 %
A-13	Frais de missions, de déplacements et autres dépen	0,36	-0,34	0,01	4,18 %
A-14	Infrastructure à caractère socio-médical	0,56	-0,45	0,11	19,06 %
A-16	Service Social, autres interventions	0,29	-0,29	0,00	1,62 %
A-17	Frais de réception et de représentation	0,00	0,00	0,00	0,75 %
<b>Total Title A-1</b>		<b>21,98</b>	<b>-21,83</b>	<b>0,15</b>	<b>0,70 %</b>
<b>Title A-2 FRAIS DE FONCTIONNEMENT</b>					
A-20	Immeubles et frais accessoires	4,53	-4,37	0,17	3,69 %
A-21	Traitement des données	5,65	-4,69	0,96	17,03 %
A-22	Biens, meubles et frais accessoires	0,19	-0,19	0,00	0,05 %
A-23	Dépenses de fonctionnement administratif courant	0,08	-0,07	0,01	7,14 %
A-24	Affranchissement et Télécommunications	0,89	-0,88	0,01	0,96 %
A-25	Frais de réunions internes	0,01	-0,01	0,00	27,63 %
A-26	Frais administratifs liés aux activités opérationn	1,41	-0,68	0,73	51,98 %
A-27	Dépenses avec les entités consolidées	0,24	-0,22	0,02	10,18 %
<b>Total Title A-2</b>		<b>13,01</b>	<b>-11,10</b>	<b>1,90</b>	<b>14,63 %</b>
<b>TOTAL ERC%</b>		<b>34,99</b>	<b>-32,93</b>	<b>2,06</b>	<b>5,88 %</b>

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



**TABLE 4 : BALANCE SHEET ERC**

BALANCE SHEET	2011	2010
A.I. NON CURRENT ASSETS	7.486.160,59	6.543.276,99
A.I.1. Intangible Assets	2.525.165,55	1.251.271,95
A.I.2. Property, plant and equipment	4.960.995,04	5.292.005,04
A.II. CURRENT ASSETS	5.151.135,09	3.741.917,02
A.II.2. Short-term Pre-Financing	45.530,27	
A.II.3. Short-term Receivables	2.082.733,93	1.950.677,09
A.II.5. Cash and Cash Equivalents	3.022.870,89	1.791.239,93
<b>ASSETS</b>	<b>12.637.295,68</b>	<b>10.285.194,01</b>
P.II. NON CURRENT LIABILITIES		
P.II.2. Long-term provisions		
P.III. CURRENT LIABILITIES	-2.952.656,55	-1.879.495,51
P.III.2. Short-term provisions	-172.777,84	
P.III.4. Accounts Payable	-2.779.878,71	-1.879.495,51
<b>LIABILITIES</b>	<b>-2.952.656,55</b>	<b>-1.879.495,51</b>
<b>NET ASSETS (ASSETS less LIABILITIES)</b>	<b>-8.405.698,50</b>	<b>-8.254.223,05</b>
Non-allocated central (surplus)/deficit*	-1.278.940,63	-151.475,45
<b>TOTAL</b>	<b>0,00</b>	<b>0,00</b>

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

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

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

**TABLE 5 : ECONOMIC OUTTURN ACCOUNT ERC**

<b>ECONOMIC OUTTURN ACCOUNT</b>	<b>2011</b>	<b>2010</b>
II.1 SURPLUS/ DEF. FROM OPERATING ACTIVT	-1.279.788,08	-164.848,85
II.1.1. OPERATING REVENUES	-34.733.026,21	-29.442.936,82
II.1.1.1. Other operating revenue	-34.733.026,21	-29.442.936,82
II.1.2. OPERATING EXPENSES	33.453.238,13	29.278.087,97
II.1.2.1. Administrative Expenses	33.278.537,34	29.274.183,31
II.1.2.2. Operating Expenses	174.700,79	3.904,66
II.2. SURPLUS/DEF. NON OPERATING ACTIVIT	847,45	13.373,40
II.2. FINANCIAL OPERATIONS	847,45	13.373,40
II.2.2. Financial expenses	847,45	13.373,40
<b>ECONOMIC OUTTURN ACCOUNT</b>	<b>-1.278.940,63</b>	<b>-151.475,45</b>

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

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

**TABLE 6: AVERAGE PAYMENT TIMES FOR 2011 - ERC**

**Legal Times**

Maximum Payment Time (Days)	Total Number of Payments	Nbr of Payments within Time Limit	Percentage	Average Payment Times (Days)	Nbr of Late Payments	Percentage	Average Payment Times (Days)
30	425	411	96,71 %	14,17	14	3,29 %	46,50
45	1797	1761	98,00 %	13,52	36	2,00 %	93,03
60	96	94	97,92 %	13,78	2	2,08 %	67,50
<b>Total Number of Payments</b>	<b>2318</b>	<b>2266</b>	<b>97,76 %</b>		<b>52</b>	<b>2,24 %</b>	
<b>Average Payment Time</b>	<b>15,13</b>			<b>13,65</b>			<b>79,52</b>

**Target Times**

Target Payment Time (Days)	Total Number of Payments	Nbr of Payments within Target Time	Percentage	Average Payment Times (Days)	Nbr of Late Payments	Percentage	Average Payment Times (Days)
20	1				1	100,00 %	28,00
30	2317	2183	94,22 %	12,71	134	5,78 %	54,35
<b>Total Number of Payments</b>	<b>2318</b>	<b>2183</b>	<b>94,18 %</b>		<b>135</b>	<b>5,82 %</b>	
<b>Average Payment Time</b>	<b>15,13</b>			<b>12,71</b>			<b>54,16</b>

**Suspensions**

Average Report Approval Suspension Days	Average Payment Suspension Days	Number of Suspended Payments	% of Total Number	Total Number of Payments	Amount of Suspended Payments	% of Total Amount	Total Paid Amount
0	18	50,	2,16 %	2.318,	593.915,11	3,26 %	18.201.045,22

Late Interest paid in 2011			
DG	GL Account	Description	Amount (Eur)
European Research Co	65010000	Interest expense on late payment of charges	457,75
			<b>457,75</b>

**TABLE 7 : SITUATION ON REVENUE AND INCOME IN 2011**

Title	Description	Year of Origin	Revenue and Income recognized	Revenue and Income cashed	Ousting Balance
20-0	Subsidy from the Commission	2011	35.694.941,66	35.694.941,66	0,00
91-0	Recuperation of expenses	2010	22.007,04	22.007,04	0,00
91-0	Recuperation of expenses	2011	83.185,53	83.185,53	0,00
<b>TOTAL</b>			<b>35.800.134,23</b>	<b>35.800.134,23</b>	<b>0,00</b>

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

RECOVERY ORDERS ISSUED IN 2011  Year of Origin (commitment)	Error		TOTALS	
	Nbr	RO Amount	Nbr	RO Amount
2011	2,	368,00	2,	368,00
No Link	1,	307,13	1,	307,13
<b>Sum:</b>	<b>3,</b>	<b>675,13</b>	<b>3,</b>	<b>675,13</b>

**EXPENSES**

	Nbr	Amount
<b>INCOME LINES IN INVOICES</b>	0,	

**NON ELIGIBLE AMOUNT IN COST CLAIMS**

	Nbr	Amount
<b>NON ELIGIBLE AMOUNT IN COST CLAIMS</b>	0,	

**CREDIT NOTES**

	Nbr	Amount
<b>CREDIT NOTES</b>	0,	

**TABLE 9: AGEING BALANCE OF RECOVERY ORDERS AT 31/12/2011 FOR ERC**

Year of Origin	Number at 01/01/2011	Number at 31/12/2011	Evolution	Open Amount (Eur) at 01/01/2011	Open Amount (Eur) at 31/12/2011	Evolution
2010	7		-100,00 %	26.645,64		-100,00 %
2011		1			17.441,16	
Totals	7	1	-85,71 %	26.645,64	17.441,16	-34,54 %

**TABLE 10 : RECOVERY ORDER WAIVERS IN 2011 >= EUR 100.000**

Waiver Central Key	Linked RO Central Key	RO Accepted amount (Eur)	LE Account Group	Commission Decision	Comments
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Total ERC	
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Number of RO waivers	0
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*Justifications:*

**TABLE 11 : CENSUS OF NEGOTIATED PROCEDURES - DG ERC - YEAR 2011**

**Contracts > \_ 60.000**

Negotiated Procedure Legal base	Number of Procedures	Amount (€)
Art. 126 1b	1,	176.965,14
<b>Total</b>	<b>1,</b>	<b>176.965,14</b>

**TABLE 12 : SUMMARY OF PROCEDURES OF DG ERC EXCLUDING BUILDING CONTRACTS**

Internal procedures > €60,000	2010		2011		
	Contract Class	Count	Amount (€)	Count	Amount (€)
Service					
Works				1,	176.965,14
<b>TOTAL</b>				<b>1,</b>	<b>176.965,14</b>

Procedure Type	Count	Amount (€)	Count	Amount (€)
Negotiated Procedure without publication of a contract notice Art. 126 IR			1,	176.965,14
Open Procedure (Art. 122.2 IR)				
Restricted Procedure(Art. 122.2 IR)				
Restricted Procedure involving a call for expressions of interest (AMI) (Art. 128 IR)				
<b>TOTAL</b>			<b>1</b>	<b>176.965,14</b>

External procedures > €10,000
Contract Class
<b>TOTAL</b>

Procedure Type
<b>TOTAL</b>

Additional comments

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**TABLE 13 : BUILDING CONTRACTS**

Total number of contracts :	0
Total amount :	

Legal base	Contract Number	Contractor Name	Description	Amount (€)

No data to be reported

**TABLE 14 : CONTRACTS DECLARED SECRET**

<b>Total Number of Contracts :</b>	<b>0</b>
<b>Total amount :</b>	

<b>Legal base</b>	<b>Contract Number</b>	<b>Contractor Name</b>	<b>Type of contract</b>	<b>Description</b>	<b>Amount (€)</b>
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**No data to be reported**

## ANNEX 4: Materiality criteria

*The Standing Instructions for the preparation of Annual Activity Reports stipulate that materiality should be set at 2% of the ABB expenditure for the reporting year. However, the Guidance on AARs also allows a multi-annual approach, especially for budget areas (e.g. programmes) for which a multi-annual control system is more effective. In such cases, the calculation of errors, corrections and materiality of the residual amount at risk should be done on a "cumulative basis" on the basis of the totals over the entire programme lifecycle.*

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

*In addition, basing materiality solely on ABB expenditure for one year may not provide the most appropriate basis for judgements, as ABB expenditure often includes significant levels of pre-financing expenditure (e.g. during the initial years of a new generation of programmes), as well as reimbursements (interim and final payments) based on cost claims that 'clear' those pre-financings. Pre-financing expenditure is very low risk, being paid automatically after the signing of the contract with the beneficiary.*

*The control objective for the Research services is to ensure for each FP (and the Coal and Steel Research Fund for DG RTD), that the residual error rate, i.e. the level of errors which remain undetected and uncorrected, does not exceed 2% by the end of the FP's management cycle. The question of being on track towards this objective is to be (re)assessed annually, in view of the results of the implementation of the ex-post audit strategy and taking into account both the frequency and importance of the errors found as well as a cost-benefit analysis of the effort needed to detect and correct them.*

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

*The criteria for making a decision on whether there is material error in the expenditure of the DG or service, and so on whether to make a reservation in the AAR, will therefore be based on the level of error identified in ex post audits of cost claims on a multi-annual basis.*

### **Effectiveness of controls**

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

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

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

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

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

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

Where:

- resER%* is residual error rate, expressed as a percentage.
- repER%* is the representative error rate, or error rate detected in the representative sample.
- repERsys%* is the systematic portion of the RepER, expressed as a percentage. The *repER%* is composed of two portions reflecting the systematic and non-systematic errors detected.
- P* is the total EU contribution in Euros of the auditable population (as budgeted amounts at the level of participations in FP6, and as claimed EU contributions at the level of cost statements in FP7).
- A* is the value of the EU contribution of all audited amounts, expressed in Euros.
- E* is the total non-audited amounts in Euros of all audited beneficiaries (as budgeted amounts at the level of participations in FP6, and as claimed EU contributions at the level of cost statements in FP7).

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 (yet) below 2% at the end of a reporting year within the FP's management lifecycle, a reservation would (still) be made.

In case an adequate calculation of the residual error rate is not possible for a FP for reasons not involving control deficiencies,<sup>55</sup> the consequences are to be assessed quantitatively by estimating the likely exposure for the reporting year. The relative impact on the Declaration of Assurance would be then considered by analysing the available information on qualitative grounds and considering evidence from other sources and areas.

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

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

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

### **Materiality is assessed for each Framework Programme**

In 2011, the Research services managed financial operations under the fifth, sixth and seventh framework programmes and the Coal and Steel Research Fund. Each is managed under different sets of regulatory and contractual provisions. Therefore, the assessment of the performance of the internal controls has to take into account these differences.

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<sup>55</sup> Such as, for instance, during the first few years of implementation of the FP, when the limited number of auditable cost statements submitted do not allow for a sufficient number of representative audits to be completed in order to calculate a reliable detected error rate.

## ANNEX 5 a) - Internal Control Template for the "IDEAS" budget implementation

### 1. Management mode and key figures:

*Indirect centralised management of the Ideas Programme in accordance with Articles 54.2(a) and 55 of the Financial Regulation applicable to the Union's general budget.*

*Grants of the Ideas Programme are awarded to the Host Institutions which conclude a supplementary agreement with the Principal Investigators, who works independently or as part of a research group.*

*Beneficiaries are reimbursed up to 100% of the total eligible direct costs of their research, including a contribution towards the indirect costs of a flat rate of 20% on the direct costs.*

*The figures below refer to the budget execution of 2011 including all the Agency's projects currently running and signed until 31/12/2011:*

Grant period: Between 24 and 60 months	59 (average period)
Average value (EUR)	€ 1.598.134,11
Median value (EUR)	€ 1.499.200,00
Range of grants (EUR)	€ 156.538 – € 3.499.127,84

Percentage of grants under EUR 1 million.	22,56%
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Number of coordinators/beneficiaries:

- Mono-beneficiary grants

- Multi-beneficiary grants

86,67%

13,33%

Volume of transactions per year (number):

- project payments

- expert payments

1523

2956

*ERC EA Research Projects are financed through the reimbursement of eligible costs.*

*The ERCEA operations are characterised by a large number and wide range of projects in the area of 'frontier' research, evaluated on the basis of the sole criteria of 'excellence'. The majority of ERC EA grants are managed by mono-beneficiary Host Institutions (86,67%) with a public entities profile (68%). ERCEA's population of beneficiaries (Host Institutions) is concentrated, as almost 50% of ERCEA's budget represents 9% of its Host Institutions.*

*Key inherent risks in this environment:*

*(1) Risk of selection of grants, which do not meet the objectives of the Ideas Programme*

*The procedure for evaluating grants is quite complex taking into account the grant management structure and actors involved (Host Institution, principal investigator, project team, co-investigators). The aim for selecting only projects of 'excellence' and the multi-disciplinary character (frontier research) of the ideas Programme can increase risks*

because of their complexity as concepts on their own right.

(2) Risk of poor technical and scientific implementation of the project and communication of the project results

The beneficiaries' technical implementation of the grant agreements, including communication of the project results is monitored by the Agency. While monitoring the compliance with the relevant EU grant implementing rules is mostly a straightforward task, monitoring of the effectiveness of the projects in terms of achieving results and making a difference in the scientific world is a challenge in itself.

(3) Risk of ineligible costs

Based on a complex legal framework, the ERCEA implements a system based on the reimbursement of "actual eligible costs" declared by the beneficiaries. Considering the large number of criteria to be complied with, which require beneficiaries to maintain specific extra-accounting records (excluding for example VAT, duties...) combined to a potential lack of expertise in managing EU funded grant agreements, there is a risk of error in reporting actual eligible costs.

**Management accountability structure and control systems:**

ERC EA Accountability structure:

The Director is responsible for the management of the Agency. He is appointed by the Commission as Authorising Officer by Delegation for the implementation of part of the Union's operational budget delegated by the Commission to the Agency.

ERCEA's Annual Work Programme is submitted to the Commission for approval before formal adoption by the Steering Committee. The Director reports to the parent DG (through the Steering Committee) on the management of the Agency by means of the Quarterly Reports, Annual Activity Report and an annual declaration of assurance. The Agency also contributes to the quarterly briefing of the parent DG to the Commissioner on the use of resources, audit follow-up and internal control issues, including an update on OLAF inquiries. The monitoring of progress towards the achievement of the objectives of the Annual Work Programme is done through the quarterly reporting to the parent DGs and through the Agency's Annual Activity Report (AAR), which is annexed to the AAR of the parent DG.

The Director reports on the performance of his duties to the Steering Committee and receives discharge for the implementation of the administrative budget from the Budgetary Authority.

The Internal Control Coordinator certifies the accuracy and exhaustiveness of the information on management and internal control systems as well as its annexes. The Head of the Support Services Department coordinates the use of resources throughout the Agency. In this capacity, he certifies the accuracy and exhaustiveness of the information as regards the use of resources.

The Internal Audit Office provides the Director with independent, objective assurance services. The recommendations from the internal audits are discussed internally and followed-up.

The continuous internal monitoring of performance is ensured by various management's supervision mechanisms as regular management meeting, the follow up of performance indicators and scoreboards and the exceptions reporting procedure. An Annual management risk assessment and continuous monitoring of the implementation of

related action plan are performed. In addition, ERCEA control environment benefits also from a robust segregation of duties between financial and operational activities and between initiation and verification tasks as well as between management of the operational and administrative budgets,, from management's promotion of integrity and ethical values (all staff sign a declaration of the Code of Good Conduct, staff involved in the grant selection process also sign a declaration of absence of conflict of interest, mandatory trainings are organised) and the competence of its staff, which is supported by adequate professional development.

## 2. Key controls of the "IDEAS" programme implementation

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

The "Ideas" Calls for Proposals are based on the Ideas Work Programme, developed by the ERC Scientific Council (ScC) and adopted by the Commission. The Work Programme sets out the criteria for eligibility and evaluation, and provides an overview of the evaluation process. Key controls and mitigating measures of the evaluation of proposals process:

- The systematic IT based screening for eligibility, further complemented when required by an eligibility review carried out by the Eligibility Committee set-up by the Agency.

- A two-step evaluation of proposals process approach) is carried out by independent scientific experts identified by the ERC Scientific Council and appointed by the Agency. For each Call, experts are grouped into 25 review panels, each consisting of about 14 "eminent scientific experts". The Panels assess and rank the proposal against the criteria of the "Ideas" Work Program with the support, when necessary, of specialist remote referees, who are not members of the Panel itself.

- A conflict of interest procedure is set up for independent experts: The Agency has established controls to ensure that the experts involved in the evaluations have no direct or indirect links with the proposals, which could pose a potential risk of a conflict of interest.

In conformity with the existing Rules, all experts work under the provisions of an Appointment Letter, which obliges them to disclose any conflict of interest and to abstain from any evaluation work that would engender a conflict of interest. To enforce these provisions, controls and checks are carried out by the Agency scientific staff as defined in the Rules.

At the outset of every panel meeting, a briefing is given by HoUs/Call Coordinators/Scientific Officers to experts on the importance of conflict of interest issues and the obligation for experts to disclose any conflicts at any time during the whole evaluation process.

- Registration of experts is ensured in the Commission's common database of independent experts.

- Independent approval of ranking lists by the Scientific Council: As a result of the "step-2 review", a ranking list per panel is decided. A "consolidation exercise" is then conducted, to coordinate the work of all panels, in order to draw up ranked reserve lists for each domain to be recommended for funding, and further to draw up a ranking list

	<p>to be recommended for funding from the interdisciplinary budget. All ranking lists are sent to the Scientific Council for approval after which the Agency adopts the final list of approved proposals and proceeds to the grant awarding procedure with successful applicants. The order of ranking lists may be modified only upon the approval of the Scientific Council and DG Research and Innovation.</p> <ul style="list-style-type: none"> <li>- The processing of evaluation results include <u>specific quality control procedures</u> which provide assurance that the evaluation procedure and results were subject to a quality control in conformity with ERC rules for submission of proposals and related evaluation and "Ideas" Work Programme. These documents signed by respectively the evaluation panel (chair and members), the call coordinator, the relevant Head of Unit and Head of Department ensure the President of the Scientific Council, who approves the "evaluation dossier", including the main rank list of proposals to be funded, that the evaluation process has been performed in compliance with rules and procedures.</li> <li>- A quality control ensures that the most appropriate <u>feedback</u> is provided to applicants.</li> <li>- <u>Regular and independent monitoring</u> of the evaluation process is performed by the Scientific Council: The Agency provides regular reports to the Scientific Council as regards the progress made during the evaluation process. Members of the Scientific Council may attend panel meetings as observers, but they have no powers to influence the decision-making.</li> </ul>
<p><b>Preventive and detective measures to improve the quality of financial management and provision of supporting data by beneficiaries, contractors and intermediaries</b></p>	<p>The following <u>communication activities</u> with proposals applicants and beneficiaries aim at ensuring a good level of grant beneficiary's information and thus to prevent errors to occur:</p> <ul style="list-style-type: none"> <li>- <u>Calls for proposals</u> are published in the Official Journal of the EU, on CORDIS and on the website of the ERC; the Call text defines details the specific evaluation criteria and the application of the criteria regarding financial data to help prepare the budgets;</li> <li>- <u>Administrative and financial guidelines</u> to help prepare the proposals are available on CORDIS and on the website of the ERC;</li> <li>- <u>Network and info services</u>: bi-annual meetings of the ERC National Contact Points, provision of FAQ on ERC website;</li> <li>- <u>Project information services</u> which include databases providing information on project beneficiaries, objectives, results.</li> </ul> <p><b>Key controls and preventing measures of the grant preparation and implementation process:</b></p> <ul style="list-style-type: none"> <li>- Use of <u>model grant agreements</u> of the FP7 Programme adapted to the requirements of the Ideas Programme;</li> <li>- Under FP7 grant beneficiaries are required to contribute to a <u>participant Guarantee Fund</u>, which safeguards the ERCEA / Commission against financial losses resulting from unrecoverable debts;</li> </ul>

- Legal and Financial viability checks of the beneficiary (Host Institutions);

- Systematic checks that the Host Institution is not subject to a warning code in the Early Warning System database or is not included in the Central Exclusion database in order to decide whether any protection measures are necessary;

- Checks that the grants are not awarded to participants who are, at the time of a grant award procedure, in one of the situations referred to in articles 93 and 94 of the Financial Regulation (for example, for bankruptcy, convictions, grave professional misconduct, social security obligations, other illegal activities, previous break of contract, Conflict of Interest, misrepresentation);

- Systematic check of the budget breakdown, in a view of promoting compliance with the financial provisions of the Grant Agreement, are performed by project officers;

- Regional dedicated workshops of a full working day for administrators in Host Institutions (Outreach events) are regularly organised;

- Continuous support and replies to requests from Principal Investigators and Host Institutions for information through project officers.

- Training as to Internal Control Standards is given to all staff and financial training is given to all staff involved in financial transactions.

- Detailed procedures for the Agency's financial and operational activities are documented on the Agency's intranet in accordance with the ICS 8 "Processes and Procedures".

- Checklists have been developed in order to support the correct application of the rules and procedures and encourage ownership for better control.

- Internal coordination of activities is reinforced by horizontal FP wide working groups meeting on a regular basis. Monthly (UAF/ CAR/ ESC/ EPC ) or needs basis (IT user groups/ FAIR)

**Key controls and preventive measures of the grant implementation:**

Rules of participation and the ERC Grant agreements include provisions (1) to recover ineligible cost reimbursed by the Agency, (2) to apply penalties and (3) the obligation by the beneficiaries to provide certificates on financial statements if certain thresholds are reached.

Interim and final payments are only made after thorough analysis of available periodic financial management reports (including the financial statement) submitted by the beneficiaries.

Grant agreements foresee the possibility to conduct on-the-spot controls by the Agency's ex-post control function either by Agency

	<p>staff or by outsourced audits as well as, by the European Court of Auditors and by OLAF.</p> <ul style="list-style-type: none"> <li>- Timely <u>follow up of ex post controls audit results</u> through close cooperation of units in department C.</li> <li>- Feed back from grant management &amp; audit in general and Host Institution specific observations through <u>weekly Department coordination meetings</u>.</li> </ul>
<p><b>Detective and corrective controls: payments and key milestones</b></p>	<p><b>Key controls before and during the implementation period of the project:</b></p> <ul style="list-style-type: none"> <li>- <u>Ex-ante controls</u> are embedded in the procedures for payments which are prepared and approved in line with ICS 8. Ex-ante control is carried out in all financial transactions at the level of the verifying officer, covering both on the operational and financial aspect.</li> <li>- The <u>financial management procedures</u> are continuously monitored and revised if needed in order to ensure consistency with the legal framework. New procedures on final payments were validated in 2011 and previous procedures updated in line with the system put in place by the Agency and are available on the intranet.</li> <li>- Beneficiaries submit financial reports periodically. Detailed information on costs and the use of resources has to be provided by the beneficiaries in the breakdown of costs table. These are checked and verified by the project officers. In addition subcontracting has to be in line with the rules and explicitly mentioned in the grant agreement (Annex I).</li> <li>- Checklists on each financial transaction ensure that all ex-ante controls have been applied and the amount to be paid calculated correctly. All checklists are constantly updated in line with the procedures.</li> <li>- Before each payment the verifying officer checks whether the beneficiary is not listed in the Early Warning System database, otherwise protective measures on a case by case decision have to be taken.</li> <li>- Additional checks are provided through the <u>Certificate on Financial Statements</u> requested before every payment where the cumulative cost claim exceeds € 375,000. This requirement for beneficiaries to submit a Certificate on the Financial Statements, issued by independent auditors, will lead over time to a very high coverage of all cost declared to the ERCEA. If the beneficiary has been approved for a Certificate on Methodology for actual personnel costs and indirect costs, the Certificate on Financial Statements is not necessary for interim payments. The project officer checks whether a Certificate on Methodology has been received and approved by the EC services.</li> <li>- In case the beneficiary declares to have "<u>average personnel costs</u>" applied, the project officer additionally checks whether a Certificate on average personnel cost has been received and approved by the EC services.</li> </ul>

	<ul style="list-style-type: none"> <li>- <i>The project officer checks the bank account type (interest bearing or non interest bearing bank account) and if applicable recovers the interest on pre-financing.</i></li> <li>- <i>The mid-term and final <u>scientific reports</u> have to be approved prior executing any outstanding, subsequent payment.</i></li> <li>- <i>All financial transactions of the operational budget (payments, commitments, recovery orders etc.) performed in the accounting system (ABAC) are carefully monitored and reported on a weekly and monthly basis.</i></li> <li>- <i>The implementation of external audit findings through recovery orders is carefully monitored and reported in the monthly financial and budgetary report.</i></li> <li>- <i>Costs can be rejected on account of the Certificate on Financial Statements (CFS), external ex-post controls in case of offsetting and by the project officer due to ex-ante controls. Rejected ineligible costs are reported on an annual basis. The requirement to submit CFS is constantly monitored and beneficiaries informed accordingly.</i></li> </ul>
<p><b>Corrective controls and audit</b></p>	<ul style="list-style-type: none"> <li>- <i><u>Legal and financial control provisions</u> provided for in the Rules for participation and the ERC grant agreements include certificates on financial statements, risk and random based ex-post controls, recoveries of ineligible amounts and general application of liquidated damages in case of detected over-statement of costs and application of penalties.</i></li> <li>- <i>At any time during the project's implementation period and following 5 years after the end of the project, the Commission, the European Court of Auditors or the Agency may carry out <u>on-the-spot controls</u>.</i></li> <li>- <i>The Agency implements the <u>FP7 ex-post audit strategy</u>. Close cooperation with ex-post control units of other FP7 implementing DGs and agencies provide valuable insight in planning future controls. The cooperation includes joint audits, exchange of planning information, extrapolation of systematic error findings by one DG/EA, coordinated approach in contentious issues including central management, joint training and common IT tools and templates.</i></li> </ul> <p><i>The Agency has its own Fraud prevention strategy and coordinates as concerns fraud detection and prevention at beneficiary level through the FAIR committee.</i></p> <ul style="list-style-type: none"> <li>- <i>The Agency draws, when analysing its portfolio of grants and Host Institutions, on the results of other EU Commission services, in order to address the Executive Agency particular situation, whereby a high share of beneficiaries are equally active in other EU programs.</i></li> <li>- <i>Where systematic error has been detected and <u>extrapolation</u> is applied, an assurance is requested from beneficiaries concerned that these errors have been adequately addressed. Follow up audits are scheduled. The material systematic errors detected on the audited grants of a given beneficiary will be extrapolated to non-audited grants, if certain conditions are met. This practice, in combination with covering the top beneficiaries, will ensure that a substantial share of funding is largely free from systematic errors.</i></li> </ul>

	<p>- <i>Ex-post controls of the implemented grants are performed either by own resources or by using external audit experts under the DG Research and Innovation framework contract. In addition, the ERCEA Staff accompanies the Court of Auditors when ERC grants are concerned.</i></p> <p>- <i>Ex-post audits are carried out as follows: A) <u>On the basis of a risk analysis</u> this may include a systematic coverage of "top 100 beneficiaries" i.e. which account for 70% of total funding granted under the program managed by the Agency. Other selection criteria include: results of previous audits, dependency on EU funding, top beneficiary in another program, new participants in the FP etc. Furthermore, in order to optimise the usage of resources, audits are carried out on beneficiaries/ grants where the likelihood of errors is considered higher. The error rate resulting from the risk based audits is not relevant the whole population of beneficiaries. B) <u>Representative sampling to estimate error rates in the total population.</u></i></p> <p>- <i>All audit results in favour of the ERCEA are implemented by the authorising officers. Detected errors in favour of the ERCEA are corrected by issuing recovery orders or deducting amounts from imminent payments to the same beneficiary under the same grant. . Liquidated damages are applied.</i></p> <p>- <i>Fraud and detection/ double funding are also considered in ex-post-controls.</i></p>
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### **3. Supervision and monitoring of the internal control systems and audit follow up**

- *Procedures are in place in order to report exceptions and to record and correct internal weaknesses. The risk register is available to the Director.*
- *Monthly financial reports on the operational budget and scoreboards are prepared and presented to the management, as well as published on the Agency's intranet.*
- *Annual Management self-assessment of the internal control system' effectiveness (including prioritised ICS, major events, exceptions reporting, internal weaknesses and fraud/irregularities).*
- *Discussion on the risk mitigation measures and risk management in line with ICS requirements (annual exercise). Six-monthly review of the implementation of the action plan developed during the annual risk management exercise.*
- *Feedback provided by the Agency's internal audit function, the Commission's Internal Audit Service and the European Court of Auditors. The implementation of audit recommendations is systematically monitored by the Director's Office.*
- *Quarterly management reports compiled in compliance with the Act of Delegation and sent to the parent DGs and the Steering Committee showing the progress made through operational and financial scoreboards.*
- *Quarterly reporting on the Agency's performance to the Steering Committee meetings.*
- *Annual Activity Report compiled showing progress made during the year.*

## ANNEX 5 b) - Internal Control Template for ERCEA administrative budget implementation

### 1. Management mode and key figures

#### ***Direct centralised management of the ERC EA administrative budget.***

*The ERCEA administrative budget is characterised by a wide range of financial transactions of various types and amounts corresponding to very different activities.*

Budget	35.6 € mio
Commitment execution	34.99 € mio
Payment execution	32.93 € mio

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

*1) As most of the budget is related to salaries and IT/communication/audits (78%), delays in recruitment process / delays in purchasing (framework contracts, call for tenders) may lead to delays in executing budget and to budget under-consumption. This may result in a decreased budget in the forthcoming year.*

*2) A risk of voluntary underestimating of budgetary needs may lead to a lack of financial resources available at year end. This may result in the Agency failing to fulfil its legal obligation.*

*3) Lack of efficiency in monitoring of the payment execution leading to payment delays. This may lead to loss of monies (interest) and in the Agency failing to meet its legal obligations as well as to a decreased customer satisfaction.*

*4) Due to lack of sufficient resources, oversight in payment processing may lead to errors. This may result in increased workload and eventual delays in processing payments.*

*5) Inaccuracies and errors in reports due to lack of sufficient monitoring. This may lead to additional workload and decreased reliability of reported data and thus eventually for a reputational risk for the Agency in building the assurance process.*

*6) Fraud risk: Approval of a payment file which is based on a false (intentional) declaration of expenses (travel documents, allowances etc.). This may lead to acceptance of ineligible expenditure and thus loss of monies.*

*7) Fraud risk: Payment files (beneficiary bank account, beneficiary names, sum of money) that have been intentionally falsified is accepted because of lack of oversight. This may result in an ineligible expenditure being approved and thus loss of monies.*

#### *Specific ERC EA accountability structure regarding the administrative budget:*

*The administrative budget is adopted by the Steering Committee in full compliance with the operating grant and establishment plan listed in the Union's general budget and approved by the Budgetary Authority. The Director of the Agency is the Authorising Officer for the administrative budget. The Head of the Resources and Support Department is the Authorising Officer by Delegation for the administrative budget for payments above € 500.000 and all commitments, which are based on a centralised financial circuit with lowered responsibilities: the Head of the Budget Cell acts as*

Authorising Officer by sub-delegation for all payments below € 500.000. The administrative budget team (the Budget cell) was transferred on the organisational chart under the direct responsibility of the Head of Department D.

The Director reports on the performance of his duties to the Steering Committee and receives discharge for the implementation of the administrative budget from the Budgetary Authority.

The Head of the Support Services Department coordinates the use of resources throughout the Agency. In this capacity, he certifies the accuracy and exhaustiveness of the information as regards the use of resources.

## 2. Key controls of ERCEA administrative budget implementation

### Detective and corrective controls: payments and key milestones

- Ex-ante controls are embedded in the procedures for payments which are prepared and approved in line with ICS 8. Ex-ante control is carried out in all financial transactions at the level of the verifying officers, the operational verifying agent and the financial verifying agent.

- Ex-ante controls are carried out based on legal and financial rules including "sound financial management" applying to the transaction (commitment, invoice and payment request, recovery order) such as supplier identification, dates, amounts, accounting details, certified correct signature.

- The financial management procedures are continuously monitored and revised if needed in order to ensure consistency with the legal framework. All procedures are validated in line with the system put in place by the Agency and are available on the intranet.

- Additional checks are provided by D3 procurement cell for all commitments (except in the case of SLA).

### Corrective controls and audit

The authorising officer shall put in place, in compliance with the minimum standards adopted by the Commission for its own departments and having due regard to the specific risks associated with his management environment and the nature of the action financed, the organisational structure and the internal management and control procedures suited to the performance of his duties, including where appropriate ex post verifications.

For the time being, there is no requirement for the creation of a dedicated ex-post control system which would likely issue in an unbalanced cost – efficiency ratio, as long as the risk level of the administrative transactions does not increase, unless there is a radical change in the control environment.

## 3. Supervision of ERCEA administrative budget implementation

A monthly financial report on the administrative budget is prepared and presented to the management, as well as published on the Agency's intranet. This report follows up the level of budget execution both in commitment and payment appropriations and gives an overview on the performance in term of payment on time.

A close follow up of the budget execution allows managing the appropriations split in the 36 budget items. Any lack or surplus of appropriations detected in the course of the budget year results in a transfer proposed to the Steering Committee.