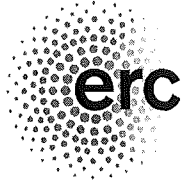


European Research Council
Executive Agency



Annual Activity Report 2010

**European Research Council
Executive Agency**

Table of Contents

PART 1. IMPLEMENTATION OF ERCEA ANNUAL WORK PROGRAMME.....	5
1.1 Overview of the achievement of the key targets of 2010	5
1.2 Management of the Ideas Programme.....	7
1.2.1 Calls for proposals	7
1.2.2 Evaluation of proposals.....	8
1.2.3 Scientific follow-up.....	10
1.3 Performance on budget implementation	11
1.3.1 Performance on of the 2010 operational budget implementation.....	11
1.3.2 Time to pay	15
1.3.3 Recovery Orders	16
1.3.4 Grant amendments and termination - De-commitments	16
1.3.5 Implementation of the 2010 administrative budget appropriations	17
PART 2. MANAGEMENT AND INTERNAL CONTROL SYSTEMS	19
2.1 INTRODUCTION TO THE ERC EXECUTIVE AGENCY.....	19
2.1.1 Organisational structure and IT.....	19
2.1.2 Working relations with key stakeholders	21
2.2 THE FUNCTIONING OF THE ENTIRE INTERNAL CONTROL SYSTEM	24
2.2.1 Compliance with the requirements of the control standards	25
2.2.2 Effectiveness of implementation of internal control standards	25
2.2.3 Conclusion	29
2.3 Information to the Commissioner.....	29
PART 3. BUILDING BLOCKS TOWARDS THE DECLARATION OF ASSURANCE.....	30
3.1 BUILDING BLOCKS TOWARDS REASONABLE ASSURANCE.....	30
3.1.1 Building block 1: Assessment by management.....	30
3.1.2 Building block 2: Results from audits during the reporting year	35
3.1.3 Building block 3: Follow-up of previous years' reservations and action plans for audits from previous years.....	36
3.1.4 Building block 4: Assurance received from other Authorising Officers in cases of crossed sub-delegation.....	36
3.1.5 Completeness and reliability of the information reported in the building blocks	36
3.2 RESERVATIONS	36
3.3 OVERALL CONCLUSIONS ON THE COMBINED IMPACT OF THE RESERVATIONS ON THE DECLARATION AS A WHOLE	36
PART 4. DECLARATION OF ASSURANCE.....	37
ANNEX 1 - Statement of the Head of Resources and Support Department	38
ANNEX 2 - Human and Financial resources by ABB Activity	39
2.1 Human Resources by ABB activity	39
2.2 Financial resources – Implementation of the ERCEA's operating (administrative) budget	39
ANNEX 3 - Draft annual accounts and financial reports (to be submitted later)	40
ANNEX 4 - Materiality criteria	67
ANNEX 5 - Internal Control Template for budget implementation.....	69

INTRODUCTION

The European Research Council Executive Agency (the Agency) was set up by the 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 the application of Council Regulation (EC) no 58/2003¹.

The Ideas Programme aims at reinforcing excellence, dynamism and creativity in European research by funding investigator-driven projects of the highest quality at the frontiers of knowledge. By doing so, the EU-funded research under this Programme responds to the needs of improving the attractiveness of Europe for the best researchers worldwide and for industrial research investment, as well as strengthening the EU capacity to generate new knowledge that will feed back into the economy and the society.

To make the most out of EU research potential and resources, Ideas is implemented by the ERC, comprising an independent Scientific Council of distinguished scientists, engineers and scholars who establishes the ERC's scientific strategy and monitors its implementation by the autonomous Executive Agency that handles the operational management.

Two grant schemes designed by the Scientific Council form the core of its activities: Starting grants (StG), supporting researchers at the early stage of their careers, with the aim of providing working conditions that enable them to become independent research leaders; and Advanced grants (AdG), designed to support outstanding and established research leaders by providing resources necessary to enable them to continue the work of their teams. An amount of €7.5 billion was allocated for the period 2007-2013 to the Programme.

By promoting excellence, the ERC has a fundamental role in reinforcing and making more coherent the whole chain of research and innovation, from blue sky research to market uptake. The competitive approach has allowed the Ideas Programme to fund a broad project-portfolio, including projects which address current grand challenges and those addressing fundamental questions, thus laying also foundations of solutions to future, unpredictable challenges the European and world society may face.

As already in the past, also in the period covered by this report, from 1 January to 31 December 2010, ERC-funded projects deal with highly ambitious groundbreaking research across all scientific domains. This year marks the first time of an operational budget above 1€ billion and celebrates the 1,000th top researcher funded by the ERC. More than one thousand top researchers in Europe are now thriving and enthusiastically pursuing their innovative ideas at the frontiers of knowledge. Many ERC grantees have received prestigious international scientific prizes and awards in 2010 and the number of articles acknowledging ERC-funding published in peer-reviewed journals increased from over 400 in 2009 to around 1,200 in 2010.

The ERC has become an important agent of change. It benefits the European research system by setting the highest standards of scientific excellence in universities and research institutions which, in turn, will also attract industry eager to profit from excellent people and new ideas, thus, creating many new opportunities for society at large.

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

And in order to strengthen the ERC's role in the innovation chain from frontier research to socio-economical benefits, a new ERC funding opportunity is being developed, which is expected to be launched in 2011, pending the adoption of the revised ERCEA Annual Work Programme 2011. ERC grant holders will be given the opportunity to apply for additional funding to establish the innovation potential of ideas arising from their ERC-funded frontier research projects. This "proof of concept" proposal aims to cover a funding gap in the earliest stage of an innovation, and could be used for activities such as technical validation, market research, clarifying intellectual property rights strategy or investigating commercial and business opportunities.

In 2010, ERCEA first full year of autonomous activity, the Agency successfully met its targets, while managing a growing number of proposals submitted, contracts signed and payment transactions executed, based on a significant growth of its staff (+20%), out of which almost 80% was allocated to the Scientific and Grant Management Departments.

PART 1. IMPLEMENTATION OF ERCEA ANNUAL WORK PROGRAMME

1.1 Overview of the achievement of the key targets of 2010

The following results were achieved in the light of the key performance objectives and indicators of the Annual Work programme 2010:

Objectives	Key performance indicator	2010 targets	Results at the end of 2010 Source C
1. Full implementation of work programme tasks entrusted to the ERC Executive Agency	Budget implementation of 2010 appropriations	100% commitments and payments	100%
2. Rapid conclusion of grant agreements ("time to sign grant agreement")	Time from call deadline to signature of grants in at least 75% of grants	300 days	StG-2009= 376 AdG-2009= 369
	Time from invitation to signature of grants in at least 75% of grants	140 days	StG-2009= 136 AdG-2009= 146
3. Short timescales of payment to grant beneficiaries ("time to pay")	Time used by the Agency ² in approving financial reports (according to the milestones specified in the description of work) and processing payment	Pre-financing payments: 100% within 20 days	99,84% within 20 days (Average TTP=10,1 days)
		Interim and final payments: 100% within 90 days	99,81% within 90 days (Average TTP=17,7 days)
4. Short timescale for the approval or rejection of valid requests for amendments	Time used by the Agency to approve or reject valid amendment requests from beneficiaries	Approve or reject 100% of valid requests within 45 days of its receipt.	98,95% within 45 days (Average Time to Amend=10,7 days)
5. Short timescale for payment of experts	Time to pay for experts	95% of the payments to be made within 21* days and 100% within 30 days	73,4% within 21 days and 90% within 30 days
6. Swift and effective termination of grants	Time of processing of grants termination	Termination by ERCEA within 75 days	No termination case by the ERCEA
		Termination by beneficiary within 45 days	4 terminations initiated by beneficiaries and dealt within 12,5 days.
7. Effective and short timescale to execute recovery orders	% of recovery orders executed	More than 90%	97,6% cashed
	% of ageing pending recovery orders (older than 3 months)	Below 10%	None

* Initial target date as per AWP 2010 was 20 days, revised to 21 days further to the suggestion of the Scientific Council.

The Agency managed to consolidate its key performance indicators in relation to grant implementation in 2010 and largely met its targets except "time to grant (1)" referring to the time from call deadline to signature of grants. While the target was to sign grant agreements in at least 75% of grants within 300 days, the actual time in 75% of cases was 376 days (StG 2009) and 369 days (AdG 2009) respectively. The delay is largely due to the so-called "volcano effect". Due to eruption of the Icelandic volcano in April 2010, which brought the European and international air traffic to a standstill, the Director of the Agency in consultation with the Chair of the ERC Scientific Council decided to cancel and to postpone the panel evaluations, which subsequently led to a delay in the availability of the lists of retained proposals for funding.

Efficiency in producing the Grant Agreements (sending them out to the Host Institution for signature) increased by 11% in 2010 compared with 2009. An average of 48.5 ERC Grant Agreements was produced by each Full Time Equivalent (FTE) by the grant preparation team, compared to an average of 43.4 grants in 2009.

The "time to pay" set new standards within the entire Research Family with an average of 10,7 days for pre-financing and 17,1 days for interim payments. Despite the increased volume and complexity of the matters under consideration, the response time to beneficiaries has been further reduced for amendments to 10, 7 days on average, which is far below the contractually foreseen 45 days.

The targets regarding recoveries (90%) were fully achieved and 99.16% of recovery orders were timely initiated within 60 days from the date when the need for recovery became known. No recovery order outstanding was older than 3 months.

These outstanding achievements of the Grant Management Department are based on adequate and effective procedures and workflows covering the entire range of the business of the grant preparation and grant implementation activities, which were further developed and approved in 2010. In addition, 24 newcomers were fully integrated, thanks to clear task allocation and targeted trainings, both provided on a timely basis.

Risks, as identified in the annual risk management exercise of the Agency were effectively mitigated by a close supervision of staff through the set up of team leaders (refer to section 2.1.1 on organisational developments) and a close monitoring of deadlines for submission of documents, either for grant preparation or for the processing of interim payments.

As regards experts payment, which are processed by the Scientific Management Department, time to pay was further reduced compared to 2009 (18,7 days in 2010, versus 21,6 days in 2009), resulting in particular from the streamlining of the procedure for the appointment of remote referees and the release of a dedicated IT tool for the handling of the appointment process. Following the call for simplification from the Scientific Council, intensive work was carried out by the Agency in cooperation with the Commission services (DG Research and Innovation, DG Budget and the Legal Service), on the conception of the panel members' new appointment procedure, to be implemented in 2011.

The main objective of the Agency Work Programme 2010 was to successfully deliver on the 2010 ERC Calls for Proposals and the follow-up of their implementation in financial and scientific terms. The present section presents the 2010 results of the non financial key activities of the Agency: the calls of proposals, the evaluation and the scientific follow up processes.

1.2 Management of the Ideas Programme

1.2.1 Calls for proposals

In line with the established calendar shown in ERC EA annual work programmes 2010 and 2011, three call for proposals were managed in 2010,: whilst the 2010 Advanced Grant call was launched end of 2009 and closed early 2010, the 2011 Starting Grant call was launched and closed late 2010 and the 2011 Advanced Grant, launched end of 2010, will be closed in 2011. Therefore, the 2 calls launched in 2010 in accordance with the Annual work plan 2011 are not reflected in the present AAR, as their budgetary and financial impact (global commitments and experts payments) will be recorded in 2011.

The below tables list by annual work programme the calls for proposals managed by the Agency in 2010, showing their respective actual call period, in line with regulatory schedule:

<u>Calls of ERCEA Annual work programme 2010</u>				
Call identifier	Starting Grant	Budget (€)	Opening date	Closing date
ERC-2010-StG_20091028	Physical Sciences and Engineering	Total: 528.237.600	30/07/2009	28/10/2009
ERC-2010-StG_20091118	Life Sciences	39% for PE 14% for SH 34% for LS 13% for inter-disciplinary projects		18/11/2009
ERC-2010-StG_20091209	Social Sciences and Humanities			09/12/2009
Call identifier	Advanced Grant	Budget (€)	Opening date	Closing date
ERC-2010-AdG_20100224	Physical Sciences and Engineering	Total: 590.052.000	29/10/2009	24/02/2010
	Life Sciences	39% for PE 14% for SH 34% for LS		17/03/2010
ERC-2010-AdG_20100317		13% for inter-disciplinary projects		
ERC-2010-AdG_20100407	Social Sciences and Humanities			07/04/2010

<u>Calls launched in 2010 as planned by ERCEA annual work programme 2011</u>				
Call identifier	Starting Grant	Indicative Budget (€)	Opening date	Closing date
ERC-2011-StG	Physical Sciences and Engineering	661.3m from 2011 budget*	20/07/2010	14/10/2010
ERC-2011-StG	Social Sciences and Humanities			24/11/2010
ERC-2011-StG	Life Sciences			09/11/2010
Call identifier	Advanced Grant	Indicative Budget (€)	Opening date	Closing date
ERC-2011-AdG	Physical Sciences and Engineering	661.4m from 2011 budget*	03/11/2010	09/02/2011
ERC-2011-AdG	Social Sciences and Humanities			06/04/2011
ERC-2011-AdG	Life Sciences			10/03/2011

** Provided the draft budget for 2011 is adopted without modifications by the Budgetary Authority.

The results of the 2011 Advanced Grant call, closed end of 2010 are, at the time of writing, not available.

However, it should be noted that a total of 4080 proposals were submitted in response to the call 2011 Starting Grant out of which 1690 for Physical Sciences and Engineering (PE), 1440 for Life Sciences (LS) and 950 for Social Sciences and Humanities (SH), representing respectively 42%, 35% and 23%, in line with the proposals received in response to the 2010 Starting Grants Call.

1.2.2 Evaluation of proposals

In response to the 2010 calls (Starting and Advanced Grants), a total of 4882 proposals were submitted, representing a 20% increase compared to 2009.

Such increase is explained by the growing consideration the ERC and the IDEAS specific programme are gaining with the scientific community, as well as by less restrictive resubmission rules applicable in 2010 compared to those of 2009: over the passed calls since 2009, on average a resubmission rate of 18% is observed from one year to the next one. In addition, broadening the PhD eligibility window for Starting Grants from 3-8 years in 2009 to 2-10 years in 2010 had a mechanical effect on the increase of applications submitted. Indeed, in 2010, approximately 24% of total Starting Grants 2010 applications were submitted by researchers having been awarded their PhD 8 to 10 years prior to the publication date of the call for proposals. This trend is also observed on the 2011 Starting Grant, as the PhD eligibility window has been further expanded to 2-12 years: around 18% of total applications are submitted by researchers with a PhD awarded 10-12 years prior to the publication date of the call for proposals.

The high 2010 rate of eligible proposals (97%) remained overall stable compared to 2009 (96%). The 2010 evaluation process resulted in a total of 399 Starting Grants and 266 advanced Grant being retained for funding within the call budget, in line with the Agency's Annual work plan 2010 estimations, respectively of 400 and 300 proposals retained for funding. The 2010 overall success rate of 14% (retained for funding /evaluated proposals) slightly increased by 2% compared to 2009. The success rate of both calls was similar.

The evaluation process involved the appointment of 2688 independent experts and the effective contribution of 1822 of them.

The following table shows more detailed results of the evaluation process of the ERC-2010- Starting Grant and ERC-2010-Advanced Grant:

Starting Grants Call ERC-2010-StG	Submitted proposals	Eligible (% of total eligible proposals)	Top 399 (% of total top proposals)
Physical Sciences and Engineering (PE)	1205	1175 (42,5%)	181 (45,5%)
Social Sciences and Humanities (SH)	639	610 (22%)	74 (18,5%)
Life Sciences (LS)	1029	982 (35,5%)	144 (36%)
Total	2873	2767	399
Advanced Grants Call ERC-2010-AdG	Submitted proposals	Eligible (% of total eligible proposals)	Top 266 (% of total top proposals)
Physical Sciences and Engineering (PE)	902	889 (45%)	123 (46%)
Social Sciences and Humanities (SH)	486	475 (24%)	44 (17%)
Life Sciences (LS)	621	613 (31%)	99 (37%)
Total	2009	1977	266
TOTAL 2010 calls	4882	4744	665

Starting Grant Call ERC-2010-StG

The review sessions were carried out by the 25 Evaluation Panels from January until September 2010, (Panel Chairs meeting included) with the assistance of 1822 independent experts (353 Panel Members and 1469 Remote Referees) of which 232 were women (12,7%).

The StG 2010 evaluation was extended due to the irruption of the volcano in Island, in April 2009, as five PE evaluation panel meetings had to be cancelled. A Crisis Management Team was immediately setup with the Head of Department and the Director, panel meetings were rescheduled in July 2010, the final Panel Chairs meeting were postponed to September 2010 and finally feedback to applicants had been postponed accordingly. After the final Panel Chairs meeting, feedback to applicants was done in a very short time to avoid further delays.

A total of € 526.568.648 was awarded for the 399 proposals retained for funding from the main list without considering subsequent proposals retained on the basis of the reserve list) representing an average awarded grant per proposal of € 1.319.721.

Advanced Grants Call ERC-2010-AdG

The review sessions were carried out from March until November 2010 (from the Introductory to the Final Panel Chairs' Meetings) with the assistance of 1822 independent experts (305 Panel Members and 1583 Remote Referees). Out of the 305 Panel Members, 77 were women (25%).

A total of € 588.052.829 was awarded for the 266 proposals retained for funding and the overall average awarded grant per proposal was € 2.210.725.

Redress cases

The redress procedure is a good indicator to assess the effectiveness of the evaluation process, as it may highlight potential shortcomings.

In 2010, a total of 225 redress complaints were introduced, representing 4.6 % of the total number of proposals. Although the percentage of redress cases introduced shows a slight increase compared to 2009 (+0.7%), the number of re-evaluation decreased by 71% (from 14 to 10 re-evaluations) based on the outcome of the ERCEA Redress Committee's assessment and none of the 2010 redress complaints introduced was successful. One re-evaluation is still pending.

No redress complaints were brought to the attention of the EU Ombudsman in 2010.

The table below shows in detail an outcome of the redress procedure in 2010:

Total number of grant proposals received (eligible and non-eligible)	4882
Number of redress request received	225
Redress request % of the proposals received	4.6
Number of redress request treated	217
Number of redress request pending	8
Number of redress cases which led to re-evaluation	4
Redress cases which led to re-evaluation (% of proposals received)	0.08
Number of successful redress request	0
Number of re-evaluations pending	1

The following table shows the results of the evaluation of the 2010 calls. The percentage of the grant agreements signed versus the number of proposals awarded at year end regarding the calls launched in 2010 is as follows.

SIG 2010	Total Invited	Signed	Under Preparation	Preparation failed	% signed
LS	158	104	51	3	65,82%
SH	79	52	27	0	65,82%
PE	199	156	43	0	78,39%
Total	436	312	121	3	71,56%

AdG 2010	Total Invited	Signed	Under Preparation	Preparation failed	% signed
LS	99	0	99	0	0,00%
SH	44	0	44	0	0,00%
PE	123	27	96	0	21,95%
Total	266	27	239	0	10,15%

For AdG-2010, the difference in the number of signed grant agreements and the number of individual commitments (or L2 commitments), as shown in the graph on the "Total amount and number of transactions of L2 commitments" is due to one case of de-commitment at year end.

As regards the Starting Grants, 399 were invited based on the main list to which were added 37 from the reserve list, resulting in a total 436 proposals invited to the granting process. In addition, it should be noted that 3 proposals were withdrawn, at the initiative of the Principal Investigator, after the invitation to the granting process (contract signature).

1.2.3 Scientific follow-up

The first scientific reports for past calls for proposals were due in 2010. The approach developed and implemented by the Agency to assess of scientific follow-up of funded projects relies on the following features: the principal investigator (PI) is responsible for the scientific reporting of the ERC grant on the behalf of the Host Institution, consisting of a standard report and peer-reviewed publications in reputable scientific journals, monographs and peer-reviewed conference proceedings, complemented, where appropriate, by other elements such as prizes, expeditions, editorial boards or patents.

Scientific reports are assessed by the Agency against the objectives of the Programme and expected achievements as laid out in the Description of Work (DoW).

The number of midterm reports expected for 2010 was 122 for Starting Grants and 15 for Advanced Grants, out of which already 51 Starting Grants and 4 Advanced Grants scientific reports were evaluated and approved, except for 2 projects, which require a site visit. No scientific reports are overdue at year end, as they are expected to be received by the end of January and February 2011, in line with contractual provisions which set the submission deadline within 60 days after the reporting deadline).

1.3 Performance on budget implementation

The commitment credits for 2010 amounted to €1.1 billion. During the reference period, the payment appropriations for the operational budget of € 549.4 million were reduced by € 25 million as a result of the re-estimation of the full year needs. In December, the payment and commitment appropriations were increased by € 3.6 million following a transfer from the administrative budget reflecting the adjusted needs till the end of the year, resulting in an amount of payment appropriations for the operational budget of € 528 million. The consumption of payment and commitment appropriations reached the 100% by the end of year 2010.

1.3.1 Performance on of the 2010 operational budget implementation

Implementation of budget 2010 appropriations

Commitment appropriations execution

At year end 2010, the execution of commitment appropriations for C1 and C8 credits reached 100%, the majority relating to ERC Grants, and some 0,5% to experts management.

The commitment credits (C1) voted for 2010 amounted to € 1.1 billion for the operational budget, and have been implemented through global commitments on the basis of ranked lists of proposals positively evaluated, as described in part 1.2.2.

The C1 credits for the 2010 calls were fully executed. The main commitment activity focused on the execution of L1 commitments³, which are created after the end of the evaluation of each call.

In addition, the total available appropriations carried over from the 2009 exercise of € 457,6 million were also consumed at 100% at the end of December 2010.

Due to the irruption of the volcano in Iceland in April 2010, the evaluation process of the 2010 Starting Grant Call was partially delayed by 2.5 months, which impacted the budget commitment implementation during the year. However, thanks to the availability of remaining evaluation results in the third quarter, the implementation of L1 commitments reached 99% of the indicative call budget. This resulted in 342 signed Grant Agreements for Starting Grants at year end.

As to the 2010 Advanced Grants Call, the granting process was launched in October 2010 and finalised by year end. Consequently, the corresponding L1 commitments were authorised during the fourth quarter of 2010, leading at year end to 100% execution of voted credits for 2010. This resulted in 239 signed Grant Agreements for Advanced Grants.

The table below provides an overview of the commitments execution 2010 by the main fund sources:

³ 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.

Operational Budget: Commitments execution

COMMITMENTS EXECUTION 2010 BY FUND SOURCE ⁴						
		C1	C4	C5	C8	R0
	Total Credits	1.129.256.772,00	1.953.723,66	11.822,74	1.134.883.890,08	181.358.927,05
Available Commitment Appropriations 2010						
A	Grants	1.123.695.772,00	1.945.852,60	11.822,74	457.683.118,69(*)	59.960.769,09(**)
	Experts	5.561.000,00	7.871,06	N/A	N/A	N/A
B	L1 Commitments	1.123.016.667,50	1.557.614,41	11.822,74	N/A	59.926.769,09
C	Indirect L2 Commitments	432.580.270,33	N/A	11.822,74	457.683.118,69	53.358.866,24
E	% consumption of L2 Indirect against the L1 commitments For C1, R0 = (C/B) ; For C8 = (C/A)	38,52%	N/A	100%	100%	89,04%
G	Direct L2 Commitments	679.104,50 (Grants) 5.561.000,00 (Experts)	N/A	N/A	N/A	34.000,00
H	% consumption of L1 and L2 Direct against the available Commitment Appropriations (B+G/ A)	100%	80%(***)	100%	100%	100%

(*) The initial C8 available commitment appropriations for 2010 was € 460.711.798,67. The difference of € 3.028.679,98 with the actual figure of 457.683.118,69 is mainly an outcome of de-commitments occurred through the year. Consequently, as these commitments are not any longer available for consumption, there are not taken into consideration for the calculation the consumption rate.

(**) The R0 total available commitment appropriations for 2010 have reached the amount of € 59.960.769,09 after the latest instalment of additional € 32.663.222,84 in mid September 2010.

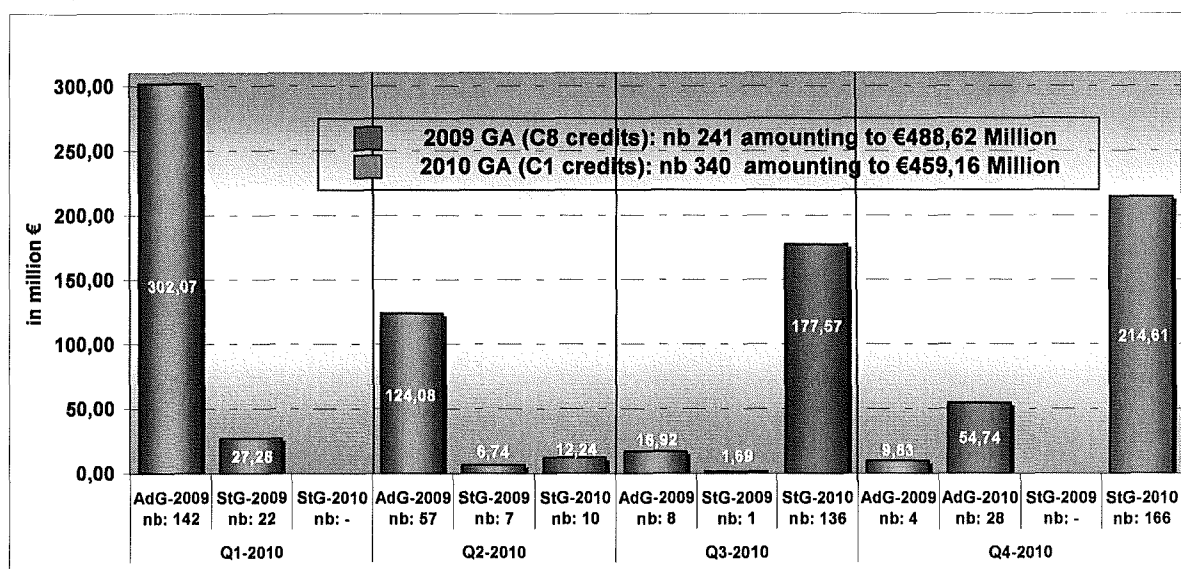
(***) The C4 commitment appropriations not consumed (388.238,19€) are reported in 2011 as C5, to be executed at 100%.

Overall, 581 Grant Agreements (transactions processed) were signed throughout the year⁵, representing a total commitments amount of € 948 millions. In line with the Call for proposals timing which is structurally overarching 2 calendar years, the commitment execution activity focused during the first semester on finalising the 2009 calls, and concentrated on the 2010 calls in the second semester.

⁴ Explanation of Fund Sources: C1 = voted credits of the current year; C8 = carried-forward credits of last year C1 credits; RO = contribution from Third Countries; C4 = credits of income generated mainly from interest on pre-financing; C5 = carried-forward of C4 credits of last year.

⁵ Including Grant agreements signed on 2009 call.

Total amount and number of transactions of L2 commitments*



* The actual number of signed and ongoing grant agreements for the year is 579 and the actual amount of L2 commitments are € 943,9 mio. The difference with the higher number (581) and amounts shown in the graph is due to one de-commitment following the termination of 1 grant agreement signed in 2010 and one de-commitment for a grant agreement from the 2010 call.

Payment appropriations execution

The total payment appropriations (C1: current year voted credits) for the year 2010 were € 549.4 millions. The Island volcano effect considerably postponed the conclusion the evaluation process of the 2010 Starting Grant call with a direct impact on the payment credit needs for pre-financing payments. As a result, the payment credits were reduced by € 25 million⁶ in the second quarter. Early December, the budget was again increased by € 3,6 million following a transfer from the Administrative Budget, following the outcome of the re-evaluation of needs till the end of the year. The final payment appropriations for the operational budget amounted to € 528 million, of which € 5.2 million were provided to support the payments of the experts.

The table below shows the consumption over the year, including the revenue assigned from third countries (R0). At the end of 2010, the objective of 100% payment consumption of payment appropriations (C1) was reached.

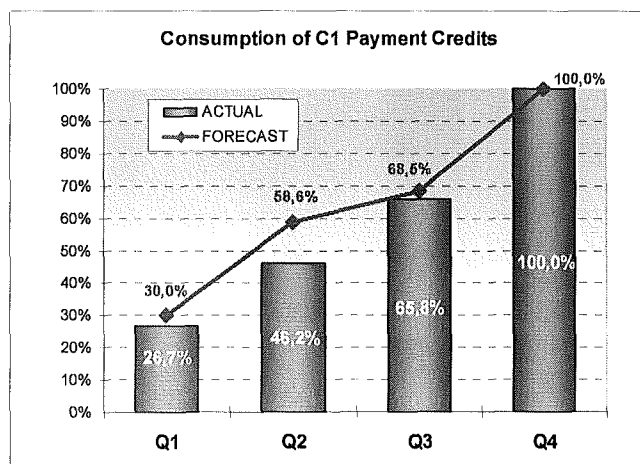
Operational Budget: Payments execution

PAYMENT EXECUTION BY FUND SOURCE					
		C1	C4	C5	R0 ⁷
Payments Appropriations 2010	Grants	522.763.929,66	1.847.477,51	271,17	181.358.927,05
	Experts	5.244.669,34	106.246,15	11.551,57	0.00
	Total	528.008.599,00	1.953.723,66	11.822,74	181.358.927,05
Payments	Grants	522.763.929,66	1.459.239,32	271,17	17.956.726,94
	Experts	5.216.981,30	106.135,72	11.551,57	0.00
	Total	527.980.910,96	1.565.375,04	11.822,74	17.956.726,94

⁶ This amount was returned to the DG RTD general budget.

⁷ For Assigned Revenue 100% yearly consumption is not obligatory.

% Payment Consumption	Grants	100%	80%	100%	9,9%
	Experts	99.5%	99,9%	100%	N/A
	Total	100%	80%	100%	9,9%

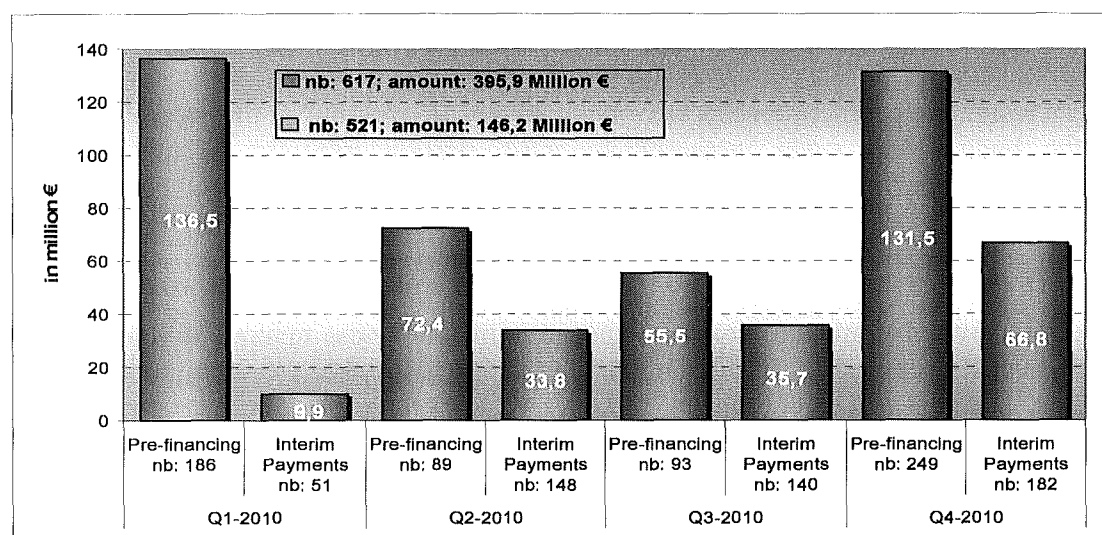


State of play on payments related to Grants

As illustrated by this figure, the evolution of the payment activity was in line with the forecast, as revised following the Island Volcano effect.

The graph below presents the 2010 payment activity by interim and pre-financing payments per quarter. A total of 1.138 transactions were carried out in 2010, representing an amount of € 542,2M. A total of 521 interim payments were processed compared to 535 initially forecasted.

Payments related to Grants



The number of pre-financing versus interim payments transactions are comparable (respectively 54% and 46%), whilst pre-financing payments represented 73% of all payments executed in 2010. This reflects on one hand the gradual increase of running projects reaching the stage of first interim payments, but is affected on the other hand by an under-consumption due to the financial reports being received with some delay from the beneficiaries and to costs claimed for reimbursements being significantly lower (i.e. 50% in average) than the initial budget estimation, as shown in annex 1 of the Grant Agreement (description of work).

Expert payment/appointment

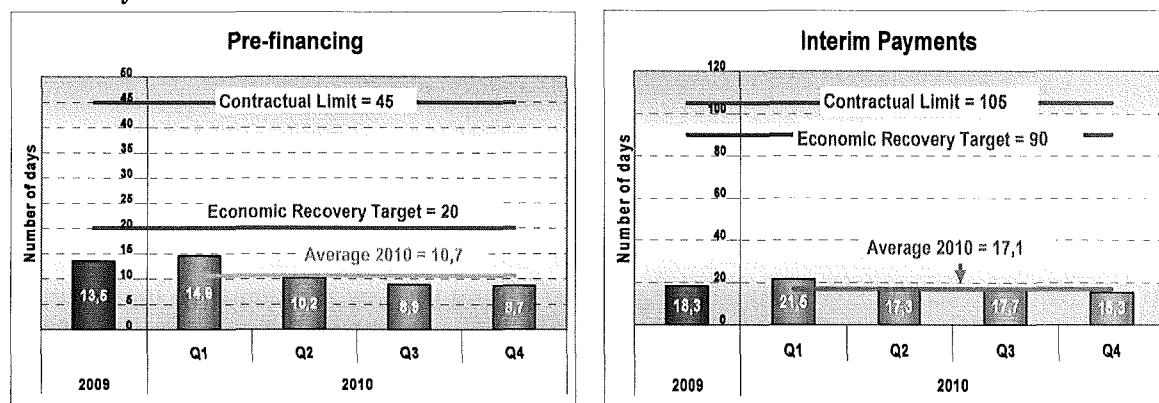
As regards expert related payments, 2.413 transactions were processed during the period, totalling to € 5,33 million and representing payments executed to 1.162 experts/principal investigators.

1.3.2 Time to pay

Time to pay related to Grants

During the reporting period, 1.138 payments for grants (pre-financing and interim payments) were processed. The Agency managed to consolidate its key performance indicators for time to grant and even set new standards for the research family with an average time to pay of 10,7 days for pre-financing and 17,1 days for interim payments.

Time to Pay for transactions related to Grants



100 % of the payments were executed on time, when compared to the contractual time limits defined in the ERC Grant Agreements (i.e. 45 days for pre-financing and 105 days for interim payments).⁸

When compared with the economic recovery targets adopted by the Commission⁹ (i.e. 20 days for pre-financing and 90 days for interim payments), 99,8% of the pre-financing and interim payments were executed on time.

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

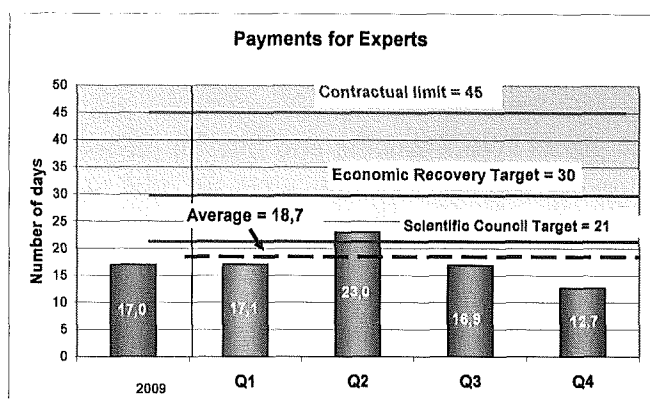
Time to pay related to Experts

The yearly time to pay was on average 18,7 days. The figure below shows the average time to pay for experts for each quarter of the reporting period, indicating as well the different time limits as the contractual limit of 45 days, the economic recovery target limit of 30 days set by the Commission and the time limit suggested as optimum by the Scientific Council of 21 days.

98,3% of the payments were executed on time, when compared to the contractual time limits (45 days) compared to 93,01% in 2009. 73,4% were paid on time according to the Scientific Council target of 21 days (versus 66,74% in 2009). 90% were paid on time according to the new target adopted by the Commission (30 days) compared to 83,26% in 2009.

⁸ As defined in art. II.6.1.a and art. II.5.1 of the General Conditions.

⁹ 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.



It has to be noted that the new financial circuit which was implemented on September 1st 2010 proved to be very efficient and have entailed further improvement (with a time to pay as low as 12,7 days for the fourth quarter and 92,1% of the payments done within 21 days).

1.3.3 Recovery Orders

A total of 124 recovery orders were issued in during the reporting period, amounting to € 1,501,308.92 of which 97.6% were cashed, outperforming the key performance indicator of 90%. The types of recovery orders are shown in the table below highlighting that almost 90% of the number of recovery orders issued refers to recovery orders for interests earned on pre-financing payments exceeding € 750,000 (FR art. 5a).

State of Play on Recovery orders

Reason for recovery	Number of recoveries issued in 2010	Amount recovered
Recovery of interest earned on pre-financing payments	110	- 459.428,14
Recovery due to termination by beneficiary	4	783.100,16
Recovery due to results of external audits, including liquidated damages	6	36.423,30
Other (recovery of pre-financing payments and experts)	4	222.052,91
Total RO issued 2010	124	1.501.004,51
Total RO cashed in 2010¹⁰	113	1.451.358,04

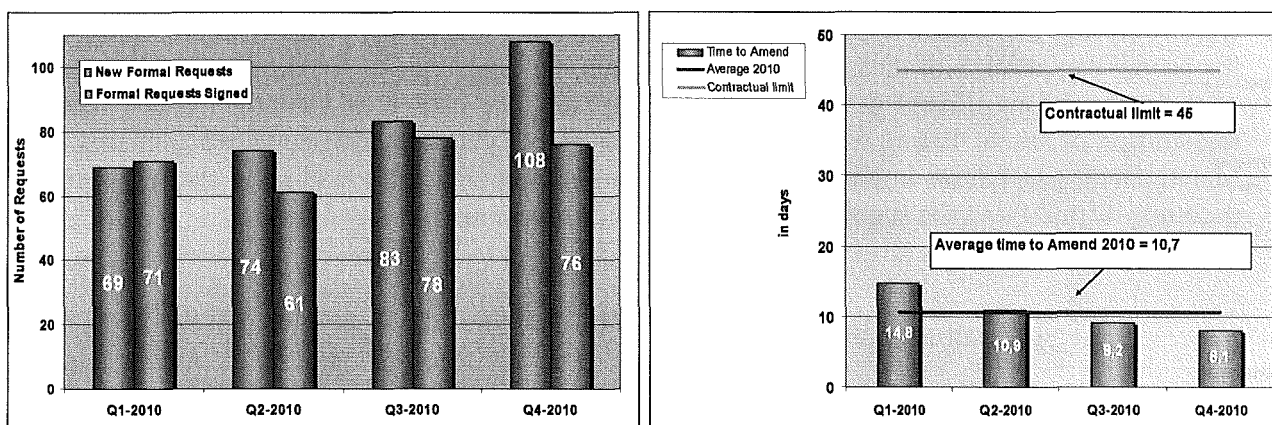
1.3.4 Grant amendments and termination - De-commitments

During 2010, 334 new requests for amendments by beneficiaries were received and 286 were signed¹¹, representing nearly 20% of the portfolio of grants which was already subject to an amendment. In the same time, the Agency managed to considerably improve the time to amend. In 2010 the average time to amend reached only 10,7 days, which is significantly lower than the time limit of 45 days contractually foreseen.

¹⁰ Including two Recovery Orders issued in 2009, but cashed in 2010.

¹¹ The difference represents amendments still in progress and not finalised at the year end.

Amendments requested by beneficiaries in 2010 and Time to Amend



This improvement is the result of the consolidation of procedures and the introduction of a new IT amendment tool that became operational in May 2010. Compared to 2009, the time to amend was reduced by nearly 50%, while the productivity per month increased with 20%.

Amendments remain more common for Starting Grants, due to the fact that beneficiaries for Starting Grants form young/new teams. Also grants for earlier calls were subject to more frequent changes than grants for the latest calls. Changes of Host Institutions and modification of the Annex I of the grant agreement (Description of work) represent 17% of the amendment cases, whilst the remaining amendments were of more administrative nature, relating to updates of contact details, of the authorised representative and banking details.

In 2010, 4 grant agreements have been terminated on the request of the beneficiary: 1 grant agreement has been signed and terminated in 2010; the other 3 were signed in previous years and terminated in 2010. The reasons for termination were the departure of the Principal Investigator to another research institution located outside the EU and/or Associated Countries. For these four cases, the corresponding L2 commitments were de-committed for a cumulative amount of € 3,1 million. There were two additional cases of partial de-commitment following amendments to the grant agreement. Consequently, a cumulative total of € 2,9 million was partially de-committed from the two corresponding L2 commitments.

1.3.5 Implementation of the 2010 administrative budget appropriations

ERCEA administrative adopted budget of €30,0 Mio has been reduced to an actual budget €29,3Mio during the reporting year. ERCEA annual subsidy requested to the Budgetary Authority amounted to €32,9 Mio has been reduced following 2 decisions of the Steering Committee by a transfer of €3,6 Mio from the administrative budget to the operational budget. The actual administrative budget represented 2,2% of the operational budget.

The year end execution rate of the 2010 administrative budget (C1 appropriations, €29,3 Mio) was 99,6% for commitments and 94,1% for payments, the difference in execution rate corresponding to the Reste A Liquider (RAL) covering goods and services delivered in 2010 but not yet invoiced to the Agency, as costs of training and building, IT consultants, IT helpdesk and communication.

The year end payment execution rate of "C8 appropriations" from 2009 reached 87,3%, due to an overestimation of some invoices resulting from 2009 obligations.

In the framework of the 2010 quality programme of the Chief Accountant Office, all transactions were reviewed to validate accounting aspects as the recording in the proper General Ledger account, the proper registration of data, contracts and assets, the relevance of the description and justification of the transactions. Errors detected concerned mainly the choice of General Ledger accounts and registration of assets. Errors were corrected and at end of year no significant error remains. Financial Management procedures implemented by the Authorising Officer(s) leading to the registration in the accounts or justifying the registration in the accounts have also been validated.

PART 2. MANAGEMENT AND INTERNAL CONTROL SYSTEMS

2.1 INTRODUCTION TO THE ERC EXECUTIVE AGENCY

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. The ERCEA thus strives to make an important contribution to Europe's long term vision of becoming the most competitive and dynamic economy in the world.

The Agency's 2010 successful performance as outlined in part I is the result of a significant growth of its staff, organizational changes further reinforcing the segregation of duties, a strong interaction with its stakeholders and an effective internal control system.

2.1.1 Organisational structure and IT

The powers delegated to the Agency were established by the Commission Decision of 8 October 2008 with a view to define the tasks linked to implementation of the 'Ideas' Programme in the field of research comprising in particular implementation of appropriations entered in the Community budget¹².

The **organisational structure**¹³ of the ERCEA follows the operational and horizontal objectives of the Agency. It shows seven horizontal units (excluding the chief accountant) and six operational units managing the Ideas Programme. Independently the Accounting Officer, the Internal audit office, Communications Unit as well as a/the unit in charge of the relations with the Scientific Council report directly to the Director. On the basis of the recommendations by the Internal Audit Service¹⁴ concerning the reinforcement of independence of the Agency's ex-post control function, the Steering Committee approved¹⁵ the adding of a direct functional reporting line to the Director for the unit in charge of ex-post controls of the grants.

To further improve the professionalization of ERC activities at all levels, in particular the simplification of administrative procedures of the ERCEA, the Agency proposed and was granted permission by the Agency Steering Committee¹⁶ to simplify, as from July 1st, 2010 the financial circuits for both the administrative budget and the operational budget taking into account the ever increasing number of transactions. The Head of Department D was made 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. As for the Operational Budget, the Head of Department C was made Authorising Officer by sub-delegation, reflecting decentralised financial circuits.

¹² COM/2008/5694/Final.

¹³ For further details, please refer to annex 5.

¹⁴ IAS Final Audit on ERCEA on the set up of Internal Controls and Financial management systems – design, dated July 15th, 2010.

¹⁵ Steering Committee meeting of October 13th, 2010.

¹⁶ Decision of the Steering Committee 21.06.2010.

To reflect the modification of financial circuits for the administrative budget into the organisational chart, the administrative budget team (the Budget cell) was transferred under the direct responsibility of the Head of Department D.

At the end of December 2010, the Agency employed a total of 316 agents, representing an overall increase of 20% compared to year end 2009, and corresponding to 96% of the maximum number of staff authorised in the 2010 administrative budget and to 99% of the target set in the Annual Work Programme 2010 (320 staff).

During the period reported, 73 staff members were recruited, the majority of newcomers (77%) being allocated to operational departments. This results in 68% of total Agency staff being allocated to ERCEA operational activities, the Scientific Management Department accounting for 42% and the Grant Management Department for 26% of total staff.

In addition, a turnover of 6,5% of average active staff in 2010 was observed and is due to the attraction of official positions in the European Commission and temporary agent positions in other EU agencies.

The table below shows staff growth since 31 December 2008 to year end 2010 and highlights the importance of Contracts agents with the agency (31.12.2010: 70%):

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

Taking into account the 2010 significant staff growth, the Director designated several temporary agents as "team leaders" both as an acknowledgement of their responsibilities and as a means of better organising the work of units.

Acknowledging the important role of professional development in staff performance and motivation, ERCEA's Learning and Development Framework 2010-2011 was adopted in May 2010 identifying 9 priority training areas that are essential in supporting staff development in view of the fulfilment of the overall mission of the Agency. Throughout 2010, ERCEA staff was offered a variety of opportunities to further develop its skills and competencies (a total of 41 tailor-made trainings were organised). On average, ERCEA staff followed 11.7 training days in 2010.

To ensure the representation of Agency's staff members' interests, a Staff Committee was set up and its members elected in March 2010. It was consulted on 2 Implementing Rules (on anti-harassment policy in June 2010 and on reclassification of Contract Agents) in December 2010).

Finally, to promote ERCEA corporate identity, internal communication has been reinforced based on a new intranet platform aiming at improving the efficient dissemination of information to all staff, the coordination of the visits of the Commissioner Maire Geoghegan-Quinn and of the new Director General of DG Research and Innovation to the Agency's management and staff; and the organisation of a Team bonding event in December 2010 bringing together staff, management and members of the Scientific Council.

The IT Strategy, adopted on July 29th, 2010, emphasised the importance of IT in the organisation and described the major IT objectives to be attained in the coming years: simplify, consolidate and integrate the IT architecture; facilitate and enhance knowledge management; provide robust solutions for office automation; move towards paperless workflows and processes; and, provide common IT services for use across the organisations application landscape. These objectives already outlined the course of organisation wide IT efforts in 2010.

The IT governance structure of the agency has matured considerably in 2010. The newly established IT Steering Committee (ITSC) now ensures that the principles of the IT Strategy are respected and that duplication of effort is avoided; as a decision making body it will make the necessary decisions regarding budget and resources allocation for the various IT projects in the Agency.

The IT master plan for 2011 was approved in December 2010 by the ITSC. In line with the IT strategy, the Agency has developed and maintained its own IT applications, for partly or fully automating the processes of scientific evaluation, grant management and business supporting activities. The Agency has also relied on central FP7 IT systems including the IT systems chain of DG Research and Innovation, as foreseen in the Memorandum of Understanding between the Agency and the parent DG.

Work on an IT specific Business Continuity Plan (BCP), as part of the overall BCP, is in progress. Agency applications are hosted by the DIGIT Data Centre in Luxembourg and thus benefit of DIGIT's disaster recovery plan. The local server infrastructure (i.e. shared drives, Agency intranet, DHCP server, print server), for which the works have been completed in the 1st quarter of the year, will be replicated on a remote site at DG Research and Innovation in 2011.

2.1.2 Working relations with key stakeholders

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". 2010 saw a change in the leadership at DG Research and Innovation, the Agency's parent DG. The Commission appointed Robert-Jan Smits as Director of DG Research and Innovation with effect of 1st July 2010, who subsequently also became Chair of the Agency's Steering Committee. Following the resignation by Prof. Kafatos, the Scientific Council elected Prof. Helga Nowotny as Chair of the Scientific Council with effect of 1st March 2010.

Against the background of goals set out in the "ERC review of structures and mechanisms" concluded in 2009, a merger of the roles of Agency Director and the ERC Secretary General was expected for 2010. Following extensive discussions between the various stakeholders, it was eventually decided to keep the status quo of duality of posts with the approval of the Commission. The ERC Secretary General post is expected to be filled in the first months of 2011.

The specific governance model of the ERC requires the Agency to provide organisational and administrative support to the Scientific Council's plenary meetings. It further provides advice and analysis to facilitate the Scientific Council to fulfil its tasks as described in the Annex 1 of the Ideas Specific Programme, as well as support to the operational activities of working groups¹⁷ and

¹⁷ ERC Working groups on "relations with Industry", "Open access", "Third Country Participation", "Gender Balance".

permanent committees¹⁸. A series of working documents containing analysis and key messages on the specific issues dealt with by the Working Groups and by the permanent committees were prepared by the Agency, in conjunction with members of the groups in the areas covered by their mandates: ensure that the ERC is at the forefront of best practice regarding the gender balance of grantees¹⁹; explore suitable mechanisms to boost the participation of non-European researchers, particularly from Brazil, Russia, India and China, in the ERC schemes; examine the ERC's relationship with the industrial/business sector and the impact of ERC-funded research on innovation; develop an ERC position on open access.

In addition, to develop further and optimize the scientific strategy of the ERC, the Scientific Council relies on a range of project results and studies to support its ongoing monitoring and evaluation strategy. This is implemented through "**Coordination and Support Actions**" which are scientific projects selected according to EU public procurement rules and funded by ERC EA operational budget. First results of 3 ongoing CSA projects, awarded in 2008 and 2009 are available: the first report on the European funding landscape and the impact on research organisations as well as on individual research careers, a number of country reports (IT, FR, UK, DE, CH, NL) on national research systems and post-doc career trajectories and an initial fine mapping of emerging research fields within identified growth areas by using advanced bibliometric analytical tools.

Finally, efforts were made by the Commission, the Scientific Council and the Agency during 2010 to meet the recommendations of the independent ERC review, leading notably to the adoption of the new ERC rules for submission, and to the revision of the ERC decision.

The Agency has put particular emphasis on **simplification of the procedures concerning the peer review experts** (reviewers and panellists). The new version of the "ERC Rules for the submission of proposals and the related evaluation, selection and award procedures for indirect actions under the Ideas Specific Programme of the Seventh Framework Programme (2007 to 2013)"²⁰ establish a simplified procedure of appointment and reimbursement procedure for experts involved in the peer review process of the Ideas programme. The simplification involves the creation of a "framework" appointment letter which remains valid until the end of the FP7 "Ideas" Specific Programme followed by specific electronic task assignments. Other amendments include the possibility for the applicant to request the exclusion from the evaluation of a specific expert, under specific conditions and as long as it does not affect evaluation quality; and the revision of the specific annexes on ethics review and security scrutiny, aligned with the standard FP7 rules.

DG Research and Innovation

The Agency performs the tasks entrusted to it under the control and supervision of its **parent DG, the Commission's Research and Innovation** Directorate General. The Memorandum of Understanding signed upon Agency autonomy on 15th July 2009 between the parent DG and the Agency was implemented during the reporting period. Difficulties were however experienced in the approval process of documents requiring a Commission decision such as the Agency annual work programme 2010, whose approval by the Commission and subsequent adoption by the Steering Committee was delayed by two months, which also implied delays in the adoption of the Agency administrative budget for 2010.

¹⁸ Following the recommendations of the Panel on the Review of the ERC's structures and mechanisms, the Scientific Council established two permanent committees on conflict of interest and on the selection of evaluation panellists.

¹⁹ ERC Scientific Council Gender Equality Plan has been adopted in December 2010.

²⁰ Commission Decision C(2010)8695 of 9 December 2010 amending Commission Decision C(2007)2286 of 6 June 2007.

The Agency is also working closely with its **Steering Committee**, which has the management responsibility of the Agency²¹ and whose members are appointed by the Commission. It adopts the Agency's annual work programmes, administrative budget and annual reports. It is composed of five members²². The ERC Secretary General has observer status. The **Operational Committee** composed of representatives from DG Research and Innovation and the Agency, chaired by the Agency Director, deals with more detailed operational issues related to the implementation of the Agency's Work programme, provides advice to the Steering Committee and promotes a smooth cooperation with the parent DG. In accordance with the Memorandum of Understanding (Article 7.3), it met three times in 2010 and, inter alia, tackled issues of mutual concern such as the appropriate follow-up of the recommendations by the IAS. In particular, following the recommendation of the Commission's Internal Audit Service, calling for a revision of the Memorandum of Understanding (MoU) and an improvement of working arrangements between the parent DG and the Agency, a joint Working Group was created at the Operational Committee meeting on 23rd September 2010 to prepare the revision of the MoU. The new MoU is expected to be in place in the first quarter of 2011.

The Agency contributes to the quarterly briefing of the **Commissioner** for Research and Innovation, Maire Geoghegan-Quinn, who took office in February 2010, on the use of resources, audit follow-up and internal control issues. The Commissioner came to visit the ERCEA on 18th March 2010 to meet the Agency Management team, staff and several ERC Grantees, and visited the ERC Scientific Council plenary meeting in Brussels on 29th April. Ms. Geoghegan-Quinn and her Cabinet discussed the ERC/ERCEA and in particular the follow-up on the ERC Review in several meetings in 2010 to which the Agency Director was invited.

The Agency benefited for the performance of its activities from the logistical support from various horizontal Commission services through eleven Service Level Agreements concluded with the Commission administrative Directorates and offices²³.

External Communication

During the course of 2010, the Agency increased its communication and information efforts to raise awareness on its funding opportunities both in Europe and worldwide as well as to raise the visibility of the ERC and of its projects among the general public and the media. It fostered its relations with existing **networks of key stakeholders**, consisting of targeted Commission's Directorates General and services²⁴ and specialized and non specialized media. At Country level, the main partners were the National Contact Points of the IDEAS Programme, Commission Representations and Delegations and networks such as EUA, EUROHORCS, and EURODOC.

2010 was marked by the "World Expo" of Shanghai and by the 2010 Nobel Prize in Physics awarded to Prof. Konstantin Novoselov (ERC Starting Grantee 2007), and to his colleague Prof. Andre Geim for their study of graphene. Numerous other prizes were won by Advanced grantees²⁵.

²¹ Article 7 of 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 Programmes.

²² The members of the ERC EA Steering Committee are: the Director-General of DG Research and Innovation, Chairperson of the Committee, the Director for Resources in DG Research and Innovation, Vice-chairperson of the Committee, The Director of DG HR responsible for the Consultative Committee on Appointments, Mathias DEWATRIPONT, member of the ERC Scientific Council and Catherine CESARSKY, Haut-Commissaire à l'énergie atomique.

²³ Mainly with Directorates Human Resources & Security, Informatics; Office for the Administration and Payment of Individual Entitlements and the Office for Infrastructures and Logistics in Brussels.

²⁴ DG Research and Innovation, DG Communication and Relex, Delegation's science Counsellors and EACEA (Erasmus Mundus), REA (Marie Curie).

²⁵ Such as Prof. Anne L'Huillier (Advanced Grantee 2008), who won the 2011 L'Oréal-UNESCO Awards for Women in

Thanks to its 2010 press activities, the ERC caught the attention of the media both in Europe and worldwide, both as an organisation and through the funded projects/grantees. Press activities resulted in a good number of articles in both the scientific and more general press (over 1500 mentions), covering governance related matters as well as call results. Notably, the test drive of ERC Advanced grantee Prof. Alberto Broggi's autonomous driverless electric vans from Italy to China generated a lot of worldwide media coverage.

Publications were produced with a focus on researchers working in third countries in view of supporting the ERC outreach campaign policy and to support the 1000th Grantee event. In the audiovisual sector, clips were produced and disseminated via several Internet audiovisual platforms and on YouTube advertising the most relevant and innovative aspects of the ERC.

In 2010, two meetings with the ERC National Contact Points were held with the aim of informing the NCP's network of the results of the calls, on best practices in grant management, on the ERC's proposal for the 'Proof of Concept' scheme and on national initiatives supporting excellent ERC applicants who could not be funded by the ERC call budget.

With regard to the Agency's website, its content has constantly been improved during the course of 2010, highlighting some granted projects in view of showing the benefits, of ERC's funds, to the media and to the general public, as well as international scientific prizes awarded to grantees during the course of their projects. The first pages of the ERC website are available in several EU languages and the search engine of the website has been fine-tuned and became more effective. The website was consulted during the year by some 294.000 single visitors.

Finally, the ERC Communication strategy plan for 2011 was presented to the Scientific Council in December 2010.

Recognising the evolution based on results and experiences of prior calls of the ERC Starting Grant scheme, the Agency shared lessons learned and challenges of scheme rationale, competition preparation, the specific evaluation procedure adopted with other funding agencies managing similar schemes during a workshop on 'Best Practices in Starting Grants'.

2.2 THE FUNCTIONING OF THE ENTIRE INTERNAL CONTROL SYSTEM

During 2010, significant progress was done to improve the internal control framework system's robustness, in providing for adequate segregation of duties, established processes and procedures and the promotion of an ethical behaviour. This was achieved in particular through the validation of the Agency's processes and procedures, including the whistle-blowing procedure, the development of risk management action plans at Unit level, providing detailed information about the potential risks and suggested mitigating measures for the Agency operations and support functions, the set up of a coordination mechanism for the follow-up of audit findings and recommendations and the establishment of an internal working group to develop fraud prevention activities.

The assessment of Internal Control Standards' level of compliance and effectiveness in 2010 is mainly based on the outcome of ongoing monitoring activities, of an internal control self-assessment exercise using the online iCAT (internal control assessment tool) managed by DG BUDG and on independent audits performed by the IAS, IAO and ECA.

Science for the European continent, and Prof. Ilkka Hanski (Advanced Grantee 2008) who won the 2010 European Latsis Prize for his contributions to research in the field of biodiversity.

2.2.1 Compliance with the requirements of the control standards

The coordination of the monitoring of the compliance of the internal control system is carried out by the Internal Control Coordinator with the support of the Internal Control Coordinators (ICCs) network comprising one representative of each Unit. The network meets every second month and discusses internal control matters. It reviews on a regular basis the action plan towards monitoring the compliance of internal control standards in the framework of ICS 15 "Assessment of Internal Control Systems".

The analysis at the end of 2010 of the Agency's compliance with internal control requirements shows that full compliance with the baseline requirements is assessed for 80% of the internal control standards, whilst partial compliance is assessed for three standards (ICS 3, ICS 9 and ICS 10)²⁶.

Specific actions are already planned or underway in order to swiftly reach full compliance. The development of a policy on staff mobility and sensitive functions is being discussed and the draft guidelines have been prepared. These draft guidelines will be analysed further in 2011 to take into account the specificities of the Agency. At the end of 2010, the first management supervision exercise was organised following the adoption of the ICS 9 management supervision strategy and in line with its risk based plan, which will be further implemented in 2011. Specific actions are underway towards achieving full implementation of ICS 10, via an IT security plan and an IT business continuity plan and provisions.

It is expected that ongoing and planned actions will ensure the full implementation of all the standards by the end of 2011.

In addition, the Agency will continue in 2011 to promote the importance of the internal control standards by organising comprehensive trainings on ICS.

2.2.2 Effectiveness of implementation of internal control standards

The 2010 assessment of the effectiveness of Agency's overall internal control system is mainly based on the results of the risk assessment exercise performed in preparation of the Annual Work Programme 2011, on the outcome of monitoring instruments and supervisory controls, as well as on the progress made in implementing recommendations of various audits performed in 2010. In addition, the Agency launched in mid-November its first Internal Control self-assessment, using the online iCAT (Internal control assessment tool) managed by DG BUDG. The purpose of this iCAT exercise is to assess the perception by participants of the level of compliance and effectiveness of the Internal Control Standards. Selected participants to the exercise represented overall one third of the Agency staff, including management and internal control coordinators. The effective participation rate attained 75% of selected participants.

Following the methodology proposed by DG BUDGET²⁷, the assessment results of the effectiveness of Internal Control Standards are presented hereafter along the 6 ISC building blocks, highlighting 2010 key achievements (refer also to annex 5).

²⁶ Of the set of 16 standards, the ICS 14 "Evaluation of activities" is not applicable, as evaluations of the Community programmes and legislation remains the responsibility of the parent DG.

²⁷ http://www.cc.cec/budg/man/icrm/_doc/services/guidelines/doc_081110_icsystemeffectivenessmeasureguidelines_en.pdf.

Building block 1: Mission and values

The iCAT results indicate a positive assessment.

In order to further promote ERCEA staff's awareness of the Agency's mission statement and relevant ethical and organisational values, induction events (trainings, package) for all newcomers as well as dedicated trainings were organised in 2010 on "Ethics and Integrity" (8), on data protection for staff as well as for managers (6) and on Internal Control Standards for particular target groups (2), namely ERCEA management and internal control coordinators. Furthermore, the new intranet was designed to improve the effective dissemination of information to all staff.

As regards the evaluation process managed by the Scientific Department, the existing procedure dealing with conflicts of interest has been recently updated, in order to define a set of conflicts of interest categories, and to standardise the appropriate corrective actions. In addition, detailed internal Practical Guidelines are available to scientific officers, containing a complete set of typical case situations, the description of the appropriate behaviour and corrective actions to adopt.

In addition, as one of the priority task of 2010 to develop appropriate ethical and organisational values to support "right" ethical behaviour by ERCEA staff, an internal working group was formed with the purpose of coordinating all ERCEA fraud matters. The Agency's whistle blowing procedure was approved by the Director and published in ERCEA intranet. Based on formal consultations with key stakeholders involved in fraud prevention (OLAF, IDOC, DG Research and Innovation and REA), the working group defined key priorities for the ERCEA fraud prevention and detection strategy which will be finalised in early 2011. The second half of 2010 was also dedicated to develop a fraud questionnaire with the purpose of collecting data of the awareness of ERCEA staff on fraud related matters, to be launched in early 2011.

Finally, the anti-harassment decision has been adopted by the Steering Committee in December 2010. The Agency's Confidential Counsellors were selected in July 2010 and, after completion of a comprehensive mandatory training in December 2010, will be appointed in 2011. The Agency, in concert with other 5 executive agencies, has been preparing a common Manual of Procedures and Memorandum of Understanding to set up the inter-executive agencies Network of Confidential Counsellors (expected to be operational as from February 2011).

Based on the above, management assesses the level of effectiveness at "improvement needed".

Building block 2: Human resources

The iCAT results indicate a positive assessment, but call for a mobility policy to be developed. The latter is included in the 2011 action plan related to ICS for effective management, together with the guidelines on sensitive functions.

A staff allocation exercise was performed in mid-2010; staff was provided with job descriptions within first month upon entry into service; staff performance was evaluated according to Commission standards by means of the Agency's first CDR exercise, covering 61 temporary agents and 52 contract agents, and 55 mandatory training courses were organized in-house, which recorded an average attendance rate of 77%.

Following the Internal Audit Office's audit on human resources management and subsequently agreed action plan sent to the Director on 1st July 2010, the Director's Office has been monitoring the

follow up on the audit recommendations. The HR audit contains eight very important recommendations and no critical recommendations. As per year end 2010, Management assesses 5 recommendations as implemented and 3 partially implemented with a target date postponed to end of March 2011.

Based on the above, management assesses the level of effectiveness at "improvement needed".

Building block 3: Planning and Risk Management Processes

The iCAT results indicate a positive assessment, but call for an improvement of the risk assessment processes. The 2011 action plan related to ICS for effective management includes the design of an in-depth risk management methodology and the promotion of good practices.

Based on the first full ERCEA risk assessment, Management identified three main risks in the areas of governance, IT and scientific/financial fraud and irregularities. Actions are being implemented to address these risks, as described under section 2 above.

A mechanism has been set up in 2010 under the responsibility of the Director's Office to periodically monitor the timely implementation of audit recommendations issued by the Internal Audit Service of the Commission (IAS), ERCEA's Internal Audit Office (IAO) and the European Court of Auditors (ECA).

Based on the above, management assesses the level of effectiveness at "improvement needed".

Building block 4: Operations and Controls

The IAS conducted an audit on the Set up of Internal Controls and Financial Management Systems and published its report on 15th July 2010 to which the Agency responded by means of an Action Plan on 30th September 2010 sent to the parent DG and the IAS. The IAS audit report contains eight recommendations, out of which four are classified as "very important" and four as "important".

As per year end 2010 management's assessment, the status on the implementation of the audit recommendations is as follows: 2 are implemented, 5 are partially implemented within agreed timetable and 1 is partially implemented with a revised target date set to end of June 2011. A follow-up audit on the effective implementation of audit recommendations will be performed by the IAS in 2011.

Furthermore, efforts have been made towards embedding the Internal Control Standards in particular through the training of all staff involved in the preparation of Grant Agreements, as well as to targeted groups (Internal Control Coordinators, Management).

The iCAT results indicate a positive assessment, although evidencing the need to design and promote a BCP, in line with IAS recommendation enclosed in the above mentioned report, as well as to develop performance indicators, logs and alerts of key IT systems.

No instance of overriding control was reported during 2010. Only one instance of deviation from established procedures has been reported in the area of experts' management, which has been duly justified and approved before its implementation by the Director. Its financial impact is not material.

In 2010, the Agency adopted its **management supervision** strategy 2010-2011, aiming at assessing the effectiveness of the Agency's supervisory mechanisms in place. Its scope encompasses all Agency's activities (including non financial management related activities), legality and regularity aspects and operational performance, as well as the adequacy of documentation of the Agency supervisory arrangements. Its structured risk based strategy's approach is designed to establish, for selected process, an inventory of existing supervisory mechanisms in place in view of assessing their efficiency.

The first ICS 9 exercise was performed in December 2010, covering processes related to the Scientific Management Department. Acknowledging the launch of a single web based infrastructure (Sharepoint Collaboration site) which enables corporate access to updated information and dynamic reporting functionalities to staff and management, as well as the performance achieved at 31.12.2010 (refer to part 1.2), the outcome of the exercise suggests to further develop monitoring tools to cover the activity "scientific follow up". In a view to better underpin management decisions and enhance its accountability, it further invites management to ensure that the results of their monitoring activities are regularly reported to appropriate levels in the hierarchy, timely followed up and appropriately documented and filed.

Since the Agency's autonomy, appropriate processes and procedures regarding **document management** are in place to ensure that official documents and files are secure, efficiently retrieved and that all actions comply with the relevant legal basis²⁸. In the annual survey by the Secretariat General on the application rate of e-Domec rules, ERCEA achieved very high rates (95%), which show wide improvements in comparison with ERCEA 2009 results (76%) and with other Commission DGs (86%). Main recommendation from the Secretariat General of the Commission is to "*Maintain this excellent level of document management in the Agency*". The Agency migrated to Ares on 14 December 2010.

Management assesses the level of effectiveness at "major improvement needed", due to weaknesses identified in the IT area.

Building block 5: Information and financial reporting

iCAT results indicate a positive assessment, although suggesting internal communications arrangements to be reviewed to improve interaction between units/departments.

No internal control weaknesses were reported during the period.

Following its audit performed in 2010 on the 2009 accounts, the Court of Auditors issued 3 recommendations, 2 of them are reported as implemented by management

Based on the above, management assesses the level of effectiveness at "improvement needed".

Building block 6: Evaluation and audit

iCAT results indicate a positive assessment.

²⁸ Commission decision 2002/47/EC, ECSC, Euratom - 23.01.2002 establishing the "Provisions on document management", Commission Decision 2004/563/EC Euratom - 07.07.2004 establishing the "Provisions on electronic and digitised documents" with the implementing rules (SEC (2009) 1643) and Common Commission-level retention list for European Commission files (SEC(2007)970).

Various mechanisms were in place to assess the effectiveness of the internal control systems, as the action plan towards ICS for effective management, the iCAT, first results of the scientific follow up and of ex post controls, reviews of supervisory reports. In addition, it should be noted that the Internal Audit Office executed its 2010 audit plan.

Based on the above, management assesses the level of effectiveness at "limited improvement needed".

2.2.3 Conclusion

On the basis of the information given in parts 2.2.1 and 2.2.2 as above, as well as in Annex 4 and 5, management assesses its overall internal control system as effective and reliable allowing ERC EA to achieve its objectives and adequately manage its risks.

2.3 Information to the Commissioner

The main elements of this report and assurance declaration have been brought to the attention of the Agency's Steering Committee and to the parent DG Director General, who has taken these into consideration in his reporting to Commissioner Geoghegan-Quinn.

PART 3. BUILDING BLOCKS TOWARDS THE DECLARATION OF ASSURANCE

3.1 BUILDING BLOCKS TOWARDS REASONABLE ASSURANCE

ERCEA's reasonable assurance covering the use of resources, sound financial management and regularity and legality of underlying transactions, as stated in the Declaration of Assurance in part 4 of the Annual Activity Report, is based in 2010 on the assessment of ERCEA's management and on the results from independent audits.

3.1.1 Building block 1: Assessment by management

ERCEA's control strategy builds on Agency's wide monitoring controls, as well as an adequate mix of key ex ante and of ex post controls embedded throughout the whole grant management life cycle, commensurate with its risk profile, as described in annex 5.

It is underpinned by the results of the yearly risk assessment performed by management and the effective implementation of the related action plan and by the effective assessment of the overall internal control system, as reflected in the contribution of the Internal Control Coordinator. It relies on a robust segregation of duties between financial and operational activities, initiation and verification tasks, as well as between the management of the operational and administrative budgets, on the results of its continuous internal control monitoring, the outcome of exception reporting and the results of ex post controls

The control strategy focuses on preventing costs being overcharged by providing guidance to grant beneficiaries on modalities for the correct implementation of grants and performing specific ex ante controls, as well as on detecting and correcting overcharged costs through an emphasis on ex post controls at the level of final beneficiaries and the systematic application liquidated damages for all cases of detected overcharging.

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

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

	Operational Expenditure			
	Pre-financing	Payments against cost statements	Experts payments	Total
FP7	395,986,513.05	146,193,654.04	5,334,668.59	547,514,835.68

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

Stage one: Scientific management processes

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, the ethics review of the proposals selected and the processes for scientific monitoring of grants.

Key Controls indicating the robustness of the grant award process and providing assurance as of the legality and regularity:

- A total 138 proposals were rejected as non eligible, representing 3% of submitted proposals, following the eligibility screening (detective control) and, where appropriate, the depth review of eligibility criteria by the Eligibility Committee.
- Ethical Review: 40 external experts were involved in the ethical review process. During 2010, 100% of proposals were assessed from the ethical point of view, out of which only 3 were flagged as dealing with Human Embryonic Stem Cells. However, since these proposals are in the reserve list they will be transferred to DG Research and Innovation for the finalisation of the process only when and if they become part of the main list and consequently there was no involvement in 2010 of the Ideas Programme Committee.
- The number of Redress I cases: in 2010, 225 redress requests were received, representing an increase with respect to 2009 (161 requests). However, most of the 2010 cases questioned the scientific judgement of the evaluation panels and therefore they were no sufficient evidence to support the redress complaint, in accordance with the redress I rules (for detailed results, please refer above to section 1.2.2 Evaluation of proposals).
- The processing of evaluation results include specific quality control procedures which provide assurance that the evaluation procedure and results were subject to a quality control in conformity with ERC rules for submission of proposals and related evaluation and ERC Work Programme. These documents signed by respectively the evaluation panel (chair and members), the call coordinator, the relevant Head of Unit and Head of Department ensure the President of the Scientific Council, who approves the "evaluation dossier", including the main rank list of proposals to be funded, that the evaluation process has been performed in compliance with rules and procedures. In 2010, 8 exceptions (out of 4744 eligible evaluated proposals) to rules and procedures were reported via the quality control procedures and duly approved by the President of the Scientific Council.

The recommendations outlined by the IAO audit on ethical review management which took place in 2010 are mainly linked to the areas of procedures and ethics experts. The ethics team is developing an internal action plan in response to the IAO audit recommendations.

Stage two: Grant preparation and signature

In addition to the Internal Control and Management Control Systems in place for the entire Framework Programme 7 additional controls were put in place by the ERCEA taking into account the specificity of the IDEAS 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 approved by the Scientific Council. 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) imposes the Host Institution to be a legal entity registered as a participant in the Framework Programme 7. Additional checks provide for 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.

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 2010, 65 financial viability checks were performed, none of which led to any exclusion of a participant. A reduction of the duration of the financial periods was agreed with the Host Institutions in 8 cases of weak financial viability, as a measure of reinforced monitoring. A reduction of the pre-financing (i.e. not exceeding €50.000) was also agreed with Host Institutions in 5 cases of non-interest bearing bank accounts not covered by an approved derogation.

The Ideas Programme requires also the implementation of the "investigator driven" approach to be implemented. To this end, ERCEA procedures provide for controls of all draft Grant Agreements concerning the conditions of employment of the Principal Investigator and the existence of a legally binding Supplementary Agreement signed between the Principal Investigator and the Host Institution. In the 27 cases where the Principal Investigator expressed the wish to change of Host Institution during the Grant preparation and signature phase, the Scientific Department gave its written assent, the latter covering the lack of scientific impact on the description of work.

Stage three: Grant implementation

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

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

The main points of control are based on the following:

- the grant agreement, which must be signed and entered into force
- the analysis of 100% of submitted Periodic Financial Management Reports (PFMR), which provide an explanation of the use of financial resources in comparison with the Description of Work and notably the budgetary annex (milestones), a cost declaration and,
- depending on the amount claimed for reimbursement, the certificate on the financial statement (i.e. for expenditure above € 375,000). In 2010, the volume of the Certificates on Financial Statements submitted reached 137 out of 521 transactions, representing an amount of € 71.723.152,07. Only 12 Certificates identified ineligible costs.

In addition, the accounting quality programme carried out in 2010 by the Accountant of the Agency and consisting of individual checks of all interim payments, payments to experts and recovery orders, complemented by global checks, did not detect significant errors. Furthermore, local systems and procedures were validated in October 2010 by DG BUDG for compliance with the 10 validation criteria set up by the Accountant of the Commission.

The controls put in place have led to the rejection of interim payment costs as shown in the table below:

	Number of Invoices	Amount	% of ineligible costs on total paid amount
Eligible cost (of paid Invoices)- prior payment?	521	146.193.654,04	N/A
Of which Ineligible costs declared	46	461.787,84	0,31%

As to amendments, the verification of completeness and correctness of the amendment preparation is done at three stages of the procedure - twice by a specially appointed Quality Verifier and once by the Amendments Supervisor²⁹. Checks are also made in order to ensure that the amendment (requests and ERCEA's letters) are properly encoded in CPM, NEF and ABAC.

The operational and procedural system and the financial circuits for grant implementation were consolidated in 2010 and proved to be effective and financially sound, as confirmed by 3 audits carried out within the year by the IAS, DG BUDG and the IAO. No critical findings were reported in these audits.

Stage four: Ex post controls (audits and recoveries)

The reasonable level of assurance covering the accuracy of payments processed by the ERCEA and their compliance with applicable legal and contractual provisions is best supported through checks performed at the premises of the beneficiaries, after the costs have been incurred and declared.

Such level of assurance is obtained through the implementation of the "FP7 Ex post control audit strategy", which also covers the recovery of ineligible costs. The purpose of this strategy is to provide, at FP level, comparable data on the reasonable level of assurance on the legality and regularity of the expenditure on a multiannual basis, detecting and correcting errors using a structured, systematic and coordinated approach. To this end, it considers the "residual error rate" as the best indicator to assess the extent to which financial transactions of a Framework Programme are considered being legal and regular, with a materiality threshold of 2% on a multiannual basis i.e. target rate at the end of FP7.

This year, ERC EA continued implementing the FP7 Ex-post control strategy, agreed on September 30, 2009.

In 2010, the share of interim payments as compared to the overall payment credits represented 27% of all payments related to grants; pre-financing payments are not subject to ex-post-control as they carry a significantly lower risk of errors.

The majority of ex-post controls carried out for the ERCEA was based on risk assessment.

The work performed so far and the available results are presented below:

²⁹ Namely, the Quality Verifier ex-ante, Amendment Supervisor, Quality Verifier ex-post

Year	Number of audits closed	Number of cost statements audited (closed)	Costs accepted (€) by financial officers	Adjustments in favour of the ERCEA this year (€)	Cumulated adjustments in favour of the ERCEA (€)
2010	16	29	6.334.262	54.193	60.251
	Planned cumulative period ³⁰	Achieved cumulative period ³¹	Planned in 2010	Achieved in 2010	Additional ongoing audits on 31/12/2010 (not yet closed)
Number of audits	25	18	19	16	22
Total amount audited (€)	-	6.750.920	N/A	6.334.262	15.896.970

More than 84% of planned audits were achieved in 2010. In addition to ex post controls performed by the Agency, an indirect assessment of the exposure of underlying transactions to irregularities and non compliance to rules and regulations can be made on the basis of audits performed by the Research family members: in 2010, 68 audit reports on common FP7 beneficiaries were closed, representing approximately 18% of ERCEA payments, out of which 62 audits did not reveal any significant systematic errors and only 6 extrapolation cases were agreed. The Agency applies the Research family's extrapolation procedure.

Finally, preventive actions have been undertaken in a view to reduce the risk of ineligible costs being paid: 7 Outreach events for information of beneficiaries have taken place (2 more than initially planned). These activities covered 178 participants representing Host Institutions having cumulatively contracted nearly 60% of the Agency's budget, covering key countries, and focused on updates in grant management, best practices, typical errors and advice to improve the quality of costs statements. These events generally received a very positive feedback and provide a valuable source of information for the Agency.

The Agency acknowledges that the number of audits finalised in 2010 is not representative to draw conclusions as to the (indicative) level of the error rate as to estimate the impact on undetected and uncorrected errors in the underlying transactions, in accordance with the formula specified in the FP7 audit strategy³². As a consequence, the materiality criteria as defined in annex 4 is not applicable for the present AAR. Setting the materiality threshold at 2% of the ABB activity concerned implies that the declaration of assurance should be qualified with a reservation in case where the amount at risk for FP7 exceeds € 11 Mio³³. This amount represents 7.5% of interim payments.

In assessing its likely exposure to a potential material impact of errors in the underlying transactions, the Agency also considers that the relative volume of interim payments (representing € 146Mio or

³⁰ Cumulative period = from 30/09/2009 until 31/12/2010.

³¹ See above footnote.

³² The residual error rate based on the error rate subsequently reduced by the impact of corrections resulting from representative and corrective audits.

³³ This is 2% of the 2010 initial payment appropriations, which amounted to €549.4Mio.

27% of total payments), out of which 53% (representing € 78Mio) were validated by independent auditors, either by the certificate of financial statement or by ex post controls. Consequently, the Agency would be expected to qualify its assurance by a reservation in the event a representative error rate would exceed 16%³⁴ of the non certified interim payments.

Finally, the Agency assesses its likely exposure to material impact of errors in the underlying transactions on the basis of qualitative element: the scope and nature of errors / weaknesses identified, their recurrent nature, controls in place to mitigate the risk and the amount at risk. No material error or weakness was reported during the period under review.

In the light of available information and taking into consideration controls and mitigating actions embedded in the whole grant management life cycle as described above, it is reasonable to conclude that undetected errors would not exceed the materiality threshold.

In future, the Agency will rely not only on its ex-ante controls embedded in the payment preparation process, but also on the submitted Certificate on the Financial Statements, which will lead over time to a very high coverage of all cost declared to the ERCEA. Furthermore, representative and risk based controls by the Ex Post Control audit unit, together with extrapolation of audit results will contribute to clean a significant amount of budget from systematic errors.

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

In 2010, the Agency's activities have been audited by its Internal Audit Office, the Internal Audit Service of the Commission and the Court of Auditors.

Internal Audit Office

The annual opinion on the state of control dated January 17th, 2011³⁵ provided by the Internal Audit Office of the Agency concludes, based on the results of its audits performed in 2010³⁶, that the internal control system in place provides reasonable assurance regarding the achievement of the objectives set up for the processes audited, except for a number of areas requiring specific management actions to address the risks identified. No critical findings were reported in 2010.

The recommendations³⁷ of the audit on Human Resources Management included the preservation, retention and access of selection records, the selection of candidates, security of human resources activities, staff allocation, probationary period reports, data protection and reporting of training activities (implementation deadlines set at 31.12.2010). In addition, the recommendations of the audit on the Ethical Review Management related to the regular update of ethical review templates, the need to expand the pool of ethical experts, to ensure rotation and an adequate composition of the panels and the filing of process related documents (deadline set at 31.10.2011). Finally, the recommendations of the audit on the Grant Management Process referred to the implementation of the Early warning System procedure (deadline set at 31.3.2011), to procedures intended for beneficiaries and internal stakeholders (deadline set at 31.12.2011), and the further develop the reporting and impact assessment (deadline set at 31.12.2011) and local IT systems (deadline set at 30.4.2011).

³⁴ Represented by the ratio: materiality threshold/Interim payments.

³⁵ ARES(2011) 47789.

³⁶ Reports issued in 2010 were on Human Resources Management (30/04/2010), Ethical Review Management (22/11/2010) and Grant Management Process(20/12/2010).

³⁷ Only the "Very Important" recommendations are mentioned.

Internal Audit Service

The IAS conducted an audit on the set up of Internal Controls and Financial Management Systems³⁸ which concluded to four very important recommendations of which 1 is implemented, relating to the IT organisation, 2 are partially implemented, relating to the further development of the Agency's support to the Scientific Council and the design of a fraud awareness strategy, with a deadline set at 31.03.2011, and 1 concerning further strengthening of ex post audit processes is partially implemented with a revised target date set to end of March 2011. Management assesses the implementation of related action plan as adequately mitigating identified risks.

European Court of Auditors

As per the audit performed in 2010 by the Court of Auditors on the 2009 accounts, the Agency should improve its administrative budgetary forecasts and the adequacy and effectiveness of recruitment procedures and adjust its accounting cut off methodology.

The implementation of the action plans related to recommendations issued in 2010 is assessed by management as adequately mitigating the identified risks.

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

AAR 2010: Non applicable.

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

AAR 2010: Non applicable.

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

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

3.2 RESERVATIONS

None.

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

Non applicable.

³⁸ Issued on 15th July 2010.

PART 4. DECLARATION OF ASSURANCE

I, the undersigned,

Director ad Interim of the European Research Council Executive Agency

In my capacity as authorising officer by delegation

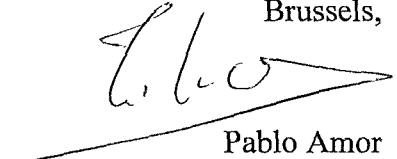
Declare that the information contained in this report gives a true and fair view³⁹.

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, and the work of the internal audit capability.

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

Brussels,



Pablo Amor

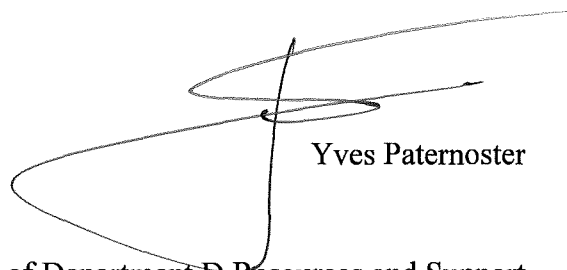
25 MARS 2011

³⁹ 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 Commission⁴⁰, 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.

A handwritten signature in black ink, consisting of a large, stylized 'Y' and 'P' that are interconnected.

Yves Paternoster

Head of Department D-Resources and Support

Internal Control Coordinator

⁴⁰ SEC(2003)59 of 21.01.2003.

ANNEX 2 - Human and Financial resources by ABB Activity

2.1 Human Resources by ABB activity

The table listed below details the total staff employed within the ERCEA as of 31.12.2010. These data do not constitute full-time-equivalent units throughout the year.

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

At the end of December 2010, the Agency employed a total of 316 agents, representing an overall increase of 20% compared to year end 2009, and corresponding to 96% of the maximum number of staff authorised in the 2010 administrative budget and to 99% of the target set in the Annual Work Programme 2010 (320 staff).

During the period reported, 73 staff members were recruited, the majority of newcomers (77%) being allocated to operational departments. This results in 68% of total Agency staff being allocated to ERCEA operational activities, the Scientific Management Department accounting for 42% and the Grant Management Department for 26% of total staff.

In addition, a turnover of 6,5% of average active staff in 2010 was observed and is due to the attraction of official positions in the European Commission and temporary agent positions in other EU agencies.

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

Budget line	Budget line description	APPROPRIATIONS 2010 (C1)			APPROPRIATIONS carried over (C8)	
		Available appropriations 2010	Commitments 2010	Payments 2010	Amounts of appropriations carried over from 2009	% implementation on appropriations carried over from 2009
Title 1	Staff expenditure	19.032.220	19.006.953	18.726.137	281.651	70,9%
Title 2	Infrastructure and operating expenditure	10.254.780	10.102.669	8.830.604	2.211.883	89,4%
	TOTAL	29.287.000	29.109.622	27.556.741	2.493.534	87,3%

ANNEX 3 - Draft annual accounts and financial reports

Annex 3 Financial Reports - DG ERCEA - Financial Year 2010

Table 1 : Commitments

Table 2 : Payments

Table 3 : Commitments to be settled

Table 4 : Balance Sheet

Table 5 : Economic Outturn Account

Table 6 : Average Payment Time Limits

Table 7 : Income

Table 8 : Recovery of undue Payments

Table 9 : Ageing Balance of Recovery Orders

Table 10 : Waivers of Recovery Orders

Table 11 : Negotiated Procedures (excluding Building Contracts)

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

Table 13 : Building Contracts

Table 14 : Contracts declared Secret

Additional comments

--

TABLE 1: OUTTURN ON COMMITMENT APPROPRIATIONS IN 2010 (in Mio €)				
Chapter		Commitment appropriations authorised *	Commitments made	%
		1	2	3=2/1
Title 08 : Research				
08 10	Ideas	1.180,37	1.179,97	99,97 %
Total Title 08		1.180,37	1.179,97	99,97 %
Total DG ERC		1.180,37	1.179,97	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).

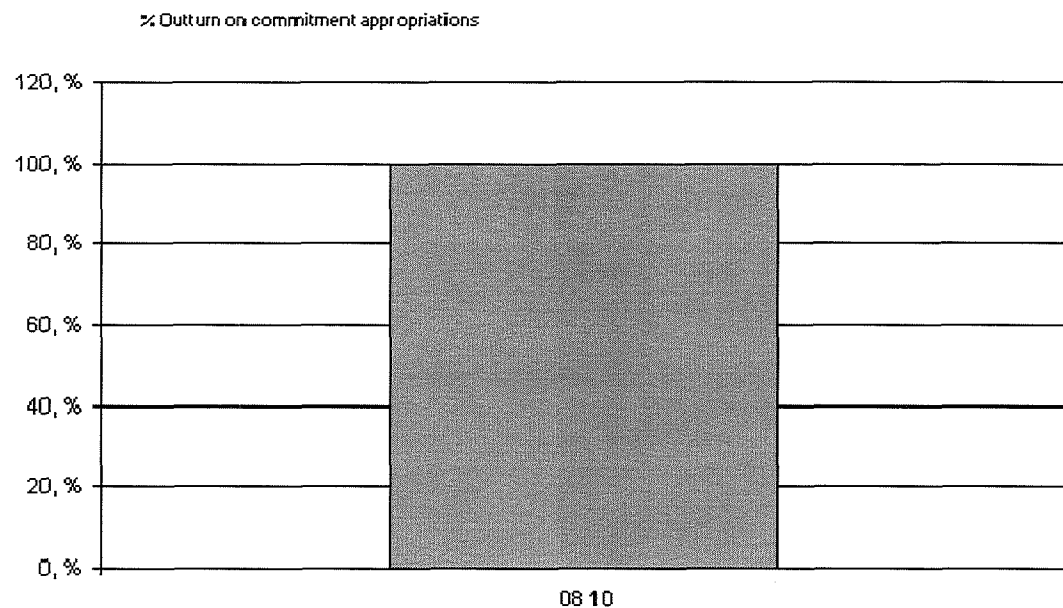


TABLE 2: OUTTURN ON PAYMENT APPROPRIATIONS IN 2010 (in Mio €)				
Chapter		Payment appropriations authorised *	Payments made	%
		1	2	3=2/1
Title 08 : Research				
08 10	Ideas	711,33	547,51	76,97 %
Total Title 08		711,33	547,51	76,97 %
Total DG ERC		711,33	547,51	76,97 %

* 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).

% Outturn on payment appropriations

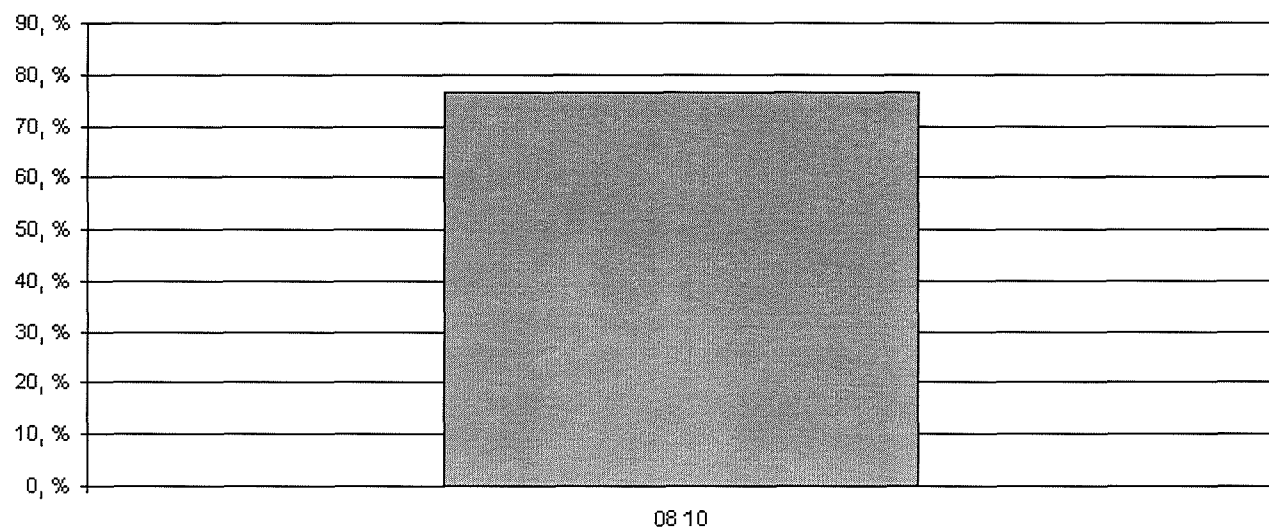


TABLE 3 : BREAKDOWN OF COMMITMENTS TO BE SETTLED AT 31/12/2010 (in Mio €)

Chapter		2010 Commitments to be settled				Commitments to be settled from financial years previous to 2010	Total of Commitments to be settled at end of financial year 2010 (incl.corrections)	Total of Commitments to be settled at end of financial year 2009 (incl.corrections)
		Commitments 2010	Payments 2010	RAL 2010	% to be settled			
		1	2	3=1-2	4=1-2//1	5	6=3+5	7
Title 08 : Research								
08 10	Ideas	1.179,97	160,98	1.018,99	86,36 %	877,54	1.896,53	1.268,24
Total Title 08		1.179,97	160,98	1.018,99	86,36 %	877,54	1.896,53	1.268,24
Total DG ERC		1.179,97	160,98	1.018,99	86,36 %	877,54	1.896,53	1.268,24

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

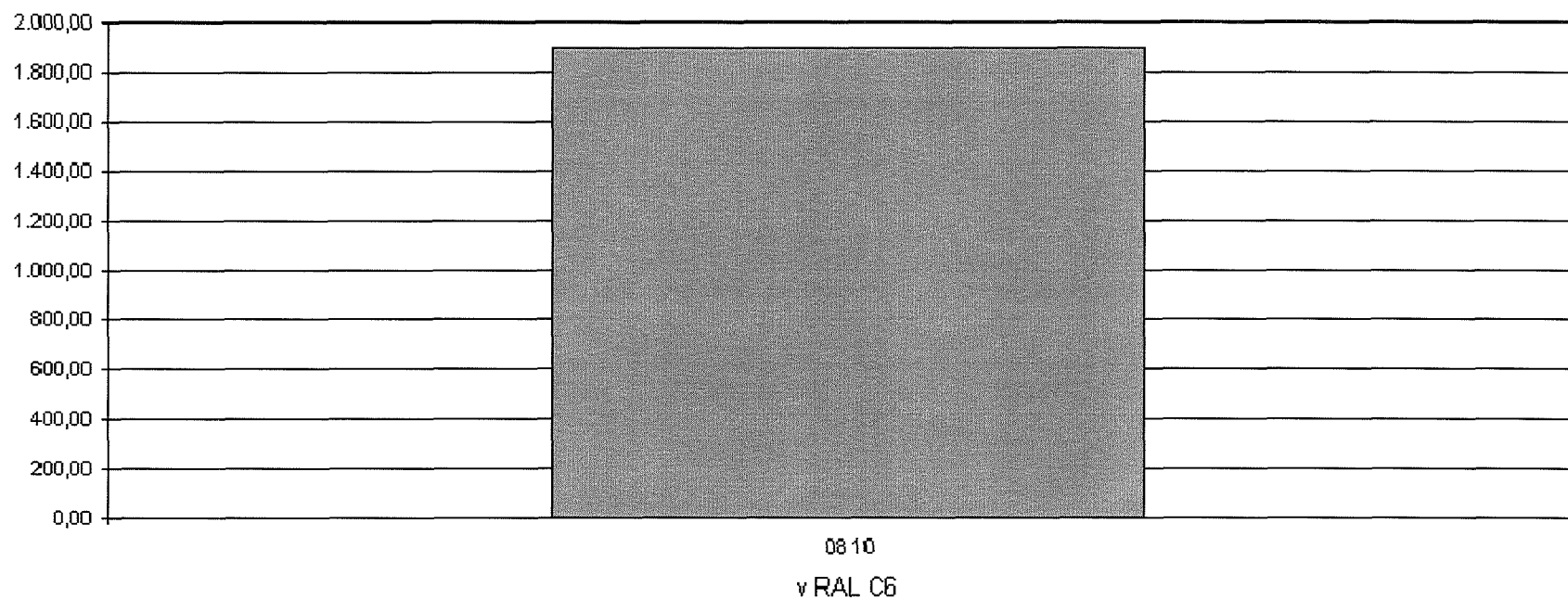


TABLE 4 : BALANCE SHEET ERCEA

BALANCE SHEET	2010	2009
A.I. NON CURRENT ASSETS	134.138.488,70	62.919.519,25
A.I.5. LT Pre-Financing	134.138.488,70	62.919.519,25
A.II. CURRENT ASSETS	353.584.219,39	182.789.821,82
A.II.2. Short-term Pre-Financing	352.695.779,11	182.329.477,80
A.II.3. Short-term Receivables	888.440,28	460.344,02
ASSETS	487.722.708,09	245.709.341,07
P.III. CURRENT LIABILITIES	-24.992.784,91	-3.960.122,73
P.III.4. Accounts Payable	-24.992.784,91	-3.960.122,73
LIABILITIES	-24.992.784,91	-3.960.122,73
NET ASSETS (ASSETS less LIABILITIES)	462.729.923,18	241.749.218,34
P.I.2. Accumulated Surplus / Deficit	0,00	
Non-allocated central (surplus)/deficit*	-462.729.923,18	-241.749.218,34
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 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 ERCEA

ECONOMIC OUTTURN ACCOUNT	2010	2009
II.1 SURPLUS/ DEF. FROM OPERATING ACTIVT	325.935.285,57	209.295.993,06
II.1.1. OPERATING REVENUES	-29.224,96	
II.1.1.1. Other operating revenue	-29.224,96	
II.1.2. OPERATING EXPENSES	325.964.510,53	209.295.993,06
II.1.2.1. Administrative Expenses	0,00	0,00
II.1.2.2. Operating Expenses	325.964.510,53	209.295.993,06
II.2. SURPLUS/DEF. NON OPERATING ACTIVIT	-1.791.750,87	-472.166,76
II.2. FINANCIAL OPERATIONS	-1.791.750,87	-472.166,76
II.2.1. Financial revenue	-1.791.750,87	-472.166,76
ECONOMIC OUTTURN ACCOUNT	324.143.534,70	208.823.826,30

TABLE 6: AVERAGE PAYMENT TIME LIMITS FOR 2010 - DG 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	60	55	91,67 %	20,49	5	8,33 %	38,80
45	2955	2915	98,65 %	16,32	40	1,35 %	64,30
105	508	508	100,00 %	17,15			

Total Number of Payments	3523	3478	98,72 %		45	1,28 %	
Average Payment Time	17,08			16,51			61,47

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	594	550	92,59 %	9,07	44	7,41 %	30,89
30	2427	2186	90,07 %	16,16	241	9,93 %	41,28
90	502	501	99,80 %	16,84	1	0,20 %	103,00

Total Number of Payments	3523	3237	91,88 %		286	8,12 %	
Average Payment Time	17,08			15,06			39,90

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	30	557	15,81 %	3523	100.044.978,49	20,57 %	486.436.137,49

Late Interest paid in 2010			
DG	GL Account	Description	Amount (Eur)

TABLE 7 : SITUATION ON REVENUE AND INCOME IN 2010

Chapter		Revenue and income recognized			Revenue and income cashed from			Outstanding balance
		Current year RO	Carried over RO	Total	Current Year RO	Carried over RO	Total	
		1	2	3=1+2	4	5	6=4+5	7=3-6
Title 5: REVENUE ACCRUING FROM THE ADMINISTRATIVE OPERATION OF THE INSTITUTION								
52	REVENUE FROM INVESTMENTS OR LOANS GRANTED, BANK AND OTHER INTEREST	1.381.307,82	13.580,02	1.394.887,84	1.360.886,31	13.580,02	1.374.466,33	20.421,51
	Total Title 5	1.381.307,82	13.580,02	1.394.887,84	1.360.886,31	13.580,02	1.374.466,33	20.421,51
Title 6: CONTRIBUTIONS AND REFUNDS IN CONNECTION WITH COMMUNITY/EU AGREEMENTS AND PROGRAMMES								
66	OTHER CONTRIBUTIONS AND REFUNDS	1.039.405,22	0,00	1.039.405,22	1.012.596,42	0,00	1.012.596,42	26.808,80
	Total Title 6	1.039.405,22	0,00	1.039.405,22	1.012.596,42	0,00	1.012.596,42	26.808,80
Title 9: MISCELLANEOUS REVENUE								
90	MISCELLANEOUS REVENUE	2.416,16	0,00	2.416,16	0,00	0,00	0,00	2.416,16
	Total Title 9	2.416,16	0,00	2.416,16	0,00	0,00	0,00	2.416,16
Total DG ERC		2.423.129,20	13.580,02	2.436.709,22	2.373.482,73	13.580,02	2.387.062,75	49.646,47

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

RECOVERY ORDERS ISSUED IN 2010 Year of Origin (commitment)	Error		No error / irregularity		TOTALS	
	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount
2008	5	34.007,14	4	360.280,01	9	394.287,15
2009			2	637.002,00	2	637.002,00
2010			2	7.871,06	2	7.871,06
No Link			1	2.416,16	1	2.416,16
	5	34.007,14	9	1.007.569,23	14	1.041.576,37

EXPENSES

	Nbr	Amount
INCOME LINES IN INVOICES	0	

	Error		Irregularity		No error / irregularity	
	Nbr	Non-Eligible Amount	Nbr	Non-Eligible Amount	Nbr	Non-Eligible Amount
NON ELIGIBLE AMOUNT IN COST CLAIMS	37	366.944,95	7	91.941,45	2	2.901,44

	No error / irregularity	
	Nbr	Credit Note Amount
CREDIT NOTES	2	-11.686,12

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

Year of Origin	Number at 01/01/2010	Number at 31/12/2010	Evolution	Open Amount (Eur) at 01/01/2010	Open Amount (Eur) at 31/12/2010	Evolution
2009	2		-100,00 %	13.580,02		-100,00 %
2010		13			49.646,47	
Totals	2	13	550,00 %	13.580,02	49.646,47	265,58 %

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

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

Total DG ERCEA

Number of RO waivers

0

Justifications:

No data to be reported

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

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

No data to be reported

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

Internal procedures > € 60,000
Contract Class
TOTAL

Procedure Type
TOTAL

External procedures > € 10,000
Contract Class
TOTAL

Procedure Type
TOTAL

Additional comments

No data to be reported

TABLE 13 : BUILDING CONTRACTS

Total number of contracts :	0
Total amount :	

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

No data to be reported

TABLE 14 : CONTRACTS DECLARED SECRET

Total Number of Contracts :	0
Total amount :	

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

No data to be reported

Annex 3 Financial Reports - ERC - Financial Year 2010

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 Time Limits

Table 7 : Income

Table 8 : Recovery of undue Payments

Table 9 : Ageing Balance of Recovery Orders

Table 10 : Waivers of Recovery Orders

TABLE 1: OUTTURN ON COMMITMENT APPROPRIATIONS IN 2010 (in Mio €)				
Chapter		Commitment appropriations authorised *	Commitments made	%
		1	2	3=2/1
Title A-1 FRAIS DE PERSONNEL				
A-11	Personnel en activité	17,77	29,11	163,85 %
A-12	Frais divers de recrutement, de prise de fonction	0,17	29,11	16853,26 %
A-13	Frais de missions, de déplacements et autres dépen	0,31	29,11	9390,20 %
A-14	Infrastructure à caractère socio-médical	0,52	29,11	5585,22 %
A-16	Service Social, autres interventions	0,23	29,11	12601,57 %
A-17	Frais de réception et de représentation	0,03	29,11	92411,50 %
Total Title A-1		19,03	174,66	152,95 %
Title A-2 FRAIS DE FONCTIONNEMENT				
A-20	Immeubles et frais accessoires	4,05	29,11	719,41 %
A-21	Traitement des données	3,79	29,11	767,45 %
A-22	Biens, meubles et frais accessoires	0,11	29,11	27197,63 %
A-23	Dépenses de fonctionnement administratif courant	0,08	29,11	36004,48 %
A-24	Affranchissement et Télécommunications	0,72	29,11	4054,26 %
A-25	Frais de réunions internes	0,01	29,11	415851,75 %
A-26	Frais administratifs liés aux activités opérationn	0,96	29,11	3031,14 %
A-27	Dépenses avec les entités consolidées	0,54	29,11	5368,88 %
Total Title A-2		10,25	232,88	283,86 %
TOTAL ERC%		29,29	407,53	99,39 %

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

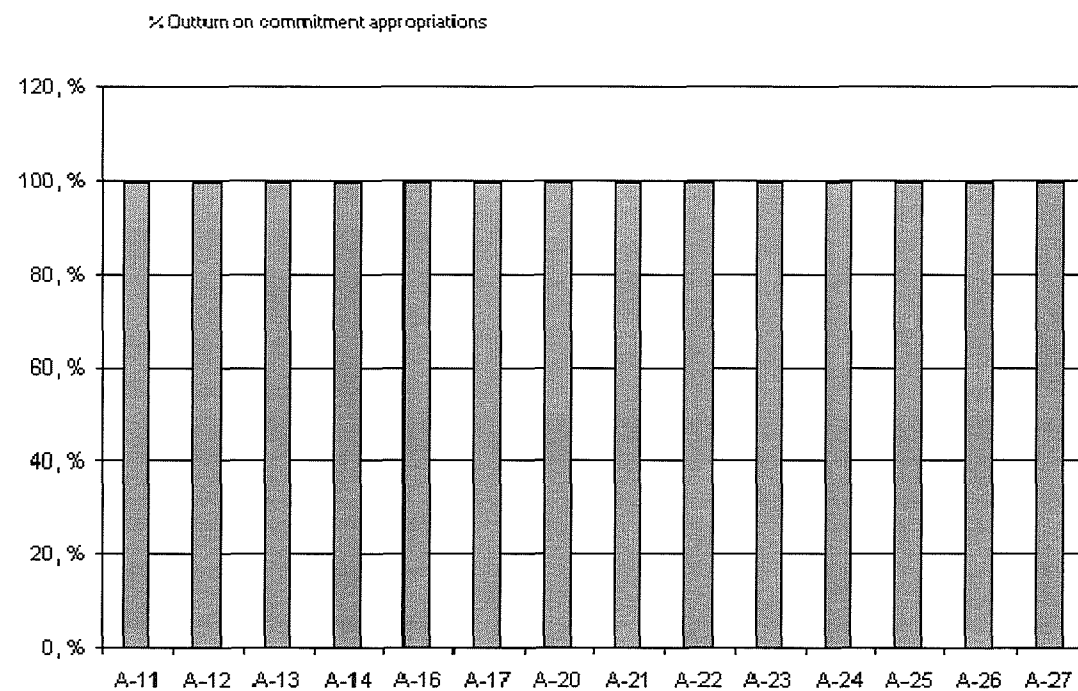


TABLE 2: OUTTURN ON PAYMENT APPROPRIATIONS IN 2010 (in Mio €)				
Chapter		Payment appropriations authorised *	Payments made	%
		1	2	3=2/1
TITLE A-1 FRAIS DE PERSONNEL				
A-11	Personnel en activité	17,77	17,77	99,98 %
A-12	Frais divers de recrutement, de prise de fonction	0,21	0,17	83,99 %
A-13	Frais de missions, de déplacements et autres dépen	0,36	0,30	85,16 %
A-14	Infrastructure à caractère socio-médical	0,65	0,44	67,32 %
A-16	Service Social, autres interventions	0,24	0,22	92,68 %
A-17	Frais de réception et de représentation	0,09	0,02	22,36 %
TOTAL A-1		19,31	18,93	97,99 %
TITLE A-2 FRAIS DE FONCTIONNEMENT				
A-20	Immeubles et frais accessoires	4,38	3,99	91,09 %
A-21	Traitement des données	5,01	4,36	87,06 %
A-22	Biens, meubles et frais accessoires	0,36	0,32	87,53 %
A-23	Dépenses de fonctionnement administratif courant	0,16	0,13	80,69 %
A-24	Affranchissement et Télécommunications	0,76	0,75	99,71 %
A-25	Frais de réunions internes	0,01	0,01	79,70 %
A-26	Frais administratifs liés aux activités opérationn	1,09	0,64	58,79 %
A-27	Dépenses avec les entités consolidées	0,70	0,61	86,76 %
TOTAL A-2		12,47	10,81	86,70 %
TOTAL ERC%		31,78	29,73	93,56 %

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

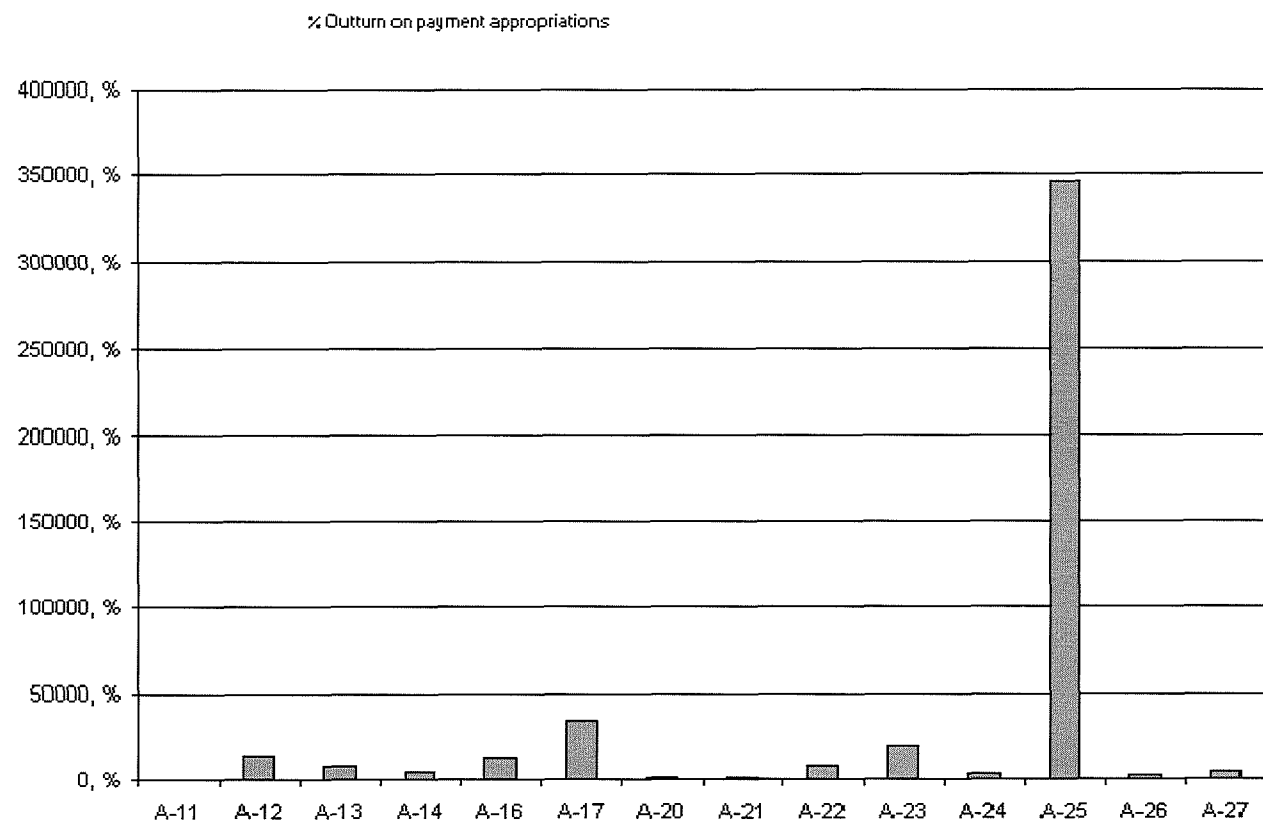


TABLE 3 : BREAKDOWN OF COMMITMENTS TO BE SETTLED AT 31/12/2010 (in Mio €)

Chapter		2010 Commitments to be settled			
		Commitments 2010	Payments 2010	RAL 2010	% to be settled
		1	2	3=1-2	4=1-2//1
Title A-1 FRAIS DE PERSONNEL					
A-11	Personnel en activité	29,11	-27,56	1,55	5,33 %
A-12	Frais divers de recrutement, de prise de fonction	29,11	-27,56	1,55	5,33 %
A-13	Frais de missions, de déplacements et autres dépen	29,11	-27,56	1,55	5,33 %
A-14	Infrastructure à caractère socio-médical	29,11	-27,56	1,55	5,33 %
A-16	Service Social, autres interventions	29,11	-27,56	1,55	5,33 %
A-17	Frais de réception et de représentation	29,11	-27,56	1,55	5,33 %
Total Title A-1		174,66	-27,56	9,32	5,33 %

Title A-2 FRAIS DE FONCTIONNEMENT					
A-20	Immeubles et frais accessoires	29,11	-27,56	1,55	5,33 %
A-21	Traitement des données	29,11	-27,56	1,55	5,33 %
A-22	Biens, meubles et frais accessoires	29,11	-27,56	1,55	5,33 %
A-23	Dépenses de fonctionnement administratif courant	29,11	-27,56	1,55	5,33 %
A-24	Affranchissement et Télécommunications	29,11	-27,56	1,55	5,33 %
A-25	Frais de réunions internes	29,11	-27,56	1,55	5,33 %

A-26	Frais administratifs liés aux activités opérationn	29,11	-27,56	1,55	5,33 %
A-27	Dépenses avec les entités consolidées	29,11	-27,56	1,55	5,33 %
Total Title A-2		232,88	-27,56	12,42	5,33 %

TOTAL ERC%	407,53	-27,56	21,74	5,33 %
-------------------	---------------	---------------	--------------	---------------

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

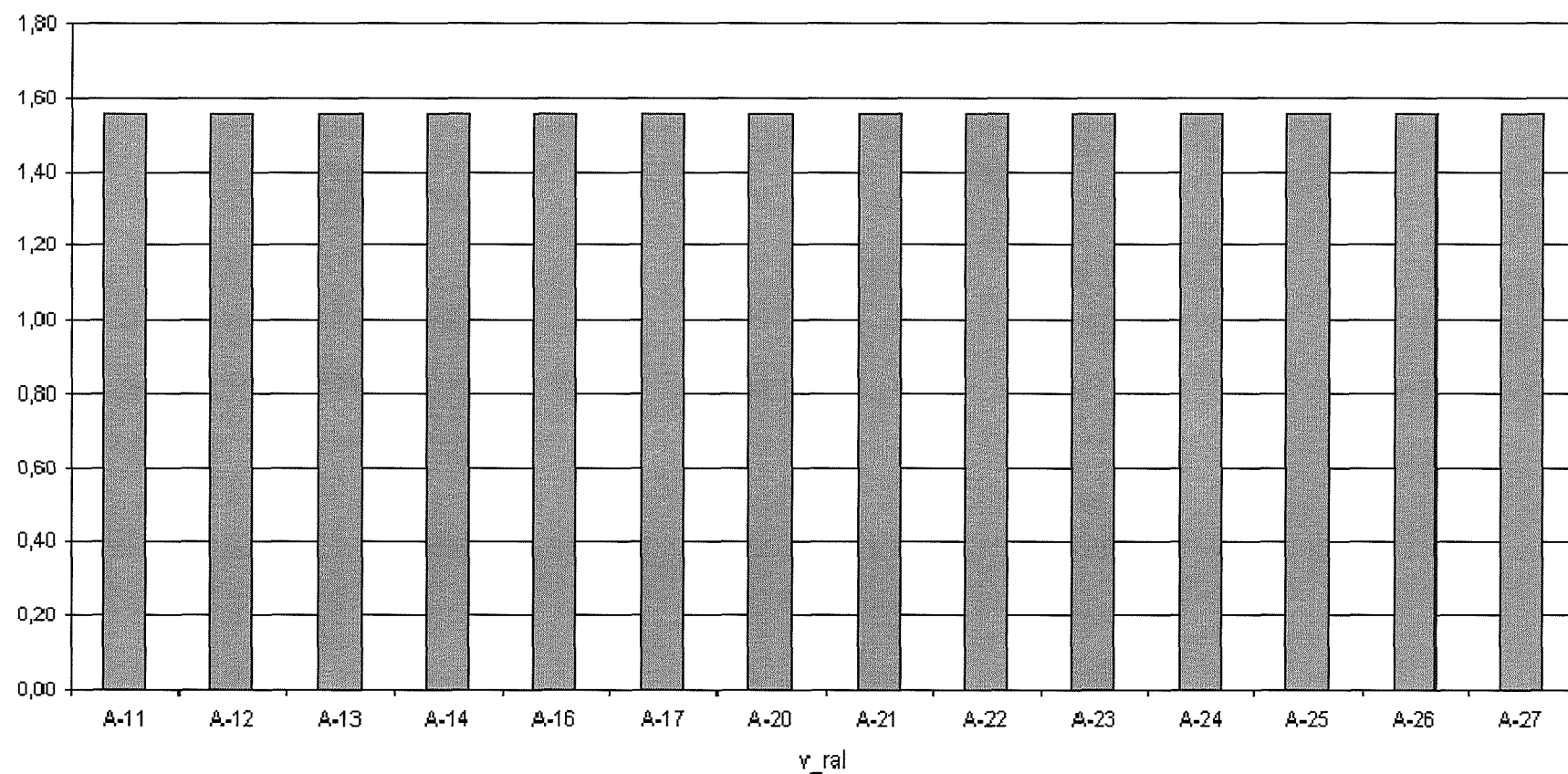


TABLE 4 : BALANCE SHEET ERC

BALANCE SHEET	2010	2009
A.I. NON CURRENT ASSETS	5.831.377,04	5.687.317,98
A.I.1. Intangible Assets	539.372,00	37.618,00
A.I.2. Property, plant and equipment	5.292.005,04	5.649.699,98
A.II. CURRENT ASSETS	3.741.917,02	4.124.457,96
A.II.2. Short-term Pre-Financing	0,00	
A.II.3. Short-term Receivables	1.950.677,09	1.948.278,38
A.II.5. Cash and Cash Equivalents	1.791.239,93	2.176.179,58
ASSETS	9.573.294,06	9.811.775,94
P.II. NON CURRENT LIABILITIES	0,00	-169.027,24
P.II.2. Long-term provisions	0,00	-169.027,24
P.III. CURRENT LIABILITIES	-1.879.495,51	-1.388.525,65
P.III.2. Short-term provisions	0,00	0,00
P.III.4. Accounts Payable	-1.879.495,51	-1.388.525,65
LIABILITIES	-1.879.495,51	-1.557.552,89
NET ASSETS (ASSETS less LIABILITIES)	7.693.798,55	8.254.223,05
P.I.2. Accumulated Surplus / Deficit	-8.254.223,05	
Non-allocated central (surplus)/deficit	560.424,50	-8.254.223,05
TOTAL	0,00	0,00

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

TABLE 5 : ECONOMIC OUTTURN ACCOUNT ERC

ECONOMIC OUTTURN ACCOUNT	2010	2009
II.1 SURPLUS/ DEF. FROM OPERATING ACTIVT	547.051,10	-8.255.529,01
II.1.1. OPERATING REVENUES	-29.442.936,82	-19.734.578,35
II.1.1.1. Other operating revenue	-29.442.936,82	-19.734.578,35
II.1.2. OPERATING EXPENSES	29.989.987,92	11.479.049,34
II.1.2.1. Administrative Expenses	29.986.083,26	11.309.394,41
II.1.2.2. Operating Expenses	3.904,66	169.654,93
II.2. SURPLUS/DEF. NON OPERATING ACTIVIT	13.373,40	1.306,02
II.2. FINANCIAL OPERATIONS	13.373,40	1.306,02
II.2.2. Financial expenses	13.373,40	1.306,02
III.2. Extraordinary Gains		-0,06
III.2. Extraordinary Gains		-0,06
III.2. Extraordinary Gains		-0,06
III.3. Extraordinary Losses	0,00	
III.3. Extraordinary Losses	0,00	
III.3. Extraordinary Losses	0,00	
ECONOMIC OUTTURN ACCOUNT	560.424,50	-8.254.223,05

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 TIME LIMITS FOR 2010 - 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	325	262	80,62 %	14,94	63	19,38 %	46,30
45	1091	964	88,36 %	17,79	127	11,64 %	80,42
60	93	87	93,55 %	37,24	6	6,45 %	67,33
Total Number of Payments	1509	1313	87,01 %		196	12,99 %	
Average Payment Time	25,07			18,51			69,05

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	1509	1114	73,82 %	14,66	395	26,18 %	54,44
Total Number of Payments	1509	1114	73,82 %		395	26,18 %	
Average Payment Time	25,07			14,66			54,44

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	76,	5,04 %	1.509,	468.709,55	3,20 %	14.656.361,89

Late Interest paid in 2010

DG	GL Account	Description	Amount (Eur)
European Research Co	65010000	Interest expense on late payment of charges	13 247,56
			13 247,56

TABLE 7 : SITUATION ON REVENUE AND INCOME IN 2010

Title	Description	Year of Origin	Revenue and Income recognized	Revenue and Income cashed	Outstanding Balance
20-0	Subsidy from the Commission	2009	2.203.072,17	2.203.072,17	0,00
20-0	Subsidy from the Commission	2010	29.226.841,08	29.226.841,08	0,00
91-0	Recuperation of expenses	2010	22.007,04	0,00	22.007,04
TOTAL			29.248.848,12	31.429.913,25	22.007,04

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

RECOVERY ORDERS ISSUED IN 2010 Year of Origin (commitment)	Follow Up		No error / irregularity		TOTALS	
	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount
2009	1,	13.317,93			1,	13.317,93
No Link			2,	922,08	2,	922,08
Sum:	1,	13.317,93	2,	922,08	3,	14.240,01

EXPENSES

	Nbr	Amount
INCOME LINES IN INVOICES	0,	

NON ELIGIBLE AMOUNT IN COST CLAIMS

	Nbr	Amount
NON ELIGIBLE AMOUNT IN COST CLAIMS	0,	

CREDIT NOTES

	Nbr	Amount
CREDIT NOTES	0,	

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

Year of Origin	Number at 01/01/2010	Number at 31/12/2010	Evolution	Open Amount (Eur) at 01/01/2010	Open Amount (Eur) at 31/12/2010	Evolution
2009	3		-100,00 %	161.259,97		-100,00 %
2010		7			26.645,64	
Totals	3	7	75,00 %	161.259,97	26.645,64	-98,79 %

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

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

Total ERC

Number of RO waivers

0

Justifications:

ANNEX 4 - Materiality criteria

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

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

Notwithstanding the multiannual span of their control strategy, the Director Generals of the Research DGs are required to sign a statement of assurance for each financial year. In order to determine whether to qualify this statement of assurance with a reservation, the effectiveness of the control systems in place needs to be assessed not only for the year of reference but also with a 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.

Effectiveness of controls

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

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

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

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

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

Where:

resER%	is residual error rate, expressed as a percentage.
repER%	is the representative error rate, or error rate detected in the representative sample.
repERSys%	is the systematic portion of the RepER, expressed as a percentage. The repER% is composed of two portions reflecting the systematic and non-systematic errors detected.
P	is the total EU contribution in Euros of the auditable population (as budgeted amounts at the level of participations in FP6, and as claimed EU contributions at the level of cost statements in FP7).
A	is the value of the EU contribution of all audited amounts, expressed in Euros.
E	is the total non-audited amounts in Euros of all audited beneficiaries (as budgeted amounts at the level of participations in FP6, and as claimed EU contributions at the level of cost statements in FP7). ⁴¹ The control objective is to ensure that the

⁴¹ Note these do not only include those participations by beneficiaries subject to recoveries resulting from extrapolation. The amount also includes those for which it has been determined that they were not affected by systematic errors and, in consequence, no extrapolation has been launched. This also includes beneficiaries audited by other Research Commission services.

residual error rate on the overall population is below 2% at the end of the management cycle.

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

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

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

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

In case an adequate calculation of the residual error rate is not possible for a FP for reasons not involving control deficiencies,⁴² the consequences are to be assessed quantitatively by estimating the likely exposure for the reporting year. The relative impact on the Declaration of Assurance would be then considered by analysing the available information on qualitative grounds and considering evidence from other sources and areas.

Adequacy of the audit scope

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

The Director General 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.

A multiannual control strategy requires a multiannual perspective to assurance

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

Materiality is assessed for each Framework Programme

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

⁴² Such as, for instance, during the first few years of implementation of the FP, when the limited number of auditable cost statements submitted do not allow for a sufficient number of representative audits to be completed in order to calculate the detected error rate.

ANNEX 5 - Internal Control Template for budget implementation

Indirect centralised management of the Ideas Programme.

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). The aim for selecting only projects of 'excellence' and the multi-disciplinary character (frontier research) of the ideas Programme can increase risks because of their complexity as concepts on their own right.

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

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

(3) Risk of ineligible costs

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

Accountability structures:

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.

The Director reports to the parent DG (through the Steering Committee) on the management of the Agency by means of the Quarterly Report, Annual Activity Report and an annual declaration of assurance. The Agency also contributes to the quarterly briefing of the parent DG to the Commissioner on the use of resources, audit follow-up and internal control issues, including an update on OLAF inquiries.

The 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. As for the Operational Budget, the Director of the Agency is the Authorising Officer by delegation and the Head of the Grant Implementation Department is Authorising Officer by sub-delegation, reflecting decentralised financial circuits.

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

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

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

In addition to its accountability structures, 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 2010 including all the Agency's projects currently running and signed until 31/12/2010:

Grant period: Between 24 and 60 months	58 (average period)
Average value (EUR)	€1.553.010,49
Median value (EUR)	€1.498.800,00
Range of grants (EUR)	€156.538,00 - €3.499.127,00
Percentage of grants under EUR 1 million.	22,56%
Number of coordinators/beneficiaries:	
- Mono-beneficiary grants	92,75%
- Multi-beneficiary grants	7,25%
Volume of transactions per year (number):	
- project payments	1138
- expert payments	2413

2. Stages and actors and main issues addressed at each stage	
The planning, programming, monitoring and reporting processes in place	<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>
Selection process (of beneficiaries, intermediaries, agencies etc.), including preventive measures	<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. - A <u>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 ERC Work Program with the support, when necessary, of specialist remote referees, who are not members of the Panel itself. - A <u>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 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>Briefings to experts on the importance attached to the conflict of interest issue and the obligation on experts to disclose any conflicts.</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, and further to draw up a ranking list to be recommended for funding from the interdisciplinary budget. All ranking lists are sent to the Scientific Council for approval after which the Agency adopts the final list of approved proposals and proceeds to the grant awarding procedure with successful applicants. The order

	<p>of ranking lists may be modified only upon the approval of the Scientific Council and DG Research and Innovation.</p> <ul style="list-style-type: none"> - The processing of evaluation results include <u>specific quality control procedures</u> which provide assurance that the evaluation procedure and results were subject to a quality control in conformity with ERC rules for submission of proposals and related evaluation and ERC Work Programme. These documents signed by respectively the evaluation panel (chair and members), the call coordinator, the relevant Head of Unit and Head of Department ensure the President of the Scientific Council, who approves the "evaluation dossier", including the main rank list of proposals to be funded, that the evaluation process has been performed in compliance with rules and procedures. - A quality control ensures that the most appropriate <u>feedback</u> is provided to applicants. - <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 CORDIS and on the website of the ERC; the Call text defines details the specific evaluation criteria and the application of the criteria regarding financial data to help prepare the budgets; - <u>Administrative and financial guidelines</u> to help prepare the proposals are available on CORDIS 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; - <u>Project information services</u> which include databases providing information on project beneficiaries, objectives, results. <p>Key controls and preventing measures of the grant preparation and implementation process:</p> <ul style="list-style-type: none"> - Use of <u>model grant agreements</u> of the FP7 Programme adapted to the requirements of the Ideas Programme; - Under FP7 grant beneficiaries are required to contribute to a <u>participant Guarantee Fund</u>, which safeguards the ERCEA / Commission against financial losses resulting from unrecoverable debts; - <u>Legal and Financial viability checks</u> of the beneficiary (Host Institutions); - Systematic <u>check of the budget breakdown</u>, in a view of promoting compliance with the financial provisions of the Grant Agreement, are performed by project officers; - Regional dedicated workshops of a full working day for administrators in Host Institutions (<u>Outreach events</u>) are regularly organised; - <u>Continuous support</u> and replies to requests from Principal Investigators and Host Institutions for information through project officers. - <u>Training</u> is given to all staff involved in financial transactions.

	<ul style="list-style-type: none"> - <u>Detailed procedures</u> for the Agency's financial and operational activities are documented on the Agency's intranet in accordance with the ICS 8 "Processes and Procedures". - <u>Checklists</u> have been developed in order to support the correct application of the rules and procedures and encourage ownership for better control. - <u>Internal coordination of activities</u> 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: <ul style="list-style-type: none"> <u>Rules of participation</u> and the <u>ERC Grant agreements</u> include provisions (1) to recover ineligible cost reimbursed by the Agency, (2) to apply penalties and (3) the obligation by the beneficiaries to provide certificates on financial statements if certain thresholds are reached. Interim and final payments are only made after thorough analysis of available <u>periodic financial management reports</u> (including the financial statement) submitted by the beneficiaries. Grant agreements foresee the possibility to conduct on-the-spot controls by the Agency's <u>ex-post control</u> function either by Agency staff or by outsourced audits as well as, by the European Court of Auditors and by OLAF. - Timely <u>follow up of ex post controls audit results</u> through close cooperation of units in department C. - Feed back from grant management & audit in general and Host Institution specific observations through <u>weekly Department coordination meetings</u>.
Detective and corrective controls: payments and key milestones	<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. - 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 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.

<p>Corrective controls and audit</p>	<ul style="list-style-type: none"> - <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. - 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: <ul style="list-style-type: none"> A) <u>On the basis of a risk analysis</u> this may include a systematic coverage of "top 100 beneficiaries" i.e. which account for 70% of total funding granted under the program managed by the Agency. Other selection criteria include: results of previous audits, dependency on EU funding, top beneficiary in another program, new participants in the FP etc. Furthermore, in order to optimise the usage of resources, audits are carried out on beneficiaries/ grants where the likelihood of errors is considered higher. <p>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.</p> <p>The error rate resulting from this activity cannot be applied to the whole population of beneficiaries.</p> B) <u>Representative sampling to estimate error rates in the total population.</u> <ul style="list-style-type: none"> - All audit results in favour of the ERCEA are implemented by the authorising officers. Detected errors in favour of the EERCEA 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 weaknesses.
- Reports for the regular supervision (summarising errors and deficiencies found in the scope of the exercise) will be followed up to improve both the design and the effectiveness of internal controls.
- Monthly management reports on operational KPI/scoreboards pertaining to budget implementation.
- Discussion on the risk mitigation measures and risk management in line with ICS requirements (annual exercise). Six-monthly review of the implementation of the action plan developed during the annual risk management exercise.
- Feedback provided by the Agency's internal audit function, the Commission's Internal Audit Service and the European Court of Auditors. Audit recommendations are followed-up systematically.
- The Agency's annual work programme is compiled and monitored. It shows the specific objectives and tasks necessary to achieve the general objectives set forth in the Act of Delegation; a set of SMART indicators facilitates the monitoring process.
- Quarterly management reports compiled in compliance with the Act of Delegation and sent to the parent DGs and the Steering Committee showing the progress made through operational and financial scoreboards.
- Quarterly reporting on the Agency's performance to the Steering Committee meetings.
- Annual Activity Report compiled showing progress made during the year.