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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, 2013.**

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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. It is an autonomous Executive Agency that handles the operational management of the ERC according to the principles established by its Scientific Council. The Council, composed of 22 members who represent collectively the European scientific community, sets the ERC scientific strategy and has full authority on the type of research to be funded.

The ERC marks a new approach to investing in frontier research in Europe and aims at reinforcing excellence, dynamism and creativity in European research by funding investigator-driven projects of the highest quality at the frontiers of knowledge. The ERC Scientific Council has defined a clear and stable vision for the ERC activities, based on the fundamental principle of supporting the best researchers in any field of research on the sole criterion of excellence. This is expected to have a substantial direct impact through advances at the frontiers of knowledge, opening the way to creating new scientific and technological results, which ultimately can lead to innovation. These objectives are fully in line with the aims of the Europe 2020 strategy designed to deliver smart, sustainable and inclusive growth through the strengthening of every link in the innovation chain, from 'blue sky' research to commercialization.

Two grant schemes designed by the Scientific Council form the core of the ERC activities: Starting Grants (StG) support researchers at the early stage of their careers, with the aim of providing working conditions that enable them to become independent research leaders, while Advanced Grants (AdG) are designed to support outstanding and established research leaders by providing the resources necessary to enable them to continue the work of their teams in expanding the frontiers of scientific knowledge.

In 2011 a new funding option was launched, the Proof of Concept, offering to existing ERC grant holders the possibility to establish the innovation potential of ideas stemming from their existing ERC grants. This funding instrument is aimed at covering the funding gap known as "the valley of death" which occurs in the very early stages of the commercialisation process of potentially innovative ideas.

An additional funding instrument was introduced in 2012, the ERC Synergy, aimed at groups of 2-4 exceptional researchers combining their expertise, knowledge and resources to make scientific breakthroughs that would not be possible for any of them working alone.

2012 was the third full year of ERCEA operations, during which it has continuously proved to be an efficient, effective and cost-effective tool for the management of the "Ideas" Specific Programme and has earned as well an enhanced recognition as world-class research funding agency for the quality of its operations, while keeping its administrative expenditures at below 3% of the operational ones.

In order for the Agency to deliver on its key objectives the ERCEA management has put continued emphasis on managing business processes efficiently and effectively to meet performance targets related to the execution of the annual operational budget of the "Ideas" Work Programme, which increased by 18% in 2012.

In this view, a Simplification Working Group (SWG) was set up in March 2012, composed of representatives of all Agency units, and entrusted with the objective of streamlining procedures to achieve a higher efficiency, effectiveness and economy of ERCEA operations.

PART 1. IMPLEMENTATION OF ERCEA ANNUAL WORK PROGRAMME 2012

The mission of the European Research Council Executive Agency (ERCEA) is to implement the "Ideas" Specific Programme for the benefit of the Scientific Community in Europe by financing frontier research projects and providing researchers in Europe with the means to conduct their research independently and by offering them attractive perspectives for a career in science. Such EU-funded research under the "IDEAS" Work Programme responds to the need of improving the attractiveness of Europe for the best researchers worldwide and strengthening the EU capacity to generate new knowledge back into the economy and the society. The ERCEA thus 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 below specific objectives and result indicators of the ERCEA derives from the general targets of the FP7 as a whole and Commission's policy objectives in the area of research which can be found in the FP7 legal basis and in the Annual Management Plan of DG RTD.

SPECIFIC OBJECTIVE 1	To enhance the generation of excellent, innovative ideas in frontier research in Europe	
Result indicators	Latest known result in December 2012	Target (result)
Number of international prizes and awards by grant holders	ERCEA has recorded 76 ERC grantees who won prestigious research prizes. (For this indicator, only prizes awarded after the ERC Grant are taken into consideration. Also noteworthy is the fact that ERC counts among its grantees: 5 Nobel prize winners and 3 Field Medallists).	200 by 2020
Number of scientific publications by grant holders	ERCEA has collected more than 7,900 journal articles from ERC funded projects from Thomson Reuters' Web of Knowledge. Thomson Reuters' Web of Knowledge is a bibliographic system which index about 23,000 peer-reviewed and high impact scholarly journals. Articles from ERC funded projects are identified as those which explicitly acknowledge ERC funding.	~40-60.000 by 2020

A glance at the list of ERC grant holders who received international scientific prizes and awards in 2012¹ provides a good example of how ERC funding schemes have attracted also this year top researchers. Also noteworthy is the fact that ERC already counts among its grantees 5 Nobel Prize winners - including the 2012 Nobel Prize in Physics, Serge Haroche - and 3 Fields Medalists. The numbers of prizes held by ERC grantees monitored so far is based on search in the press and on the Internet and most likely underestimate the exact figure. A systematic analysis of more accurate information, when available², will show that the ERC is well in line to meet its target indicator.

ERC funded projects are highly productive and ERC funded research is largely present in high impact journals. By end-2012 ERCEA has collected more than 7,900 peer-reviewed journal articles acknowledging ERC funding from Thomson Reuters' Web of Knowledge. A trend analysis of the number of scientific publications acknowledging ERC funding shows that ERC will not only meet but will exceed its target (~40-60,000) by 2020.

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

¹ <http://erc.europa.eu/projects-and-results/prizes-and-awards-2012>

² The ERC is developing a monitoring system which will query more data sources than the one used at present. It is expected that figures given until now will be increased.

1.1 Scientific Management of the Ideas programme

The main 2012 activity of the ERCEA with regard to the scientific management of the Ideas Programme was to successfully deliver on the 2011 and 2012 ERC Calls for Proposals and the follow-up of implementation from the previous calls. 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 ERC calls launched in 2012 according to the "IDEAS" 2013 Work Programme³ and reflected in the ERCEA 2013 Annual Work Programme⁴:

Call identifier	Indicative budget acc.to AWP 2013		Call for Proposal	
			Opening date	Closing date
Starting Grants Call ERC-2013-Starting Grant	100%	398.000.000 €	10/07/2012	17/10/2012
ERC-2013-StG - Physical Sciences and Engineering	44%	175.120.000 €	10/07/2012	17/10/2012
ERC-2013-StG - Life Sciences	39%	155.220.000 €	10/07/2012	17/10/2012
ERC-2013-StG - Social Sciences and Humanities	17%	67.660.000 €	10/07/2012	17/10/2012
Consolidator Grants Call ERC-2013-Consolidator Grant	100%	523.000.000 €	07/11/2012	21/02/2013
ERC-2013-StG - Physical Sciences and Engineering	44%	230.120.000 €	07/11/2012	21/02/2013
ERC-2013-StG - Life Sciences	39%	203.970.000 €	07/11/2012	21/02/2013
ERC-2013-StG - Social Sciences and Humanities	17%	88.910.000 €	07/11/2012	21/02/2013
Advanced Grants Call ERC-2013-AdG	100%	662.000.000 €	10/07/2012	22/11/2012
ERC-2013-AdG- Physical Sciences and Engineering	44%	291.280.000 €	10/07/2012	22/11/2012
ERC-2013-AdG - Life Sciences	39%	258.180.000 €	10/07/2012	22/11/2012
ERC-2013-AdG- Social Sciences and Humanities	17%	112.540.000 €	10/07/2012	22/11/2012
ERC-2012- PoC - Proof of concept Call		10.000.000 €	02/02/2012	1) 03/05/2012 2) 03/10/2012
ERC-2013-SyG -Synergy Grant Call		150.000.000 €	10/10/2012	10/01/2013

Four types of ERC funding instruments were launched in 2012: The Starting (StG), Advanced (AdG), Synergy Grant and Proof-of-Concept schemes. The two established StG and AdG schemes

³ Adopted by the Commission on July 09, 2012 (C(2012) 4562 of 09 July 2012).

⁴ Except for the Proof of Concept call which derives from the "IDEAS" 2012 Work Programme, adopted by the Commission on July 19, 2011 (C(2011) 4961 of 19 July 2011).

will become three with the split of the Starting Grant scheme (which included starters and consolidators) into Starting and Consolidator Grant (CoG) schemes for 2013 as the workload of the Starting Grant scheme was becoming unmanageable to maintain the same quality of the evaluation process. These three schemes StG, CoG and AdG will remain as the core of the ERC's operations until the end of the 7th Framework Programme. The ERC Synergy Grant is a pilot scheme which enables small groups of Principal Investigators (with a designated Corresponding 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 order to better cope with the increasing number of funding instruments from 2 in 2008 to 5 in 2013, the increasing number of submissions generating a growing workload and to ensure enhanced project follow-up thanks to a better match of ERCEA scientific officers' background with the scientific domains and panels, a Call Coordination Unit (B2) and Scientific Affairs Unit (B3) is replacing since October 2012 the former Department B organisation by funding schemes (Starting and Advanced Grants).

The ERCEA has increased its efforts to further the visibility of ERC calls and raise awareness of the ERC's various funding opportunities both in the EU and overseas, implementing the ERC 2012 external communication strategy. New ERC calls were widely published, via the website, news alerts, and through coordinated efforts with DG Research and Innovation, on the occasion of the campaign launched for new FP7 calls in July 2012. New developments and initiatives concerning the ERC were widely and regularly communicated to the various stakeholders via the ERC's quarterly e-newsletter « Ideas », the latter counting more than 16,000 subscribers in 2012.

To raise worldwide awareness on existing funding instruments, the ERCEA arranged ERC's presence in more than 20 major international research conferences and exhibitions as well as career fairs and workshops. ERC Scientific Council members, grantees and ERCEA staff visited EU countries (i.e. Bulgaria), as well as Turkey, the United States, India, Canada, Hong Kong and China. During the course of the year, special efforts were deployed in countries performing less well in ERC calls as part of "widening participation" activities, namely at the occasion of the Scientific Council plenary sessions in Bulgaria and Cyprus.

To attract applicants from outside Europe, an international awareness-raising campaign, '**ERC goes Global**', led by the Secretary General Donald Dingwell, was launched and run in nine countries (namely Canada, South Africa, Brazil, Chile, Japan, Taiwan, South Korea, Hong Kong and Russia).

The landmark event marking the ERC's fifth anniversary also attracted a great deal of media attention this year, in Europe and abroad, both as an organisation, and through funded projects/ERC grantees. To highlight the scientific impact of ERC projects, a growing number of **features on ERC projects and their results** - over 40 - were published on the ERC website, on media (including for the first time the Euronews "Futuris" magazine) and via social networks (ERC newly created Twitter and Facebook profiles). **Finally, two meetings with the ERC National Contact Points (NCPs)**, were held on the Agency premises with the aim of updating them about ERC calls and changes to the calls.

Concerning communication tools, **the ERC website's** new functionalities were created to offer visitors quick access to basic statistics on ERC calls and projects, as well as a searchable database for all ERC-funded projects. A world map was developed to reflect the newly appointed overseas NCPs nominated after visits of the ERC Secretary General. The website was consulted during 2012 by a total of 396 621 unique visitors for a total of 768 380 visits.

1.1.2 Evaluation of proposals

During the period under review, the ERC-2012-StG, ERC-2012-AdG, ERC-2012-PoC and the ERC-2012-SyG call for proposals were evaluated. The following table shows the results of the evaluation of the 2012 calls from the indicative budget to pre-financing payments.

	Indicative Budget (€) acc. to AWP 2012	Call Deadline	Number of proposals				Grants signed		Preparation failed	Of which pre-financing paid € Mio
			Submitted proposals	Eligible (% of submitted proposals)	Invited	Success rate	Number	€ Mio		
			(a)	(b)	(c)	(c)/(a)				
ERC-2012-StG - Physical Sciences and Engineering	321.192.353 €	12/10/2011	2058	98,5%	252	12,2%	233	326,7	0	122,9
ERC-2012-StG - Life Sciences	284.693.222 €	09/11/2011	1653	98,0%	210	12,7%	155	229,9	1	83,6
ERC-2012-StG - Social Sciences and Humanities	124.097.045 €	24/11/2011	1030	97,5%	106	10,3%	71	88,0	1	28,3
ERC-2012-AdG- Physical Sciences and Engineering	299.191.200 €	16/02/2012	978	99,2%	141	14,4%	44	95,8	-	3,6
ERC-2012-AdG - Life Sciences	265.192.200 €	14/03/2012	773	98,3%	115	14,9%	3	7,2	-	1,0
ERC-2012-AdG- Social Sciences and Humanities	115.596.600 €	11/04/2012	553	97,5%	57	10,3%	-	-	-	-
ERC-2012-PoC - Proof of Concept	10.000.000 €	1) 03/05/2012 2) 03/10/2012	144	80,5%	60	41,7%	24	3,5	-	2,2
ERC-2012- SyG - Synergy Grant	150.000.000 €	25/01/2012	710	98,2%	11	1,5%	-	-	-	-

The above information on the "preparation failed" reflects two cases concerning the Starting Grant-2012 calls, where a Principal Investigator decided to withdraw his proposal since he was offered a position at Stanford University and the grant preparation was consequently stopped and another Principal Investigator who also withdrew his proposal which stopped the Grant preparation, as he had submitted another proposal under the AdG-2012 call, which was positively evaluated. As regards, the Advanced Grant-2012 calls, the table reflects the year end state of play of the proposals invited to prepare the Grant Agreement.

In response to all 2012 calls, a total of 7899 proposals were submitted, representing an increase of 24% compared to year end 2011, in line with the total estimation shown in the AWP 2012 (8022). However, whilst actual proposals submitted were in line with estimations as regards ERC's established funding schemes (Starting and Advanced), the Synergy Grant call attracted 3,5 more proposals (710) than expected (200) and the Proof of Concept calls were echoed almost by half of the estimated submissions (300).

The Starting and Advanced Grant 2012 calls' percentage of ineligible proposals remained stable compared to last year at around 1.3% in line with the AWP 2012 targets. Regarding the first Synergy Grant call in 2012, the percentage of ineligible proposals was 1.1%, showing a better result than the AWP target (5%). Due to incomplete submission files, the first 2012 Proof of Concept call – first deadline, showed a high rate of ineligible proposals (20%). Thanks to corrective measures implemented⁵ for the 2012 Proof of Concept call – second deadline, the ineligibility rate was brought down to 11.6% of submitted proposals, still above the target of 2.8%. Thus, the Proof of Concept 2013 target for ineligible proposals has been revised to 13% in order to be more consistent with the Proof of Concept specificities.

The key performance indicator "Time to evaluation decision" (average in calendar days) improved from 168 to 165 days for Starting Grant 2012 (although the number of submissions had increased by 16% compared to 2011), from 164 to 144 days for Advanced Grant 2012 (submissions remaining stable with a negligible increase of 0.8% compared to 2011) in line with the AWP 2012 target of 160 days, applicable to all schemes. For the Synergy Grant 2012 call, the average "Time to evaluation decision" was of 101 days. For Proof of Concept 2012, this KPI improved from 107 to 68 days for the first deadline and from 84 to 65 days for the second.

A total of 5912 experts participated in the evaluation of the 2012 Calls as detailed in the table below.

Call	Number of experts	Role
ERC-2012-AdG	25	Panel Chair
	291	Panel Member
	78	Panel evaluator
	1872	Remote referee
	5	Shadow Panel Chair
	84	Shadow Panel Member
ERC-2012-StG	25	Panel Chair
	348	Panel Member
	103	Panel evaluator
	2130	Remote referee
	19	Shadow Panel Chair
ERC-2012-SyG	252	Shadow Panel Member
	76	Panel Member
	70	Shadow Panel Member
ERC-2012-PoC	517	Panel evaluators
	17	Panel members
Total	5912	Experts

The percentage of proposals with no remote referee reports in step 2 was for Starting Grant of 1.89% and for Advanced Grant of 1,84%. Although above respective targets of 1.5 % and 0.6%, management is satisfied with these results considering the significant increase in proposals received combined to the efforts deployed to recruit thousands of experts (e.g. ~5000 to 6000 remote referees invited for StG2012) knowing that the recruitment success rate is of 1/3 and that these experts are not paid for their work. Indeed, Starting Grant proposals were assessed on average by 2.3, Advanced Grant proposals by an average of 2.8 and Synergy Grant proposals by an average of 6 remote referees, hence guarantying the quality of the evaluation process. In terms of re-evaluations following a request for redress, there were none for AdG and PoC while

⁵ For further details please refer to section 3.1.1.1 "Scientific Management processes".

the proportion for StG of 0.12% remained below the target of 0.5%. This figure is not yet available for SyG at the time of writing.

A total of 950⁶ proposals resulting from the 2012 calls for proposals underwent the ethics review process, out of which 84.5% are completed and 15.5% are on-going. There were 8 ethics panel meetings, involving 39 panel members. A further 53 experts have worked as remote reviewers. The average time to provide an ethics clearance for proposals in 2012 was 44 days for StG2012, 50 days for PoC2012 and 13 days for AdG2012⁷ leading to an overall time to ethics clearance of 36 days in average.

Looking ahead to the on-going 2013 Calls, the results available at the time of writing are:

- 3329 proposals were submitted to the Starting Grant 2013 call on 17/10/2012 representing an unexpected 53% increase from last year's Starting Grant 2012 Starters;
- 2408 proposals were submitted to the Advanced Grant 2013 call on 22/11/2012 representing a 4.5% increase in line with the slightly increasing AdG submission trend;
- 449 proposals were submitted to the Synergy Grant 2013 call on 10/01/2013 representing a decrease of 36.7%, most probably due to the 2012 oversubscription which brought about a very low success rate.

The 2012 evaluation process resulted in a total of 952⁸ proposals (including 77 proposals in the reserve list) retained for funding within the call budget and in line with the 2012 AWP targeted 920, showing comparable to last year success rates for Starting and Advanced Grants (respectively 11.9% and 13.5%). The success rate of the Proof of Concept remains high at 41 % (in 2011: 34%), whilst the one of the Synergy Grant is very low at 1.5%, due to the 2012 oversubscription.

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 2012, 238 scientific reports (220 mid-term and 18 final reports) relating to the Starting Grant calls (StG) were assessed with an average number of days to assess the reports of 22 days, and 182 (178 mid-term and 4 final reports) Advanced Grant calls reports with an average of 19 days.

The percentage of scientific reports assessed within the 60 days legal limit was 97% for StG and 100% for AdG in line with the AWP 2012 targets of 95% for both Calls. The reports were assessed by ERCEA scientific officers. External reviews were performed for the first time, only in exceptional cases (2 StG projects and 1 AdG).

Due to budgetary discipline, the site visits were limited to the cases where additional checks were needed during the assessment of the reports. A total of 3 projects were visited for StG. At the same time, following the provisions of ERCEA internal methodology, no technical audits were considered necessary during the reporting period.

The issues revealed by the scientific follow-up had no impact on payments: no payments were stopped and although one was suspended temporarily, it had no impact on final payments. 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.

⁶ This figure disregards the 2 withdrawn proposals.

⁷ The ethics review for AdG2012 is still on-going and 30% of proposals still need to be cleared.

⁸ Respectively 568 for the Starting Grant 2012, 313 for the advanced Grant 2013, 60 for the Proof of Concept and 11 for the Synergy Grant.

1.2 Financial Management of the Ideas Programme

1.2.1 Overview of the achievement of the 2012 key targets

The following results were achieved in the light of the key performance objectives and indicators of the Annual Work Programme 2012:

Objective	Performance indicator	2012 Target	Latest known results 31/12/2012
Operational budget			
To maximise execution of the operational commitment credits delegated to ERCEA by the European Commission To ensure full yearly execution of payments credits (operational budget) through careful planning and monitoring	% execution of L1 commitment	100%	100%
	% execution of L2/L1 commitment ⁹	40%	45,2%
	% execution of payment credits	100%	100%
	Accounting errors % of all transactions	<2%	0, 23%
Minimise financial and legal transaction time for ERC beneficiaries and ensure legality and regularity of underlying transactions to support ERCEA's positive Declaration of assurance.	a) time to invoice (% within 5 days)	80%	99,1%
	b) time to pay (% according to milestones and budget table specified in the Description of Work ¹⁰ and processing payments i.e. economic target days)	Pre-financing: 100% within 20 days Interim payment: 100% within 90 days Final payment: 100% within 90 days	Pre-financing: 98,4% within 20 days (average time to pay of 10 days) Interim Payments: 100% within 90 days (average time to pay of 14 days) Final Payments: 100% within 90 days (average time to pay of 34,6 days)
	c) time to amend (% approved or rejected within 45 days upon receipt of valid request)	100%	98,4% within 45 days (average time to amend of 14,7 days)

⁹ The indicator for the percentage execution L2/L1 is dependent on the timing of the evaluation process.

¹⁰ Description of Work is annex 1 to the grant agreement which describes activities to be carried out as well as the budget allocation per cost category and per reporting period.

<u>Time to contract:</u> To minimise the duration of the granting process aiming at ensuring a prompt implementation of the Grant Agreements through a simple and transparent grant preparation process.	Time to contract measured (median values) from time from call deadline to signature of grants ¹¹	365 days	StG 2011: 347 days AdG 2011: 379 days StG 2012: 351 days AdG 2012: n/a
	Time to contract measured (median values) from time from invitation to signature of grants	105 days	StG 2011: 102 days AdG 2011: 129 days StG 2012: 107 days AdG 2012: n/a
<u>Expert management:</u> To promote experts satisfaction by ensuring a fast and easy appointment and a fair, timely and accurate payment processes.	a) time to appoint ¹²	30 days	28 days
	b) time to pay	21 days	15.4 days
	c) % of experts payments budget execution	100 %	100%

The Agency managed to consolidate its key performance indicators in relation to grant implementation in 2012 and largely met its targets, with the exception of the "time to grant" referring to the time from call deadline to signature of grants. While the target was to sign grant agreements in at least 50% of grants within 365 days, the actual time in 50% of cases is 379 days (AdG 2011). For StG, the "time to grant" was below the set target of 365 days, with 347 days for StG-2011 and respectively 351 days for StG-2012.

As regard the target of 105 days for concluding the Grant Agreements counted from the invitation date, the StG 2011 call met this target with 102 days, and the StG 2012 call nearly met this target with 107 days. The AdG 2011 median time to grant amounted to 129 days, in progress compared to the 147 days for AdG 2010 but still longer than the Starting Grants namely because of the impact of the Christmas break during the first half of the granting process.

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, 14,0 days for interim payments and 34,6 days for final payments.

As regards experts payment, which are processed by the Scientific Management Department, the average time to pay was 15,4 days (versus 21,9 days in 2011) an improvement compared to 2011 and considerably below the target of 21 days set by the ERC Scientific Council.

In line with the EC accounting rule¹³, the accounting quality programme of the Agency aims to proceed over the last quarter 2012 and at the time of the cut-off, with a number of checks (42) performed on mass accounting figures. Those checks are complemented by checks on files selected randomly (1% of the total number of transactions in payment and recovery). The controls aim to spot possible errors or malpractices that may impair the reliability of the accounts, if material¹⁴. The result of the checks performed in 2012 did not lead to material errors. The rate calculated in terms of relevant accounting observations is 0, 23 % in 2012.

¹¹ The indicator for the TTG from call deadline to signature of grants is dependent on the timing of the evaluation process.

¹² From sending the appointment letter to signature of the contract by the Authorising Officer.

¹³ EC Accounting Rule 14: "Economic result of the year, fundamental errors and changes in accounting policies", "Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements". However, according to the same rule, "Potential current period errors discovered in that period are corrected before the financial statements are authorised for issue".

¹⁴ Materiality is addressed in Accounting Rule 14, whereas, "Material Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor".

1.2.2 Implementation of the 2012 operational budget appropriations

The commitment credits for 2012 amounted to €1.6 billion and the payment appropriations for the operational budget to € 0.839 billion. In December, the payment and commitment appropriations were increased by € 1.3 million following a transfer from the ERCEA administrative budget. The amended budget 2012 further increased the payment appropriations by € 30.0 million reflecting the adjusted needs till the end of the year. Consequently the total amount of payment appropriations for the operational budget reached € 870.7 million. Both payment and commitment appropriations were 100% consumed at the end of 2012.

1.2.2.1 Commitment appropriations execution

At the end of 2012, the execution of commitment appropriations for C1 reached 100% and for C8 credits 99,9 %¹⁵, the majority relating to ERC Grants, and some 0,5% to experts management. The execution of C8 credits linked to L1 commitments for 2011 calls reached 100%.

The commitment credits (C1) voted for 2012 amounted to € 1.6 billion for the operational budget, and have been implemented through global commitments on the basis of ranked lists of proposals positively evaluated. The C1 credits for the 2012 calls were fully executed. The main commitment activity focused on the execution of L1 commitments¹⁶, which are created after the end of the evaluation of each call. As to the 2012 Advanced Grants Call, the granting process was launched in October 2012. Consequently, the corresponding L1 commitments were made during the fourth quarter of 2012, leading at year end to 100% execution of voted credits for 2012.

The table below provides an overview of the commitments execution 2012 by the main fund sources:

Operational Budget: Commitments execution

		Commitments - Fund Source ¹⁷			
		C1	C8	C4	R0
	TOTAL Credits	1.606.935.987,00	2.330.546.542,18 ¹⁸	3.231.311,72 ¹⁹	216.207.840,16
	Available Commitment Appropriations 2012²⁰				
A	Grants	1.599.354.647,34	642.849.196,11 ²¹	3.025.017,27	61.045.452,20
	Experts	7.581.339,66		0,00	829.313,00
B	L1 Commitments (C1)	1.598.905.600,79		2.687.379,83	60.845.452,20
C	Indirect L2 Commitments²²	723.024.504,77	642.809.313,78	55.006,11	51.526.368,11

¹⁵ Following grant terminations L1 commitments for the calls ERC-2009-StG and ERC-2008_AdG and one direct L2 commitment had to be de-committed. The C8 credits de-committed in 2012 could not be used for funding another project. Hence, the consumption of C8 credits could not attain 100%.

¹⁶ 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.

¹⁷ Explanation of Fund Sources: C1 = voted credits of the current year; C8 = carried-forward credits of last year C1 credits; R0 = contribution from Third Countries; C4 = credits of income generated mainly from interest on pre-financing; C5 = carried-forward of C4 credits of last year.

¹⁸ This amount is globally committed and most of it is also indirectly committed during the previous years. The actual available commitment credits for indirect commitment are €642.849.196,11.

¹⁹ Including € 206.294,45 on the mother budget line 08.100100-C4-ERC

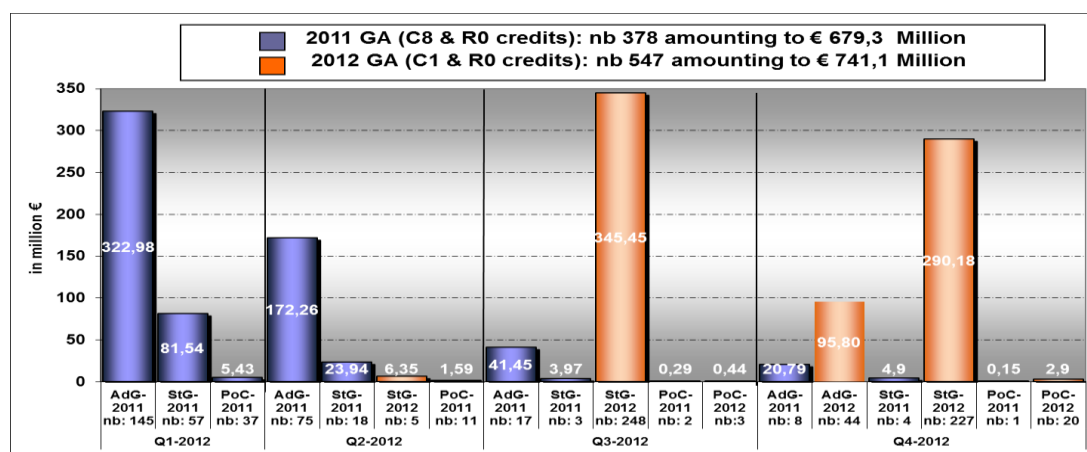
²⁰ The amount reported for the fund source C8 corresponds to the RAL on L1 commitments and for R0 to the RAL on L1 commitments and the new instalments.

²¹ This amount is the actual available commitment credits for indirect level 2 commitment at the beginning of the year. Within the year two L1 commitments from ERC-2008-AdG and ERC-2009-StG calls, and one direct commitment summing up to € 1.685.861,84 have been de-committed.

²² There have been partial de-committments for L2 indirect commitments committed in previous years on C8 funds for € 900.000, and on R0 funds € 2.119.991,86.

D	Available for Indirect L2 Commitments (Grants) For C1, C4 and R0= (B-C) For C8=(A-C)	875.881.096,02	39.882,33	2.632.373,72	9.319.084,09
E	% Consumption of L2 Indirect against the L1 Commitments (Grants) For C1, C4 and R0= (C / B) For C8 = (C / A)	45,22%	99,99%	2,05%	84,68%
F	Available Commitment appropriations (Grants) = A - B - G	0,00		302.637,44	0,00
G	Direct L2 Commitments Grants	449.046,55	N/A	35.000,00	200.000,00
	Direct L2 Commitments Experts	7.581.339,66			829.313,00
H	% consumption of L1 and L2 Direct against the Commitments Appropriations (Grants) = (G + B) / A	100%		90,00%	100%

Overall, Grant Agreements were signed throughout the year, out of which 528²³ resulted from the 2012 calls and 372 from the 2011 calls. In line with the timing for the Call for proposals which is "bridging" 2 calendar years, the commitment activity focused during the first semester on finalising the 2011 calls, whereas in the second semester mainly 2012 calls were processed. At year-end 2012, the ERCEA portfolio amounted to 3124 running grants²⁴. The graph below shows the commitment activity²⁵ for the major calls, while the table above focuses on the balances of the appropriations.



²³ In addition, 1 CSA grant agreement (ERC-2012-Support) has been signed.

²⁴ Considering all grants signed, excluding those terminated or closed by the end of 2012.

²⁵ Please note that the commitment activity should not be seen in line with the granting activity in the context of a calendar year, since the budgetary commitment is preceding the actual signature of the Grant and the time in between may be even a month or more.

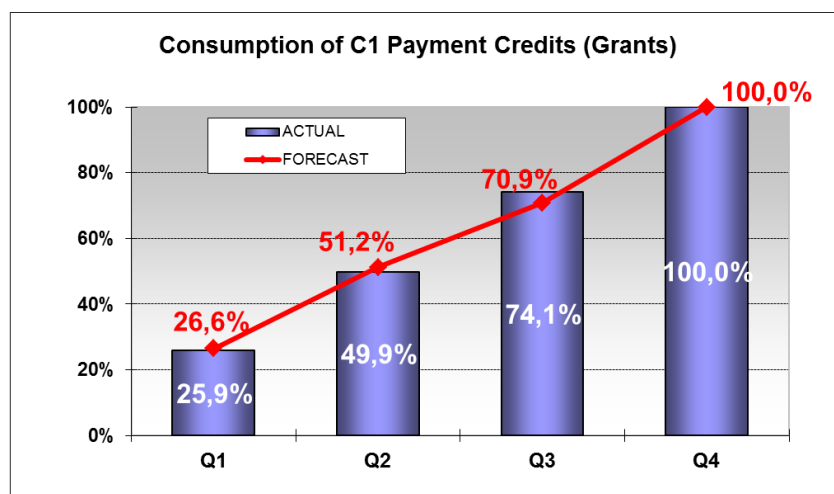
1.2.2.2 Payment appropriations execution

The total payment appropriations for the operational budget amounted to € 870.7 million, of which € 7.8 million were made available for the payments of the experts management. The table below shows the consumption over the year, including the revenue assigned from third countries (R0). At the end of 2012, the objective of 100% consumption of payment appropriations (C1) was achieved.

Operational Budget: Payments execution

		Payment Execution – Fund Source			
		C1	C4	C5	R0 ²⁶
Payments Appropriations 2012	Grants	862.815.761,74	3.012.609,30	0,00	215.378.527,16
	Experts	7.835.000,00	12.407,97	0,00	829.313,00
	Total	870.650.761,74	3.025.017,27²⁷	0,00	216.207.840,16
Payments in 2012	Grants	862.815.761,74	2.972.518,16	0,00	52.365.234,25
	Experts	7.835.000,00	12.407,97	0,00	0,00
	Total	870.650.761,74	2.984.926,13	0,00	52.365.234,25
% Payment Consumption	Grants	100%	98,67%	N/A	24,22%
	Experts	100%	100,00%	N/A	0%
	Total	100%	98,67%	N/A	17,00%

State of play on payments related to Grants



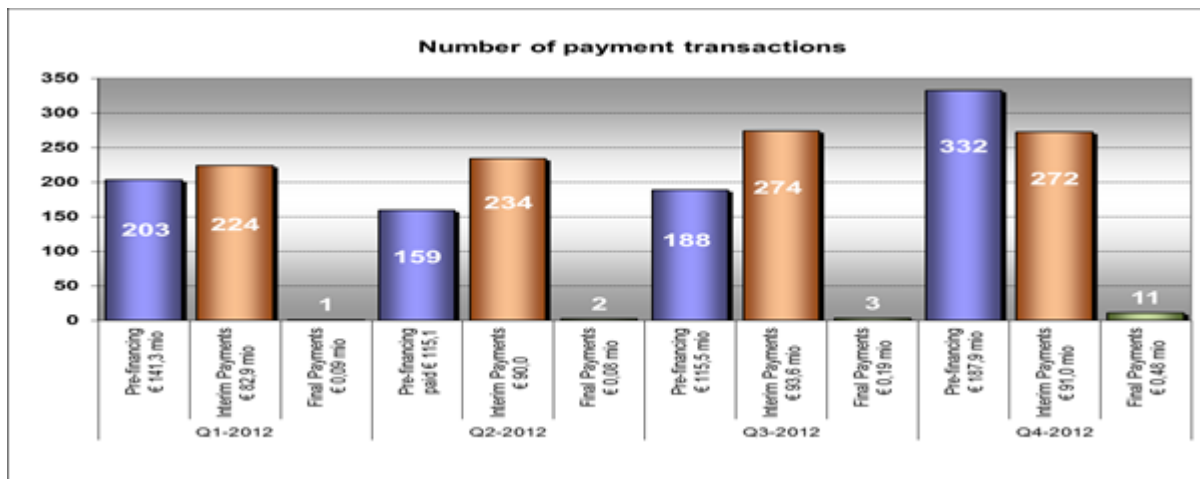
As illustrated above the evolution of the payment activity was in line with the forecast.

In more detail, the graph below presents the 2012 payment activity by type of payment (i.e. pre-financing, interim and final payments) and per quarter. A total of 1.903 transactions were carried out in 2012 (versus 1.523 in 2011), which represents an increase of 25% summing up to € 918.15 million (considering all fund sources). Out of these, 882 related to pre-financings, representing € 559,8 million, 1.004 to interim payments for € 357.5 million and 17 final payments amounting to € 0,8 million.

²⁶ For Assigned Revenue 100% yearly consumption is not obligatory.

²⁷ € 206.294,45 remained on the mother budget line 08.100100-C4-ERC and have not been consumed.

Payments related to Grants



In 2012 the split (in percentages) between pre-financings and interim payments reversed compared to 2011. For the first time the interim payment exceeded the pre-financing payment by 7% and that actually indicates the maturity of the IDEAS programmes since the calls are going towards their completion in 2013. The number of interim payments executed increased by 46,6% compared to 2011. It is important to mention that the final payments represented only 1% of all payment transactions.

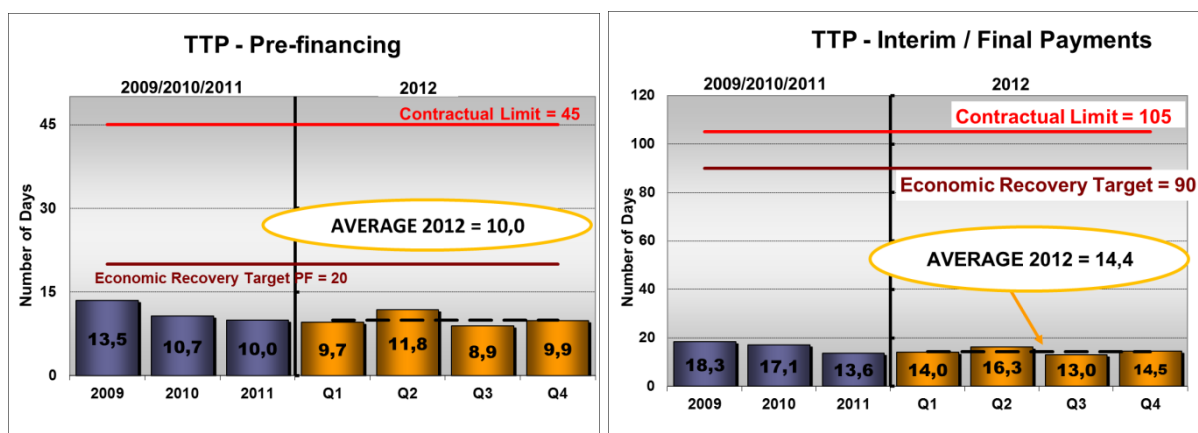
As regards expert payment/appointment, 3.996 payments were processed during the year, totalling to € 7, 8 million, representing an increase in volume of 35, 2% compared to 2011.

1.2.3 Time to pay

1.2.3.1 Time to pay related to grants

During the reporting period, 1.903 payments for grants (pre-financing, interim and final 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 14,0 days for interim payments. Final payments were paid on average within 34,6 days (so far only 17 final payments were executed in 2012). The average time to pay for interim and final payments is 14,4 days (for both types of payments, the contractual time limit of 105 days applies).

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 and

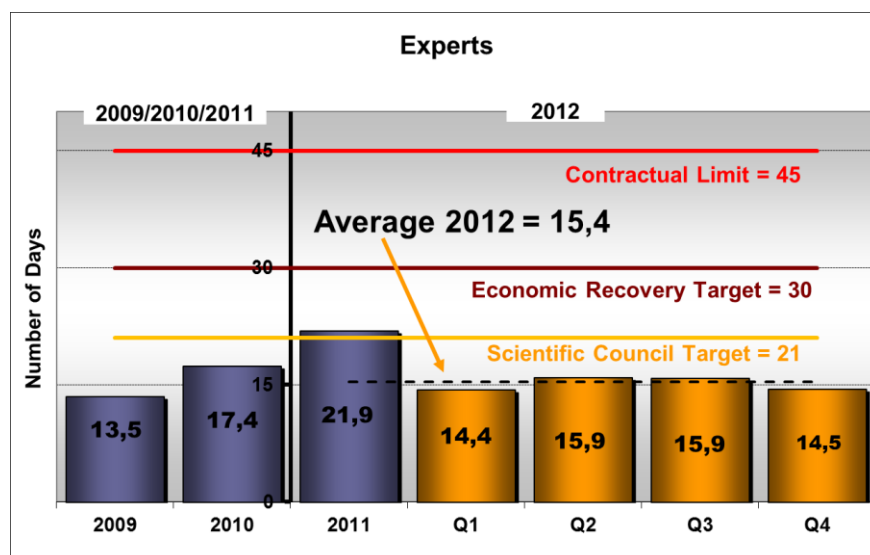
final payments).²⁸

When compared with the economic recovery targets adopted by the Commission²⁹ (i.e. 20 days for pre-financing and 90 days for interim and final payments), 98,4% of the pre-financing and 100% interim and final payments were executed on time.

These results could be achieved thanks to an adequate allocation of staff, growing to address the increasing numbers of transactions, together with training and a clearly designed and efficiently organised workflow and procedures, without compromising the necessary level and number of controls.

1.2.3.2 Time to pay related to experts

The yearly time to pay was on average 15,4 days. The figure below shows the average time to pay for experts for each quarter of the reporting period, indicating 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. 98,8 % of the payments were executed on time, when compared to the contractual time limits (45 days). 83,2 % were paid on time according to the Scientific Council target of 21 days (compared to 56, 3% in 2011) and 94,5 % were paid on time according to the target adopted by the Commission (30 days) compared to 80,9 % in 2011.



The remarkable decrease in the 2012 time to pay (from an average of 21, 9 days in 2011 to 15,4 days in 2012) is due to a reallocation of resources within the expert management team; this new organisation enables to avoid bottle necks in the process of initiation, verification and authorisation of payments.

1.2.4 Recovery Orders

A total of 175 recovery orders were issued during the reporting period, amounting to € 2,5 million. The types of recovery orders are shown in the table below highlighting that almost 74% (versus 75% in 2011) 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). Since July 2012 the procedure has been changed and income generated from pre-financing above € 750.000 is offset via the budget line BGUE-B2012-08.100100-C4-ERC.

²⁸ As defined in art. II.6.1.a and art. II.5.1 of the General Conditions.

²⁹ 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.

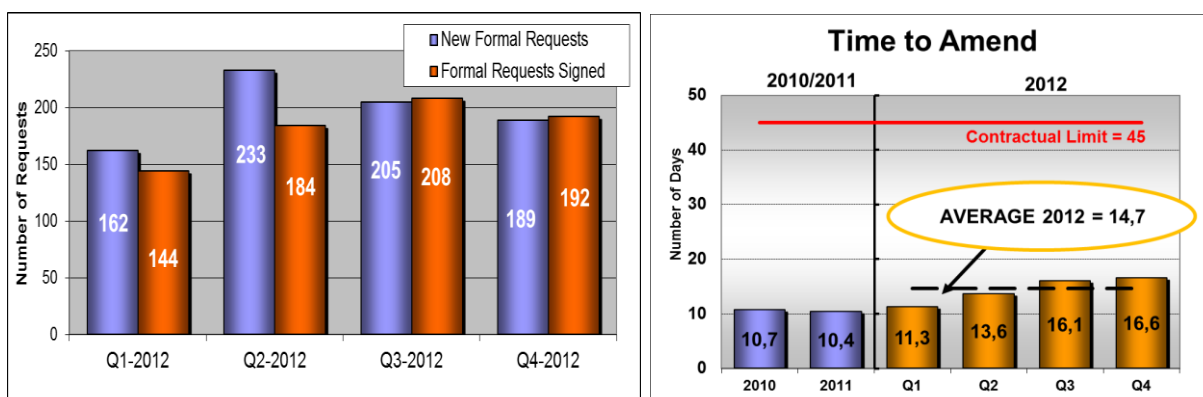
Reason for recovery	Number of recoveries cashed in 2012	Amount recovered
Recovery of interest earned on pre-financing payments	129	552.344,27
Recovery due to termination by beneficiary	3	481.911,92
Recovery due to results of external audits	23	763.367,64
Recovery due to liquidated damages	10	48.829,68
Other (recovery of pre-financing payments and experts)	7	566.023,99
Total RO cashed/offset in 2012³⁰	172	2.412.477,50
Total RO cancelled in 2012	4	27.014,59
Total RO issued 2012	175	2.491.491,26

There are 3 recovery orders issued for an amount of € 186.417,05, but not cashed by the end of 2012³¹.

1.2.5 Grant amendments and termination - De-commitments

During 2012, 789 new requests for amendments by beneficiaries were received and 728 were signed. So far one third of the grant portfolio has been amended at least once out of which 21, 5% were amended in 2012. In 2012 the average time to amend was only 14,7 days, which is significantly lower than the time limit of 45 days contractually foreseen.

Amendments requested by beneficiaries in 2012 and Time to Amend



As in 2011, amendments remained also this year more common for Starting Grants, due to the fact that beneficiaries for Starting Grants form young/new teams. Changes of Host Institutions and modification of the Annex I of the grant agreement (Description of work) represented 12, 8 % of the amendment cases and decreased slightly compared to 2011 (18,7%), whilst the other amendments were of administrative nature, relating to updates of contact details, of the authorised representative and of banking details.

Furthermore, in 2012, three grant agreements have been terminated on the request of the beneficiary for a cumulative amount of € 2,6 million EC contribution, i.e. L2 commitments. The reasons for terminations were in one case the fact that the Principal Investigator left the EU; in the second case the PI requested the early termination of his Starting Grant in order to take part in the next ERC-AdG-Call for Proposal and finally the last case refers to a Principal Investigator that passed away.

³⁰ Including 4 RO issued in 2011, but only cashed in 2012.

³¹ There is no open amount older than 3 months.

1.3 Implementation of ERCEA administrative budget

At year-end 2012, the ERCEA further improved the high level of administrative budget execution with 99.3% in commitments and 93.5% in payments, compared to respectively 98.2% and 92.5% in 2011, thus nearly achieving its targets on budget execution commitment (100%) and over performing on the budget execution payments (90%).

The remaining 0.7% of not committed appropriations represents €288,103 distributed between 32 budget lines. The main not committed amounts, representing 66.4% of the not committed appropriations, relate to IT services (€83,266, representing 1.3% overestimation of the budget line) due to an IT consultant who left before the end of his contract, salaries (€42,516, representing 0.2% overestimation of the budget lines) kept for possible technical adjustments (salary process "2012-13"), building charges (€34,895, representing 1.9% overestimation of the budget line) due to uncertainties on actual figures communicated late by EC services and external meetings (€30,579, representing 8.3% overestimation of the budget line) reflecting the unexpected non or partial attendance of external experts.

The remaining 5.7% of committed appropriations that have not been paid in 2012 represent a total amount of €2,211,300 of "Reste à liquider" (RAL) and have been carried forward to 2013 as C8 appropriations. The main committed amounts that have not been paid yet, representing an amount of €1,857,166 or 84% of the RAL, relate to IT services (€560,824), for the payment of the fourth quarter of 2012 of IT consultants, IT equipment (€394,303) for the audio-visual equipment of meeting rooms and the purchase of new PCs, communication (€339,545), on-going external audits (€331,848) and building charges (€230,646).

During the period under review, the ERCEA awarded the following public procurements: 63 negotiated procedures for low value contracts³², 2 open procedures³³, 2 negotiated procedures for single tender³⁴, 1 inter-institutional negotiated procedure launched by ERCEA for low value contracts; in addition, 1 inter-institutional open procedure launched by EPSO/EAS, resulted in 7 framework service contracts with cascade which were signed by the ERCEA during 2012 and one further inter-institutional restricted procedure launched by DG HR in 2011, bringing about 3 framework contracts which have been signed by ERCEA in early 2012 (framework service contracts with cascade). The ERCEA signed 153 specific contracts/order forms under inter-institutional framework contracts. Finally, 9 Service Level Agreements (SLAs)/Memorandums of Understanding (MoUs) and addendums were signed between the ERCEA and Commission services.

The accounting quality programme of the Agency for the administrative budget consists in revising all transaction files in payments, commitments, recoveries and budget transfers. The controls aim to spot the possible errors or malpractices that may impair the reliability of the accounts, if material.

The result of the checks performed is the corner stone for the certification of the accounts and the validation of the financial processes by the accounting officer. It is also the base for the signature of the Representation Management Letter that accompanies the Financial Statements and Budgetary Implementation reports addressed to the Court of Auditors. The Letter is signed by the Director for the aspects of Legality and Regularity of transactions and by the Accounting Officer for the reliability and the true and fair view of the accounts.

The controls carried out did not lead to material errors as the rate of relevant accounting observations is 0,4 % at year-end 2012.

³² (less than 60.000€);

³³ One open procedure (framework service contracts with cascade) was awarded in 2011, resulting in 2 framework contracts signed in early 2012, The second open procedure was awarded and signed in 2012, generating a single framework contract;

³⁴ According to art. 91 of the Financial Regulation and to art. 126 of the Implementing Rules

PART 2. MANAGEMENT AND INTERNAL CONTROL SYSTEMS

2.1 Introduction to the ERC Executive Agency

The ERCEA was set up by the Commission late December 2007, achieved autonomy in July 2009, and handles the operational management of the "IDEAS" Specific Framework Programme in accordance with the principles of the ERC Scientific Council. Its tasks are to ensure the management of calls for proposals, selection of proposals evaluated on the sole criteria of "excellence", grant signature and the subsequent monitoring of grant payments.

ERCEA operations are characterized by a large number (at year end, 3124) and wide range of frontier-research projects, with multi-disciplinary character and groundbreaking prospects. ERCEA grants are signed with Host Institutions which conclude a supplementary agreement with Principal Investigators, the ERC grant holders. The majority of ERCEA grants are managed by mono beneficiary Host Institutions with a public entity profile. ERCEA grants portfolio is rather concentrated as 20% of its Host Institutions represent 70% of contracted budget.

The ERCEA is entrusted to manage an annual operational budget (IDEAS) of approximately € 1.6 billion. It receives an annual subsidy from the Commission's budget to cover its running costs (administrative budget), mainly staff, IT and logistical expenditure. Also in 2012, the administrative budget remained (at 2.4%) below the targeted 5% of the operational budget delegated to the ERCEA.

2.1.1 Organisational structure and IT

2.1.1.1 Organisational structure and Human Resources

ERCEA's management structure saw its Director ad interim appointed as the Director which took effect on 1st August 2012 as well as the appointments of the Head of the Grant Management Department and the Head of Resources and Support Department who took up their functions in December 2012. Two other management recruitments were on-going at the end of December 2012 (Head of Unit Scientific Affairs and Head of Grant Implementation Unit).

In view of an effective management of a growing organisation, the Scientific Management Department has gone through a major reorganization in October 2012. A linear structure based on calls was replaced by a matrix-like structure where unit B2 is dealing with call coordination and unit B3 with support of the panels. Finally, the unit IAO (Internal Audit) was transformed into a cell directly reporting to the Director.

At the end of 2012, the ERCEA employed a total of 380 agents, representing an overall increase of 9% compared to year end 2011, and corresponding to 98% of the maximum number of staff authorised in the 2012 administrative budget and to 100% of the target set in the Annual Work Programme 2012.

During this reporting period, 69 staff members were recruited, with an average time to select³⁵ of 1.5 month, the majority of newcomers (72%) being allocated to the operational departments (Departments B and C), resulting in 70% of total staff being allocated to ERCEA operational activities, (+2% compared to 2011). The Scientific Management Department accounts for 41% (as in 2011) and the Grant Management Department accounts for 30% (+3% compared to 2011) of total staff. Contract agents accounted for 72% of ERCEA staff.

In addition, 32 interim agents (representing 9.4 FTE) worked in 2012 for ERCEA to ensure business

³⁵ Time span between decision to launch a selection procedure and establishment of shortlist of candidates

continuity in cases of long absence of ERCEA staff members or in situations of exceptional workload.

A turnover of 8.5% of average active staff in 2012 was observed, representing an increase of 2% compared to 2011. The year 2012 saw first cases of staff members going into retirement and many staff members continued to be successful in EC competitions, leaving for permanent posts as officials.

Acknowledging the important role of professional development in staff performance and motivation, ERCEA staff was offered around 100 learning and development actions organised in-house to further develop its skills and competencies. Two specific training courses were targeted at "Team Leaders". On average, ERCEA staff followed 9.4 training days in 2012 (against a target of 8 days/staff). Furthermore, an Away Day was organised at Agency level in September with more than 300 staff members participating. Participatory methods were used to encourage the exchange of ideas and foster on staff engagement. The event was evaluated with an overall satisfaction rate of 80%.

In 2012 the ERCEA Business Continuity Plan was fully implemented and ERCEA participated for the first time in the annual Commission corporate exercise on business continuity. Furthermore other tests were organised covering the Duty Officer system, and the "Telephone Cascade" mechanism, as well as of the Disaster Recovery Plan.

2.1.1.2 IT

In 2012 the ERCEA continued to build on the important achievements realized by IT in previous years designed to the long term objectives of the ERCEA's IT Strategy. The latter recognises the crucial role of IT in the organisation, aims to achieve excellence in the IT implementation and to best support the ERCEA's mission.

As a key structure in the IT governance, the IT Steering Committee (ITSC) has met on a quarterly basis and its charter has been formalised in the first months of the year. The ITSC was kept up to date by means of the IT quarterly report tabled during the meetings and took the necessary decisions regarding budget and resources allocation of the various local IT projects. The IT master plan for 2013 was approved in December 2012 by the ITSC.

Regarding information security, following the approval of the Business Impact Assessments (BIAs), work focused on the definition of security requirements and their relevance and applicability to the agency's environment. The security plan will include the assessment of information systems in terms of their compliance to such security requirements.

As part of the overall Business Continuity Plan, the now annually recurrent Disaster Recovery test of the local server infrastructure 2012 was successfully executed in December. The continuity of the key ERCEA services is thereby guaranteed.

Successful 2012 challenges were the implementation of the first ERC-Synergy Grant evaluation, which required high levels of IT service due to the complex evaluation methodology and the conversion of all front-office applications to ECAS authentication, to a degree beyond what was foreseen in the 2012 Master Plan. Furthermore, the finalisation of the ERC DQM project, originally designed to result in a local data-store for data-quality management, has been upgraded to a data-store and reporting base for proposal and evaluation data from SEP or Horizon 2020³⁶.

In addition, many other process adaptations and improvements were supported, ranking from items necessitated by the 2013 Work Programme (new scoring methodology in individual and panel review stages) to productivity improvements in the evaluation, expert management, ethics and redress processes. Furthermore, the existing applications supporting the grant management processes, i.e. ERC Grants - Monitoring and ERC Grants – Amendment, have undergone important enhancements, for example interfacing these applications with the EC Corporate financial system (i.e. ABAC) allowing significant efficiency and data quality gains.

³⁶ This data-store is also intended to feed the CORDA data warehouse for Horizon 2020.

In 2012 the agency has committed to adopt PM2 as the project management methodology of choice. A number of activities, like the Data Quality Management, and the conversion of all front – office application to ECAS authentication project have already taken place in order to enhance the IT project management skills throughout the ERCEA. The implementation of the PM2 project management methodology succeeded thanks to the combined action of various units.

ERCEA's progresses have and are being followed with interest by other DGs, as for the ERC Grants and the ERC Evaluation applications. In the spirit of the rationalisation principle, the ERCEA can leverage on its successful approach, contributing to the broader community in the coming years.

Concerning IT related key performance indicators 96.90 % of helpdesk calls were answered within specific timeline (target of 95%). No security incidents were reported at the ERCEA level. For different systems, a cumulative amount of 10 hours downtime has been experienced during office hours in 2012, the single outages remained below the maximum allowed values.

2.1.2 Working relations with key stakeholders

2.1.2.1 ERC Scientific Council

The ERCEA 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". 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 ERCEA. 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 response to relevant requests by the Scientific Council, the ERCEA continuously advised the Scientific Council in its strategic and monitoring activities by providing analysis and intellectual input. This is done by drafting various documents, including the **ERC Annual Report 2011** and the **Ideas Annual Work Programme 2013**, which reflects the Scientific Council's main orientations, considering suggestions of the Scientific Council's Board, working groups and committees and of the ERCEA. 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 latter³⁷.

In addition, the ERCEA provided advice and analysis in support to the work of the Scientific Council's **Standing Committees** established in 2009³⁸, **Board** and **Working Groups**, the latter addressing specific issues related to "Innovation and Relations with Industry", "Open Access", "Internationalisation" and "Gender Balance". Noteworthy to mention are 1) the reflections on possible actions to connect industry with Proof of Concept grantees as to speed-up the commercialisation of the results of their projects³⁹; 2) the strengthening of the policy on open access, in the belief that making research results freely available is the most effective way of ensuring that the fruits of publicly funded research will be accessed, read and used in the future⁴⁰ and 3) the launch of a "Coordination and Support Actions" call to analyse gender aspects in career structures and career paths⁴¹. Following up on the implementation of the ERC Gender Equality Plan⁴², the ERC has further raised awareness about the ERC gender policy among potential applicants and also challenged potential gender bias in the evaluation procedures. In parallel, the

³⁷ Adopted by the European Commission on 09 July 2012 (C(2012) 4562)

³⁸ One provides guidance on conflicts of interest, scientific misconduct and ethical issues and the other one deals with the selection of evaluation panellists. The two committees met twice in 2012.

³⁹ ERCEA, through the Secretariat of this WG, has also contributed to the organisation of events aimed at facilitating contacts between PoC grantees and potential investors.

⁴⁰ In July 2012, the ERC announced its intention to join in 2013 the open access repository Europe PubMed Central' (Europe PMC), to encourage grantees to make their publications openly accessible. This initiative provides free access to over 2 million full-text biomedical research articles and over 26 million citations from PubMed and other sources.

⁴¹ A one year project which will look into career paths' differences of men and women and what distinguishes the successful from the unsuccessful applicants.

⁴² http://erc.europa.eu/erc_gender_equality_plan

ERC is continuously working towards achieving gender balance in the composition of its evaluation panels. In 2012, it has been observed that the numbers of female applicants and their success rates have slightly but clearly increased⁴³ and that grantees employ on average six members, out of which 38% are women⁴⁴, which is a very encouraging sign for future better share of women in research.

Furthermore, based on the work conducted by the Committee on conflicts of interest, scientific misconduct and ethical issues (COIME) with the support of the ERCEA, in its Plenary Meeting of 4-5 October 2012, the Scientific Council adopted a strategy for identifying and addressing scientific misconduct concerning ERC applicants and projects. Also, briefings, presentations and data analysis on the ERC performance were prepared in 2012 by the ERCEA for the ERC President (38), several members of the Scientific Council (21) and the Secretary General (35) for their participation to various events worldwide.

Finally, in the course of preparation for Horizon 2020, the European Parliament voiced a proposal to insert also an ERC return grant that would encourage ERC grantees currently outside their country of origin to return to their home countries. In July 2012, a survey was launched in order to obtain some empirical indications based on ERC grantees views and experience under which conditions such a scheme should be considered feasible. The analysis of the responses was presented to the ERC Board in September 2012 and to DG RTD and provided input for the discussions with the representatives of the European Parliament.

The ERCEA 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 on-going monitoring and evaluation strategy, the Scientific Council relies on a range of project results and studies, in particular through "Coordination and Support Actions", scientific projects selected according to call for proposals rules and funded by the ERCEA operational budget.

In 2012, one of CSA projects "EURECIA" has completed its work by delivering a comprehensive synthesis report on "Understanding and Assessing the Impact and Outcomes of the ERC and its Funding Schemes". The project's findings originating from a novel conceptual and methodological framework to measure, attribute and assess the impact of outcomes of the ERC and its funding schemes revealed various impacts of ERC schemes on research topics, researchers' careers, research organisations, national research funding structures, as well as European research funding landscape⁴⁵.

Two other CSA projects, DBF (Development and Verification of a Bibliometric model for the Identification of Frontier Research) and ERACEP (Emerging Research Areas and their Coverage by ERC Projects) are working on the development of bibliometric techniques for measurement of "frontier research" and "emerging research areas" in the proposals submitted to ERC. They will provide input for validation and further development of ERC peer-review selection process. Both are close to finalisation and their results are expected early 2013.

2.1.2.2 Steering Committee

The Agency is working closely with its Steering Committee, which supervises the operations of the ERC Executive Agency, adopts the Agency's annual work programmes, administrative budget and annual reports and whose members are appointed by the Commission. The Steering Committee is composed of five members, 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 Organisation and Executive Staff, and two members of the ERC Scientific Council. The ERC Secretary General has observer status.

During 2012, the Steering Committee approved 14 decisions related to the draft administrative budget 2013, the reclassification of the Contract Agents, the engagement and use of the Contract Agents, the final accounts 2011, on the modifications to the ERCEA administrative budget 2012, the adoption of ERCEA 2011 Annual Activity Report, and the modification to the ERCEA organisation chart, following the 2012 appointments.

⁴³ Particularly in the Starting Grants competition.

⁴⁴ An analysis of the composition of a significant sample of ERC-funded teams

⁴⁵ The related synthesis report is available on ERC website: <http://erc.europa.eu/documents/understanding-and-assessing-impact-and-outcomes-erc-and-its-funding-schemes-eurecia-final>

2.1.2.3 DG Research and Innovation

The "Operational guidelines between the European Research Council Executive Agency and the Directorate-General for Research and Innovation", originally proposed by ERCEA to DG RTD on 23 August 2011⁴⁶, were agreed between RTD and ERCEA at a meeting on 4 May 2012. The guidelines set out the general principles and main responsibilities governing the DG RTD/ERCEA interactions. The Director General of DG Research and Innovation signed the document at the end of June 2012. The operational guidelines became effective with the signature of the ERCEA Director on 11 July 2012⁴⁷.

Finally, 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.

2.1.3 Major events of the reporting year

The ERC being increasingly known around the globe, International research organisations seek close ties with the ERC as exemplified by the **agreement between the ERC and the National Science Foundation** signed in July 2012. The ERC Executive Agency is currently in the process of implementing this agreement, which will allow American based researchers to work in the teams of ERC grant holders thereby enhancing the mobility of American researchers.

The **Simplification Working Group (SWG) final report**, submitted mid-October 2012 to the Director, identified some room for simplification in the validation of procedures and suggested going paperless, introducing time limits in the validation for all actors involved, as well as simplification measures for the existing validation circuit regarding technical changes⁴⁸. The SWG's recommendations were reflected in the revised "Instructions on preparation and validation of internal procedures", adopted on January 8th, 2013.

An **external evaluation of ERCEA first 3 years of operation** (i.e. 16 July 2009 – 15 July 2012) started in May 2012, as foreseen in the Council Regulation (EC) No 58/2003 of 19 December 2002 laying down the statute for executive agencies to be entrusted with certain tasks in the management of Community programmes⁴⁹. The final evaluation report will be submitted to the Steering Committee of the ERCEA, the European Parliament, the Council and the European Court of Auditors.

On 28 March 2012, the ERCEA received the visit of the **European Data Protection Supervisor (EDPS)** to discuss the state of play in relation to compliance with the requirements of Regulation (EC) 45/2001. A DPO report explaining the progress made towards achieving full compliance together with an up to date inventory and comprehensive registry were submitted by ERCEA Director's to the EDPS mid-December 2012; it reflected the completion of all Article 25 notifications to the DPO and of all Article 27 notifications, except one⁵⁰.

⁴⁶ Ares (2011) 953391

⁴⁷ Ares(2012)785785

Technical changes are changes that automatically result from amendments already adopted in the applicable legislation or other procedures (including Commission's one), as well as those resulting from implementing Commission's IT tools.

⁴⁹ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32003R0058:EN:NOT>

⁵⁰ A prior update of few procedures is required.

2.2 The functioning of the entire internal control system

In 2012, the ERCEA has continued his efforts to increase the strength of the internal control system in place. The monitoring of the internal control standards (ICS) compliance has been performed through the quarterly update of the ICS Action Plan and the Quarterly Reports, in close cooperation with the local Internal Control Correspondents (ICCs) network. At year end, the ERCEA is almost fully compliant with the ICS requirements⁵¹. Furthermore, the effectiveness assessment of the 2012 prioritised ICS was monitored based on the results of management mid-term self-assessment, the results of the risk assessment process, the quarterly monitoring of the timely implementation of audit recommendations, the monthly internal scorecard and the exceptions and non-compliance register. Finally, to substantiate the effectiveness of the overall internal control system, an assessment of all internal control standards was performed and confirmed by management, the result of which was submitted to the newly appointed (in mid-December) ERCEA Internal Control Coordinator (ICC) and Head of Resources and Support Department.

2.2.1 Effectiveness of implementation of internal control standards

As planned in its 2012 Annual Work Programme, ERCEA focused during the year on further reinforcing its internal control environment (ICS 1 & 2), as to promote the importance of risk management and the internal control system (ICS 5 and 6), to influence the control consciousness of ERCEA staff and reinforce the foundations of its internal control system. The management midterm self-assessment of prioritised 2012 Internal Control Standards (ICS 1, 2, 5 and 6), was performed in June 2012. Overall, management assessed ICS 1 (Mission statement) and 5 (Objectives and Key Performance Indicators) very effective (minor/no improvement needed), whereas ICS 2 (Ethical and organisational values) and 6 (Risk Management) were assessed as effective. Significant progress has been achieved in 2012 with regard the 2012 prioritised standards:

The Mission statement of the ERCEA has been revised and updated as to capture the essence of the ERCEA and to improve the perception of its common goals to which staff and stakeholders can refer to. This exercise, strongly supported by the Director, involved interested staff members during a workshop using participatory leadership technics, the output of which was brought to the attention of senior management as to formulate ERCEA revised mission statement, which reads: **"The European Research Council Executive Agency is dedicated to selecting and funding the excellent ideas that have not happened yet and the scientists that are dreaming them up."** The new mission statement has been communicated throughout the ERCEA via unit meetings and the intranet.

In 2012, the ERCEA contributed to the drafting of the Common Anti-Fraud Strategy for the Research family which was adopted in July. In parallel, OLAF approved a new Methodology and Guidance for DGs' Anti-fraud Strategies. Extensive preparatory work has been carried out in the second half of the year in order to align ERCEA's Fraud Prevention and Detection Strategy to these documents. In addition, several activities were conducted in 2012 in order to feed into this exercise: the identification of fraud-related risks, performed as part of the Annual Risk Management exercise 2012 (ICS 6) and reflected as appropriate in ERCEA risk register, the preparation and discussion of fraud prevention and detection indicators, some being monitored on a monthly basis. The update of the 2013-2014 Anti-fraud Action Plan will identify further actions designed to increase the effectiveness of the anti-fraud strategy.

As a follow up of the work performed in 2011 regarding the definition of Unit's objectives and key performance indicators, a dedicated brainstorming Working Group on the formulation of ERCEA's Departments objectives took place in December 2012, during a meeting of local Internal Control Correspondents (ICCs). Detailed guidance was provided on how to draw up effective Department objectives based on the Units' ones. The draft objectives were subsequently analysed and discussed with the corresponding Heads of Department. By the end of 2012, two out of three Departments had validated their objectives, while the new Head of Department D, appointed in mid-December 2012, will validate the objectives of this Department in the beginning of 2013.

⁵¹ See section 2.2.1

Several actions aiming at enhancing ERCEA's Units awareness, understanding and sense of ownership of the risk management process have been carried out in 2012, with the aim to embed risk management in the core business and daily activities of ERCEA Units. To this end, in January 2012, the ERCEA implemented its strategy to enhance the role of the local internal control correspondents (ICCs), reflecting the revised ICCs role in their job descriptions and objectives. ICCs are entrusted with an "information multiplier function", briefing staff in their respective Unit meetings on risk management and internal controls matters and implementing risk management as a regular process. Furthermore, ICCs were provided with specific training on ICS (two risk management information sessions were organised in June 2012).

During the annual risk assessment exercise, ERCEA Units contributed, supported by their respective ICCs, to the identification of the Agency risks and fraud-related risks, which are documented in the 2012 risk register. Subsequently, Management selected among those the ones that could affect the Agency in a most significant way. In addition, the bi-annual monitoring of ERCEA risk registers 2011 and 2012 has been carried out; it evidenced that the corresponding action plans were implemented as planned. Finally, in November 2012, the most significant risk related to a "lack of payment credits" was temporarily upgraded to critical and reported to DG BUDGET as cross-cutting due to the adverse negotiations the Council and European Parliament on the 2013 budget. In December, the risk was then downgraded to most significant upon the budget's approval. Enhanced and continuous budget monitoring measures are in place.

To better underpin the AAR and its declaration of assurance, the ERCEA has designed and implemented since 2011 an AAR validation process⁵² whereby, management reports to the Internal Control Coordinator and to the Director the outcome of their effectiveness' assessment of the Internal Control Standards prioritised in the AWP. This self-assessment is performed on the basis of a questionnaire, aligned to DG BUDG "Guidelines on measuring the effectiveness of the Internal Control Standards"⁵³ and using the effectiveness criteria (experience of operation of the control system- assessment of the incidents; capacity of staff to ensure internal control; and capacity of the systems and procedures to ensure internal control) recommended by DG BUDG in the "Guidelines on assessing the effectiveness of the Internal Control System"⁵⁴. In addition, management further confirms via this self-assessment questionnaire that any major event, internal control weakness, exception to processes and procedures and potential irregularity or fraud, which may have an impact on the Internal Control Coordinator's statement and/or the Declaration of Assurance, have been reported to the appropriate level of ERCEA hierarchy.

Finally, the exception of partial compliance with ICS 7 "operational structure" is reported, pending the full implementation of 3 out of 12 recommendations issued resulting from the "IT governance audit"⁵⁵. At year-end 2012, management assesses that progress made on the 3 partially implemented recommendation does provide sufficient assurance on the effectiveness of the related internal control system: IT related KPIs were implemented in 2012 and reported to the ITSC but require some further fine-tuning, a quality assurance function has been put in place, ensuring that the PM2 methodology is applied (on 3 projects in 2012) and finally the implementation of the RUP@ERCEA methodology, aligned to corporate guidelines, is pending the improvement of the notes justifying contracts renewals⁵⁶. In addition, the pending adoption of the inventory of sensitive functions, expected for the second semester of 2013 does not imply the need to grant derogation to the mandatory staff mobility requirement for sensitive functions, as at year end 2012 no staff member had seniority of more than 5 years. Based on the above, management considers that this partial compliance does not jeopardise the effectiveness of ERCEA overall internal control system.

2.2.2 Conclusion on the functioning of the of the overall internal control system

On the basis of the monitoring on the overall state of the ICS system described in part 2.2 and the information given in part 2.2.1 concerning the prioritised internal control standards and their underlying requirements, ERCEA has reasonable assurance that suitable controls are in place and working as intended, and that the control system adequately identifies and mitigates main risks

⁵² Ares (2012)99602, dated January 27th, 2012.

⁵³ http://www.cc.cec/budg/man/icrm/doc/services/guidelines/doc_081110_icseffectivenessmeasureguidelines_en.pdf

⁵⁴ http://www.cc.cec/budg/man/icrm/doc/services/guidelines/doc_081110_icsystemeffectivenessmeasureguidelines_en.pdf

⁵⁵ See section 3.1.3

⁵⁶ These recommendations are expected to be fully implemented end of first quarter 2013.

that may jeopardise the achievements of ERCEA objectives.

Further enhancing the effectiveness of ERCEA's control arrangements in place is an on-going effort in line with the principle of continuous improvement of management procedures. To this end, the ERCEA's management will focus in 2013 on the revision of the ERCEA's Anti-Fraud Strategy and the clarification of ERCEA values (ICS2), the establishment of an inventory of sensitive functions (ICS7) and raising awareness on the reporting of internal weaknesses (ICS12).

2.3 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 information when giving a key note speech at the ERC 5th year anniversary event (February 2012), when meeting government officials (Israel in June 2012) or when meeting ERC grantees in Ireland (November 2012). Moreover, the Commissioner's Cabinet led by John Bell came to the ERC on 12th June 2012. The purpose of the visit was to understand better the impact of the ERC and in particular the benefits of the newly introduced top up funding instrument, the Proof of Concept. A testimonial was provided by AdG holder PoC grant holder Prof. Mike Jetten (NL). 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

ERCEA Declaration of assurance covers its operational and administrative budgets.

ERCEA Declaration of Assurance is based on a control strategy which builds 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. It is further underpinned by the results of its yearly management risk assessment and the effective implementation of related action plans, 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 the respective audit opinions and recommendations on the state of controls received from its Internal Audit Office, the IAS and the ECA.

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 € 18 million⁵⁷, the latter representing 5% of 2012 interim payments. Similarly, a materiality threshold of 2% is applied for the administrative budget, representing 0,724 million.

3.1.1 Building block 1: Assessment by management

3.1.1.1 Legality and regularity of Operational budget's underlying transactions

The below table provides an indication of the relative weight of each payment type:

	FP7 - Ideas Operational expenditure (€) ⁵⁸			
	Pre-financing	Payments against cost statements	Experts payments	Total
2012	559.817.224,60	358.336.289,55	7.847.407,97	926.000.922,12
2009-2012	1.630.588.604,16	707.629.822,66	20.626.474,33	2.358.844.901,15

The implementation of the Ideas Programme is organised along 4 distinct phases, with specific control mechanisms in place.

⁵⁷ Representing 2% of the 2012 payments executed.

⁵⁸ The amounts presented in this table include all fund sources

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 scientific monitoring of grants.

The legality and regularity of transactions related to the scientific management process is underpinned by the following 2012 results of related key controls:

All submitted proposals undergo a systematic IT based **screening for eligibility**, further complemented when required by an in depth eligibility review carried out by the Eligibility Committee set-up by the Agency. The 2012 results of ineligible proposals are presented in the table below demonstrating the controls' effectiveness:

	Call	Target	31.12.2012
Ineligible proposals (not withdrawn)	StG	1,30%	1,18%
	AdG	1,20%	1,30%
	PoC-1	2,80%	20%
	PoC-2	2,80%	11%
	SyG	5%	1,13%

Screening and ethics review of retained proposals aiming to ensure compliance with ethical principles and relevant legislation was carried out without significant issues: only three proposals (StG11 and AdG11) involving research on Human Embryonic Stem Cells were cleared following ethics review and regulatory comitology executed by DG RTD. Another three proposals (StG12) involving research on Human Embryonic Stem Cells underwent Ethics Review by DG RTD and their dossiers are being prepared for comitology.

As regards **the monitoring of ethics aspects in running grants**, the internal control system has been reinforced by a procedure which was drafted, adopted and is implemented in collaboration between the scientific and granting departments. At present, 757 projects are listed as requiring ethics monitoring during their life-time and 232 Ethics Monitoring Clearance Notes were produced in 2012.

In addition, an **ethics audit** carried out by DG R&I detected a grant, from call ERC-2007-StG, in which neither the ERC nor the Host Institution had been informed by the principal investigator of personal data-protection aspects of the research. Due action was taken in collaboration with the Host Institution allowing to ensure compliance with ERC ethical principles and rules.

In 2012, 4 **exceptions** and two **non-compliance events** concerning independent experts were reported, as well as one non-compliance event concerning an AdG2012 Call proposal. The combination of these exceptions to and non-compliance with established procedures has no reputational and a very limited financial (estimated €1500) impact.

As shown in the table on **redress 1** below, the total number of redress cases decreased from 237 (including 6 received in 2012) to 204 (- 13.9%), despite the fact that in 2012 the total number of grant proposals received significantly increased by 21.24 % (from 6515 in 2011 to 7899). This number indicates a positive trend of redress cases due to the continuous improvement of working methods and compliance with procedures. As a result, the number of redress cases leading to a re-evaluation dropped from 30 in 2011 to 1 in 2012, the outcome of the latter being not successful for the Principal Investigator. The main reason of this reduction was the fact that in 2011 one panel attributed 1.99 marks to some proposals, leading to an increase of redress cases for this specific call. This situation was corrected in 2012 by advising the panel members mark the proposals with rounds numbers (1.5 or 2).

Regarding the 2012 Proof of Concept call, it should be noted that the high ineligibility rate observed (for the 2 deadlines, respectively 20% and 11%) in 2012 did not translate into a high number of the redress requests at year end 2012. In fact, 2011 figures are comparable to last year's ones: in

2011 for 151 proposals, 6 redress cases were introduced whilst in 2012 for 152 proposals 5 redress cases were received.

Total number of grant proposals received (eligible and non-eligible)	7899
Number of redress requests received	204
Redress requests % of the proposals received	2.58%
Number of redress requests treated	204
Number of redress requests pending	5
Number of redress cases which led to re-evaluation	1
Redress cases which led to re-evaluation (% of proposals received)	0.012%
Number of re-evaluations being successful	0
Number of re-evaluations pending	0

The controls of the scientific management processes in place are thus, effective since so far no major inconsistency or errors have been observed and they provide sufficient guarantees to underpin the Declaration of Assurance.

Stage two: Grant preparation and signature

In addition to the Internal Control and Management Control Systems in place for the entire FP7, 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 FP7. 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 capacities⁵⁹.

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 2012, 130 financial viability checks were performed concerning 73 beneficiaries, none of which resulted in an exclusion from the granting process. One Host Institution obtained a weak financial viability result and was flagged for an ex post audit.

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, in particular 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. Amongst the Grant Agreements signed in 2012, 65 showed a change of Host Institution during the Grant preparation and signature phase, and the award decision was consequently amended and approved by the ERCEA Director.

During the grant preparation, 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. In 2012, four beneficiaries were flagged in the EWS, but not at a level deemed to suspend commitments.

The controls of the grant preparation and signature process put in place are proven effective as so

⁵⁹ Commission Decision C(2007)/2466 – 13/06/2007

far no major inconsistency or errors have been observed. They provide sufficient guarantees to support the Declaration of Assurance.

Stage three: Grant implementation

Key Controls are in place to ensure sound financial management of the grant implementation from pre-financing, subsequent interim payments through the life time of the projects, to the final payment, follow-up of ex-post control audits and the implementation of audit results including extrapolation cases. The controls performed under this stage are carried out at the level of each operation and are described in more detail as follows:

For pre-financing payments a systematic verification is performed 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 and approval of the Financial Report (FR), which provides an explanation of the use of financial resources in comparison with the Description of Work with a detailed budget breakdown, a declaration submitted by Host Institutions in cooperation with Principal Investigators, including a monitoring of ethical issues. In addition and depending on the amount claimed for reimbursement, a Certificate on Financial Statement⁶⁰ (i.e. for expenditure above € 375,000), established by independent qualified auditors is included in the FR and assessed in line with applicable guidelines. In 2012, the volume of the Certificates on Financial Statements submitted reached 383 out of 1.021 payments validated, representing €193, 0 Mio of costs claimed. Only 21 Certificates identified ineligible costs of € 0,152 Mio representing 0,08% of cost claimed for projects where a CFS was submitted.

For each type of payment (interim or final) a different approval circuit is followed in order to involve the appropriate expertise in-house (financial/scientific) and consequently different level of controls are applied (e.g. the authorisation of interim payment and the final payments is done at the level of Head of Department). In order to ensure that key controls are effectively functioning all transactions above € 500.000 are systematically checked by the Head of Unit. 205 interim payments representing 20,1% have been authorised by the Head of Unit.

Moreover, in 2012 the Agency took part in DG RTD Communication Campaign - "How to avoid Financial Errors in FP7". The aim to reduce errors in FP7 cost claims is addressed to beneficiaries and auditors issuing the Certificate on Financial Statements, both responsible respectively for the generation of and part of the ex-ante control of the cost claims before submission to the European Commission services and Executive Agencies. National Contact Points organise events in their countries and invite members of the Research family DGs and Agencies. In 2012, ERCEA participated in 4 events (Austria, Germany, Switzerland (chairing) and Finland (chairing)). In the framework of the 2012 campaign more than 1300 participants (both beneficiaries and CFS auditors) benefited from the event and an estimated another 500 followed it online. The feedback received was positive and the level of satisfaction ranked high.

Since 2009, 15 outreach events (including 3 in 2012) have taken place. These events are designed to raise the awareness of financial administrators managing ERC projects within the beneficiary Host Institutions. To date, 328 Host Institutions from key beneficiary countries, having cumulatively contracted more than 84% of the Agency's committed budget, have been represented in these events. The workshops aim to provide hands-on guidance and training on grant preparation, financial management and ex-post audits. The presentations in each of these areas focus on "How to Get Things Right" by providing guidance in the form of best practise examples and typology of errors found. All events to date have received very positive feedback and the added-value for both the participants and the Agency is clearly demonstrated.

Another control in place is the extrapolation of audit results. More specifically, if the results of an audit show material systematic errors, these are then extrapolated to non-audited participations across the whole FP, as defined in the FP7 ex-post audit strategy. The Agency is currently affected by 22 extrapolation cases with a total of 69 Grant Agreements. The Agency is responsible for initiating/coordinating 3 of these cases. Out of these 22 extrapolation cases, for 10 cases the

⁶⁰ 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.

Agency is waiting the official reaction of the Host Institutions. The remaining 12 cases, for a total amount of 31 Grants Agreement, have been satisfactorily dealt: for 24 Grant Agreements no adjustment had been necessary; out of the remaining 7 Grants Agreements, the necessary corrections have been implemented through recovery order or compensation in the next reporting period for 6 Grants.

The ERCEA applies as all other research family DGs 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. 10 recovery orders were issued and cashed due to liquidated damages. In addition, as a result of ex post control audits 23 recovery orders were issued in 2012⁶¹.

Resulting from the EWS screening, only 3 interim payments were subject to a close monitoring: 1 interim payment was marked with an EWS (type NW5a2a⁶²), affecting only the 2nd beneficiary. Two more interim payments with a W2warning⁶³ have been executed in 2012. All payments with a EWS are passing through another level of control that may involve cross-checking against other related to these beneficiaries' projects (and their audit reports if applicable) or contacting other entities that have projects with these beneficiaries and of course requesting additional information of the costs claimed. So, according to the EW indication several additional controls are applied that may vary based of the each case.

As a result of the scientific follow up performed by the scientific department, pending payments are subject to a confirmation related to the scientific progress of the project. In 2012, 36, 1% of the interim payments and all 17 final payments were subject to such confirmation. All payments were executed since the scientific feedback in the intermediate or final report was at least acceptable if not good or excellent. No files have been sent to OLAF for further investigation.

In 2012, based on an ex post control audit report, one non-compliance event has been filed, concerning the erroneous qualification of expenditures for research team members and the non-compliance with the rule that the Principal Investigator has to be hosted and engaged by the principal beneficiary, relationship that should have been enshrined in the Supplementary Agreement. Indeed, the core research team, including the Principal Investigator although not located, nor engaged by the Host Institution, worked remotely under a civil law contract, close in nature to subcontracting. Nevertheless, related costs were mistakenly encoded under personnel costs, breaching the rules of the IDEAS Work Programme 2007. In addition to this non-compliance event, a request for authorisation of an exception concerning the acceptance of the subcontracting costs was approved by the Director.

Finally, ERCEA also enforced both protective and control measures to avoid such cases in the future, as well as reparatory legal and financial measures in the on-going project were put in place. The indirect costs unduly paid have been recovered and the legal arrangements corrected.

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 (ex-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.

⁶¹ As shown under section 1.2.4.

⁶² An EWS level of NW5a2a implied a bankruptcy of one beneficiary, therefore the payment has been released with a motivated note from the ERCEA Director to the EC Accounting Officer in order to release the payment for the 2nd beneficiary.

⁶³ An EWS level of W2 implies findings of serious administrative errors/fraud. A motivated note has to be sent by the AOD to the EC Accounting Officer in order to release the payment.

The controls put in place have led to the rejection of costs on the level of invoices validation⁶⁴ as shown in the table below:

	Number of Invoices	Amount	% of ineligible costs on total paid amount
Total declared cost	1053	407.912.439,24	N/A
Of which Ineligible costs declared ⁶⁵	129	1.613.605,88	0,4%

In addition to the above controls the new IT tool (CPAY) that is managing this stage of activity is providing extra controls in line with the established checklists in each type of transaction. Furthermore, the application is synchronised with ABAC workflow and thus it is providing a reliable database, out of which comparable and monitoring reports of the outcome of this stage's activities are drawn through the year. The application is intended to further develop extra controls in order to assure an even higher quality of operations.

The results of the controls in place at this stage show that a) at the level of beneficiaries and since they are mainly public bodies the cases of fraud and irregularity are minor (3 EWS cases and 1 exception reporting), b) at the level of payments validated this year, the limited rejection of costs (during ex-ante controls) coming from the financial officers after evaluation of the financial reports received from the Host Institutions (€ 0.28 Mio out of Mio 358,3 which corresponds to 0.08%) is an indication that rules are generally followed by the beneficiaries but when that it is not the case errors are identified by the control mechanisms. This also shows that the level of in-house expertise reached a satisfactory "know-how" on sound financial management.

The controls of the grant implementation processes in place are thus, effective since so far no major inconsistency or errors have been observed and they provide sufficient guarantees to underpin the Declaration of Assurance.

Stage four: Ex post controls

As of 2012⁶⁶, the ERCEA ex post control strategy is based on two main strands:

- FP7 Common Representative Audit Sample (CRaS) of all Research family DGs/Executive Agencies;
- ERCEA specific ex post control approach: "Corrective strand", audits on ERC beneficiaries' financial statements (conducted on the spot by the Agency's own staff, outsourced to audit firms and in some cases jointly with the European Court of Auditors).

FP7 Common Representative Audit Sample

In the first years of the FP7 campaign, each research Commission service took and audited their own audit samples and their results were the basis for error rate reporting until the end of 2011. This changed with the adoption of the Common representative Audit sample (CRaS) by the Commission's ABM Steering Committee in 2012. Whilst the sampling and co-ordination of results is done under the control of DG R&I, related audits are performed by the various FP7 managing bodies, including the ERCEA

As the result of this change, the planned number of total audits has been reduced by 1291 audits for the Research family. As well as giving a harmonised picture across the services, this has allowed the services to avoid repeat visits to the same beneficiary, meaning a significant reduction in the audit burden, especially for large beneficiaries. The FP 7 Common Representative Error Rate

⁶⁴ This table provides the ineligible costs based on all invoices that have been validated during 2012 in order to be in line with the information provided in ANNEX III. Therefore no link with the actual payments' validation should be made.

⁶⁵ Ineligible costs include rejections by project officers and by CFS as well to minor extent corrections. Only costs claims for grants are taken into consideration. In addition there was one cost claim for expert payment with ineligible costs of € 208,54.

⁶⁶ It should be noted that error rates in AAR 2011 were calculated on a different basis (see AAR of ERCEA 2011, p. 35-38).

drawn at the level of the FP7 programme for all financial statements submitted until 31/10/2011 included 5 ERC financial statements out of 162 sample items. As part of the research family, the ERCEA reports in its AAR on the two official FP7 error rates: on one hand, the **FP7 Common Representative Error Rate** is the sum of all negative detected error rates of closed representative audited financial statements, divided by the number of closed representative audited financial statements. The related error rate as of 31/12/2012 is 3,97% (106 financial statements out of 162 are closed)⁶⁷. This representative error rate is in a similar range than the one referred to in the Financial Statement accompanying the Horizon 2020 proposals (around 5%). On the other hand, the **FP 7 Residual error rate, specific to each DG/EA**, is calculated on the basis of the CRaS error rate and it is defined as the level of errors which remain undetected and uncorrected at the end of the FP7⁶⁸. It amounts on 31/12/2012 to **3,85%**.

ERCEA specific ex post control approach: "Corrective strand"

The FP 7 Common Representative Error Rate is designed to give assurance at the level of the FP7. In line with the Common FP7 Audit strategy, the ERCEA implements its own ex post controls to provide assurance to the Authorising Officer on the ERC specific population. These ex post controls, called the 'corrective strand' in line with the Common FP7 Audit strategy, are partly based on statistical sampling, partly on risk based sampling.

Before the adoption of FP 7 Common Representative Error Rate, ERCEA had started to produce its own representative error rate on the basis of a specific ERCEA sample. These audits were selected firstly on the basis of a statistical sampling method (Monetary Unit Sampling). These are classified as "representative audits", and result in a representative error rate. This sample based on MUS continues to be audited by the ERCEA in co-ordination with the other Research family DGs and bodies.

Secondly, ex post control audits are selected on the basis of a risk analysis (so called "risk based audits"), resulting in a risk based error rate. This sampling considers the following criteria: Top 100 beneficiaries (representing around 70% of the contracted budget so far) and beneficiaries with a higher risk profile⁶⁹, considering 2 categories of parameters:

- Parameters targeting the financial management of the Host Institutions (for instance: public body or not, financial viability check, corruption indices of the Host Institution's country ...)
- Parameters measuring their management of EU grants (e.g: significant previous audit findings, participation in other EU programmes).

Below table shows ERCEA use of resources on implementing the ex-post control strategy (input indicator)

	2012	2011
Internal resources- own resources audits	7 FTE	7 FTE
Cost of outsourced audits (€)	€ 452.500 (31 audits)	€ 653.700 (46 audits)

Execution of the ex-post control strategy (output indicator)

AUDIT PROGRAMME 2012			
Status	By own resources	By framework contractor	Total
Audits foreseen acc.to AWP 2012	30	32	62
Planned [Identified] (officially assigned to contractor or in-house)	6	0	6
On-going [Launched in 2012]	17	22	39

⁶⁷ The error rate as of 01/02/2013 is 4,18%, resulting from 136 financial statements out of 162 sampled.

⁶⁸ The formula and explanations are available in the "FP7 Ex-post Audit Strategy 2009-2016"

⁶⁹ Note that the 5 CRaS financial statements are excluded from the risk based audits of ERC.

(Letter of Announcement sent)			
On-going [Launched in previous years]	5	4	9
TOTAL On-going as of end of 2012	22	26	48 (139)⁷⁰
Closed in 2012 from audits launched in 2012 (Letter of Conclusion sent)	10	9	19
Closed in 2012 from audits launched in previous years	15	36	51
TOTAL Closed in 2012	27	43	70
TOTAL Closed in previous years (2009-2012)	58	62	120

The cumulative, since 2009, ex post control coverage is 9.13%⁷¹.

Results of the ex-post control strategy

Financial Statements audited				
	2012		2009-2012	
	Amount in €	Number	Amount in €	Number
Total cost accepted by Financial officers (€) on audited FS – Audited amount	€ 54.751.823	157	€ 78.143.116	244
- thereof ERCEA specific sample – Corrective strand	€ 52.501.349	152	€ 75.892.642	239
- thereof Common Representative sample	€ 2.250.474	5	€ 2.250.474	5
Total adjustments in favour of the ERCEA (€, only negative)	€ 1.010.135	43	€ 1.458.174	86
- ERCEA specific sample – Corrective strand	€ 977.852	41	€ 1.425.891	84
- Common Representative sample	€ 32.283	2	€ 32.283	2
ERCEA Specific Error rate / Corrective strand Error rate⁷² (%)	2,42%	152	2,24%	239
- MUS sample	n/a	n/a	1,53%	79
- Risk based sample (without MUS)	n/a	n/a	2,58%	160
FP 7 Common Representative audit Sample Error rate (%)				
FP 7 CRAS error rate	n/a		3,97%	136
FP 7 Estimated residual error rate	n/a	n/a	3,85%	n/a

⁷⁰ 48 on-going audits as of 31 December 2012, containing 139 financial statements.

⁷¹ Closed audited amount out of the total submitted amount (78.143.116€/855.893.359€)

⁷² Sum of all corrective detected error rate (only negative) divided by the total number of corrective audited financial statements.

Based on the ERCEA specific sample – corrective strand, **ERCEA specific error rate** is defined as the sum of all negative detected error rates of closed corrective audited financial statements divided by the number of closed corrective audited financial statements. As of 31/12/2012, the cumulative ERCEA specific error rate for the period 2009-2012 is **2,24%** (239 financial statements are closed).

This ERCEA specific error rate includes a high number of audit results from the MUS sample (79 closed out of the 162 items sampled), but is not yet fully statistically representative to draw the final conclusion, nevertheless it is reasonable to expect that the final residual error based on ERCEA MUS sampling would stay below the 2% materiality threshold. The ERCEA specific error rate also includes the result of the risk-based audits, with an error rate of 2, 58%, showing that projects with higher risks are effectively detected.

The most common errors are usually found in personnel costs, namely incorrect methodology used to calculate hourly rate and incorrect productive or reported ERC hours. More generally, we can underline errors such as lack of supporting documents (invoices, timesheets...), costs claimed outside of the eligibility period, VAT included, costs not relevant to the project and non-compliance with EU public procurement principles.

ERCEA specific error rate is lower than the FP7 Common Representative Error Rate. This confirms the lower inherent risk profile of ERC grants, as compared to the rest of the FP7. This is due to some specificity in the IDEAS programme that cannot be captured in the FP 7 Common Representative Error Rate. These include ERC grants being mono-beneficiary, beneficiaries being mostly large research institutes with well-established internal controls on financial reporting (e.g. no SMEs, few newcomers to the programme, public bodies), and simplification inherent in the programme design (e.g. flat-rate overheads) as well as reinforced ex-ante controls. Moreover, an analysis of 10 most recurring errors identified for mainstream FP7 spending demonstrates that many of them have no relevance to the ERC grants which are subject to different financing modalities (e.g. use of flat rate of 20% for indirect costs, which contribute to 31,7% of errors found in FP7. In addition, the analysis on FP7 errors by beneficiaries shows that cost statements from SMEs and newcomers are more cost prone with an error rate more than double as other category of beneficiaries, which are limited in the ERCEA population.

In addition, further assurance is built based on the following elements:

- Low percentage of systematic errors detected :
As of 31/12/2012, 8 systematic errors were detected in the cumulative 244 closed audited financial statements;
- Low percentage of ERC beneficiaries with very high error rates;
- Verification of expenditure through the Certificate of Financial Statements (CFS) for 90% of interim and final payments;
- Reinforced ex-ante controls.

Consequently, based on the information reported under this building block, which covers key ex ante and ex post control results, management concludes that the implementation of ERCEA control strategy⁷³ provides sufficient evidence to substantiate an unqualified assurance on the operational budget.

3.1.1.2 Legality and regularity of Administrative budget's underlying transactions

All financial transactions on the administrative budget go through an ex-ante check, done by one of the two experienced financial verifying agents, all detected errors being corrected. A single transaction can be checked several times: at the creation, modification, de-commitment stages. A "transaction" being understood as a workflow, the total number of "transactions" is bigger than the simple addition of all payments, commitments and recovery orders.

2012 ex-ante rejected transactions were reported in a dedicated follow-up table and all being subsequently corrected: out of 2.308 payment transactions verified, 91 were rejected (3.9%),

⁷³ As described in the introduction to section 3.1.

representing 2.3% of the budget and out of 374 commitment transactions verified, 30 were rejected (8%), representing 2.1% of the budget. In addition, at the financial verification level, four transactions were detected as requiring a “non-compliance event report”.

Finally, 2012 late payments were further reduced compared to 2011 in number (from 52 to 24) and in percentage of payments (from 2.2% to 0.9%), below the 2012 target of maximum 3%. This results from the continuous effort in following-up all received invoices and requesting explanations when the delay is due on invoices not registered on time by operational units.

As regards procurement, the files initiated in 2012 by operational and horizontal units, representing more or less 380 "transactions",⁷⁴ were all verified by the ERCEA procurement cell which gives ex-ante VISA for the main transactions related to public procurement procedures in order to provide the necessary guarantees regarding their legality and regularity. Although 98 errors⁷⁵) were identified during the ex-ante checks (), all were corrected during the ex-ante verification phase. In order to avoid the recurrence of such errors, corrective actions have been implemented, including the close cooperation with and assistance provided to operational and horizontal units for the preparation of the tender documents, the provision of legal and financial advice in the preparation of tender specifications and the organization of a half day training dedicated to "procurement in practice: the «negotiated procedure”.

Based on the above control results covering the legality and regularity of underlying transactions, fraud prevention and detection, and reliability of financial and management information, we conclude that controls were effective in 2012 and provide sufficient guarantees to underpin the Declaration of assurance.

3.1.1.3 Results from implementation of the Fraud prevention and detection strategy

The 2011/2012 ERCEA Fraud prevention and detection Action Plan covered fourteen actions out of which three were completed in 2012, in particular, the setting up of an IT tool for copy detection during the approval of scientific reports and the access and use of the Daisy/Charon database for uncovering of EU double-funding. At year end, four other actions were still pending⁷⁶ and will be transferred to the new 2013/2014 Action Plan which was prepared for its approval at the beginning of 2013 along with the updated ERCEA Anti-fraud Strategy. This Strategy is currently under revision in order to align it to OLAF new guidelines and the recently adopted Research family anti-fraud Strategy. Extensive preparatory work has been carried out in 2012⁷⁷.

Various reporting mechanisms of potential fraud and irregularities are in place and do effectively allow detecting instances of misconduct: two cases of plagiarism were detected during the evaluation stage and OLAF was informed; the corresponding proposals were withdrawn by the Host Institutions. Also, ERCEA was informed (via OLAF and via the ERC webpage) of 2 further cases of alleged scientific misconduct concerning running grants and is currently closely following them up.

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

The **European Court of Auditors** performed an audit on the ERCEA 2011 accounts in February 2012. The final report of the Court of Auditors from November 2012 certified the accounts with two remarks related to the e-stream project (capitalisation of assets) and management positions held “ad interim” by more than a year. Following the Court’s report the accounts now correctly reflect the decapitalisation of the e-stream project following the Management’s decision to discontinue the project. Further, Pablo Amor was successfully appointed Director of the ERC Executive Agency, effective on August 1st 2012, the position he had held “ad interim” since January 2011. As per 31/12/2012, all three posts of Heads of Departments are filled. Two selection procedures are on-going for Heads of Units positions, which are expected to be filled in the first quarter of 2013.

⁷⁴ Similarly to the administrative accounting files, a procurement file or workflow may entail several transactions

⁷⁵ Such as erroneous templates used, missing supporting documents, errors in contracts and annexes not in line with tender specifications...

⁷⁶ The remaining seven actions were already completed in 2011.

⁷⁷ See section 2.2.1, ICS 2

IAO issued a final **audit report on the evaluation of proposals** in March 2012 in response to which the ERCEA services prepared an action plan agreed in May 2012. As per 31/12/2012, the ERCEA Management considers eleven out of twelve audit recommendations completed. The one very important audit recommendation that is partially outstanding is related to the monitoring of experts performance. ERCEA services have prepared a draft procedure, which is under review by the ERC Scientific Council. This will be followed by a notification to the EDPS as a result of which the new deadline is June 2013.

IAO issued an audit report on the **assurance process** in February 2012 in response to which the ERCEA services prepared an action plan agreed in May 2012. The IAO conducted a **follow-up audit** during the third quarter of 2012 and concluded in November that seven out of ten audit recommendations have been adequately and effectively implemented and are thus considered closed with three audit recommendations rated "important" still outstanding. As per 31/12/2012 the ERCEA Management considers nine out of ten audit recommendations completed. The audit recommendation that is outstanding relates to the supervision exercise rated "important", and which requires an update of the supervision strategy 2011-2012, the latter being postponed to 30/06/2013. To note that the management scorecard, a monitoring tool which allows to effectively supervising ERCEA operations progress towards targets, is well established inside the Agency since April 2012.

IAO announced an audit on **business continuity planning** in April 2012, which started in June 2012. Following the preliminary survey phase of the audit, IAO postponed the fieldwork and issued a Management letter on 25th October highlighting the issues for consideration. The audit is expected to resume by mid-2013.

IAO issued an audit report on **communications** in October 2012 in response to which the ERCEA services prepared an action agreed in December 2012. IAO made ten audit recommendations out of which three are rated "very important", concerning the external communication strategy, the sound financial management of contract management for external communication and the stricter compliance with financial rules.

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

In 2012 IAO conducted a **follow-up audit** on its **ethical review management audit** concluding in May 2012 that four of the seven audit recommendations have been fully implemented and are therefore considered closed. Out of the remaining three audit recommendations considered partially implemented, one audit recommendations rated "very important" is related to the proper filing of ethical review process documents. As per 31/12/2012, ERCEA management considers all actions in response to the audit recommendations as completed.

In 2012 IAO conducted a follow-up audit on its **grant management audit**. IAO concluded in July 2012 that three audit recommendations out of the 25 issued remain partially implemented, including one audit recommendation rated "very important" relating to IT project management/ Management of local IT applications. As per 31/12/2012 the ERCEA management considers all actions in response to the audit recommendations as completed.

In 2012 IAO conducted a follow-up audit on its 2011 **IT governance audit**, which resulted in a negative opinion due to the issuance of 9 very important recommendations. In its note to the Director in December 2012, IAO concluded that nine of the 12 recommendations issued have been adequately and effectively implemented and are considered closed. IAO identified three recommendations rated "very important" that are still pending full implementation. Those three are related to the IT risk management process, IT project management and IT project methodology.⁷⁸

In 2012 IAO conducted a follow-up on its 2011 **administrative budget audit**. In its note to the Director on 15 October 2012, IAO concludes that eight of the nine recommendations issued have been fully implemented including all those rated very important. Furthermore, in its note of February 20th, 2013, the IAO assessed the last outstanding recommendation as closed.

⁷⁸ Progress towards full implementation is described in section 2.2.1.

It should be added that in December 2012 IAO announced that it would conduct a **follow-up audit on all pending audit recommendations** resulting from the following audits: grant management, assurance, ethical review management and on the administrative budget. This audit started in January 2013.

In January 2012, IAS concluded in their follow-up audit on the 2010 **audit on the set-up of Internal Controls and Financial management systems-design** that recommendations resulting from the original audit were adequately and effectively implemented, except for the important recommendation related to the improvement of the working relationships between ERCEA and DG RTD. In July 2012, the "Operational guidelines between the ERCEA and DG RTD" were signed by the Director General of DG RTD and the Director of the ERC Executive Agency replacing the Memorandum of Understanding signed in 2009. All IAS audit recommendations are therefore considered completed by ERCEA management.

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

Not applicable.

3.1.5 Completeness and reliability of the information reported in the building blocks and conclusion on overall assurance

The information reported in the building blocks concerns both the administrative and operational budgets managed by the ERCEA in 2012 and covers all statements of the Declaration of Assurance. The report has been prepared with the objective of providing the reader with the reliable, complete and correct information on ERCEA state of affairs for the reported period and does not knowingly contain any material inaccuracy or omit any significant information.

Management's assessment (building block 1) supports the Declaration of Assurance by providing the results of key indicators on the use of resources for the intended purpose (based on the budget execution⁷⁹), on the sound financial management (time to evaluation decision, time to grant, time to pay...⁸⁰) and on the legality and regularity of the underlying transactions (amongst which, ethical clearance, redress 1, financial viability check, rejections of costs, ex post controls...⁸¹). The information reported under building blocks 2 and 3 does not result in any major issues meriting a reservation. Since its autonomy, the ERCEA has been subject to the scrutiny of various auditors (IAO, IAS, ECA...). Although these highlighted a number of very important recommendations, they contributed to the improvement of ERCEA internal control system, thanks to management's commitment to implement related action plans.

Based on the information reflected above, the ERCEA has sufficient evidence as to underpin its reasonable assurance.

3.2 Reservations

None.

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

Not applicable.

⁷⁹ See Part 1.2.2 and 1.3.

⁸⁰ See Part 1.1, and 1.2.3.

⁸¹ See Part 3.1.1.

PART 4. DECLARATION OF ASSURANCE

"I, the undersigned,

Director 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 view⁸².

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

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

Confirm that I am not aware of anything not reported here which could harm the interests of the European Research Council Executive Agency."

Brussels, date 18-MARCH-2013



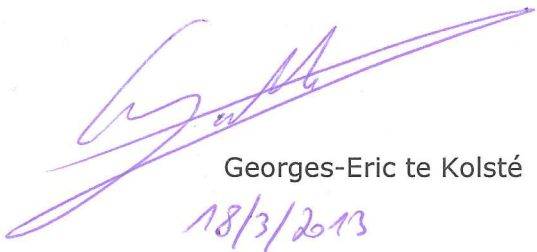
Pablo Amor

⁸² *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 Commission⁸³, 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.



Georges-Eric te Kolsté
18/3/2013

Head of Department Resources and Support

Internal Control Coordinator

⁸³ SEC (2003)59 of 21.01.2003.

ANNEX 2 : HUMAN AND FINANCIAL RESOURCES BY ABB ACTIVITY

2.1 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	96	284	380

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

Budget line	Budget line description	APPROPRIATIONS 2012 (C1)			APPROPRIATIONS carried forward (C8)	
		Available appropriations 2012	Commitments 2012	Payments 2012	Amount of appropriations carried forward from 2011	% implementation on appropriations carried forward from 2011
Title 1	Staff expenditure	23.987.033,00	23.913.769,85	23.668.243,17	153.620,22	93,81%
Title 2	Infrastructure and operating expenditure	14.712.967,00	14.498.126,68	12.532.353,70	1.902.364,14	91,05%
	TOTAL	38.700.000,00	38.411.896,53	36.200.596,87	2.055.984,36	91,26%

ANNEX 3 : DRAFT ANNUAL ACCOUNTS AND FINANCIAL REPORTS (TO BE SUBMITTED LATER)

Annex 3 Financial Reports - DG ERC - Financial Year 2012

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

TABLE 1: OUTTURN ON COMMITMENT APPROPRIATIONS IN 2012 (in Mio €)					
			Commitment appropriations authorised	Commitments made	%
			1	2	3=2/1
Title 08 Research					
08	08 10	Ideas	1.610,17	1.609,66	99,97 %
	08 22	Completion of previous framework programmes and other activities	49,95	49,95	100,00 %
Total Title 08			1.660,11	1.659,60	99,97%
Total DG ERC			1.660,11	1.659,60	99,97 %

* 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).

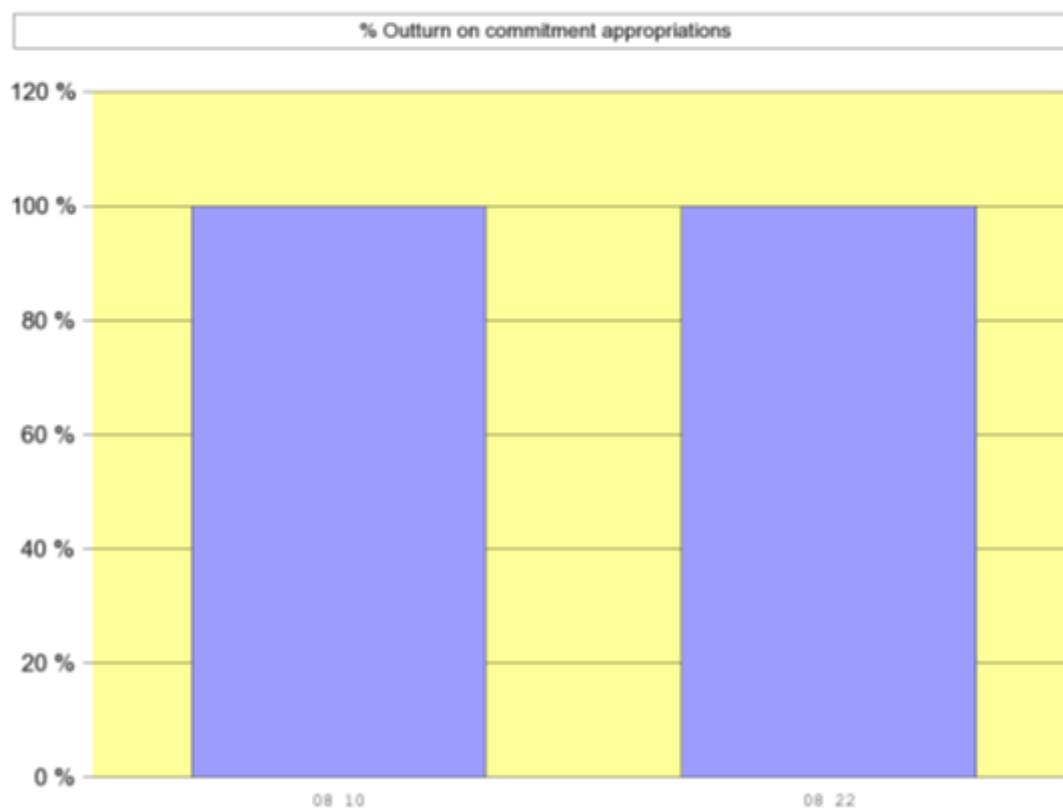


TABLE 2: OUTTURN ON PAYMENT APPROPRIATIONS IN 2012 (in Mio €)					
Chapter			Payment appropriations authorised *	Payments made	%
			1	2	3=2/1
Title 08 Research					
08	08 10	Ideas	873,88	873,64	99,97 %
	08 22	Completion of previous framework programmes and other activities	216,21	52,37	24,22 %
Total Title 08			1.090,09	926,00	84,95%
Total DG ERC			1.090,09	926,00	84,95 %

* 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).

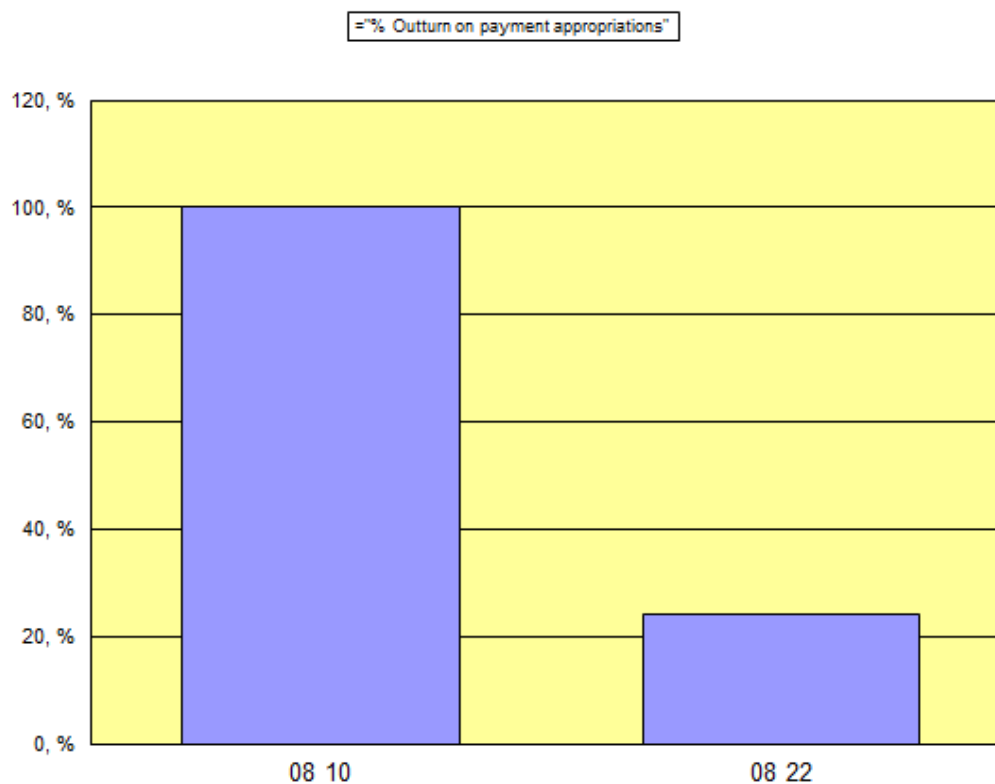


TABLE 3 : BREAKDOWN OF COMMITMENTS TO BE SETTLED AT 31/12/2012 (in Mio €)									
Chapter			2012 Commitments to be settled				Commitments to be settled from financial years previous to 2012	Total of commitments to be settled at end of financial year 2012 (incl. corrections)	Total of commitments to be settled at end of financial year 2011 (incl. corrections)
			Commitments 2012	Payments 2012	RAL 2012	% to be settled			
			1	2	3=1-2	4=1-2/1	5	6=3+5	7
Title 08 : Research									
08	08 10	Ideas	1.609,66	228,62	1.381,04	85,80 %	1.683,84	3.064,88	2.330,55
	08 22	Completion of previous framework programmes and other activities	49,95	26,62	23,32	46,70 %	140,52	163,84	171,32
Total Title 08			1.659,60	255,24	1.404,36	84,62%	1.824,36	3.228,73	2.501,86
Total DG ERC			1.659,60	255,24	1.404,36	84,62 %	1.824,36	3.228,73	2.501,86

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

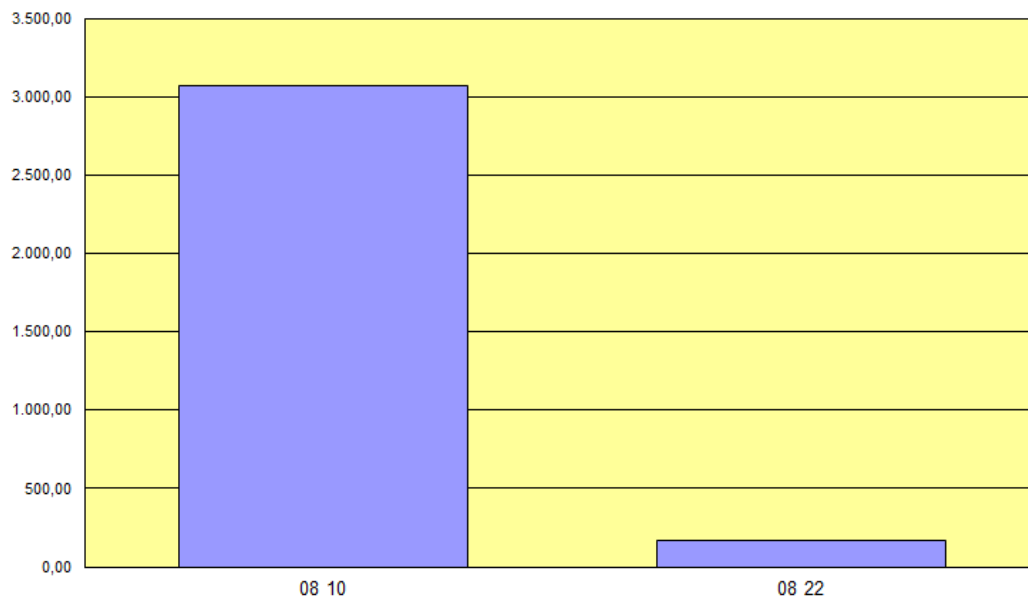


TABLE 4 : BALANCE SHEET

BALANCE SHEET	2012	2011
A.I. NON CURRENT ASSETS	294.340.370,82	211.018.783,18
A.I.5. LT Pre-Financing	294.340.370,82	211.018.783,18
A.II. CURRENT ASSETS	804.856.370,23	519.581.453,52
A.II.2. Short-term Pre-Financing	802.785.048,81	519.171.708,10
A.II.3. Short-term Receivables	2.071.321,42	409.745,42
ASSETS	1.099.196.741,05	730.600.236,70
P.III. CURRENT LIABILITIES	-38.608.208,03	-43.152.905,19
P.III.4. Accounts Payable	-38.608.208,03	-43.152.905,19
LIABILITIES	-38.608.208,03	-43.152.905,19
NET ASSETS (ASSETS less LIABILITIES)	1.060.588.533,02	687.447.331,51
P.I.2. Accumulated Surplus / Deficit	0,00	0,00
Non-allocated central (surplus)/deficit*	1.060.588.533,02	-687.447.331,51
TOTAL	0,00	0,00

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

ECONOMIC OUTTURN ACCOUNT	2012	2011
II.1 SURPLUS/ DEF. FROM OPERATING ACTIVT	551.902.612,09	539.002.471,55
II.1.1. OPERATING REVENUES	-718.758,96	-302.498,64
II.1.1.1. Other operating revenue	-718.758,96	-302.498,64
II.1.2. OPERATING EXPENSES	552.621.371,05	539.304.970,19
II.1.2.1. Administrative Expenses	0,00	0,00
II.1.2.2. Operating Expenses	552.621.371,05	539.304.970,19
II.2. SURPLUS/DEF. NON OPERATING ACTIVIT	-3.778.512,15	-511.612,18
II.2. FINANCIAL OPERATIONS	-3.778.512,15	-511.612,18
II.2.1. Financial revenue	-3.778.512,15	-511.612,18
ECONOMIC OUTTURN ACCOUNT	548.124.099,94	538.490.859,37

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 2012 - DG 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	38	37	97,37 %	11,89	1	2,63 %	31,00
45	4844	4796	99,01 %	13,95	48	0,99 %	65,73
105	1008	1008	100,00 %	14,33			

Total Number of Payments	5890	5841	99,17 %		49	0,83 %	
Average Payment Time	14,42			14,00			65,02

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	862	850	98,61 %	9,69	12	1,39 %	25,17
30	4020	3797	94,45 %	13,83	223	5,55 %	42,35
90	1008	1008	100,00 %	14,33			

Total Number of Payments	5890	5655	96,01 %		235	3,99 %	
Average Payment Time	14,42			13,30			41,48

Suspensions							
Average Report Approval Suspension	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	26	688	11,68 %	5890	150.000.348,16	17,62 %	851.286.824,98

Late Interest paid in 2012

DG	GL Account	Description	Amount (Eur)

TABLE 7 : SITUATION ON REVENUE AND INCOME IN 2012

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		
52	REVENUE FROM INVESTMENTS OR LOANS GRANTED, BANK AND OTHER INTEREST	2.116.507,58	1.838,24	2.118.345,82	2.116.507,58	1.838,24	2.118.345,82	0,00
66	OTHER CONTRIBUTIONS AND REFUNDS	1.861.612,83	132.028,98	1.993.641,81	1.675.195,78	132.028,98	1.807.224,76	186.417,05
90	MISCELLANEOUS REVENUE	48.279,02	550,66	48.829,68	48.279,02	550,66	48.829,68	0,00
Total DG ERC		4.026.399,43	134.417,88	4.160.817,31	3.839.982,38	134.417,88	3.974.400,26	186.417,05

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

INCOME BUDGET RECOVERY ORDERS ISSUED IN 2012 Year of Origin (commitment)	Error		Irregularity		TOTAL Qualified		TOTAL RC(incl. non-qualified)		% Qualified/Total RC	
	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount
	2008	14	119.358,22	13	356.236,40	27	475.594,62	34	832.100,67	79,41%
2009	3	3.559,06	9	212.831,48	12	216.390,54	12	216.390,54	100,00%	100,00%
No Link			1	4.159,80	1	4.159,80	1	4.159,80	100,00%	100,00%
Sub-Total	17	122.917,28	23	573.227,68	40	696.144,96	51	1.913.970,64	78,43%	36,37%

EXPENSES BUDGET	Error		Irregularity		OLAF Notified		TOTAL Qualified		TOTAL RC(incl. non-qualified)		% Qualified/Total RC	
	Nbr	Amount	Nbr	Amount	Nbr	Amount	Nbr	Amount	Nbr	Amount	Nbr	Amount
	INCOME LINES IN INVOICES	1	5.284,00	1	17.330,00			2	22.614,00	2	22.614,00	100,00%
NON ELIGIBLE IN COST CLAIMS	80	1.030.561,46	36	194.215,82			116	1.224.777,28	129	1.613.261,56	89,92%	75,92%
CREDIT NOTES	2	7.908,29					2	7.908,29	2	7.908,29	100,00%	100,00%
Sub-Total	83	1.043.753,75	37	211.545,82			120	1.255.299,57	133	1.643.783,85	90,23%	76,37%
GRAND TOTAL	100	1.166.671,03	60	784.773,50			160	1.951.444,53	184	3.557.754,49	86,96%	35,74%

TABLE 9: AGEING BALANCE OF RECOVERY ORDERS AT 31/12/2012 FOR ERC

	Number at 01/01/2012	Number at 31/12/2012	Evolution	Open Amount (Eur) at 01/01/2012	Open Amount (Eur) at 31/12/2012	Evolution
2011	4		-100,00 %	134.417,88		-100,00 %
2012		3			186.417,05	
	4	3	-25,00 %	134.417,88	186.417,05	38,68 %

TABLE 10 : RECOVERY ORDER WAIVERS IN 2012 >= EUR 100.000

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

Total DG

Number of RO waivers

No data to be reported

TABLE 11 : CENSUS OF NEGOTIATED PROCEDURES - DG - YEAR 2012

Contracts > 60.000

Negotiated Procedure Legal base	Number of Procedures	Amount (€)
Total		

TABLE 12 : SUMMARY OF PROCEDURES OF DG EXCLUDING BUILDING CONTRACTS

Internal procedures > € 60,000	2011		2012	
Contract Class	Count	Amount (€)	Count	Amount (€)
TOTAL				
Procedure Type	Count	Amount (€)	Count	Amount (€)
TOTAL				

External procedures > € 10,000		
Contract Class	Count	Amount (€)
TOTAL		
Procedure Type	Count	Amount (€)
TOTAL		

Additional comments

*No data to be reported
Data extracted from ABAC but corrections have been added in the current table to reflect the reality*

TABLE 13 : BUILDING CONTRACTS

Total number of contracts :	
Total amount :	

Legal base	Contract Number	Contractor Name	Description	Amount (€)

No data to be reported

TABLE 14 : CONTRACTS DECLARED SECRET

Total Number of Contracts :	
Total amount :	

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

No data to be reported

Annex 3 Financial Reports - ERCEA - Financial Year 2012

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

TABLE 1: OUTTURN ON COMMITMENT APPROPRIATIONS IN 2012 (in Mio €)				
Chapter		Commitment appropriations authorised *	Commitments made	%
		1	2	3=2/1
Title A-1 FRAIS DE PERSONNEL				
A-11	Personnel en activité	22,42	22,36	99,73 %
A-12	Frais divers de recrutement, de prise de fonction	0,12	0,12	99,70 %
A-13	Frais de missions, de déplacements et autres dépen	0,38	0,38	98,27 %
A-14	Infrastructure à caractère socio-médical	0,63	0,62	99,20 %
A-16	Service Social, autres interventions	0,43	0,43	100,00 %
A-17	Frais de réception et de représentation	0,01	0,01	86,31 %
Total Title A-1		23,99	23,91	99,69%
Title A-2 FRAIS DE FONCTIONNEMENT				
A-20	Immeubles et frais accessoires	5,26	5,22	99,23 %
A-21	Traitement des données	6,92	6,83	98,69 %
A-22	Biens, meubles et frais accessoires	0,08	0,07	89,97 %
A-23	Dépenses de fonctionnement administratif courant	0,07	0,07	94,18 %
A-24	Affranchissement et Télécommunications	0,71	0,71	99,18 %
A-25	Frais de réunions internes	0,01	0,01	56,41 %
A-26	Frais administratifs liés aux activités opérationn	1,39	1,34	96,66 %
A-27	Dépenses avec les entités consolidées	0,27	0,25	94,58 %
Total Title A-2		14,71	14,50	98,54%
TOTAL ERC		38,70	38,41	99,26 %

* 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).

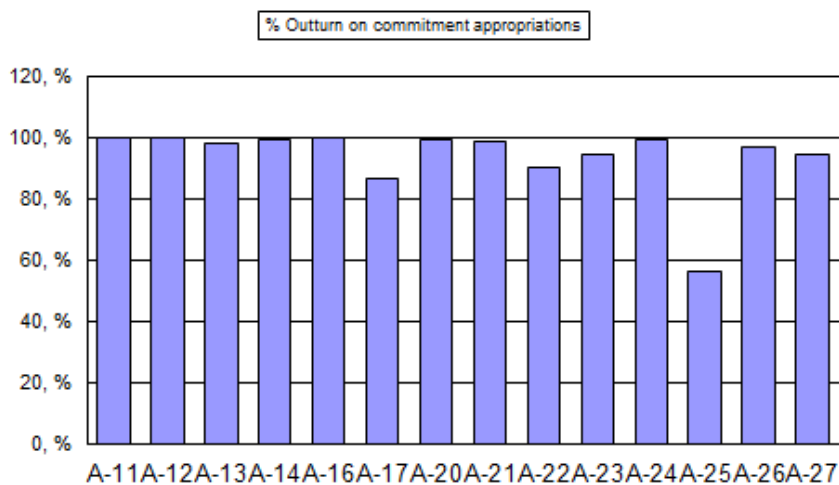


TABLE 2: OUTTURN ON PAYMENT APPROPRIATIONS IN 2012 (in Mio €)				
Chapter		Payment appropriations authorised *	Payments made	%
		1	2	3=2/1
Title A-1 FRAIS DE PERSONNEL				
A-11	Personnel en activité	22,45	22,34	99,50 %
A-12	Frais divers de recrutement, de prise de fonction	0,12	0,12	98,13 %
A-13	Frais de missions, de déplacements et autres dépen	0,40	0,36	91,29 %
A-14	Infrastructure à caractère socio-médical	0,73	0,56	76,98 %
A-16	Service Social, autres interventions	0,44	0,43	98,42 %
A-17	Frais de réception et de représentation	0,01	0,00	58,15 %
Total A-1		24,14	23,81	98,64%
Title A-2 FRAIS DE FONCTIONNEMENT				
A-20	Immeubles et frais accessoires	5,43	5,05	93,10 %
A-21	Traitement des données	7,88	6,80	86,21 %
A-22	Biens, meubles et frais accessoires	0,08	0,07	80,74 %
A-23	Dépenses de fonctionnement administratif courant	0,08	0,06	80,17 %
A-24	Affranchissement et Télécommunications	0,72	0,71	98,23 %
A-25	Frais de réunions internes	0,01	0,01	51,41 %
A-26	Frais administratifs liés aux activités opérationn	2,12	1,33	62,52 %
A-27	Dépenses avec les entités consolidées	0,29	0,25	84,75 %
Total A-2		16,62	14,26	85,85%
TOTAL ERC		40,76	38,08	93,43 %

* 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).

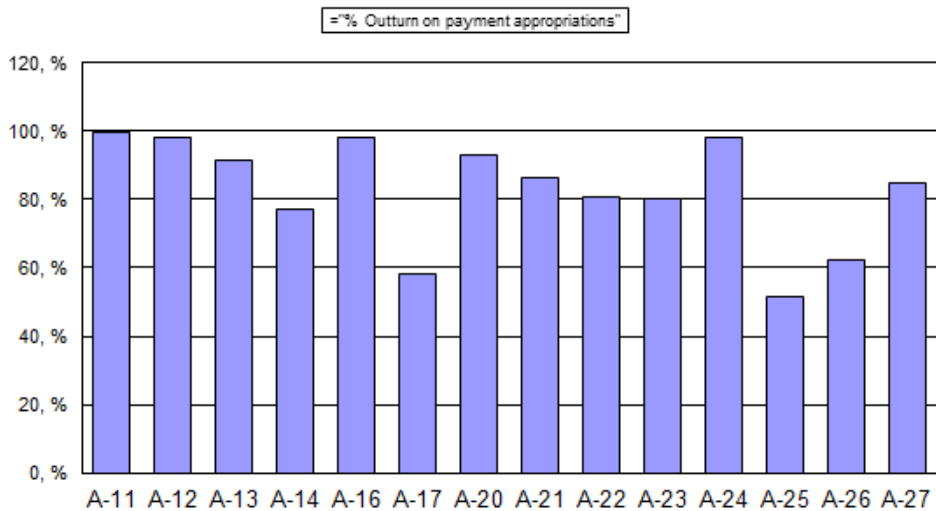


TABLE 3 : BREAKDOWN OF COMMITMENTS TO BE SETTLED AT 31/12/2012 (in Mio €)					
Chapter		2012 Commitments to be settled			
		Commitments 2012	Payments 2012	RAL 2012	% to be settled
		1	2	3=1-2	4=1-2//1
Title A-1 FRAIS DE PERSONNEL					
A-11	Personnel en activité	22,36	-22,32	0,05	0,21 %
A-12	Frais divers de recrutement, de prise de fonction	0,12	-0,12	0,00	0,12 %
A-13	Frais de missions, de déplacements et autres dépen	0,38	-0,35	0,03	7,45 %
A-14	Infrastructure à caractère socio-médical	0,62	-0,46	0,16	25,95 %
A-16	Service Social, autres interventions	0,43	-0,42	0,01	1,60 %
A-17	Frais de réception et de représentation	0,01	0,00	0,00	32,83 %
Total A-1		23,91	-23,67	0,25	1,03%
Title A-2 FRAIS DE FONCTIONNEMENT					
A-20	Immeubles et frais accessoires	5,22	-4,95	0,27	5,11 %
A-21	Traitement des données	6,83	-5,88	0,96	13,98 %
A-22	Biens, meubles et frais accessoires	0,07	-0,07	0,01	10,25 %
A-23	Dépenses de fonctionnement administratif courant	0,07	-0,06	0,01	13,04 %
A-24	Affranchissement et Télécommunications	0,71	-0,70	0,00	0,40 %
A-25	Frais de réunions internes	0,01	-0,01	0,00	5,77 %
A-26	Frais administratifs liés aux activités opérationn	1,34	-0,64	0,70	52,37 %
A-27	Dépenses avec les entités consolidées	0,25	-0,23	0,02	8,17 %
Total A-2		14,50	-12,53	1,97	13,56%
TOTAL ERC		38,41	-36,20	2,21	5,76%

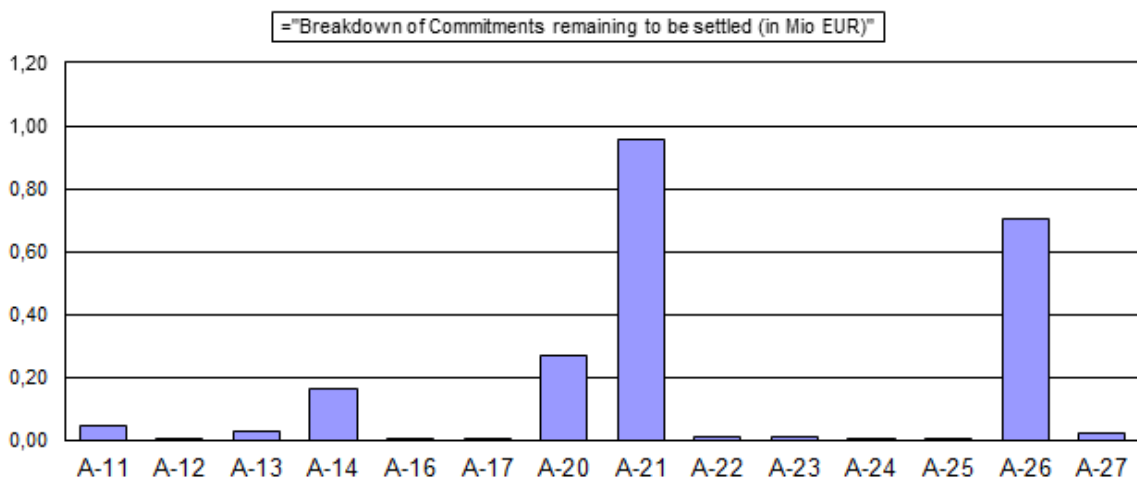


TABLE 4 : BALANCE SHEET ERCEA

BALANCE SHEET	2012	2011
A.I. NON CURRENT ASSETS	8.617.704,08	7.486.160,59
A.I.1. Intangible Assets	3.615.223,18	2.525.165,55
A.I.2. Property, plant and equipment	5.002.480,90	4.960.995,04
A.II. CURRENT ASSETS	4.905.222,05	5.252.735,09
A.II.2. Short-term Pre-Financing	0,00	45.530,27
A.II.3. Short-term Receivables	2.260.165,43	2.184.333,93
A.II.5. Cash and Cash Equivalent	2.645.056,62	3.022.870,89
ASSETS	13.522.926,13	12.738.895,68
P.III. CURRENT LIABILITIES	-3.023.152,99	-3.054.256,55
P.III.2. Short-term provisions	-709.038,29	-172.777,84
P.III.4. Accounts Payable	-2.314.114,70	-2.881.478,71
LIABILITIES	-3.023.152,99	-3.054.256,55
NET ASSETS (ASSETS less LIABILITIES)	10.499.773,14	9.684.639,13
P.I.2. Accumulated Surplus / Deficit	-9.684.639,13	-8.405.698,50
Non-allocated central (surplus)/deficit*	-815.134,01	-1.278.940,63
TOTAL	0,00	0,00

* 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 ERCEA

ECONOMIC OUTTURN ACCOUNT	2012	2011
II.1 SURPLUS/ DEF. FROM OPERATING ACTIVT	-815.164,26	-1.279.788,08
II.1.1. OPERATING REVENUES	-38.332.678,45	-34.733.026,21
II.1.1.1. Other operating revenue	-38.332.678,45	-34.733.026,21
II.1.2. OPERATING EXPENSES	37.517.514,19	33.453.238,13
II.1.2.1. Administrative Expenses	36.978.041,08	33.278.537,34
II.1.2.2. Operating Expenses	539.473,11	174.700,79
II.2. SURPLUS/DEF. NON OPERATING ACTIVIT	30,25	847,45
II.2. FINANCIAL OPERATIONS	30,25	847,45
II.2.2. Financial expenses	30,25	847,45
ECONOMIC OUTTURN ACCOUNT	-815.134,01	-1.278.940,63

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 2012 - ERCEA

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	516	506	98,06 %	12,58	10	1,94 %	44,40
45	2020	2006	99,31 %	12,95	14	0,69 %	80,71
60	111	111	100,00 %	12,45			

Total Number of Payments	2647	2623	99,09 %		24	0,91 %	
Average Payment Time	13,34			12,86			65,58

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)
30	2647	2560	96,71 %	12,32	87	3,29 %	43,33

Total Number of Payments	2647	2560	96,71 %		87	3,29 %	
Average Payment Time	13,34			12,32			43,33

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	34	45,	1,70 %	2.647,	3.019.958,53	13,99 %	21.583.708,09

Late Interest paid in 2012

Agency	GL Account	Description	Amount (Eur)

TABLE 7 : SITUATION ON REVENUE AND INCOME IN 2012

Title	Description	Year of Origin	Revenue and Income recognized	Revenue and Income cashed	Outstanding Balance
20-0	Subsidy from the Commission	2012	38.768.057,80	38.768.057,80	0,00
91-0	Recuperation of expenses	2012	43.433,49	43.367,47	66,02
TOTAL ERC			38.811.491,29	38.811.425,27	66,02

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

INCOME BUDGET RECOVERY ORDERS ISSUED IN 2012 Year of Origin (commitment)	Error		No error / irregularity		Not specified		TOTAL Qualified		TOTAL RC(incl. non-qualified)		% Qualified/Total RC	
	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount
2010	1	40.464,00					1	40.464,00	1	40.464,00	1	1
2012	1	66,02					1	66,02	1	66,02	1	1
No Link			12	32.314.426,88	10	3.064,52	22	32.317.491,40	22	32.317.491,40	1	1
Sub-Total	2	40.530,02	12	32.314.426,88	10	3.064,52	24	32.358.021,42	24	32.358.021,42	1	1

EXPENSES BUDGET	Error		Irregularity		OLAF Notified		TOTAL Qualified		TOTAL RC(incl. non-qualified)		% Qualified/Total RC	
	Nbr	Amount	Nbr	Amount	Nbr	Amount	Nbr	Amount	Nbr	Amount	Nbr	Amount
INCOME LINES IN INVOICES												
NON ELIGIBLE IN COST CLAIMS												
CREDIT NOTES												
Sub-Total												

GRAND TOTAL	2	40.530,02					2	40.530,02	24	32.358.021,42	8,33%	
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TABLE 9: AGEING BALANCE OF RECOVERY ORDERS AT 31/12/2012 FOR ERCEA

Year of Origin	Number at 01/01/2012	Number at 31/12/2012	Evolution	Open Amount (Eur) at 01/01/2012	Open Amount (Eur) at 31/12/2012	Evolution
2011	1		-100,00 %	17.441,16		-100,00 %
2012		5			40.844,62	
Totals	1	5	400,00 %	17.441,16	40.844,62	134,19 %

TABLE 10 : RECOVERY ORDER WAIVERS IN 2012 >= EUR 100.000

	Waiver Central Key	Linked RO Central Key	RO Accepted amount (Eur)	LE Account Group	Commission Decision	Comments
1,						

Total ERCEA

Number of RO waivers

No data to be reported

TABLE 11 : CENSUS OF NEGOTIATED PROCEDURES - DG - YEAR 2012

Contracts > 60.000

Negotiated Procedure Legal base	Number of Procedures	Amount (€)
Art. 126 1b)	1,	150.358,93
Total	1,	150.358,93

TABLE 12 : SUMMARY OF PROCEDURES OF DG EXCLUDING BUILDING CONTRACTS

Internal procedures > € 60,000	2011		2012	
	Count	Amount (€)	Count	Amount (€)
Contract Class				
Service	3	3.176.965,14	1	550.358,93
TOTAL	3	3.176.965,14	1	550.358,93
Procedure Type				
(FR2007) Negotiated Procedure without publication of a contract notice Art. 126 IR	1	176.965,14	2	150.358,93
(FR2007) Open Procedure (Art. 122.2 IR)	2	3.000.000,00	1	400.000,00
(FR2007) Restricted Procedure(Art. 122.2 IR)				
TOTAL	3	3.176.965,14	3	685.358,93

External procedures > € 10,000		
Contract Class	Count	Amount (€)
TOTAL		
Procedure Type		
TOTAL		

Additional comments

Data extracted from ABAC but corrections have been added in the current table to reflect the reality

TABLE 13 : BUILDING CONTRACTS

Total number of contracts :	
Total amount :	

Legal base	Contract Number	Contractor Name	Description	Amount (€)

No data to be reported

TABLE 14 : CONTRACTS DECLARED SECRET

Total Number of Contracts :	
Total amount :	

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

No data to be reported

ANNEX 4 : MATERIALITY CRITERIA

The Standing Instructions for the preparation of Annual Activity Reports stipulate that the quantitative materiality threshold must not exceed 2% of the authorised payments 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, as the standard quantitative materiality threshold proposed in the Standing Instructions, 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 principally 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:

$$\text{ResER}\% = \frac{(\text{RepER}\% * (P - A)) - (\text{RepERSys}\% * E)}{P}$$

where:

- ResER%** residual error rate, expressed as a percentage.
- RepER%** representative error rate, or error rate detected in the common representative sample, expressed as a percentage. For FP 7 this rate is the same for all services.
- RepERSys%** portion of the RepER% representing (negative) systematic errors, expressed as a percentage. The RepER% is composed of two complementary portions reflecting the proportion of negative systematic and non-systematic errors detected.
- P** total aggregated amount in € of EC share of funding in the auditable population. In FP7, the population is that of all received cost statements, and the € amounts those that reflect the EC share included in the costs claimed in each cost statement. In FP6, the population consists of all EC contributions budgeted at the time of signing the contracts, rather than the actual requested contributions.
- A** total EC share of all audited amounts, expressed in €. This will be collected from audit results.
- E** total non-audited amounts of all audited beneficiaries. In FP7, this consists of the total EC share, expressed in €, of all non-audited received cost statements for all audited beneficiaries (whether extrapolation has been launched or not). In FP6, the same principle applies but the amounts are those budgeted at the time of signing the contracts, like for P above.

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. Nevertheless, the Director General (or Director for the Executive Agencies) apart from the rate of the common representative error and the residual error may also take into account other management information to identify the overall impact of a weakness and determine if it leads to a reservation.

In case an adequate calculation of the residual error rate is not possible for a FP for reasons not involving control deficiencies,⁸⁴ 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.

⁸⁴ Such as, for instance, when the number of results from a statistically-representative sample collected at a given point in time is not sufficient to calculate a reliable error rate.

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 2012, the Research services managed financial operations under the 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.

ANNEX 5.a: INTERNAL CONTROL TEMPLATE FOR THE "IDEAS" BUDGET IMPLEMENTATION

1. The control environment

Summary: 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 (92,75%) with a public entities profile (78,39%). ERCEA's population of beneficiaries (Host Institutions) is concentrated, as almost 50% of ERCEA's budget represents 13% 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). Selecting only projects of 'excellence' and the frontier research character (bottom up) of the IDEAS Programme may 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 simplified system based on the reimbursement of direct costs declared by the beneficiaries, to which a flat rate of 20% for indirect costs is added. Considering the eligibility criteria for direct costs to be complied with, which sometimes require beneficiaries to maintain specific extra-accounting records (excluding for example VAT, duties...) combined with a potential lack of expertise in managing EU funded projects for certain beneficiaries, there is a risk of error in reporting actual eligible costs.

ERCEA 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.

Implementation of the operating budget and discharge: the Director implements the ERCEA's administrative budget. Each year, the Director submits detailed provisional accounts of all revenue and expenditure for the previous financial year to the Steering Committee, which shall forward them, by 1 March at the latest, to the Commission's Accounting Officer and to the Court of Auditors. The final accounts shall be sent to the Commission's Accounting Officer and the Court of Auditors by 1 July of the following year at the latest. As for the operational appropriations, which the Director implements as Authorising Officer by Delegation, the

discharge is given within the framework of the discharge in respect of the general budget of the European Union.

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 meetings, 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 plans 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.

Management mode:

Indirect centralised management 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 2012 including all the Agency's projects currently running and signed until 31/12/2012:

Grant period: Between 24 and 60 months	59
Average value (EUR)	1.590.983,52
Median value (EUR)	1.498.996,80
Range of grants (EUR)	98.926,85 – 3.449.400,00
Percentage of grants under EUR 1 million.	14,41%
Number of coordinators/beneficiaries:	2.798
- Mono-beneficiary grants	353
- Multi-beneficiary grants	
Volume of transactions per year (number):	1.903
- project payments	3.996
- expert payments	

2. Stages and actors and main issues addressed at each stage	
<p>The planning, programming, monitoring and reporting processes in place</p>	<p>ERCEA's <u>Annual Work Programme</u> is submitted to the Commission for approval before formal adoption by the Steering Committee.</p> <p>An <u>annual management risk assessment</u> and continuous monitoring of the implementation of related action plan are performed.</p> <p><u>Monitoring of progress</u> 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.</p> <p>In addition, the <u>continuous monitoring of performance</u> is ensured by various mechanisms as regular management meetings; follow up of KPIs and scoreboards, the assessment of management's supervision under ICS 9 and the exceptions reporting procedure.</p>
<p>Selection process (of beneficiaries, intermediaries, agencies etc.), including preventive measures</p>	<p>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.</p> <p>Key controls and mitigating measures of the evaluation of proposals process:</p> <ul style="list-style-type: none"> - The systematic IT based screening for <u>eligibility</u>, further complemented when required by an eligibility review carried out by the Eligibility Committee set-up by the Agency. - The <u>Ethics Review</u> is put in place to provide reasonable assurance to the Authorising Officer that ERC funded research complies with the ethical principles referred to in FP7 and in the Ideas Specific Programme. To this effect, the implementation features four different levels of examination of research projects (pre-screening, screening, full review prior to signature of the Grant Agreement and <u>Ethics Monitoring</u> during the lifetime of the projects). At each level clearances are issued, while referring those projects that require further scrutiny to the next level. In the framework of the ethics monitoring, clearance is prerequisite for payment of due grant instalments. - <u>The Redress Procedure</u> is set up to provide the possibility for applicants to seek redress against shortcomings in the process of proposal evaluation. All complaints submitted through the dedicated channel are put to an internal and independent evaluation review committee (the ERC Executive Agency Redress Committee) that examines the submitted complaints and recommends a course of action to the Authorising Officer (the Agency Director), who will make the final decision. - <u>A two-step evaluation of proposals process</u> 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 Programme with the support, when necessary, of specialist remote referees, who are not members of the Panel itself. - <u>A conflict of interest procedure</u> 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. <p>In conformity with the existing Rules, all experts work under the</p>

	<p>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.</p> <p>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.</p> <ul style="list-style-type: none"> - <u>Registration of experts</u> is ensured in the Commission's common database of independent experts. - <u>Independent approval of ranking lists by the Scientific Council</u>: 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. All ranking lists are sent to the Scientific Council for approval (the "Evaluation dossier") 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. - <u>The processing of evaluation results</u> include specific evaluation procedures, quality controls (100% eligibility checks, budget checks, CoI checks, resubmission checks, proposal assignment matching panel members expertise, check lists before and after the panel meetings, individual and panel comments quality checks by SOs and sample checks by HoU to ensure quality feedback to applicants) and the delivery of standard evaluation documents (panel meeting "deliverables") which provide assurance that the evaluation process has been carried out in conformity with the Rules for participation, the ERC rules for submission of proposals and the "Ideas" Work Programme. These deliverables are signed, as appropriate, by the evaluation panel (chair and/or members), the call coordinator, the Head of Unit and Head of Department. - A new IT tool has been introduced in 2012 to check for <u>plagiarism cases</u>. Such cases are escalated to the Scientific Council and OLAF as needed and the ERCEA Director takes the final decision. - <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.
<p>Preventive and detective measures to improve the quality of financial management and provision of supporting data by beneficiaries, contractors and intermediaries</p>	<p>The following communication activities 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"> - <u>Calls for proposals</u> are published in the Official Journal of the EU, on the Participant Portal and on the website of the ERC; the Call text details the specific evaluation criteria and the application of the criteria regarding financial data to help prepare the budgets; - <u>Administrative and financial guidelines</u> to help preparing the proposals are available on the Participant Portal and on the website of the ERC; - <u>Network and info services</u>: bi-annual meetings of the ERC National

Contact Points, provision of FAQ on ERC website;

- Project information services which include databases providing information on project beneficiaries, objectives, results.

Key controls and preventing measures of the grant preparation and implementation process:

- Use of model grant agreements of the FP7 adapted to the requirements of the Ideas Programme;

- Under FP7 grant beneficiaries are required to contribute to a participant Guarantee Fund, which safeguards the ERCEA / Commission against financial losses resulting from unrecoverable debts;

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

- Systematic check of the budget breakdown, in a view of ensuring compliance with the Description of Work and 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 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)

- In the context of the grant implementation, various measures are in place such as:

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 financial management reports (including the financial statement) submitted by the beneficiaries in intervals of 18 months.

Grant agreements foresee the possibility to conduct on-the-spot controls by the Agency's ex-post control function either by Agency staff or by outsourced audits as well as, by the European Court of Auditors and by OLAF.

- Timely follow up of ex post controls audit results is ensured by the Grant Implementation unit and a common toll for tracking audit results with financial impact.

- Feedback from grant management & audit in general and Host Institution specific observations through weekly review meetings at Head of Unit level and at Department level.

<p>Detective and corrective controls: payments and key milestones</p>	<p>Controls before and during the implementation period of the project</p> <ul style="list-style-type: none"> - <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. - The <u>financial management procedures</u> are continuously monitored and revised if needed in order to ensure consistency with the legal framework. All procedures were validated during 2010 in line with the system put in place by the Agency and are available on the intranet. In addition, important simplification and update on the procedure in order to better mobilise resources, tools and control mechanisms have been done during 2012. - Additional checks are provided through the <u>Certificate on Financial Statements</u> requested for 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. - The final payment needs to take into account the approval of <u>scientific report</u> prior to each execution. - <u>Monthly Budgetary and Financial reports</u> on the operational budget and scoreboards are prepared and presented to the management, as well as published on the Agency's intranet. In addition ad-hoc financial reporting and presentation of financial performance an analysis are given through the year.
<p>Corrective controls and audit</p>	<p><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.</p> <ul style="list-style-type: none"> - 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>. - 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 provides an opportunity to access to FP6 audit results, which can 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 exchanges on Fraud prevention and detection. - 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. - 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. - 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 accompany the Court of Auditors when ERC grants are concerned.

- Ex-post audits are carried out as follows:

- On the basis of a risk analysis 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 programme, 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 substantial 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.

The error rate resulting from this activity cannot be applied to the whole population of beneficiaries.

- Common representative audit sampling (CRAS) to estimate error rates in the total population. 5 ERCEA financial statements were selected out of a total of 162 items: 3 of them had no findings, 1 lead to extrapolation (related to miscalculation of personnel costs and a detected error rate of 10.46 %) and the last one lead to findings (under the materiality threshold - 0,35%) on personnel costs wrongly charged to the project.

- 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.

- Fraud and detection/ double funding are also considered in ex-post-controls.

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 control 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 requirements' compliance and internal control system's 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 plans 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 DG 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	38.7 € mio
Commitment execution	38.4 € mio
Payment execution	36.2 € 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

<p>Detective and corrective controls: payments and key milestones</p>	<ul style="list-style-type: none"> - <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 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 <u>financial management procedures</u> 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).
<p>Corrective controls and audit</p>	<p>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.</p> <p>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.</p>

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.