European Commission

2011

Annual Activity Report

DG Enterprise and Industry

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PART 1. POLICY ACHIEVEMENTS

Against a background of intensifying global challenges, the Commission committed itself in its Europe 2020 strategy[1] to seven flagship initiatives to help Europe emerge from the ongoing economic and financial crisis while laying the foundations for sustainable economic growth and competitiveness in the next decade. The Enterprise and Industry Directorate General (DG ENTR) has a key role to play in the implementation of this strategy, in particular by creating conditions which favour the creation and growth of enterprises and thereby contributing to a thriving real economy in the European Union. This is the goal of two of the seven flagship initiatives: “An industrial policy for the globalisation era” and the “Innovation Union”. DG ENTR contributes additionally to Europe 2020 through its policies[2] to encourage SMEs and promote entrepreneurship more widely, playing an essential role in five of the seven flagships.

On 29 June the Commission adopted a Communication on the next Multi-Annual Financial Framework (MFF). It confirmed the concept of a common strategic framework for research and innovation support ("Horizon 2020") and a separate “Programme for the competitiveness of enterprises and SMEs” (COSME). The preparation of COSME and Horizon 2020 has been guided by the findings and recommendations of the final evaluation of the Entrepreneurship and Innovation Framework Programme.[3] The Commission adopted proposals for the programmes on 30 November.

To guide its work, DG ENTR has set five general objectives, which contribute to the global Europe 2020 objectives: to strengthen the sustainable competitiveness of Europe's industrial base, enhance access to raw materials and promote the transition to a resource efficient economy; to promote innovation as a means to generate new sources of growth and meet societal needs; to encourage entrepreneurship and the creation and growth of SMEs; to ensure an open internal market for goods; and to support the European presence in space and the development of satellite-based services.

For each general objective, the most important achievements in 2011 are highlighted below. It is not possible in the space available to go into detail of all the indicators DG ENTR uses to track the results of its work, but the annexes to this report give full detail of the latest figures, together with targets and historic data showing the evolution of results. The links between the general objectives, the specific objectives and the operational activities are described in more detail in Annexes 11 and 12. Annex 13 presents an overview of the latest information available on indicators, outputs and evaluation results at the end of 2011.

1.1 To strengthen the sustainable competitiveness of Europe's industrial base, enhance access to raw materials and promote the transition to a resource efficient economy[4]

Manufacturing industry is vital to the EU economy. In 2010 it contributed ca. 15 % to the Gross Domestic Product (GDP) of the EU. When taking into account the wider productive sector (power generation, construction) the share of GDP is about 25 %. Industry (including construction) provides some 55 million jobs in the EU (2010).

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1 Communication from the Commission on "Europe 2020 – A strategy for smart, sustainable and inclusive growth", COM(2010)2020, 3.3.2010 http://ec.europa.eu/europe2020/index_en.htm

2 http://ec.europa.eu/enterprise/index_en.htm

3 http://ec.europa.eu/enterprise/dg/files/evaluation/110426_final_report_en.pdf

4 This first general objective is supported by the ABB Activity 02 02. The labelling of this objective was slightly revised during the mid-term review process following the preparation of the Draft Budget.

In July 2011, industrial new orders in the EU manufacturing sector, a gauge of future activity, were 7.2% higher than a year ago, whereas in August industrial production in the EU only increased at an annual rate of 4.3%. This supports expectations for a continuation of the moderately slowing industrial production growth. According to the latest data available in Annex 13, since 2005, a growth of the industrial competitiveness in the EU has been marked by a downturn during the years 2008-2009. Since 2010, a slow return to the growth path is visible but weak due to the second wave of the crisis in 2011. However, it is encouraging to see that the share of medium/and high tech manufacturing sectors in the economy has been increasing, which points to a rise in international competitiveness. The goal of lowering the energy intensity in the EU economy is slowly but steadily on track. For example, the energy consumption of manufacturing per unit of value added has been declining since 2005.

On 14 October the Commission adopted the "Competitiveness package" comprising the Communication "Industrial Policy: Reinforcing Competitiveness", the "Report on Member States' Competitiveness Performance and Policies", and the "European Competitiveness Report". In November the main recommendations of the Communication were presented to the European Parliament. DG ENTR also updated the monthly notes on economic recovery in industry and was actively involved in the country teams assessing the National Reform Programmes and preparing the Commission proposal for country specific recommendations.

DG ENTR contributed to several key Commission initiatives, such as the 2050 strategy for a low-carbon economy (through the Sustainable Industry Low Carbon (SILC) initiative), the energy efficiency strategy, the revision of the Energy Taxation Directive and the follow-up of the implementation of the Emission Trading Directive. Moreover, DG ENTR closely followed the international climate negotiations. The Conference in Durban helped to further re-invigorate the international climate process and the prospects of a more effective and harmonious global approach that would help to reduce the competitiveness concerns that a unilateral EU approach creates. DG ENTR looked into the competitiveness aspects of the resource efficiency strategy and trade, competition and health policies. A Communication on a renewed EU Strategy (2011-2014) for Corporate Social Responsibility was adopted in October. The three platforms of the CSR process in the Pharmaceutical Sector were launched during 2011.

Raw materials play a key role in industrial competitiveness, including in sectors developing environmentally friendly technological applications. In February the Commission proposed a set of actions to enhance the EU's access to raw materials (outside and inside the EU), efficient use and recycling. In addition to this, the following initiatives are relevant: further conduct of the WTO case against export restrictions applied by China on eight raw materials; conclusion of memoranda of understanding with Chile and Uruguay; agreement on EU/African Union Action Plan for Raw Materials; preparatory work for a European innovation Partnership on Raw materials with a view to launch it in 2012.

In February the Commission released a report on the implementation of the recommendations of the High-Level Group (HLG) on the Competitiveness of the European Chemicals Industry, presented at a stakeholder conference. It identifies a range of activities by public and private stakeholders to implement the recommendations. Further follow-up of the recommendations of the HLG is an action of the Industrial Policy Communication. Specific actions focusing on innovation in 2011 included an exhibition on chemicals as part of the 2011 International Year of Chemistry and two roundtables on the role of chemistry in innovation policy.

The Commission launched a public consultation in March on policy measures to make Europe's security industry a world leader. As a result, DG ENTR is preparing a Communication for the first half of 2012. In the context of the transposition of the two Defence related Directives (2009/43/EC on transfers and 2009/81/EC on procurement), the Commission held a high-level conference on defence and security industries and markets.

The four platforms of the High Level Forum for a better functioning of the Food Supply Chain were launched in the first months of 2011 and the 2nd meeting of the Forum took place in November.

Vice-President Tajani led a mission to South-America in December having among its objectives the promotion of SMEs exports in several countries such as Brazil. Closer cooperation on SMEs with the US authorities was launched in the context of the Transatlantic Economic Council. Several common topics were identified and will be developed in 2012. Following the natural disaster in Japan in March 2011, the EU-Japan summit reaffirmed their determination to continue to cooperate with the business communities on both sides, in particular through the EU-Japan Business Round Table.

The changes in North Africa have also been a focus for the Euro-Mediterranean partnership. VP Tajani represented the Commission in the 8th Euro-Mediterranean ministerial meeting on industrial cooperation in Malta in May. The Ministers adopted a comprehensive 2011/2012 work programme to promote SMEs, innovation, investment, sustainable enterprise development, to conclude ACAA[5] agreements and to run dialogues in the sectors of textiles, tourism, space and raw materials. Work is in progress with, in particular, Tunisia and Egypt to prepare negotiations in priority sectors.

The number of destinations joining the European Destinations of Excellence network for the promotion of sustainable tourism development models has increased regularly since 2007 and now stands at 98. This project is on good track to reach the target of 148 destinations by 2015. Several initiatives outlined in the 2010 Communication on Tourism were launched in 2011, such as the European Tourism Quality Label, the European Charter for sustainable and responsible tourism, two calls for proposals with the aim to diversify the tourism offer and a feasibility study on the European Tourism Observatory. The "ICT and Tourism initiative" was launched. The EDEN initiative and the preparatory actions on sustainable tourism and on social tourism (CALYPSO) were continued. The "50,000 initiative" was launched and an important cooperation agreement between the Commission and the European Travel Commission (ETC) was signed.

1.2 To promote innovation as a means to generate new sources of growth and meet societal needs[6]

The latest Innovation Union Scoreboard shows the EU making progress in the innovation stakes, but losing ground to some of its rivals, in particular China, Brazil and India who are catching up, while the US and Japan confirm their lead. According to the latest data in Annex 13, the innovation performance of the EU as a whole as well as of Member States increased between 2005 and 2009; 26 out of 27 Member States have had positive average annual growth in innovation performance.

DG ENTR is in the co-lead with DG Research to steer the implementation of the Europe 2020 Innovation Union flagship initiative. DG ENTR progresses well with the 12 commitments as leading or co-leading service. As concern the Lead Markets Initiative (LMI), 57 actions of a total of 86 have been implemented, 25 completed and only 4 abandoned. The evaluation report of the first cycle of the LMI concludes that the major strength of the initiative was targeting interrelated policy areas for promising markets that would not otherwise be picked up by other policy frameworks. For more information on evaluation results, please see Annex 13 and the evaluation report[7]. A conference on the main outcomes of this initiative was held in Warsaw in October. The outcomes of this conference are important inputs for the preparation of a public consultation (scheduled for the 1st half of 2012) on how to use demand-side innovation policy tools to contribute to improving European competitiveness. This will pave the way for a new generation of LMI.

In very practical terms, the European Union is helping enterprises to innovate. The effectiveness of EU support can be seen in the leverage effect of projects in terms of additional innovation support funding mobilised by EU pilot project, which increased from circa € 45.25 million in 2010 to € 207.7 million in 2011 (see Annex 13).

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5 Conformity Assessment and Acceptance of Industrial Products
6 This second general objective is supported by the ABB activities 02 02 and 02 04 (security research).
7 http://ec.europa.eu/enterprise/dg/files/evaluation/final-eval-lmi_en.pdf

In response to the recommendations of the High Level Expert Group on key enabling technologies (KETs), DG ENTR is drafting a new European strategy on the industrial deployment of KETs to be released in 2012.

As foreseen in the Communication on reaping the benefits of e-invoicing for Europe, the first meeting of a new European multi-stakeholder forum took place in September in order to help the Commission in identifying further measures to facilitate the mass adoption of e-invoicing across borders.

In order to cut costs for firms and boost the EU's competitiveness, the March European Council agreed to establish a common EU patent system using the enhanced cooperation procedure. The language regime for the future unitary patent system will be that of the European Patent Office with English, French and German as official languages. The Commission proposed in May to create a common court based on an intergovernmental agreement. These proposals were agreed by the Legal Affairs Committee of the European Parliament and Council Presidency negotiators in November. MEPs proposed modifications, aimed at making it more in line with small firms' needs, but the deal still awaits approval by Parliament as a whole and the 25 EU Member States involved.

A call for proposals of € 15 million was launched to fund pilot actions for the use of public procurement as a means to speed up the market entry of innovative solutions. The European Design Innovation Initiative and the Social Innovation Europe initiative were launched.

In February the Expert Panel on Service Innovation in the EU highlighted the catalytic role of service innovation to shape new markets and create new business opportunities. For this purpose, a call for proposals to establish European Alliances to support emerging industries and reinvigorating the value chains of traditional industries was launched and targeted creative and mobility industries in the first phase.

1.3 To encourage entrepreneurship and the creation and growth of SMEs[8]

The “Small Business Act” for Europe (SBA) was launched in 2008 to improve the business environment for SMEs and promote their competitiveness. The review of the SBA in February 2011 concluded that progress in implementing the SBA has been made, but that the approach taken and the results achieved vary among the Member States. Therefore, the review proposed a reinforced governance to ensure an effective implementation of all measures, both at EU and national levels, and in particular a network of national SME envoys. Moreover, new actions were set out in line with the Europe 2020 strategy to respond to new challenges SMEs face. The opinion of the Competitiveness Council endorsed the SBA Review and committed the EU to reduce by the end of 2014 the start-up time to 3 working days (against 7 days in 2010) and the cost for setting-up a new business to € 100 (against € 399 in 2010).

The SME Performance Review, i.e. the 2011 Annual report on EU SMEs as well as the 2011 version of the SBA country fact sheets, was released in November. The report shows that SMEs remain the backbone of the European economy and provide more than two thirds of the employment in the private sector. SMEs experienced a modest recovery from the crisis but the situation remains fragile due to the uncertain economic and financial environment. The main results of a survey on the application of the SME test in the impact assessment procedure in the Member States were shared with the European Parliament, which has in parallel commissioned a study looking at the application of the SME test at both national and Commission levels. On the basis of the findings of the report a workshop was organised on 10 January 2012 with some 80 participants, including delegates from almost all Member States, discussing good practices from within the Commission and selected

8 This third general objective is supported by the ABB activity 02 02. The labelling of this objective was slightly revised during the mid-term review process following the preparation of the draft budget.

Member States. A study on the EU SME labour market, investigating the SMEs contribution to the Europe 2020 strategy and the Agenda for new skills and jobs was published in January 2012 resulting in a substantial amount of reaction in the media. According to the analysis, 85% of net new jobs in the EU between 2002 and 2010 were created by SMEs.

The needs of SMEs are effectively addressed by the Entrepreneurship and Innovation Programme (EIP); as confirmed by the independent final evaluation, the major strength of the programme is that it is able to concentrate on core issues for SMEs in a direct and practical way.[9]

After more than 4 years in business, the Enterprise Europe Network has been in contact with more than 7 million companies to help them make the most of the Single Market. The Network is most active on EU advice and information where about 300,000 queries were handled and 600,000 SMEs participated in information events in 2011. Europe's largest business support network contributes to the competitiveness of SMEs in 51 countries by making it easier for them to internationalise, innovate and access EU funding. The Network runs a partnership database with 15,000 opportunities for businesses and helps to conclude about 2,000 business and technology partnerships every year. More than 600 major players in the business support community have linked up in the Network to offer a one-stop service to help companies reach their full potential. The final evaluation of the EIP concluded that the Enterprise Europe Network is a major policy asset for the EU's relationship with enterprises and has considerable further potential in terms of the engagement of SMEs (for more details, see Annex 13 and the evaluation report[10]).

Up to September 2011, 155,530 SMEs received support from the guarantee SME facility (SMEG) of the European Investment Fund (EIF) and 175 SMEs used the high growth and innovative SME facility (GIF) provided also by EIF. These financial instruments remain essential to help SMEs to overcome the current crisis. Access to bank credit continues to be difficult. Venture capital activity rebounded in 2011, characteristically, 8 new GIF transactions with venture capital funds were signed in 2011 bringing the total to 31. The final evaluation of the EIP concluded that the GIF facility, SMEG loan and micro credit windows are relevant to the needs of European SMEs; they fulfil a demand for finance which otherwise would not have been met (for more details, see Annex 13 and the evaluation report[11]).

In October, the European SME Week 2011 took place, co-managed with the 37 participating countries (EU27 + Albania, Croatia, FYROM, Iceland, Israel, Liechtenstein, Montenegro, Norway, Serbia and Turkey). Nearly 1500 qualifying events were held for SMEs across these 37 countries and the week culminated with the SME Summit held at the European Parliament in Brussels.

A Communication on SME internationalisation (Small Business, Big World – a new partnership to help SMEs seize global opportunities) was adopted in November. The Communication sets out a strategy aiming to help EU SMEs expand and export to markets outside the EU so as to find new sources of growth and create new jobs. Currently, only 13% of the SMEs are active outside the EU. The target of this initiative is to have 18% in 2014 and 25% in 2020 doing business abroad. The aim is to increase the share of SME-dominated sectors in EU exports to twelve target markets, including China, Japan, Russia, India and Brazil from 51% in 2011 to 55% in 2014 and 60% in 2020.

Exchanging good practices on SME policy with Mediterranean partners was delivered in the context of implementing the EU-MED Work Plan on Industrial Cooperation. A number of workshops were co-organised, namely on administrative simplification, access to finance and innovation. The SME Dialogue with China continued and resulted in a joint application to the EU-China Trade Project (a seminar on simplification might be financed in 2012). The SME Dialogue with Russia is ongoing, especially on the Partnership for Modernisation process.

9 http://ec.europa.eu/enterprise/dg/files/evaluation/110426_final_report_en.pdf

10 http://ec.europa.eu/enterprise/dg/files/evaluation/110426_final_report_en.pdf

11 http://ec.europa.eu/enterprise/dg/files/evaluation/110426_final_report_en.pdf

The interim evaluation of the Pilot Project and the Preparatory Action of Erasmus for Young Entrepreneurs showed good progress. So far, more than 4,300 people have applied and 900 relationships between entrepreneurs have been matched. The evaluation concluded there is a strong rationale for the mobility scheme which is likely to increase the quality of start-ups, SME innovation as well as the SMEs' internationalisation (for more details, see Annex 13 and the evaluation report[12]).

Recognising the essential role played by teachers in fostering the entrepreneurial mindsets and skills of young people, DG ENTR organised a High-Level Symposium on training teachers in entrepreneurship with 90 participants from 28 countries, including policy makers, representatives from universities and teacher colleges, teachers and entrepreneurs.

The European Network of Female Entrepreneurship Ambassadors is currently made up of 270 ambassadors representing 22 countries. First results from 6 countries participating in the ambassadors' network show that 209 new women-led companies were created as a result of the ambassadors' motivation. In November the European Network of Mentors for Women Entrepreneurs was launched with 170 mentors in 17 countries.

1.4 To ensure an open internal market for goods[13]

The single market is one of the main pillars of the European Union. It contributes to competitiveness and prosperity. In the current economic crisis it provides a safeguard against protectionism within the EU and the negative effects that would have on the economy. The aim of this activity is first and foremost to ensure the free flow of goods in the EU and secondly, to ensure that societal needs such as environmental and consumer health and safety are met. In addition, internal market regulation should be as light as possible to avoid weakening business competitiveness,as highlighted in the Commission Communication "Towards a Single Market Act[14]".

One indicator to measure the success of the EU measures to improve the working of the internal market is to look at the volume of intra-EU trade. This volume has steadily increased until the economic crisis in 2008/2009. Then it dropped to 93.5% of its value in 2005. However, in the current recovery phase, it is on a growth path again (now 108.4% of its 2005 value, see Annex 13).

Within this activity, the DG manages more than 500 pieces of secondary legislation in both the harmonized and non-harmonized areas of the single market for goods. In the harmonized area, secondary legislation lays down requirements for around 75% of products in the single market. To ensure a flexible regulatory framework providing access to the single market while protecting essential public requirements, the DG promotes the use of the New Legislative Framework. This framework lays down common rules for market surveillance and accreditation, and promotes the use of standards to achieve policy objectives.

In June the Commission adopted the Standardisation Package comprising a Communication on a more integrated European Standardisation System (including revision of the ICT standardisation policy) and a proposal for a Regulation on European Standardisation. It proposes inter alia new legal provisions for transparency and inclusiveness in the work of the European Standardisation Organizations (ESOs), harmonised procedures for the Commission mandates and formal objections against harmonised standards as well as some new annual reporting requirements. In addition, the Commission funding of the ESOs could be made conditional on performance criteria contributing to the objective of reducing the average time needed to develop European standards or standardisation

12 http://ec.europa.eu/enterprise/dg/files/evaluation/eye_final_report_en.pdf
13 This fourth general objective is supported by the ABB activity 02 03.
14 http://ec.europa.eu/internal_market/smact/index_en.htm

deliverables. To strengthen SME participation in standardisation, an operating grant is attributed on an annual basis to a European body representing SMEs in the process.

One indicator to measure the success of the European standards is the rate of their national transposition. This rate is currently close to 100% which points to the highest level of acceptance of the European work on standards (see more details in Annex 13). The Commission wants also to actively increase the participation of SMEs representatives in the elaboration of the European standards. The data suggest that this goal is on track with an increase from 43 experts in 2010 to 55 experts in 2012, compared with the target for 2011 of 52 experts.

In December the Commission released its report on the application in 2009 and 2010 of the notification procedure of Directive 98/34/EC, noting that it has proven to be an effective instrument of prevention of barriers to trade and of cooperation between the Commission and the Member States and among the Member States themselves as well as improving the regulatory framework. Moreover, the greater clarity in the legal framework of each Member State provided by this Directive, through the close to 700 notifications, helped economic operators to reduce the cost of accessing the regulations and applying them correctly.

A proposal to align nine directives to the New Legislative Framework (the successor to the "new approach") was adopted in November.

The Late Payment Directive 2011/7/EU was adopted in February and has to be transposed by March 2013. Considering the detrimental effects of late payments on the capacity of SMEs to overcome the economic crisis, the Commission invited the Member States to step up efforts for early transposition by January 2012.

In its fourth report released in September concerning the Directive 87/374/EEC on liability for defective products, the Commission noted that the Directive was seen as achieving a balance between consumer protection and the producers' interests as regards liability for defective products. Therefore, the Commission took the view that it was premature to propose a review of the Directive at this stage.

The Ecodesign Directive is under evaluation. The aim is to review its operation, methods and effectiveness, and to assess the appropriateness of extending its scope beyond energy-related products in 2013.

Single market for vehicles

Important progress has been made in completing EU emission legislation with the adoption of the 2nd package of implementing measures of the Regulation on Euro VI in May and the adoption of a Regulation on access to vehicle repair and maintenance information in relation to Euro 5/6 in June. Furthermore, the Commission adopted a Directive amending emission requirement for narrow-track tractors in January. A proposal for a Regulation on the permissible sound level and the exhaust system of motor vehicles was adopted in December. The main objective of this initiative is to reduce the negative impact of noise exposure of European citizens caused by motor vehicle traffic.

In line with the CARS 21 Communication, the Commission issued in May an annual working paper on progress made on the development of Motor Vehicle Regulations at the UN Economic Commission for Europe (UNECE). Through continuing the EU's active participation in and commitment to the UNECE activities, significant progress on the international harmonisation of vehicle Regulations was achieved in 2011, especially for motor vehicles safety and electric vehicles.

The increasing synergies between EU and UNECE Regulations will reduce the development and deployment costs for manufacturers and the implementation costs for type-approval authorities/test laboratories. As highlighted by the CARS 21 interim report, stakeholders welcome this regulatory simplification and international harmonisation as a positive contribution to ensuring that the European automotive industry remains globally competitive.

In September 2011 agreement was reached with the Secretariat-General to select the type-approval framework for motor vehicles as the DG ENTR contribution to the pilot exercise on fitness check. As a result, the decision has been taken to amend the DG ENTR 2012 work programme by unbundling the revision of the framework directive on the type-approval of motor vehicles from the car package and transferring this legislative initiative to the work programme for 2013. The main objective of this change is to ensure that any recommendations and conclusions resulting from the fitness check can be properly assessed and taken into account before proposing any amendments to the legal framework for the type-approval of motor vehicles.

The legislative initiative on Registration of motor vehicles previously registered in another Member State should have been part of a 'Car Package' whose adoption was foreseen for the 1st quarter of 2012. From March to May 2011, a public consultation of stakeholders took place, followed by a conference in June presenting preliminary results to public authorities in charge of registration in the Member States.

Single market for chemicals

The Commission adopted an adaptation to technical progress of the Fertilisers Regulation in February, introducing new fertiliser types that can circulate freely in the internal market.

In March the Commission adopted a Regulation adapting the Regulation on classification, labelling and packaging of substances and mixtures (CLP) for the 2nd time to technical progress, which incorporates into the CLP the changes introduced by the 3rd revision of the United Nations Globally Harmonised System (GHS).

The review of REACH is planned for 2012. Three evaluations have been launched aiming at supporting the first Commission general report on the experience acquired with the operation of the REACH regulation, due by June 2012. As regards authorisations, 73 substances are currently on the candidate list of "substances of very high concern". The most recent update of December 2011 added twenty substances to the list. This is the largest increase since this process started in 2008. The candidate list is the first step in the process of selecting substances for inclusion in Annex XIV of REACH, and thereby subjects them to the authorisation requirement. For authorisation of individual substances, the Commission Regulation ((EU) No 143/2011) was adopted in February. It includes six substances in Annex XIV of REACH.

In April the Commission adopted a Regulation ((EU) No 366/2011) which restricts the placing on the market and the use of "acrylamide" in grouting applications.

Single market for medicinal products, toys and textile

In March the Commission conducted a public consultation on the possible revision of Council Directive 89/105/EEC on the transparency of measures regulating the prices of medicinal products for human use and their inclusion in the scope of national health insurance systems. SMEs were consulted via the Enterprise Europe Network. The draft proposal was finalised in December.

Regulation (EU) No 1007/2011 on textile fibre names and related labelling and marking of the fibre composition of textile products has been published on 18 October 2011. The Regulation entered into force on 7 November 2011 and will be applicable from 8 May 2012. Besides the existing requirement to indicate the fibre composition of the textile product, it introduces the label of 'non-textile part of animal origin' and minimum technical requirements to apply for a new fibre name. The Regulation contains a review clause requesting the European Commission to submit a report to the European Parliament and the Council on possible new labelling requirements for textile product by 30 September 2013. The Commission is already conducting the study necessary for the preparation of this report. The Commission is also working for the adoption of a delegated act to introduce a new fibre name into the text of the Regulation.

The new Toy Safety Directive 2009/48/EC, laying down rules on the safety of toys and their free movement in the European Union, became applicable on 20 July 2011. Efforts to train Chinese manufacturers and regulators intensified in 2011. Hundreds of toy manufacturers were reached with important information on the new Toy Safety Directive during training sessions in Beijing, Dongguan and Hong Kong. A European Toy Safety campaign was launched in December 2011 with aim to highlight to consumers during the Christmas sales period that toys sold now are among the safest in the world and to demonstrate how to buy safe toys and use them safely.

Single market for Construction Products

The European Parliament and the Council adopted, in January and in February respectively, at the second reading the Construction Products Regulation (EU) No 305/2011, which entered into force in April and will become fully applicable from 1 July 2013 onwards. The main objectives of the Commission proposal, simplification, clarification and increased credibility, were largely attained.

Single market for defence related products, cableway installations, appliances burning gaseous fuel and measuring instruments

In January a Commission recommendation was adopted on the certification of undertakings in the field of defence-related products in order to facilitate a convergent interpretation and application of the certification and thus to simplify the licensing system introduced by Directive 2009/43/EC. A report on the implementation of the Directive relating to cableway installations designed to carry persons was adopted in March. The ex post evaluation of Directive 2009/142/EC on appliances burning gaseous fuel completed in March concludes that the current implementation and functioning of the Gas Appliances Directive appears to be efficient and that it has been effective in meeting its objectives. A report on the implementation of the Measuring Instruments Directive was adopted in June (for more details, see Annex 13 and the evaluation report[15]).

Monitoring of the single market for goods (infringements)

During 2011, the DG continued to enforce the substantial part of the EU acquis that falls under its responsibility[16]. Two reviews of the progress of certain categories of infringements and the monitoring of the proper management of infringement proceedings took place in the Coherence Exercise Meetings with the Secretariat General and the Legal Service in July and December. DG ENTR continued to demonstrate its good management of complaints and infringement cases. It further reduced the backlog of infringement cases over three years old. Numerous cases could be solved through cooperation with Member States before the opening of formal infringement proceedings.

1.5 To support the European presence in space and the development of satellite-based services[17]

Long-term impacts of EU space presence

Today close to 7% of the EU's GDP, i.e. about € 800 billion, rely on satellite navigation and thus on Global Positioning System (GPS). The market share of the EU navigation satellites industry in the worldwide downstream market is about 20%. The aim is to raise this figure to 33% by 2020.

EGNOS and Galileo will provide sizeable additional benefits compared to GPS alone, resulting from the additional services the systems will offer and the increased performance coming from additional satellites to complement GPS. Galileo is also the only Global Navigation Satellite System (GNSS) specifically designed for civil purposes, i.e. it aims to satisfy the requirements and the needs of the civil sector. The total cumulative benefits are forecasted to be up to € 130 billion over the period of

15 http://ec.europa.eu/enterprise/dg/files/evaluation/03_2011_finalreport_gas_en.pdf
16 http://ec.europa.eu/enterprise/policies/single-market-goods/monitoring-ec-law-application/index_en.htm
17 This fifth general objective is supported by the ABB activities 02.04, 02.05 and 02.02 (GMES). The labelling of this objective was slightly revised during the mid-term review process following the preparation of the Draft Budget.

the next 20 years. This figure has been estimated by external consultants for the European GNSS Agency (GSA) based on the results of studies, FP7 projects, and research performed by the European Commission.

These programmes contribute to stimulating economic activity and technological innovation. They will enable traffic management to be optimised whether on road, waterborne or aerial. Better managed traffic not only improves safety but also reduces pollution since travel is more efficient. Satellite navigation also enables emergency services to better carry out their duties (e.g. in case of fires, road accidents, mountain rescue). Another added-value is that the combined use of GPS and Galileo signals will allow for better precision and availability and opens the door to new applications which are not possible by using GPS alone.

In addition, the technological advances resulting from R&D investment in the space industry are transferred to firms in other sectors in the form of "spill over" effects. Research suggests that such "spill over" effects are very large, with R&D investment by the aerospace sector generating a social return of around 70%, i.e. every € 100 million invested in R&D leads to an increase in GDP of € 70 million in the longer term in other sectors (health and medicine, transport, computer science, etc.).

<u>Space policy</u>

The Communication "Towards an EU Space Strategy at Citizen's Service" was adopted in April. It underlined the importance of space and security, the need to boost research and innovation, to establish a space industrial policy, to review and to reinforce partnership with Member States and the European Space Agency (ESA). This will sustain several policy objectives such as economic growth, sustainable development, the common foreign and security policy.

<u>Satellite-based navigation programmes</u>

Space-based technologies such as European Geostationary Navigation Overlay Service (EGNOS) and Galileo are at the heart of a technological revolution that will create new markets, improve the quality of life and make economic growth more sustainable – fitting perfectly in the framework of the Europe 2020 Strategy. Galileo will ensure Europe’s independence in an area that is strategic to its economy and security.

In June the procurement phase of Galileo ended with the award of the last two contracts (related to the ground segment). Meanwhile, efforts were redoubled to ensure the successful launch into orbit of the first two operational Galileo satellites. These were successfully deployed on 21 October aboard a Soyuz rocket, the first such launch from Europe's Spaceport in Kourou, French Guiana and a major milestone for the Galileo programme. The launch also marks the first tangible step towards the provision of a range of satellite-navigation services, the first of which are expected to be delivered as from 2015. Once they reached their final orbital positions, the two satellites were used for an intensive in-orbit validation campaign, with very positive results.

Since its publication in 2010, the Action plan[18] on Global Navigation Satellites Systems applications (GNSS) is being implemented. Priority has been given so far to actions involving EGNOS, such as: certification in March for aviation to date around 50 destinations in the EU where an EGNOS-enabled aircraft can land; the introduction of GNSS in tachographs is now among the key priorities in the relevant new Regulation; some research was carried out with regard to EGNOS for road transport and the Common Agricultural Policy monitoring and mapping; an EGNOS tool-kit was published in November to ease the work of developers when developing EGNOS-based applications for smart phones; the decision to implement the preliminary phase and deploy the initial infrastructure of EGNOS in Africa has been taken.

Due to the political impact, in particular in areas such as national security, international relations,

18 COM(2010)308

industrial policy, technical performance, budget implementation, liabilities and risk management, Council and Parliament insisted on the political accountability of GNSS programmes management and therefore invited the Commission to take the role of the programme manager[19] in order to avoid any delay and extra unforeseen costs. EGNOS and Galileo are the first major infrastructures belonging exclusively to the European Union and managed directly by the Union. The mid-term review highlighted in January a number of challenges, specifically in terms of financing and governance. These were addressed by the new Regulation adopted in November on governance and financing of European GNSS programmes. In line with very important recommendations from Internal Audit Service, Court of Auditors, and the Council and Parliament (as Discharge Authorities), the objectives of this legislative proposal were to define the roles and responsibilities of all players around the two European satellite navigation infrastructures EGNOS and Galileo, to entrust all players with the power to fulfil their assigned missions, to ensure a long-term commitment of the EU to support the exploitation of the two systems and to set up rules ensuring transparency and accountability in the implementation of the European GNSS programmes beyond 2014 (see also sections 3.1.2.2 and 3.1.2.3).

Space research (FP7)

The interim evaluation of FP7 space research activities concluded that there is a clear EU added value and strong coherence with key EU policies including emergency response and crisis management, environment, climate-change and independent European access to space. It concluded furthermore that FP7 is effective in supporting the competitiveness of the European space industry (for more details, see Annex 13 and the evaluation report[20]).

The indicative budget for the Space call 2010 was € 99 million. 124 proposals were submitted. Their evaluation was carried out under the responsibility of the Research Executive Agency (REA) from December 2010 to March 2011. 33 proposals have been retained for funding. Among them, there are prototype GMES (Global Monitoring for Environment and Security) operations in the areas of Marine and Atmosphere, an international consortium to design, build and launch 50 research nano-satellites and an international cooperation to develop asteroid impact mitigation strategies.

The 2011 call for proposals was published in July and covered activities such as further developments in GMES and climate change monitoring, space science and exploration, space technologies and transportation and security of space assets, GMES Space Component implementation as well as data access activities supporting the GMES services.

Following the second amendment and renegotiation of the Delegation Agreement with the European Space Agency (ESA) in the first half of 2011, an amount of € 715 millions of the FP7 Space Theme budget will be devoted by 2013 to providing FP7 actors with access to space data and contributing to the GMES Sentinel satellite development through ESA.

GNSS research (FP7)

The evaluation of the third call for proposals under the FP7 2011 Work Programme, Theme 7: Transport (including Aeronautics), took place in 2011. In total 40 grants to develop new applications (mainly linked to mobile communications, various transport modes and agriculture) as well as mass market receivers for an overall amount of € 30.5 million are ready for signature in early 2012. The majority of those grants are managed by the European GNSS Agency (GSA). Public regulated-service and professional receivers' development will be supported for a total amount of € 6.5 million. By this 3rd call the total available FP7 budget allocated to these activities will have been committed.

19 Regulation (EC) No 683/2008
20 http://ec.europa.eu/enterprise/dg/files/evaluation/fp7_space_research_2011_en.pdf

EU Earth monitoring programme (GMES)

In March the first GMES Users meeting endorsed the user requirements for the GMES Land monitoring and Emergency services, completing the governance of the GMES Programme – GMES initial operations (2011-2013) set by the September 2010 GMES Regulation.

On the service component side of GMES, a delegation agreement concerning the Land monitoring service (2011-2013) was signed with European Environment Agency (EEA) in May. The delegation agreement with ESA concerning the space component of GMES was amended in June to cover the activities funded by the Regulation on GMES initial operations.

The Commission proposed in June in its MFF package 2014-2020 to treat GMES as an item to be funded outside the EU budget and adopted in November a Communication on the European Earth Observation Programme and its operations from 2014 onwards.

Security research (FP7)

The interim evaluation of FP7 security research showed strong coherence with key EU policies, addressing as well a clear gap in the EU, as only a few Member States have established their own security research programmes (for more details, see Annex 13 and the evaluation report[21])

307 proposals from the 2010 Security Research call with a 2011 budget of € 221 million were evaluated during the first half of 2011. 54 were proposed for funding. Security scrutiny led to the classification of 17 proposals (including 6 proposals on the reserve list). The classified proposals will be managed by DG ENTR, as well as some proposals identified in the work programme as policy related actions. The remaining proposals have been externalized to REA. The Ethical Review recommended rejecting, on ethical grounds, one project for funding.

The 2011 Security Research call was published in July with a total 2012 budget of € 241.7 million. The call included some 50 topics aimed at improving the security of citizens, detecting and preventing terrorist attacks and helping rescue teams in crisis situations, amongst which a large scale demonstration programme for CBRN (chemical, biological, radioactive and nuclear material). A special emphasis is put on aviation security, where three topics have been launched on air traffic management, air cargo security and improved passenger flows. This year's security call also addresses an issue of crucial importance across the globe: the control of large scale fires (i.e. industrial fires, forest fires and urban fires). The security theme also initiated an innovative topic for border authorities on pre-operational validation of maritime border surveillance tools. Finally, one topic has been specifically reserved for innovative SMEs.

Three workshops were held in the first half of 2011 on information management in law enforcement together with Europol (March), on chemical, biological, radiological and nuclear threats and on the societal dimension of Security Research together with the Norwegian government (June).

21 http://ec.europa.eu/enterprise/dg/files/evaluation/01_final_report_security_en.pdf

PART 2. MANAGEMENT AND INTERNAL CONTROL SYSTEMS

2.1 Introduction to ENTR organisation and description of its main management activities[22]

2.1.1 Mission statement, planning and monitoring

The mission statement, the main priorities, objectives and indicators of DG ENTR were reviewed in 2011 in the framework of the preparation of the Draft Budget (DB), Commission Work Programme (CWP), Management Plan (MP), and the Annual Activity Report (AAR). This review was based on discussions amongst senior management and was done in consultation with Vice President Tajani, following the agreed working arrangements between the Commissioner and the DG.

Based on the DG's objectives, units were invited to plan their objectives, activities and resource allocation for the year ahead. An IT tool specific to DG ENTR was used for this purpose. The following mechanisms were in place to monitor the execution of the Management Plan:

- Weekly senior management meetings.
- Regular meetings at the Directorate, Unit and Team levels.
- Regular updating of Agenda Planning (CWP initiatives), ENTR management scoreboard, financial monitors, and follow-up of audit recommendations and synthesis report actions (More details on main operational performance indicators can be found in Annex 9).
- Use of different IT tools related to planning, human resources, financial resources, risks, impact assessments, evaluations and audits.
- Meetings with the Commissioner and his Cabinet, bi-annual report to the Commissioner on management and internal control in the DG.
- Review of risk mitigating action plans (for both critical and significant risks) at Directorate level in September.
- Mid-year review of the implementation of the Management Plan 2011 (discussed in September during a senior Management Meeting).
- Preparation of key Strategic Planning and Programming documents (SPP: DB, CWP, MP, AAR).

2.1.2 Human resources

Senior Management Mobility

On 1 February 2011 Paul Weissenberg was appointed Deputy Director-General, responsible for Directorates G, H, and the EU satellite navigation programmes. Following the creation of a second post of Deputy Director-General, Daniel Calleja Crespo was appointed on 16 February 2011 as Deputy Director-General responsible for Directorates C, D, E and F, International Relations, and as the Special Envoy for SMEs.

22 These activities are supported by the budget lines 02.01, 02 AWBL-01 and 02 and the specific objectives for horizontal activities (administrative support and policy strategy and coordination), presented in the internal management plan of DG ENTR.

Carlo Pettinelli was appointed Director for Directorate R on 1 February 2011. With Mr Weissenberg assuming his new post, the Director post in Directorate H became vacant and a final decision of the Commission on its publication is awaited. On 1 February 2011 Georgette Lalis left DG ENTR. Philippe Jean acted as Director ad interim of Directorate D during the rest of 2011. Marco Malacarne was appointed acting Director of Directorate H on 1 April 2011 and acted during the rest of 2011. On 19 September Didier Herbert was appointed acting Director for Directorate A, responsible also for the Internal Control Coordinator function.

On 1 February 2012 Daniel Calleja Crespo was appointed as Director-General responsible for "Special Envoy for SMEs" as well as Directorates R, A, B, E, F and Internal Audit. Antti Peltomaki was appointed as Deputy Director-General (DDG1) responsible for Directorates C, D and G. Paul Weissenberg as Deputy Director-General (DDG2) kept the responsibility of Directorate H and the Galileo Programme. Finally, Mr Carlo Pettinelli, Director in charge of "Resources and Communication", was transferred to the post of Director in Directorate D in charge of Industrial Innovation and Mobility Industries. Lluís PRATS was appointed as acting Director of "Resources and Communication".

Recruitments

By the end of the year, 100 permanent and temporary staff members had been recruited (of whom 47 from EU12) and 59 left the DG. The number of external staff recruited was of 218. The DG met its EU2 recruitment obligations at both AST and AD level. The only outstanding issue in this regard was the obligation to recruit two supplementary EU2 nationals at middle management level – over the 2 already designated by the Commission plan. Two of these recruitments were made in the second semester. The other two are in progress. Annex 2 gives an overview of human resources by ABB activity.

Vacancies

The average vacancy rate in 2011 decreased from 7.1% on 1 January 2011 to 6.4% at the year-end. This reduction is due to the launch of recruitment of middle managers which will be finalised in 2012. However, the time to fill a vacancy increased mainly due to posts of two directors (and their staff) remaining unfilled and to posts detached to agencies that have been published several times without any success. In July the rapid creation of the “task-force Greece” led DG ENTR to provide 2 AD posts of Heads of Unit, an AD post of Advisor, one AD administrator post and two ASTs.

Offices

A huge operation of moves has been finalised, following the 2010 reorganisation. DG ENTR was divided among three buildings. This has been reduced to two. Galileo Units joined the main staff in BREY1. That concerned 1259 new demands for phone and related services and 252 moves of persons.

2.1.3 Financial resources

Budget Execution (Commitment and payment)

The DG recorded a new high in the execution of its budget for both commitments and payments. In commitments, 99.7% of the budget appropriations voted[23] for 2011 was executed with complete implementation of the main DG programmes: CIP, Galileo, Research and Internal Market. For payment appropriations, the DG passed for the first time the 95%-threshold, with an execution rate of 96.7% for appropriations voted for 2011. With the CIP-EIP remaining the only programme with lower payment execution rates, the DG surpassed its implementation targets and demonstrates its

23 Final voted appropriations for the exercise (C1) and appropriations carried over (non-automatically) on decision of the Budgetary Authority (C2).

resolve to accurately forecast and implement the budget it receives.

Next to the voted budget, a more modest budget of assigned revenue is available, for which unspent amounts are automatically carried-over from one year to the other[24] and can be used over the entire programme. For these appropriations, full budget implementation is foreseen by the end of the programme period 2007-2013 and not on an annual basis. Including these appropriations, budget execution 2011 came to 92.1% in commitments and 89.7% in payments.

Annexes 2 and 3 give an overview of all commitment and payment appropriations (both voted for 2011 and assigned revenue) for each ABB activity and more details on the types of payments in 2011 are given in section 3.1.1.

Contractually agreed payment times

The respect of contractual payment times further increased from an already high level in past years, with only 1.1% of payments being late in 2011. The improvement is significant compared to previous years. In 2010, 2.8% of payments were delayed; in 2009, 4.5% of payments and in 2008, 13% of payments were executed late. DG ENTR effectively manages to guarantee a high standard of respect of payment times keeping the number of late payments well below the 5% target. Close monitoring of payment times will continue to take place in order to ensure that the present high standard is maintained.

Following the Communication of 8 April 2009 on “Streamlining financial rules and accelerating budget implementation to help economic recovery” (Doc SEC(2009) 477), the Commission strives to pay even faster than foreseen in the contracts. First pre-financing payments shall be made within 20 days and payments on grants within 30 days. DG ENTR complied with these standards for nearly all payments; only 4.2% of all payments needed more time. Thus the objective of limiting the number of payments which need longer than the targeted 20/30 days to a maximum of 5% has been reached. In 2010, 6% of payments were made outside these stricter targets.

Means of financial intervention

In 2011 DG ENTR used resources in three areas of activity:

(1) Coordination of the policy aspects of competitiveness, industrial policy, innovation, entrepreneurship, space and security.

(2) Management of legislation and standardisation.

(3) Programme management (CIP, FP, GMES, EGNOS, Galileo).

The coordination of the policy aspects of competitiveness, industrial policy, innovation, entrepreneurship and space mainly corresponds to the policy aspects of ABB activity “Competitiveness, industrial policy, innovation, entrepreneurship” as well as of the ABB activities “Space and Security”, "EU Navigation Programmes" and "Policy Strategy and Coordination". The main stakeholders in this domain are the Council, the European Parliament, the Member States, enterprises inside and outside the EU and their associations at EU and national levels, as well as international organisations such as the World Trade Organisation (WTO) and ESA. Circa 0.8% of the DG’s payments in 2011 related to this activity and were made under public procurement contracts and grants for the EU-Japan Centre for Industrial Cooperation, China IPR SME Helpdesk and other actions.

These activities were mainly carried out by two Directorates (Dir A and Dir B) operating a partially decentralised financial workflow model, where the services of the Directors execute the operational initiation and operational ex ante verification functions, and the Financial Resources Unit assumes

24 Not applicable to the carried-over assigned revenue from a surplus of subsidy to the European Chemical Agency (ECHA).

the financial initiation and/or financial ex ante verification functions. The relevant Director is the Authorizing Officer for commitments, and the Head of the operational Unit is the Authorizing Officer for payments. The segregation between the initiation and verification function is assured within the services of the Director and within the Financial Resources unit.

The management of legislation (i.e. internal market legislation including notifications and infringements) and standardisation includes a range of technically complex areas, many of which have an impact on free movement of goods, fair competition, consumer safety, public health and the environment. The management of legislation corresponds roughly to the ABB activity "Internal Market". The main stakeholders for this activity are the Council, the European Parliament, Member States, and enterprises inside and outside the EU, their associations at EU and national levels as well as the European Standardisation Organisations (ESOs). Circa 3.4% of the DG's payments in 2011 relate to this activity and were made both under public procurement contracts and grant agreements (the latter notably in relation to standardisation).

The relevant activities were mainly carried out by units in four Directorates (Dir C, D, F and G), operating the partially decentralised financial workflow model, where the operational initiation and ex ante verification functions as well as the financial initiation function are executed within the services of the Director. The financial ex ante verification is assumed by the Financial Resources Unit. The competent Director assumes the function of Authorizing Officer for commitments and the competent Heads of Unit for payments. Within the services of the Director the segregation between the operational initiation and verification function is assured.

Programme management in respect of payments relates notably to the Competitiveness and Innovation Framework Programme (CIP), the 6th and 7th Research Framework Programmes, GMES and the EU Satellite Navigation Programmes (EGNOS and Galileo). Financial support is also given to the Enterprise Europe Network, as well as to actors of the European Aeronautics, Space and Security industries for research in the area of space and security. This corresponds roughly to the financial part of the ABB activities "Competitiveness, industrial policy, innovation and entrepreneurship", "Space and security" and "EU Satellite Navigation Programmes". Approximately 95.9% of the DG's payments in 2011 relate to programme management and were made under public procurement contracts (8.7%), grant agreements (31.2 %), joint management (15.45% mostly public procurement) and centralised indirect management (44.7% mostly public procurement). For the latter two DG ENTR delegated budget execution to the European Space Agency (ESA).

The activities were mainly carried out by four services (Directorates D, E and H and GP Units) operating a partially decentralised financial workflow model where the operational initiation and ex ante verification functions as well as the financial initiation function are executed within the services of the Director. The financial ex ante verification is assumed by the Financial Resources Unit. For payments in Directorates D, E, F and H, the fully decentralised financial workflow model is applied, except for those transactions sampled for check by a second verifying agent, which role is assumed by the Financial Resources Unit. The competent Director assumes the function of Authorizing Officer for commitments, and competent Heads of Unit for payments. Within the services of the Director the segregation between the operational initiation and verification function is assured.

2.1.4 Information technology resources (IT)

The IT Master plan for 2011 adopted by the IT Steering Committee was implemented as originally planned. Apart from maintenance and improvements for existing information systems, projects for new information systems have been launched to meet business needs and requests:

- The first phase of an IT system for intangible GNSS Assets was put in production mid-November.
- The register of certified recipients (undertakings) for defence-related products was released in December 2011.
- The database for the registration of EU operators handling drug precursors is under development.

The yearly disaster recovery test exercise for ENTR IT took place during the month of August. It showed that business continuity is effectively ensured and that, within two hours, the most critical and important services can be restored.

In order to support the EACI agency with the creation of their new IT tools based on SharePoint (currently not supported by DG DIGIT), DG ENTR has set up a full production environment, including a disaster recovery site.

2.1.5 Communication resources

Throughout 2011, the communication focus was on DG ENTR activities in support of the Commission's priority effort to exit the crisis and restore economic growth and job creation, particularly in those areas which impact on the real economy, such as industrial policy, SMEs and innovation (see also Part 1). Other communication priorities included internal market for goods, space and tourism. In all these areas, the full range of communication tools were used to reach both the general public and a variety of specialised audiences through integrated communication campaigns, conferences, press activities and publications. The visibility of the DG's activities is also highlighted on a continuous basis on the web, through social media and via coherent graphic support of the DG's visual identity.

The year saw the highest level of press coverage to date, generating an unprecedented 27 special press reviews on topics ranging from the common mobile phone charger and the new Toy Safety Directive to the launch of the first Galileo satellites, access to finance for SMEs and the proposals on MFF (COSME, Galileo). The visit of Vice-President Antonio Tajani to Brazil, Argentina and Chile in December was widely covered by the media in Latin America and in the Mediterranean.

A number of high-level events were organised with the participation of the Vice-President, including a conference on the Small Business Act for Europe and the European Enterprise Awards in May, the European Tourism Day in September, the event in Brussels to mark the launch of the first Galileo satellites and SME Week, both in October, the high-level conference on EU Space Policy in November (with the participation of the Presidents of the Commission and of the European Parliament), and the High-Level Conference on an Industrial Policy for the Globalisation Era in November.

Both the ENTR website on Europa (over 12.000 pages, in 23 languages) and the Vice-President's website were maintained and improved constantly during the year, with new additions such as interactive maps, flip books, photo gallery, more functional diary pages for the Vice-President and other state-of-the-art web solutions. A mobile version of both websites was published and presented to other DGs as an example of best practice. A completely new application to manage news on the website was deployed in early June 2011, achieving excellent results in terms of user acceptance and security. Social media presence was enhanced, with a Twitter account for the DG (@EU_enterprise) maintained daily since February 2011, gaining over 3,000 followers by end 2011. A Facebook account was started in October 2011, reaching approximately 850 "shares" and "likes" by the end of the year.

Over 30,000 copies of each of the 12 paper issues of the Enterprise and Industry Magazine were produced in 2011, in English (56% of the print run), French (18%), German (14%) and Italian (12%). Another 35 titles were also produced, with many of them available only in electronic format, in line with the policy of reducing the number of printed publications.

In line with the recommendations of the Internal Audit Capacity (IAC), the strategy for external communication will be further reviewed notably to consider better up-stream coordination and coherence. This will be a main priority for the communication unit in 2012 (see also sections 2.2.1 and 3.1.2.1).

2.1.6 Risk management

The DG's critical and significant risks identified for 2011 when preparing MP 2011 were subject to the definition of mitigating action plans. The implementation state of those action plans was monitored in September. The list of risks was also updated (reassessment of a critical risk and drawing up of the relevant action plan) as a result of GMES funding not being part of the Commission proposal for the next MFF.

2.1.7 Impact assessments

In 2011 DG ENTR worked on the preparation of 32 Impact Assessments (IA). It presented ten IA to the Impact Assessment Board (IAB) and got only 1 negative opinion[25]. This puts DG ENTR among top performers in the Commission (taking into account that DG ENTR is one of the largest producers of IA and that the average resubmission rate for the whole Commission was 36% in 2011).

This represents a major improvement on the previous year (where 50 % of ENTR draft IA got a negative opinion), thanks to the mobilisation of operational units, middle and senior management and the counter-measures put in place as part of DG ENTR's IA Action Plan. DG ENTR self-assessment 2011 on internal control standards for effective management confirms the improvement in IA support seen by most units as "very useful" (see section 2.2.2).

In 2011 the IAB member and his alternate coming from DG ENTR managed to cope with a historical peak in the number and complexity of Impact Assessments (linked in particular to the presentation of the proposals implementing the Commission's Communication on the next MFF 2014-2020).

DG ENTR also provided support to other services in particular on the SME test and competitiveness proofing (guidance, helpdesk, etc.).

2.1.8 Evaluations

With regard to the implementation of the 2011 annual evaluation programme, five evaluations were completed in 2011 and eight were launched, covering both expenditure programmes and legislation.

These produced useful recommendations that will be relevant for the further implementation of current programmes and the design of future legislation. Several of the completed and on-going evaluations cover pieces of legislation, notably the Gas Appliance Directive, the Pressure Equipment Directive, the Ecodesign Directive as well as REACH.

The DG’s drive to create a better environment for small businesses is also clearly reflected in the evaluation programme. An evaluation of the Pilot Project and Preparatory Action Erasmus for Young Entrepreneurs was completed and evaluations are ongoing of Member States’ policies to facilitate access to finance for SMEs and of business angels. Other main pillars of the DG have been evaluated, including the Entrepreneurship and Innovation Programme (EIP) and the Competitiveness and Innovation Framework Programme (CIP).

Over 20 evaluations are foreseen until the end of this Commission's mandate.

2.1.9 Document management

As from the 1st January 2011 the validation of a document in the DG is carried out electronically. The use of a paper signatory is only required for financial documents, voluminous files and documents needing an original to be signed. In addition documents circulate only electronically between DG and the Cabinet. The immediate benefits were a significant reduction of the number of days for the validation of documents, in particular, those concerning inter-Service consultations, e-greffe procedures and parliamentary questions and a more paperless DG. Although certain resistance to

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25 The IAB issued a negative opinion on GMES, referring in particular to the absence of information about the future funding of the Programme. It also considered that the Communication on security industry did not need to be accompanied by an impact assessment because of its exploratory nature.

abandon the paper signatories was noticed, staff appreciates the fact that they have to give visa only once. The treatment of the President's mail has been successfully integrated in ARES.

2.1.10 DG ENTR's links with Executive and Regulatory Agencies

DG ENTR partly delegated the management of its main financial programmes to two Executive Agencies:

- the Executive Agency for Competitiveness and Innovation (EACI), which manages some of the DG ENTR actions under the EIP (Entrepreneurship and Innovation Programme). The DG is co-responsible for this agency with DG Mobility and Transport, DG Energy and DG Environment. The budget managed by this agency with regard to DG ENTR policies is € 360 million for the period 2007-2013. In 2011 EACI managed € 51 million on behalf of DG ENTR (46 % of the total ENTR EIP budget);

- the Research Executive Agency (REA), which manages the Space and the Security Themes of the Seventh Framework Programme (FP7). DG ENTR is co-responsible for this agency with DG RTD. The budget managed by this agency with regard to DG ENTR policies is € 1.4 billion for the period 2007-2013 (€ 0.9 billion for the period 2011-2013).

DG ENTR is responsible for two Regulatory Agencies: the European Chemicals Agency (ECHA) and the European GNSS Agency (GSA). In 2011 they had an annual budget of € 93.2 million and € 7.89 million respectively.

As parent DG for ECHA, DG ENTR is involved in the preparation of the draft budget of the agency. It also plans and supervises the annual subsidy given by the Commission to it. ECHA is relying on fee income in 2012 for REACH related tasks. After careful analysis, ECHA's request for 20 additional temporary agent posts was not put forward.

With regard to GSA, the Commission exercised the supervisory tasks provided for in the corresponding Delegation act as regards the implementation of the new call for proposals under FP7, and in the management of existing contracts.

The supervision mechanisms for these Executive and Regulatory Agencies are described in Annex 8.

2.1.11 Cooperation mechanisms with the European Space Agency

The European Space Agency (ESA) is an intergovernmental organisation which is independent from the European Union. It has 18 Member States (of which 16 are also members of the EU). In 2004 the European Commission and ESA signed a Framework Agreement with the aim of developing an overall European Space Policy by providing a common basis and appropriate operational arrangements for efficient ESA/Commission cooperation. The Agreement created the ministerial-level Space Council, the EC-ESA Joint Secretariat, and the High Level Space Policy Group.

In the framework of co-operation on the Global Monitoring for Environment and Security (GMES), DG ENTR signed a delegation agreement with ESA on 28 February 2008 under a joint management scheme (in accordance with article 53 of Financial Regulation 1605/2002ESA), which implements a contribution of € 624 million from the FP7 budget to the GMES Space Component for the period 2008-2013. This Delegation Agreement was amended in June 2011, increasing the contribution to € 728 million from FP7 and the operational GMES regulation budgets. The Agreement defines the modalities for (i) cooperation of the parties in the development of the GMES Space Component programme and (ii) the budget implementation tasks entrusted to ESA in the framework of the FP7 Specific programme "Cooperation" and its theme "Space".

Under EC Regulation 683/2008, the Commission is responsible for the management of the European

GNSS programmes (Galileo and EGNOS). Article 18 of the Regulation stipulates that the Commission shall entrust ESA with the implementation of the Galileo Deployment Phase (2008 – 2013) and the further implementation of EGNOS Programme. A multi-annual delegation agreement in accordance with article 54 (2) (c) of Financial Regulation 1605/2002 was signed between DG Transport and Energy and ESA on 19 December 2008 for the Galileo activities related to the Full Operational Capacity (FOC), and another one regarding EGNOS evolution on 31 March 2009.

The Commission delegates to ESA the carrying out of the procurement activities necessary for the implementation of the FOC phase of the Galileo programme and the evolution of the EGNOS programme. The measures financed under the GNSS Regulation must be implemented in accordance with the Financial Regulation. The Delegation Agreement signed with ESA states that the procurement activities entrusted to ESA are implemented "in full coordination with the Commission and in accordance with the EC Procurement Rules and specific guidelines of the GNSS Regulation".

In other words, ESA is authorized to act as an agent or representative on behalf of the Commission, which remains the contracting authority. ESA is bound to apply the Commission procurement framework in full and its actions are legally binding on the Commission. Accordingly, the EC authorising officer is the one who authorises ESA to sign contracts in the name and on behalf of the Commission. Consequently, ESA acts under the supervision and with the assistance of the Commission notably in both the field of contractual and technical aspects.

More details on the supervision mechanisms for these delegation agreements can be found in Annex 6.

2.1.12 Major events of the reporting year having an impact on reputation

No major events impacting the Director-General's declaration occurred in the reporting year.

2.2 The functioning of the entire Internal Control system

2.2.1 Compliance with the requirements of the internal control standards

In 2011, all but three baseline requirements related to the Internal Control Standards mentioned in Communication SEC (2007)1341 were fully implemented by DG ENTR. The exceptions are the baseline requirements 8.1 (Documentation of procedures), 12.5 (external communication strategy) and 13.3 (Documentation of accounting procedures), which were partially implemented.

Following IAS's remarks on baseline requirements 8.1 and 13.3, the procedures with regard to the verification and accounting treatment of GNSS assets should be formalised and documented before the finalisation of the 2011 accounting closure by the end of March 2012. Guidance from DG BUDG and external accounting experts were requested (see also section 3.1.2.2).

Following the Internal Audit Capability's remarks on baseline requirement 12.5, the strategy for external communication will be further reviewed notably to consider better up-stream coordination and coherence. This will be a main priority for the communication unit in 2012 (see also sections 2.1.5 and 3.1.2.1).

This assessment was validated on 17 February 2012 during a joint meeting between the Director-General, the Internal Control Coordinator (ICC), the Resources Director (RD) and the Internal Audit Capability (IAC).

Derogation from the standard rule on sensitive posts

On 31 December 2011 four Heads of Unit in the DG had been in their posts longer than the indicated maximum period of 5 years (although none more than 6 years and two of them are retiring in 2012). Other than these cases, no derogation has been requested to remain in a sensitive post or keep the responsibility beyond five years.

2.2.2 Effectiveness of implementation of the prioritised control standards

Every year, DG ENTR selects three to five priority standards in the Management Plan and defines the focus for which it will assess their effectiveness in the Annual Activity Report. On 6 February 2012, the ICC, the RD and the IAC reviewed the four priority standards selected in DG ENTR for 2011 (listed below) and concluded that each standard had been implemented at a satisfactory level of effectiveness.

ICS 1 related to Mission, with a special focus on the content of all mission statements at the DG, Directorate and Unit levels in order to ensure that they are in line with the EU 2020 strategy and the political guidelines of the Commission. The reason for prioritisation: it is important to ensure better consistency between all mission statements in the DG, as a matter of presentation, notably after the reorganisations that took place in 2009 and 2010, and as a means of ensuring that the DG has thoroughly examined its activities in the light of EU 2020.

The mission statements are regularly updated and aligned with key Commission political priorities, in particular when these change, and major internal reorganisations. This updating is done in consultation with hierarchy and staff on the basis of main planning and reporting documents. A screening of the mission statements available on the intranet was performed in October 2011. All ENTR entities updated their mission statements during 2011. Europe 2020 and its flagships (Industrial Policy, Innovation Union, etc.) are presented in the description of ENTR activities on Europa website. The strategy is also clearly mentioned in the mission statement of the DG and in the key management documents of the DG (Management Plan, Annual Activity Report) published on intranet.

According to this assessment, the implementation of this standard can be considered effective for the targeted focus. However, still more emphasis could be given to the EU 2020 strategy, and in particular to the EU 2020 flagships, in mission statements of Directorates and Units. For this purpose, a reminder was given at the Management Network meeting of Heads of Unit in January 2012.

ICS 3 related to Staff Allocation and Mobility, with a special focus on the staff allocation in line with the general and specific objectives of the DG mentioned in the Management Plan 2011. The reason for prioritisation of this standard: it is important to have an effective staff allocation, notably after both DG reorganisations that took place in 2009 and 2010. For this purpose, DG ENTR launched in 2010 a Zero-Based Budgeting (ZBB) exercise, finalized in early 2011, in order to fine-tune its internal staff organisation.

The ZBB exercise (or more precisely Zero-based Human Resources exercise), coordinated by Unit R2, was perceived as useful in order to get a clearer overview of the burden of the ENTR Management Plan covering new initiatives, the follow-up of past decisions as well as of the recurrent activities. However, the lack of ex ante common criteria to define the tasks and of ex post tangible results of the ZBB exercise generated some frustration among the staff. In order to allocate human resources according to the objectives and expected outputs, Directors have regular discussions with Heads of Unit to estimate the workload, especially during the preparation and follow-up of roadmaps of major new initiatives and updating of the key planning documents. In case of sudden change of political priorities, staffing (mobility) or structural reduction of posts, the Directors review work priorities and, where necessary, re-allocate tasks in order to achieve higher efficiency.

In view of the new Commission staff constraints (gradual reduction) and new Multi-Annual Financial

Framework (MFF) future challenges, a task force was set up to review the priorities for the international activities. In parallel to this, reflections have started on the possibilities to externalise a number of additional tasks to executive agencies, especially in view of the preparation of new MFF proposals.

According to this assessment, the implementation of this standard can be considered effective for the targeted focus. The Management Plan and the Staffing Plan offer a good opportunity to attribute and reallocate staff resources. The MFF challenges and the new rules on staff taxation should lead to fine-tuning the staff allocation.

ICS 5 related to Objectives and Performance Indicators, with a special focus on how to further improve and streamline the objectives and indicators mentioned in the Draft Budget, the Management Plan (MP), the Report to the Commissioner and the Annual Activity Report and how to align them with changing priorities of the DG. The reason for prioritisation: to respond to the recommendations of the external evaluation of DG ENTR's objectives and indicators (conducted in 2010) and to ensure greater coherence between all indicators used by DG ENTR.

The work programme of the Directorates and Units, including objectives and indicators, is reviewed during the preparation and updating of the SPP documents, i.e. Draft Budget, Commission Work Programme (Agenda Planning), MP (Plato), Mid-term review, and Annual Activity Report. The critical assessment of objectives, indicators and achievements, especially in terms of their impacts and results for EU citizens, is regularly conducted during preparation of roadmaps for new CWP initiatives, realisation of impact assessments and evaluation studies, as well the preparation of external communication documents.

During the preparation of the MP 2011, an in-depth review of objectives and indicators was undertaken after the external evaluation of the previous management plans and the adoption of EU 2020 flagships. Special attention was given to GNSS activities integrated into the DG ENTR portfolio at the beginning of 2010. A new specific objective with new indicators was also added for the internationalisation of SMEs. The preparation of the MFF proposals was also a good opportunity to reflect on objectives to be achieved in the future.

According to this assessment, the implementation of this standard can be considered effective for the targeted focus. Nonetheless, objectives and performance indicators will be further reviewed in the different planning documents of the MFF proposals for the period 2014-2020, which will be adopted in the coming months by the Council and the Parliament (see also section 3.1.2.2).

ICS 14 related to Evaluation of Activities (Impact assessment), with a special focus on the multiannual planning and monitoring of the impact assessments (via a more intensive use of IT tools and a set-up of a dedicated scoreboard to reinforce the monitoring). The reason for prioritisation: there has been a big increase in the number of DG ENTR impact assessments being submitted for review to the Impact Assessment Board (IAB) with a need of higher quality standards. This was related to the contribution of DG ENTR to the Commission Work Programme (CWP) and to the new requirements from central services to prepare evaluation and impact assessments for any important CWP proposal.

The verification of whether a future action has to be submitted to an Impact Assessment is done during the preparation of the Commission Work Programme and roadmaps for major initiatives. A systematic examination is performed for each of them according to the Commission guidelines. In case of doubt, there is a consultation conducted with central services and discussion with the hierarchy.

In 2011 DG ENTR managed to cope with a historical peak in the number and complexity of impact assessments with a very low rate of resubmissions (10%). This represents a major improvement in comparison with the previous year; it was possible thanks to the mobilisation of DG ENTR operational units, middle and high management and the counter-measures put in place by Unit B4 (coordinating work on impact assessments in the DG).

According to this assessment, the implementation of this standard can be considered effective.

2.2.3 Conclusion

The general appreciation of the functioning of DG ENTR's internal control system as a whole is based upon: the annual review of the implementation of the internal control standards (compliance and effectiveness assessment of the selected focuses relating to the chosen standards); the answers from the Directors' self-assessment and internal control templates exercises; the results of various audits, and the opinion of the IAC, which received on 11 November 2011 a satisfactory (unqualified) opinion from External Auditors. The internal control system of the DG ENTR works as intended, allowing the objectives of the services to be achieved and the related risks to be identified.

However, following IAS's remarks, the procedures with regard to the verification and accounting treatment of GNSS assets should be formalised and documented before the finalisation of the 2011 accounting closure by the end of March 2012. Guidance from DG BUDG and external accounting experts was requested.

In addition, the strategy for external communication will be further reviewed notably to consider better up-stream coordination and coherence. This will be a main priority for the communication unit in 2012.

2.3 Information to the Commissioner

The main elements of this report and assurance declaration, including the reservations envisaged, have been brought to the attention of the Vice-President of the Commission, Antonio Tajani.

PART 3. BUILDING BLOCKS TOWARDS THE DECLARATION OF ASSURANCE (AND POSSIBLE RESERVATIONS TO IT)

3.1 Building blocks towards reasonable assurance

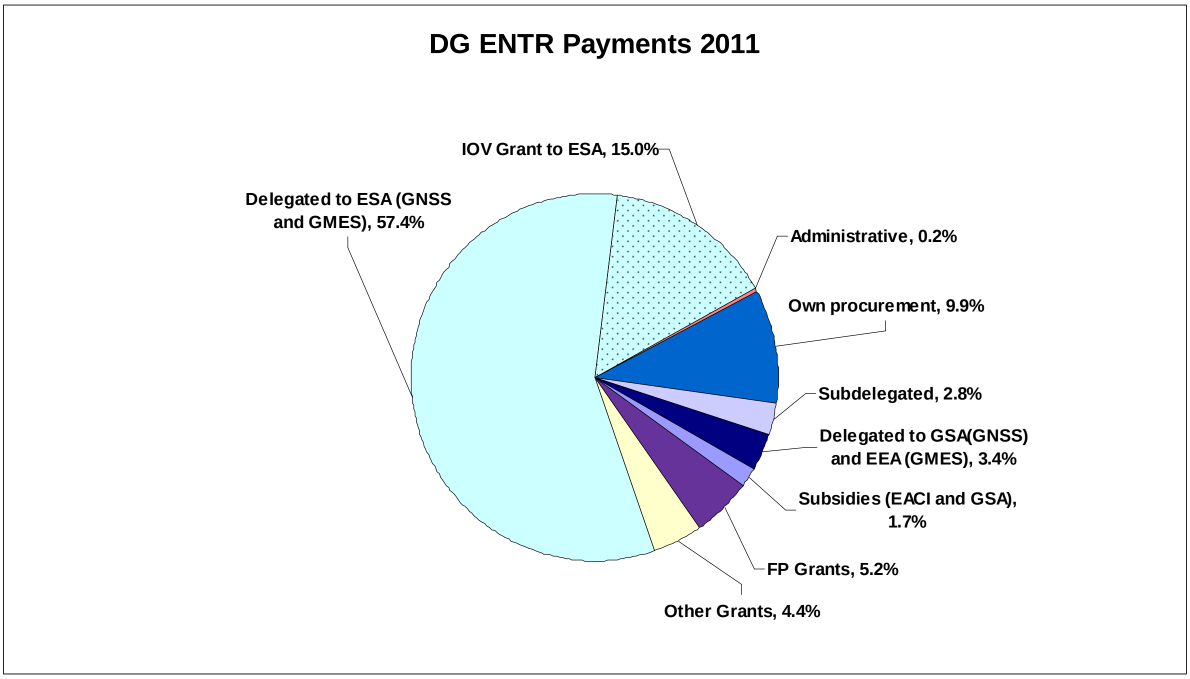
Materiality is assessed against the criteria defined in Annex 4. For DG ENTR the materiality criteria are related to the Delegation agreements under joint and centralised indirect management, research expenditure and other direct expenditure.

3.1.1 Building block 1: Assessment by management

DG ENTR transactions are carried out under three different management modes: direct centralised, indirect centralised and joint management. In 2011, the highest portion in terms of expenditure is implemented by the European Space Agency (ESA) under these three modes. The GNSS programmes (Galileo and EGNOS) are carried out under indirect centralised management. DG ENTR has also given a grant to ESA under direct centralised management allowing ESA to pay for cost overruns from procurement for the In-Orbit Validation (IOV) phase of the Galileo project. Furthermore, ESA implements the Space Component of the Global Monitoring for Environment and Security (GMES) partly funded by DG ENTR under joint management. In addition, the European GNSS Agency (GSA) and the European Environment Agency (EEA) implement delegated budget under centralised indirect management.

DG ENTR implements its other expenditure under direct centralised management.

The following chart gives an overview of the types of payments in 2011[26]:



The above chart does not include the amount of € 1,994,520 related to payments executed by DG

26 This chart represents the outturn on payment appropriations made in 2011 (see Annex 3) including the administrative expenditure and expenditure under cross-delegation executed by other DGs.

ENTR under cross delegations received from other authorising officers by delegation.

As shown above, a substantial share (72%) of DG ENTR's budget is managed through cooperation with the European Space Agency. The DG funds also numerous individual projects or small groups of projects (grants) which represent 9% of the expenditure for 2011.

In addition, on behalf of the Commission (DG ECFIN and DG ENTR), the EIF[27] manages the financial instruments established under EIP[28]: the SME Guarantee facility (SMEG), which provides guarantees for loans to SMEs, and the High Growth and Innovative SME facility (GIF), which provides venture capital for SMEs. A budget of € 1.1 billion is foreseen for these instruments for the period 2007-2013. Up to September 2011, there were 155,350 SME beneficiaries under SMEG and 181 under GIF. The budget line for the financial instruments is executed by DG ECFIN, which receives regular reporting on implementation from the EIF and carries out monitoring. The Commission also has two nominees on the Board of the EIF. As at 31.12.11, these were Mr Thomas (Director of ECFIN/L) and Mr Zourek (Director-General of ENTR). DG ENTR considers that the operational and financial reporting is sufficient and provides relevant information and figures to ensure sound and efficient management of the policy aspects of these financial instruments.

In general, the Director-General's 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, is based on the following elements:

- the full and effective implementation of all the Internal Control Standards with the exception of baseline requirements 8.1 (Documentation of procedures), 12.5 (external communication strategy) and 13.3 (Documentation of accounting procedures), which were partially implemented. (See section 2.2);

- training and guidance given to all financial actors within the framework of financial training weeks, consisting of in-house training sessions on important aspects of financial management, and through the Manual of Budgetary and Financial Procedures on the Intranet where all applicable rules and procedures are documented and completed by guidance;

- financial verification performed by the Financial Resources Unit in complete independence of the authorising officers, and exclusively on the basis of applicable legislation and the procedures decided by the Director-General. The quality of the decentralised financial verification is monitored via the ex post control of randomly selected transactions by the Financial Resources Unit. Tender and call for proposal documents and attribution decisions are also verified and approved by independent experts of the Financial Resources Unit;

- for all cases in which the financial verifier gives a negative opinion, a formal overriding decision is necessary if the transaction is not abandoned;

- ex post audits are performed on all types of grants and also on payments under delegation agreements providing evidence with regard to errors in the underlying transactions (i.e. the cost declarations of the beneficiaries) and allowing to analyse the root causes of these errors and to design corrective and preventive actions;

- the permanent improvement of the control system on the basis of findings and recommendations of the Internal Audit Capability (IAC), Internal Audit Service (IAS) and European Court of Auditors (ECA) as well as on the basis of regular analysis of the results and the functioning of the system, and

- the overall opinion of the Internal Audit Capability on the state of control, based on its audit work in 2011.

27 European Investment Fund
28 Entrepreneurship and Innovation Programme

The management assessment for the different types of financial transactions (where appropriate based on audit evidence and legality and regularity indicators) is given in the following sub-sections.

3.1.1.1 Centralised indirect management

For the management of the EGNOS and Galileo programmes, the European Commission and the European Space Agency (ESA) signed two delegation agreements under article 54 of the Financial Regulation[29] as foreseen by the regulation 683/2008 on the implementation of the European satellite navigation programmes (see article 18).

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

Both EGNOS and Galileo are mainly implemented through procurement procedures delegated to ESA for which, however, the European Commission remains the contracting authority. In 2011 an amount representing 43% of the total payments of the DG, was transferred to ESA under this management mode. In implementing the tasks delegated to it under this agreement, ESA applies the EC procurement rules and its own audit, accounting and internal control rules and procedures which offer guarantees equivalent to internationally accepted standards. This has been confirmed by a re-assessment which has been started at the end of 2011.

The major part of the above expenditure relates to public procurement activities (more than 80% for the whole duration of the contract). The risks related to public procurement are effectively mitigated by means of independent ex ante verifications of the procurement procedures by the DG ENTR's verifying agents. The award decision is taken by the competent Authorising Officer by Sub delegation (AOSD) in DG ENTR.

Transfers of funds to ESA are based on reports submitted by ESA together with forecast of cash-flow needs for the next period, which are checked before payments are made. Moreover, on a yearly basis, the internal cost reported by ESA is verified by means of on-the-spot checks.

Result indicators: Indicators of error

(Amounts in €)	Reported by ESA	EC Audit report	Proposed adjustment	Detected Error rate	Implemented amount	Residual Error rate
Financial Report for 2009	58,096,678	54,888,764	3,207,914	5.52%	3,207,914	0%
Financial Report for 2010	535,197,079	audit ongoing				

DG ENTR ex post controls cover the annual financial reports submitted by ESA. Currently, the audits on the 2009 financial reports have been finalised. The results of these audits have been implemented through a reduction of the total eligible amount. There is no remaining detected and uncorrected error. Due to the late closure of ESA's 2010 accounts (see next paragraph) the audit of the 2010 financial report could not be finalised yet.

In 2011, ESA continued the Financial Management Reform which it had started in 2010 and which included a change of its accounting method and underlying systems. Due to this reform, the closure

29 Article 54 of the Financial Regulation enables the European Commission to entrust tasks of public authority and in particular budget implementation tasks to, inter alia, national public sector bodies or bodies governed by private law with a public service mission.

of the 2010 financial accounts was delayed until late 2011. Notwithstanding the acknowledged progress made by the Agency, the audit opinion of ESA's external auditor on the 2010 accounts identified areas of non compliance with the requirements of the International Public Sector Accounting Standards (IPSAS) and pointed out internal control system weaknesses. This second consecutive qualified audit opinion of the ESA's external auditor raises concerns on the reliability of the 2011 financial reporting. DG ENTR considers it therefore to be prudent to highlight the ongoing problems with ESA's financial reporting. Although 80% of the expenditure relates to procurement contracts for which there is generally a very low risk of error and although potential errors will be corrected following the systematic on-the-spot checks, DG ENTR cannot totally exclude that errors exceeding the 2% threshold could stay undetected and uncorrected due to insufficient quality of the financial information provided by ESA, which is the basis for on the spot checks. The Director of Resources of DG ENTR will meet ESA's external auditor to discuss and better understand the possible implications for the management of the delegated budget that could lead from the findings of the auditors. The Director-General of DG ENTR will follow personally the progress of ESA's action plan for the implementation of the recommendations made by ESA's external auditor as part of the regular top management meetings between ESA and DG ENTR.

More information on control indicators for procurements made by ESA on behalf of the Commission is provided in section 3.1.1.4.

Besides the delegation agreements signed directly with ESA, DG ENTR has also delegated the implementation of FP6 and FP7 funds to GSA.

In 2011, DG ENTR signed a delegation agreement with the European Environment Agency (EEA) for the implementation of the GMES land monitoring service (see also section 1.5).

Based on the assurance provided by the managing directors of GSA and EEA, DG ENTR considers the implementation of these funds to be legal and regular.

3.1.1.2 Joint management (ESA)

An amount representing approximately 14% of all the payments of the DG in 2011 has been paid to the European Space Agency (ESA) under Joint Management. In the framework of the FP7 Specific Programme "Cooperation" and its theme "Space" and of the GMES Space Component (GSC) Programme, the Commission delegates to ESA the execution of jointly funded tasks, namely the implementation of the Space Component of the GMES. The Internal Control Template (ICT) for joint management in Annex 5 demonstrates how the control system in place in the DG addresses the risks related to this type of expenditure.

The GMES Delegation Agreement to ESA was established on the basis of articles 53.d of the Financial Regulation and 43 of the Implementing Rules. In implementing the tasks delegated to it under this agreement, ESA applies its own audit, accounting, internal control and procurement rules and procedures which offer guarantees equivalent to internationally accepted standards. This has been confirmed by a re-assessment which has been started at the end of 2011.

The payment made to ESA in 2011 was the third contribution to the jointly managed programme. The payment was made irrespective of the actual cost incurred in that period. The amount transferred to ESA in 2011 was € 133.6 million. The ex ante verification of the transfer to ESA is based on the signature of the transfer agreement. Moreover, on a yearly basis, actual expenditure on own costs reported by ESA, is verified by means of on-the-spot checks.

Following the previously observed weaknesses in the financial reporting made by ESA and the procurement procedures applied, DG ENTR strengthened its monitoring and control framework. In 2011, the European Court of Auditors (ECA) and the Commission started an audit of the annual financial report 2010.

Result indicators: Indicators of error

(Amounts in €)	Reported by ESA	EC Audit report	Proposed adjustment	Detected Error rate	Implemented amount	Residual Error rate
Financial Report for 2009	80,401,424	79,566,603	834,821	1.04%	834,821	0%
Financial Report for 2010	137,657,343	audit ongoing				

DG ENTR ex post controls cover the annual financial reports submitted by ESA. Currently, the audit on the 2009 financial report has been finalised. The results of this audit have been implemented through a revised reporting of the eligible costs (excluding the ineligible supplementary pension contribution). There is no remaining detected and uncorrected error. Due to the late closure of ESA's 2010 accounts (see next paragraph) the audit of the 2010 financial report could not be finalised yet.

The audit opinion of ESA's external auditor on the annual accounts 2010, as mentioned in 3.1.1.1, is also relevant for the expenditure under Joint Management. Due to the identified areas of non compliance with the IPSAS requirements and the detected internal control weaknesses, the DG considers it to be prudent to highlight the ongoing problems with ESA financial reporting. Although most of the expenditure relates to procurement contracts for which there generally a very low risk of error and although potential errors will be corrected following the systematic on-the-spot checks, DG ENTR cannot totally exclude that errors exceeding the 2% threshold could stay undetected and uncorrected due to insufficient quality of the financial information provide by ESA, which is the basis for on-the-spot checks. The Director of resources of DG ENTR will meet ESA's external auditor to discuss and better understand the possible implications for the management of the delegated budget that could lead from the findings of the auditors. The Director-General of DG ENTR will follow personally the progress of ESA's action plan for the implementation of the recommendations made by ESA's external auditor as part of the regular top management meetings between ESA and DG ENTR.

3.1.1.3 Centralised direct management

The rest of the budget of DG ENTR is implemented under centralised direct management in the form of subsidies, grants and public procurement.

3.1.1.3.1 Subsidies

Roughly 2 % of the DG's payments in 2011 were payments of subsidies to the regulatory agency – European GNSS Agency and to the Executive Agency for Competitiveness and Innovation (EACI). Accountability for the regularity and legality of this expenditure resides ultimately with the agencies in question - the Director-General of DG ENTR is only accountable for the legality and regularity of the commitment and payment of these subsidies to the agencies. The regularity and legality of the use of the subsidies by the regulatory agency GSA is checked by the European Court of Auditors. The Executive Director of the GSA signs a declaration of assurance for the expenditure of GSA.

DG ENTR is a parent DG of the EACI and of the Research Executive Agency (REA)[30]. Their Directors are accountable for the legality and regularity of the use of the subsidies by these agencies and they produce their own Annual Activity Reports, which are annexed to this report (Annex 7).

These amounts (roughly 2% of the DG's 2011 payments) are therefore not covered any further in this section of this report. The supervision of agencies is described in Part 2 and in Annex 8.

30 The subsidy to REA is paid annually from the Research DG's administrative expenditure budget line.

3.1.1.3.2 Grants

Finally, 25% of the amounts paid in 2011 by the DG were paid under grant agreements.

(A) ESA-EC Galileo IOV grant agreement

The grant agreement concerning the completion of the In-Orbit Validation (IOV) phase of Galileo was signed in 2009. The Commission finances cost overruns of procurement contracts signed by ESA before the signature of the grant agreement for the IOV project. ESA remains the contracting authority for the procurements concerned. Pre-financings are disbursed based on ESA cash needs. At the completion of the action, ESA prepares the final financial statement to enable the Commission to determine the final balance for the action. The grant agreement establishes clear reporting requirements as well as the obligation to use the EU procurement rules for any new activities financed by the IOV grant. The costs reported in 2010 are being audited and no preliminary figures are available at the moment of drafting of the report. In 2010, the costs reported for 2009 were audited and the audit report did not include any material findings.

Result indicators: Indicators of error

(Amounts in €)	Reported by ESA	EC Audit report	Proposed adjustment	Detected Error rate	Implemented amount	Residual Error rate
Financial Report for 2009	256,900,000	256,529,000	371,000	0.14%	371,000	0%
Financial Report for 2010	113,040,381	audit ongoing				

DG ENTR ex post controls cover the annual financial reports submitted by ESA. Currently, the audit on the 2009 financial report has been finalised. The results of this audit have been implemented leading to a reduction of the total eligible amount. There is no remaining detected and uncorrected error. Due to the late closure of ESA's 2010 accounts (see next paragraph) the audit of the 2010 financial report could not be finalised yet.

The audit opinion of ESA's external auditor on the annual accounts 2010, as mentioned in 3.1.1.1, is also relevant for the expenditure under this grant agreement. Due to the identified areas of non-compliance with the IPSAS requirements and the detected internal control weaknesses, the DG considers it to be prudent to highlight the on-going problems with ESA financial reporting. Although all of the expenditure relate to procurement contracts for which there is generally a very low risk of error and although potential errors will be corrected following the systematic on-the-spot checks, DG ENTR cannot totally exclude that errors exceeding the 2% threshold could stay undetected and uncorrected due to insufficient quality of the financial information provide by ESA which is the basis for on the spot checks. The Director of resources of DG ENTR will meet ESA's external auditor to discuss and better understand the possible implications for the management of the delegated budget that could lead from the findings of the auditors. The Director-General of DG ENTR will follow personally the progress of ESA's action plan for the implementation of the recommendations made by ESA's external auditor as part of the regular top management meetings between ESA and DG ENTR.

(B) FP6 and FP7 Grants

The grants under the multiannual Sixth Research Framework Programme (FP6) include homogenous groups of transactions for which the Internal Control Template (ICT) in Annex 5 demonstrates how the control system in place in the DG addresses the risks related to this type of expenditure.

In 2007, an ex post audit strategy was adopted by the family of the DGs managing the FP6 budget because many cost declarations made by beneficiaries contained errors which could only be detected by means of on-the-spot audits. The ex post control strategy was based on systematic detection and correction of any errors which could not be identified before making the payment. Any amount found to be overpaid to the audited beneficiaries was recovered. Up until 2011, 450 audits have been performed. The overall representative rate of errors in the sense of too high theoretical FP6 funding is 5.88%. The common materiality criteria of the DGs managing research expenditure are defined in Annex 4 as a residual error of more than 2%. At the end of 2011 the residual error which is determined after correction of the systematic errors, exceeded 2% and was therefore material.

The following indicators demonstrate the effectiveness of the internal control system:

Table 3.1 Result indicators: Indicators of error

FP6

	Achieved cumulative period	Achieved in 2011
Costs claims audited (A)	132,676,565	3,363,275
Systematic errors (number of extrapolation cases, as % of total)	46.88%	10.16%
Overall errors (in €) in favour of the Commission (B) (costs accepted by auditors - costs accepted by the EU Financial Officer, in €)	7,798,046	1,169,009
Error rate in favour of the Commission (B/A)	5.88%	34.76%
Overall errors in favour of the beneficiary (EC share, in €) (C)	2,265,330	10,534
Error rate in favour of the beneficiary (for info) (C/A)	1,71%	0,31%
Total amount of adjustments implemented (EC share, in €)	6,143,381	399,049
Residual error rate (%)	2.83%	-

The calculation of the residual error rates for the FP programmes, shown in Annex 4, are based on the following: (1) all the errors detected will be corrected; (2) the residual error rate for participations subject to extrapolation is estimated to be equal to the non-systematic error rate; and (3) all participations subject to extrapolation are clean from systematic material errors.

In 2011 the research services have agreed to modify the calculation method for the error rate in FP7. The modified method is similar to the approach taken by the European Court of Auditors and considered to be in statistical terms more accurate than the method followed by the Research DGs in the past. The main difference between both methods is the definition of the auditable population. For FP6 it is the budgeted amount at the level of participations (total FP6 EC contribution) and for FP7, it is the EC share of all FP7 cost claims received so far. Due to this difference in the calculation the error rates for FP6 and FP7 are not directly comparable.

For FP7, no extrapolations have yet been finalised by DG ENTR as no revised costs claims have been received.

The research services have also agreed in 2011 to adopt from 2012 onwards a Common Representative audit Sample (CRaS) in order to avoid duplicate audits and to increase coordination of the audit plan within the Research Family.

The following tables show the detail of the evolution of the error rates per year. They are provided to ensure consistency with the information provided in previous reports.

Table 3.2 Detailed error rates by Framework Programme (FP)

FP6

Year	Number of audits closed	Number of participations audited	EC share of the costs accepted by the EU Financial Officer (€)	EC share of the accumulated adjustments in favour of the EC		
				Amount (€)	Annual error rate %	Cumulative error rate %
2006	1	1	578,572	62,568	10.81%	10.81%
2007	104	118	25,616,936	707,930	2.76%	2.94%
2008	100	154	29,931,296	1,256,989	4.20%	3.61%
2009	147	251	47,181,678	3,008,807	6.38%	4.88%
2010	77	107	26,004,808	1,592,743	6.12%	5.13%
2011	21	24	3,363,275	1,169,009	34.76%	5.88%
Total	450	655	132,676,568	7,798,046	5.88%	

The amount of FP6 pre-financing cleared in 2011 is € 2,609,067.

For FP7, a similar ex post audit strategy as for FP6 has been adopted and is being implemented by the DGs managing FP7 expenditure. However, given the fact that DG ENTR only received few cost declarations, it was not possible to provide any representative audit evidence. Until 2011, 21 ex post audits took place with a detected average error rate of 1.98%. However, this error rate is biased by the result of an audit of an atypical grant for a very high amount. Therefore, the results of this audit (amount audited of €12,322,762 with 0% error rate) are excluded from the error rate calculation in order to obtain a more realistic indication of what could be a representative error rate. The resulting error rate is 6.65%.

FP7

Year	Number of audits closed	Number of participations audited	EC share of the costs accepted by the EU Financial Officer (€)	EC share of the accumulated adjustments in favour of the EC		
				Amount (€)	Annual error rate %	Cumulative error rate %
2009	1	1	123,487	0	0.00%	0.00%
2010	6	8	1,212,441	54,998	4.54%	4.12%
2011	14	17	16,197,711	291,485	1.80%	1.98%
total	21	26	17,533,639	346,483	1.98%	

The amount of FP7 pre-financing cleared in 2011 is € 5,896,665.

FP7 (Excluding the above mentioned grant)

Year	Number of audits closed	Number of participations audited	EC share of the costs accepted by the EU Financial Officer (€)	EC share of the accumulated adjustments in favour of the EC		
				Amount (€)	Annual error rate %	Cumulative error rate %
2009	1	1	123,487	0	0.00%	0.00%
2010	6	8	1,212,441	54,998	4.54%	4.12%
2011	13	16	3,874,949	291,485	7.52%	6.65%
total	20	25	5,210,877	346,483	6.65%	

The analysis of the errors found during the controls shows that nearly all significant errors relate to staff costs and indirect costs incorrectly declared by beneficiaries of grants as eligible costs of the co-financed projects.

In order to prevent repetition of these errors in future cost declarations, beneficiaries are informed about the correct way to calculate these costs and about the most frequent errors committed when calculating these costs. Furthermore for FP6 and FP7 project guidance is publicly available on CORDIS.

Certifying auditors who are found to have signed unqualified audit certificates for erroneous amounts of eligible costs are also directly informed about their errors and are invited to consult the available information in order to avoid similar errors in the future.

The estimated residual error rate is 4.98%. This conclusion is also supported by the fact that similar material error rates have been identified by other DGs of the Research family. The rate should develop as more audits are closed, and more corrections and recoveries undertaken. In fact at this stage of FP7 strategy, the 'cleaning effect' of implementation and extrapolation of audit results does not yet have a significant effect in lowering the detected error rate.

At this stage of the FP, the difference with the detected error rate is rather small. As the audit process and the related recoveries continue, the difference can be expected to increase.

DG ENTR has implemented the necessary controls and monitoring mechanisms to ensure that, in due course, all errors detected are corrected.

Forecasts of revenue issued based on the results of the ex post audits are followed up and reported to management quarterly. In addition, the implementation of the audit results on systematic errors to non-audited projects ("extrapolation") and the application of liquidated damages are applied. At the end of 2011, 79% of the FP6 and 17% of the FP7 audits results were implemented and in addition, liquidated damages were applied for € 155,382.

Table 3.3 Input indicators: indicators of effort for FP6 and FP7

	2008	2009	2010	2011
Internal resources for ex post audits	3.5 FTE	3.5 FTE	3 FTE	2 FTE
Cost of outsourced auditing (in €)	971,708	828,800	543,582	94,533

The decrease in audit effort over recent years can be explained by two coinciding facts: on the one hand the fact that the FP6 audit programme objectives were achieved in 2010 with only few risk-based follow-up audits still being carried out since then (it would not be cost-efficient to add further controls), and on the other hand the fact that only few FP7 cost declarations have been received so far. At the same time, since 2010, DG ENTR has performed ex post audits on GMES and GNSS programmes.

Table 3.4 Output indicators: Indicators of coverage (by FP)

FP6

	Planned cumulative period	Achieved cumulative period	Planned in 2011	Achieved in 2011
Number of closed audits	407	450	0	21
Audits TOP contractors	231	258	0	10
Monetary Unit Sampling (MUS[31])-sample	161	171	0	0
Risk basis	15	21	0	11
Total amount audited (EC share in €)	n.a.	132,676,565	n.a.	3,363,275

The audits finalised during the years 2007-2011 covered 40% of the total amount of EC commitments related to FP6 contracts. These 40% do not include amounts corrected through the extrapolation procedure or amounts that will be charged by the audited beneficiaries in future cost statements. Taking into account cost-benefit considerations, a further extension of the audit coverage will not be undertaken.

FP7

	Planned cumulative period	Achieved cumulative period	Planned in 2011	Achieved in 2011
Number of closed audits	60	21	20	14
Total amount audited (EC share in €)	n.a.	17,533,639	n.a.	16,197,711

The number of closed audits over the cumulative period is less than originally planned as a consequence of the low number of auditable payments executed.

Table 3.5 Impact indicators: Impact on the declaration of assurance

	2008	2009	2010
European Court of Auditors : overall assessment of supervisory and control systems	Partially effective	Partially effective	Partially effective

In its 2010 Annual Report, the European Court of Auditors' overall assessment is that the supervisory and control systems are partially effective for the Research Framework programmes. The ex post financial controls as well as the implementation of recoveries and financial corrections are assessed as effective.

(C) Grants Internal Market and Competitiveness and Innovation

Table 3.6 Standardisation

	Achieved in 2011
Costs claims audited (A)	420,432
Overall errors (in €) in favour of the Commission (B) (costs accepted by auditors - costs accepted by the EU Financial Officer, in €)	6,467
Error rate in favour of the Commission (B/A)	1.54%
Total value at risk	233,465
Materiality (2% ABB activity)	572,800

31 Statistical sampling method where the probability of an item's selection for the sample is proportional to its recorded amount (probability proportional to size)

In 2011, three audits of standardisation agreements were finalised. The number of performed audits is too low to provide statistically representative information. The total adjustments show a detected average error of 1.54%. Typical errors concern personnel and indirect costs categories. The error is immaterial compared to the materiality criteria for the ABB activity.

Table 3.7 CIP grants

	Achieved in 2011
Costs claims audited (A)	2,590,983
Overall errors (in €) in favour of the Commission (B) (costs accepted by auditors - costs accepted by FO, in €)	60,461
Error rate in favour of the Commission (B/A)	2.33%[32]
Total value at risk	386,854
Materiality (2% ABB activity)	991,000

The detected average error rate for the cost statements provided by the beneficiaries under CIP grant agreements is 2.33%. Typical errors concern personnel (in-house consultants and owner manager costs). However, the amount at risk is immaterial compared to the materiality criteria of 2% of the ABB activity.

Ad-hoc grant to EU-Japan centre is paid in 2011, for which an ex post audit was carried out with 0% error rate.

Table 3.8 'Other' grants

	Achieved in 2011
Costs claims audited (A)	493,725
Overall errors (in €) in favour of the Commission (B) (costs accepted by auditors - costs accepted by the EU Financial Officer, in €)	10,821
Error rate in favour of the Commission (B/A)	2.19%
Total value at risk	150.071
Materiality (2% ABB activities)	Not material

In 2011, 5 audits were finalised. It is not possible to produce representative audit evidence for this heterogeneous group of grants with very different intervention mechanisms and very different beneficiaries. A random sample of these grants has been audited and an error rate of 2.19% has been detected. Compared with the general materiality criteria of 2% of the payment appropriations under the respective ABB activities the errors are not material.

The amounts paid in relation to the standardisation, CIP and other grants or grant schemes do not justify the production of individual Internal Control Templates.

3.1.1.3.2.1 Management's analysis and conclusion on the cost-effectiveness of the controls for research expenditure

32 However, this error rate excludes one high error rate detected in a non recurrent grant for which the Director-General took an overriding decision (see 3.1.1.6) not to implement the audit results. Excluding this audit result, the detected average error rate is 2.3%.

Context

Without prejudice to evaluating whether DG ENTR's management and control systems have succeeded in reducing the error rate in its underlying transactions to below the currently applicable materiality threshold (2%) in terms of "legality and regularity" (see AAR Part 3.2)[33], it is also meaningful to assess whether the control system put in place by the Authorizing Officer by Delegation (AOD) has been cost-effective in terms of "sound financial management" (SFM)[34] as such (cf. art 60.1 & 60.7 FR)[35].

When considering the total cost of control, covering all stages and elements of the entire (ex ante and ex post) control chain, it has to be understood that a significant part of the existing controls are established outside the scope of the AOD's discretionary decision power. On the one hand, many of the ex ante controls are compulsory (a requirement of the FR), regardless of whether their results in terms of actual contribution to reasonable assurance match the investments in inputs and coverage (e.g. the requirement of 100% coverage by ex ante desk checks). On the other hand, inter alia following pressures to speed up processes and to simplify the 'administrative' requirements to be fulfilled by beneficiaries of EC funds, some ex ante controls have been reduced in scope and/or coverage (a trend which was accompanied by focusing more on ex post controls), which may somewhat limit their potential contribution to reasonable assurance. In addition to the 'pre-set' nature of these controls, their cost is also semi-fixed (i.e. fixed for a certain volume of annual transactions).

Consequently, in order to determine whether it makes sense – at least in terms of sound financial management – to invest more resources into additional controls (or not), a "full cost" analysis of the total cost [36] of the entire control system is not very meaningful. In Research FP6, the part of the control chain over which the AOD does have considerable discretionary decision power[37] and which contributes significantly to increasing reasonable assurance, is the ex post control function (i.e. on-the-spot audits of FP6 grant beneficiaries). Hence, the Research DGs have designed and implemented their part of the "common FP6 audit strategy". In addition to the actual management scope nature of these controls, their cost is also variable (i.e. the costs/fees to be paid per on-the-spot control/audit). Therefore, in order to conclude on the cost-effectiveness of the DG's control strategy, it appears logical to look at this single truly variable element

Approach

In order to verify – e.g. once a year during the multi-annual lifecycle of the programmes managed – whether the optimal cut-off point in terms of cost-effective controls has already been reached, a useful approach is comparing the "marginal cost vs. marginal benefit" of those controls. At that point, the corresponding level of control would be achieving a sound cost-efficiency ratio while limiting the residual error rate to a reasonable level (which may however be different from the 2% materiality threshold currently applicable). Beyond that level of control, adding any further 'standard' controls would contribute negatively in terms of balancing costs and benefits – the AOD could then consider re-allocating resources otherwise [38] for better value-for-money returns.

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33 i.e. 'regardless' of the corresponding costs of control, and irrespective of whether or not an error rate within the range between 2% and 5% would one day be considered to be a "tolerable risk of error" (TRE) for the management of this policy area

34 In accordance with the principles of economy, efficiency and effectiveness (a.k.a. "the 3 Es")

35 At a certain stage in the lifecycle of the programmes managed, it may be that a trade-off decision is to be made between still adding controls to try reducing even further the remaining risks (inspired by art 60.4 FR), or stop adding controls for reasons of sound financial management (inspired by art 27 & 60.1 FR) and reallocate resources to address risks in other management areas.

36 including costs which are to be considered as "sunk costs" for the purpose of managerial decision making

37 cf. the flexibility for ex-post controls provided for in art 60.4 FR

38 to the subsequent programme (while still ensuring a number of risk-based audits and/or audits for continued dissuasive effect) and/or to more sophisticated anti-fraud measures

In practice, in order to determine that marginal benefit, the "best-case scenario" (cf. model 2A[39]; assuming that the next control would deliver the highest yield in absolute terms) cannot be used in advance. However, settling for a pure "random selection" (cf. model 2B) or even a merely "average-based" approach is not necessarily unavoidable. In fact, a pragmatic "scenario in between" would be to rank the beneficiaries by funding received, so that even when based on the (cumulative) average error rate, at least the expected return of adding a control on the 'next largest' beneficiary would be potentially highest.

Analysis[40]

- expected marginal cost of control (incremental cost of staff, contractors, etc)
  = the average cost of adding one control/audit = € 60,000

- expected marginal benefit of control (incremental potential value of the 'next' error detected, once corrected[41])
  = grant value of next[42] FP6 beneficiary to be audited x FP6 cumulative average detected error rate[43] (502,697x4.95%)= € 24,884

- expected marginal benefit will be € 24,884 and expected marginal cost is € 60,000 , of the 'next' marginal control action to be added.

Conclusions

a) Cost-effectiveness of controls

Considering the general characteristics of the multi-annual policy area concerned, while taking into account the specificities of the individual DG in terms of (i) the typical 'size' in its sub-population of beneficiaries, (ii) its average detected error rate, and (iii) the average cost of an audit per beneficiary, it appears that DG ENTR has reached the optimal cut-off point in terms of cost-effective controls in the context of sound financial management (SFM).

Consequently, under SFM-considerations ('regardless' of whether or not the residual error rate is already below the current 2% materiality threshold – see below), it would NOT make sense to pursue with additional controls – given that the optimal cut-off point in terms of cost-effective controls has already been reached.

b) Relation with a potential reservation (see AAR Part 3.2)

The DG's FP6 control strategy has been implemented successfully (see coverage) and quite effectively (see results); it has been able to improve assurance by reducing the residual error rate to a level as low as 3.0 %. While this result is historically favourable and close to the multi-annual target, the DG has not been able to attain the 2% materiality control target. Consequently, under the currently applicable assurance rules, the conditions for maintaining a reservation on FP6 are still met.

On the other hand, given the SFM-considerations explained above, for the AOD as a manager it would not be cost-effective to add further controls/audits (cf. art 27 & 60.1 FR). Consequently, an additional "action plan" for this FP6 reservation would not be appropriate, and resources would now

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39 as described in the Commission Communication COM(2010)261 of 26.05.2010 and related working document SEC(2010)641
40 the figures used in this context matter are from previous years but are valid
41 assuming full recovery (via offsetting against next payments or via issuing recovery orders), resulting from the implementation of audit results, the extrapolation of audit results and/or the application of penalties
42 with the beneficiaries to be audited ranked by total EC funding received
43 As taken from the 'representative' sample of audits carried out

rather be re-allocated to other management areas.

3.1.1.4 Procurement (centralised direct and indirect management modes)

Approximately 10% of the amounts paid in 2011 under direct centralised management relate to procurement contracts. The Internal Control Template (ICT) for procurement in Annex 5 demonstrates how the control system in place in the DG addresses the risks related to this type of expenditure.

As mentioned in 3.1.1.1, the EGNOS and Galileo programmes are executed principally by ESA as delegated procurement agent, signing contracts on behalf of the Commission, under indirect centralised management. For these procurements the ICT in Annex 5 is also valid with the exception that the verifying agents of DG ENTR do not see the tender documents before publication. In 2011, eight contracts have been awarded for a total amount of € 438.5 million.

Six contracts were signed following a negotiated procedure, representing 19.2% of the total amount of the contracts signed in 2011 by ESA under the EGNOS and Galileo delegation agreements. The remaining two contracts were awarded following a competitive dialogue.

The risks related to public procurement are effectively mitigated by means of independent ex ante verifications. Tender documents need approval by the independent experts of the Financial Resources Unit before they are allowed to be published[44]. Tenders are evaluated by evaluation committees, as foreseen by the Financial Regulation. The absence of conflicts of interest of the evaluators is ensured. Evaluation reports also need approval by the independent experts of the Financial Resources unit before the authorising officer takes the attribution decision. For high value procurements, an ad hoc committee of senior officials examines the evaluation report before the attribution decision can be taken. All procedures are documented in detail in the Manual of Budgetary and Financial Procedures. Before the payment is completed, the timely execution of the contract is checked and a financial verification is performed[45]. All detected errors are corrected. Materiality is defined as 2% of the payment appropriations of the ABB activity. For the contracts signed by ESA on behalf of the Commission tender documents are not checked ex ante but the verification of the evaluation report and the award decision is done in the same way as for contracts signed directly by DG ENTR.

The following indicators demonstrate the effectiveness of the internal control system:

Input: Resources devoted to ex ante and ex post controls to ensure legality and regularity of underlying transactions:

- Staff devoted to ex ante/ex post control can be estimated at 7.5 FTE including ex ante control of tender documents, ex ante control of call evaluation, ex ante control of contractual aspects and ex ante control of commitments and payments in the operational directorates (extended workflow) and in the Financial Resources Unit.

44 This does nor apply to procurement under centralised indirect management managed by ESA

45 Depending on the Directorate's workflow model, second level ex-ante controls are performed by the Financial Resources Unit, either on 100% of payments or on a MUS sample.

Output: Level and nature of controls carried out • Coverage of first level ex ante control: 100% of all commitments and payments, 100% of all tender documents and evaluation reports • Coverage of second level ex ante control carried out: 7%[46] of payments, 100% of all tender documents and evaluation reports • No ex ante control of tender documents issued by ESA and of payments made by ESA on behalf of the Commission
Results of controls: What the controls allowed to discover/remedy • Number of instances of overriding of controls or deviations from established policies (ICS 18):6 • Number of complaints received from unsuccessful economic providers : 0 • Number of cases received by the Ombudsman per year relating to the procurement procedures: 0 • Number of proceedings initiated by contractors or economic providers against the Commission: 0 before the Court

3.1.1.5 Control overrides

The ICS (Internal Control Standard) nº 8.4 requires that a method is put in place to ensure that all instances of overriding of controls and deviations from established processes and procedures are documented in exception reports, justified and duly approved before action is taken and logged centrally.

In 2011 and early 2012, there were eleven cases of overriding of a negative opinion given by the ex ante verification team of the Financial Resources Unit by the Director-General. Several of these exceptions were made in relation to the CIP.

Eight cases of control override concerned internal procedural errors with no actual financial impact. One overriding decision concerns the payment of the agreed co-financing for a project that has been successfully completed and accepted by the Commission but for which the modalities of implementation did not fully correspond to the terms of the grant agreement. One control override concerns a number of cases where the agreements were not consistent in the sense that the costs incurred for implementing the project in the way described in the accepted and agreed technical proposal partially did not fulfil all eligibility criteria. Therefore overriding decisions had to be taken in order to allow payment of the agreed EU co-financing for these projects which had been implemented successfully. In one case the amount initially authorised and announced in a call for tender was exceeded after the final negotiation due to a situation of monopoly in the highly technical and complex space market.

Corrective actions and/or mitigating measures were put in place to avoid such situations from arising again.

The above control overrides do not negatively affect the assurance provided on the overall budget.

Written instructions (Art 66 FR)

In 2011 no written instruction in the sense of Article 66(2) of the financial regulation was given.

46 This is the percentage of all transactions (including procurement and grants) that are subject to an extended workflow.

3.1.1.6 Fraud prevention and detection

At the end of 2011, DG ENTR adopted an anti-fraud strategy describing the conceptual framework, the objectives, the anti-fraud measures already in place and an action plan towards further reinforcement of anti-fraud related activities. The implementation of the action plan has started in 2012 with some predefined priority actions.

3.1.1.7 Subsequent events

Please see parts 3.1.2.2 and 3.1.2.3.

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

3.1.2.1 Opinion of the Internal Audit Capability (IAC)

Beside its bi-annual general follow-up of all open audit recommendations, in 2011 the IAC carried out four specific audit assignments:

- In-depth follow-up to audit recommendations linked to the amendment of the ESA delegation agreement for GMES (final report dated 01/04/2011);
- Audit of Pilot Projects and Preparatory Actions (Part I: Programme Cycle and Part II: Commitment Process, leading to two separate reports, both dated 26/05/2011);
- Audit of the financial management of the EIP grants managed directly in Directorate D (final report dated 21/09/2011);
- Audit on the management of the implementation of recommendations of the European Court of Auditors and Discharge Authority (final report dated 18/11/2011).

Based on the work performed, the IAC considers that the internal control system in place in DG ENTR provides reasonable assurance regarding the achievement of the business objectives set up for the processes audited, except for the following two issues:

- due to a number of internal and external constraints, DG ENTR did not always comply with article 49.6(b) of the Financial Regulation (FR), according to which the legislative procedure for a successor programme must be concluded before the end of the third financial year of a preparatory action;
- three very important observations relating to a 2010 IAC audit on the coordination of external communication have remained open. They concern the non-identification of priority actions in the communication strategy, the absence of reliable central reporting on the cost of the different communication actions of DG ENTR and the lack of guidelines on indicators and evaluations related to communication actions.

Concerning the first issue, DG ENTR contacted DG BUDG with a view to considering the modification of art 49.6(b) of the Financial Regulation (FR). DG BUDG replied that it will consider including this issue in the next revision of the FR. The implementation of the three very important recommendations made by the IAC on the coordination of external communication is ongoing (see also sections 2.1.5 and 2.2.1).

3.1.2.2 Audits from the Internal Audit Service (IAS)

Audit on Global Navigation Satellite System (GNSS)

The objective of the audit on the Global Navigation Satellite System (GNSS) was to assess the adequacy and effective application of the internal control system (ICS), risk management and governance processes related to DG ENTR's management of GNSS programmes. In particular, the audit assessed whether the ICS provided reasonable assurance regarding compliance with the relevant legislation, and the effectiveness and efficiency of the processes.

The audit on GNSS was initiated during the spring of 2010 and split into 3 sub-audits:

I. Governance, risk management and project management;
II. Financial circuits, financial management and accounting for fixed assets;
III. Grant and procurement management.

IAS gave unsatisfactory opinions on Governance, risk management and project management and on Financial circuits, financial management and accounting for fixed assets, while it gave a qualified opinion on Grant and procurement management. The IAS recommended, among others, increasing stability in the governance structure and appointing as soon as possible a Deputy Director-General responsible for GNSS programmes. Moreover, the IAS recommended the Commission to focus on its role as "Programme Manager" and the European Space Agency (ESA) on its role as "Project Manager. The IAS also recommended ensuring, in collaboration with DG BUDG and DG HR, that the necessary technical experts will be available as staff to the Commission until the completion of the project and that the legal and budgetary framework is adapted to meet the needs of large long term projects. Another IAS recommendation concerned the need to tightly control the changes to design and technical specifications, often requested by national security authorities.

A Deputy Director-General in charge of the project was appointed on 01 February 2011. The proposal for a new GNSS regulation adopted by the College on 30 November 2011, emphasises the importance for the Commission of retaining the expertise acquired and indicated that the "Commission will retain temporary agents currently in employment for periods to be determined in accordance with the various phases of the programmes". Furthermore, the Šef•ovi• and Tajani Cabinets exchanged letters on this topic.

In the framework of the preparations for the new Multiannual Financial Framework, the Commission adopted end November 2011 a legislative proposal for further implementation of the Galileo and EGNOS programmes. It includes, inter alia, the framework for their governance and an updated definition of the budgetary resources needed (see also 1.5).

The IAS asked the DG to strengthen its overall policy, planning and supervision of fixed assets and financial management for GNSS and the different fixed asset streams. This recommendation particularly recommended and confirmed DG ENTR's ongoing work to strengthen their control strategy towards ESA, notably the need to repeat the Art.56 FR six pillar review that underpins the Commission's Delegation Agreements with the Agency. Other recommendations addressed specific issues, related principally to fixed asset accounting, valuation, and management. The IAS also identified a need for further development of the DG's ex post audit strategy to support the clearance of pre-financings to ESA under the Delegation Agreements.

DG ENTR has established a working group consisting of financial and accounting experts (including external consultants). The necessary guidance for the accounting treatment of the GNSS fixed assets in the 2011 accounts has been developed together with the Accounting Officer of the Commission. The necessary postings have been made. ESA's compliance with international accounting standards, the effectiveness and efficiency of its internal control system as well as of its procurement procedures has been assessed by an external consultant and was found to be fulfilling the requirements of Art.56 of the Financial Regulation.

The IAS also addressed concerns on the limited assurance provided on ESA's control system after many recent reorganisations. Regarding the use of negotiated procedures, the IAS recommended to reinforce conditions for allowing open competitions for the future version EGNOS v3. The IAS also recommended improving ESA's reporting requirements to better link the payments to the deliverables and thus facilitate the planning, supervision and monitoring of ESA.

Audit on the performance of the Entrepreneurship and Innovation Programme (EIP)

The objective of the audit on the performance of the entrepreneurship and innovation programme (EIP) managed by DG ENTR and the EACI was to assess:

- the adequacy of the policies and procedures put in place by management for promoting, monitoring and evaluating performance,
- the adequate and effective application of the internal control system (ICS) supporting the process,
- the risk management and governance processes related to the EIP managed by DG ENTR, DG ENV and the EACI.

The scope of the audit included the parts of the EIP managed by DG ENTR and EACI and excluded those managed by DG ECFIN (financial instruments). DG ENV, which outsourced almost the whole management of Eco-innovation to EACI, was consulted but not subjected to the audit. The IAS gave a qualified opinion and IAS recommended to develop a set of indicators for similar actions for the successor of the EIP which are in line with the programme objectives and critical success factors and to better steer the performance measurement when relying on outsourced companies for evaluation tasks. The IAS also recommended improving its guidance on the performance aspects and giving a higher priority to performance in EACI's reporting while consistency between the specific objectives and the results reported by EACI should be further increased (see also section 2.2.2).

3.1.2.3 Audits from the European Court of Auditors (ECA)

In its Annual Report about the execution of the budget 2010, the Court's overall assessment of the supervisory and control systems in the Research area is 'partially effective', with the audit and recovery processes being evaluated as "effective". The Court concluded that the error rate for the expenditure area "Research and other internal policies" was 1.4%, although it noted that it had identified a significant level of error affecting the intermediate and final payments of the 6th and 7th Framework programmes.

The Court recommended that in the area of the research Framework Programmes:

(i) the good practices from risk based ex post audit be used to reinforce the ex ante controls of the Commission, and;

(ii) the reliability of audit certificates be increased, and the auditors better informed of the rules on the eligibility of expenditure.

With regard to the first point, DG ENTR is implementing its Anti-Fraud Strategy and improving its ex ante controls. In particular, training is provided to financial project officers in order to raise their fraud awareness and help them to identify risky transactions or beneficiaries.

More information on the reliability of audit certificates can be found in section 3.1.3.2.

In order to reduce the residual error rate the Research family DGs will continue their control and audit work. Recoveries, including financial sanctions, will be made whenever irregularities are identified. In this context the recommendation of the Court to further enhance ex-ante controls based on the experience gained from risk-based ex post auditing will be implemented. But there must be a positive cost-benefit for audits both for beneficiaries and for the Commission while, at the same time, maintaining the attractiveness of the policy.

Furthermore, the Court observed that limited reliance that can be placed on the residual error rates as its calculation is based on the assumption that all the errors detected, including the systematic ones, will be corrected. In this respect, the Commission replied that it has set up a system which includes plausibility and exhaustiveness checks of resubmitted cost claims and, if necessary, carries out follow-up audits in order to ensure that any systematic errors are indeed corrected by beneficiaries. In a multiannual perspective, the system in place therefore ensures that the residual error rate is a reliable indicator for legality and regularity of underlying transactions.

Simplification is a key principle that underpins the proposals for Horizon 2020 and the revised Financial Regulation. It is expected that this will have the effect of reducing error rate in the future.

With the Commission Decision of January 2011 the rules under the 7th Framework Programme (FP7) were further simplified.

- Firstly, participants can now calculate the personnel costs on the basis of average costs, based on the payroll costs in the statutory accounts.
- Secondly, there is now a flat rate financing for the owners of SMEs and other natural persons who do not receive a salary.
- Thirdly, in March 2011 a Research Clearing Committee was established to enhance legal certainty and the equal treatment of beneficiaries and to ensure that participants' legitimate expectations are fully respected in their dealings with the Commission services.

A follow-up review of the Court has been carried out on the implementation of the recommendations made in Special Report 7/2009 on "The Management of the Galileo Programme's Development and Validation Phase". The Court concluded that the recommendations have been partially implemented and recommends on the one hand that the political objectives shall be translated into strategic and operational ones and on the other hand to provide a valid estimation of the total project cost and to ensure its financing. DG ENTR highlights that in the framework of the preparation of the next Multiannual Financial Framework, the Commission adopted a new Regulation on the further implementation of the GNSS programmes, which includes the framework for their governance and an updated definition of the necessary budgetary resources (see also section 1.5).

The Court also published a Special Report (n° 4/2011) on the effectiveness of the "SME Guarantee (SMEG) facility". DG ENTR welcomes the Court's generally positive assessment of the SMEG and is taking the Court's recommendations on board in the preparation of the SMEG successor programme by considering the introduction of a scoring system for the selection of the financial intermediaries, by improving the programme's performance indicators and by maximising the facility's EU added value. The Court issued six recommendations, four of which have already been implemented.

In the preparation of its report on the execution of the budget 2011, the Court audited a service contract signed by the Commission in 2009 for the operation and service provision of the EGNOS system. The Commission used a negotiated procurement procedure without prior publication of a contract notice for concluding a contract with a service provider who was imposed as a pre-condition for the transfer of the ownership of the EGNOS assets to the Commission and to ensure signal continuity and certification of the safety-of-life service for the aviation user community. The European Court of Auditors assessed that the reasons for choosing this procurement procedure were insufficient but did not demonstrate that using another – open – procurement procedure would have resulted in any reduction of the costs. However, DG ENTR does not intend to extend the duration of the contract which ends in 2013 and envisages launching an open procurement procedure for the continuation of the services.

Subsequent events are the preliminary findings reports of the joint audits of the European Court of Auditors and the Commission indicating that there continue to be material weaknesses in the financial project reporting by ESA. During the performed audits, ESA still faced difficulties to provide detailed supporting information for some of the reported costs.

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

3.1.3.1 Follow-up of previous years' reservations

Reservation FP6

In the Annual Activity Report for the year 2010, the Director-General of DG ENTR made a reservation "...concerning the rate of residual errors with regard to the accuracy of cost claims in Sixth Research Framework Programme (FP6)."

The main corrective action is the full implementation of the common FP6 audit strategy which aims at optimising the impact of audits through the exhaustive coverage of the biggest participants, the coverage of an additional sampling of beneficiaries randomly selected according to international audit standards and the performance of targeted audits in case of identified specific risks. The objective of the strategy was to perform 407 audits during the years 2007-2010 and at the end of 2011 DG ENTR has finalised 450 audits in total and audited 40% of its FP6 budget.

In addition, audit results on systematic errors are extrapolated to non-audited projects and liquidated damages are applied. For cost-benefit considerations the 2012 audit work programme does not include any more audits on FP6 projects, except – if necessary- some risk based follow-up audits.

The residual error rate at the end of 2011 is 2.83% (see table 3.1).

It is therefore prudent to continue to qualify the declaration of assurance with a reservation as regards the accuracy of cost claims in FP6. However, the implementation of FP6 is nearly finalised and in 2011 only € 2.8 million have been paid. Further audits cannot be justified under cost-benefit considerations (see point 3.1.1.3.2.1).

Reservation ESA

In 2011, DG ENTR continued to implement the monitoring and control strategy put in place during 2010 concerning the Delegation Agreements with ESA:

- the signature of the amendment of the GMES delegation agreement will remedy many of the procurement issues identified in previous audit reports of the European Court of Auditors and the Internal Audit Capability;

- the 2010 financial reports submitted by ESA to the Commission are being audited by the ex post auditors of the DG ENTR Financial Resources unit. ESA has been requested to correct the previously submitted financial reports retro-actively and payments based on financial reports which did not yet take into account earlier audit findings have been reduced as appropriate.

Furthermore DG ENTR has requested from ESA information on the progress made and the status of the Financial Reform and the actions undertaken by ESA to mitigate the risks related to the delayed closure of the accounts 2010 and an adverse opinion given by the external audit commission on the accounts 2010 during the regular meetings between the DG and ESA on different levels.

The Director-General of DG ENTR informed the Secretary-General of ESA about weaknesses identified by the Commission's Internal Audit Service and its main recommendations concerning ESA, highlighting the importance of ESA's contribution to their implementation. DG ENTR requested a meeting between the Director of Resources and representatives of ESA's External Audit Commission to better understand the possible repercussions of the qualifications of ESA's financial statements for the management of the delegated funds. This meeting took place in March 2012.

Following ESA's financial management reform started in January 2010 and in line with article 35 of the Implementing Rules[47], DG ENTR has also re-assessed ESA's compliance with international accounting standards (IPSAS) as well as compliance of ESA's new procurement regulations with internationally accepted standards. This assessment has been carried out by an external auditing company and the draft results reveal that the requirements of Art. 56 of the FR have been fulfilled.

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47 Checks to be carried out by the Commission in case of joint management and centralised indirect management (art 53d, 54(2)c FR).

However, ESA did not succeed to get a clean bill of health for its 2010 financial statements. The qualified opinion of the ESA's Audit Commission also on the 2010 financial statements and the audit results of both the European Court of Auditors and the DG ENTR ex post auditors, indicate that ESA's financial reporting is still not fully reliable and that it is prudent to maintain a reservation.

Although all amounts paid to ESA are audited ex post and detected errors are corrected, it cannot be fully excluded that errors of more than 2% remain undetected and uncorrected as long as the financial reporting, which is the basis for the on-the-spot audits, is not fully reliable.

3.1.3.2 Follow up of ECA findings and recommendations

In its DAS 2009, ECA recommended to the Commission to intensify its actions to raise the awareness of the independent auditors, who certify cost statements, about eligibility rules.

The Commission pursues a policy of actively providing feedback on ex post audit findings to the beneficiaries in order to ensure, where necessary, improvements in the work of the auditors delivering audit certificates. To this effect every beneficiary is requested in the course of the audit procedure to inform the certifying auditor on material audit findings. The Commission observes, however, that the main cause of the Court's observations is not so much the design or concept of the audit certificate but rather the relative complexity of the rules. This inherent complexity impacts the work performed by the external auditors mandated by beneficiaries to deliver audit certificates. The Commission shares the Court's concern about the correctness of the FP6 audit certificates; nevertheless the instrument has made a major contribution to prevention of errors compared to FP5. For FP7 further improvements have been introduced such as the introduction of "agreed upon procedures" (The Research DGs have introduced procedures, to improve the reliability of audit certificates that require the certifying auditor to perform pre-defined procedures and to report on that basis on the factual findings).

Previous recommendations of the Court, recently implemented by the Commission, related to encouragement of the beneficiaries to submit their cost calculation methodology for ex ante certification. The Commission has undertaken active information campaigns at national and regional level to inform beneficiaries on the advantage of ex ante certification, provided regular updates on CORDIS and informed beneficiaries about the developments of the ex ante certification.

In 2011, a recommendation from the Court on the monitoring of the effective functioning of ESA's control systems and the reliability of its annual financial report, as well as the quality of the ex ante controls was closed by the Commission. With regard to Joint Management with ESA, DG ENTR has enforced its monitoring and control activities as of 2010 and has put into effect a multi-annual system to ensure an oriented control strategy which will allow obtaining the necessary assurance at the end of the programme.

DG ENTR considers that the ex ante checks are proportionate and effective, nevertheless the Commission will continue improving the ex ante controls in a cost efficient manner.

Other recommendations from the European Court of Auditors from previous years have been adequately addressed. Application of sanctions for the beneficiaries not respecting contractual provisions has been implemented and liquidated damages continue to be regularly implemented by DG ENTR. A recommendation regarding further simplification of rules for participations has been implemented by adopting, on 24 January 2011, measures intended to simplify the complexity of rules under FP7 as well as in the legislative proposal for Horizon 2020.

The open recommendations stemming from the Special Report • 7/2009 on the management of the Galileo programme's development and validation phase were reviewed by the Court of Auditors concluding that they have been partially implemented (see section 3.1.2.3). The Commission is in the process of implementing these recommendations.

3.1.3.3 Follow up of any weaknesses reported by the Internal Audit Capability, the Internal Audit Service and in the previous Synthesis Report

The Directorate-General has not received any critical recommendations arising from the IAC and IAS audits. Action plans have been agreed or are in the process to be drawn up for all recommendations and are being implemented in order to correct the shortcomings that have been detected.

A summary of the conclusions and recommendations resulting from the audit work of the internal auditor is submitted to the Commissioner. The Internal Audit Unit monitors the implementation of its recommendations in all Directorates twice a year. The results are reported to the Director-General and the Commissioner. Directors are reminded, if necessary, of pending issues in notes from the Internal Audit Unit. As of December 2011, 79% (2010: 82%) of the accepted recommendations were considered to have been implemented. Overall, 5 very important recommendations remain open: 3 are classified as "delayed", 2 as "in progress". The open very important recommendations are related to the following audits:

- The audit of DG ENTR coordination of external communication

- The audit of Pilot Projects and Preparatory Actions

- The audit of EIP grants managed by Directorate D

In the course of 2011 the IAC issued a total of 28 new recommendations.

The last Synthesis report outlined an action related to the challenges of management of EU funds under joint management mode, to review the most frequent problems and to propose improvements. DG ENTR did not envisage any specific need for a change of the financial rules and regulations since the issues encountered related to the the systems of the implementing body.

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

Roughly 2.8% of the amounts paid in 2011 on budget lines of Title 2 (Enterprise and Industry) have been authorised under cross-delegations. The Director-General of DG ENTR is ultimately accountable for 1.1%, even though the legality and regularity of these transactions is ensured by the management and internal control systems put in place by the authorising officers to whom the cross-delegations have been given. The other 1.7% of the payments is covered in the AARs of the sub-delegated bodies and relates to administrative costs.

The conditions of these cross-delegations follow Article 7 of the Internal Rules on the implementation of the general budget of the EU.

The authorising officer by sub delegation regularly informs the authorising officer by delegation of the projects and activities for which he received a sub-delegation. These reports should include, amongst other, the following information:

- a description of the work programme, the objectives for the period and the results achieved;
- a description of the utilisation of the financial resources;
- signalling of any issue related to the management of the activities.

The reports on the cross-delegations exchanged between DG ENTR and other DGs did not give indications of any particular unfavourable observation with regard to the regularity and legality of the transactions concerned.

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

The information in sections 3.1.1 to 3.1.4 stems from monitoring by management and auditors. It results from a systematic analysis of the available evidence. This approach results in an adequate coverage of the budget delegated to the Director-General of DG ENTR and provides sufficient guarantees of the completeness and reliability of the information reported.

The building blocks are not to be considered on a stand-alone basis. They all contribute to building up reasonable assurance about the adequacy of the design of the control system and its functioning. All information provided in the building blocks suggest that DG Enterprise and Industry's management is in the position to provide reasonable assurance, except for the aspects under reservation – see section 3.2 below.

The partial compliance of a limited number of internal control standards, as detailed in part 2 of the report, does not present a major weakness and does not require a reservation.

3.2 Reservations

DG	Enterprise and Industry
Title of the reservation, including its scope	Reservation concerning the rate of residual error with regard to the accuracy of cost claims in the 6th Research Framework Programme (FP6).
Domain	Research and other Internal policies, direct centralised management of grants under the 6th Research Framework Programme (FP6)
ABB activity and amount	02 04 – "Cooperation – Space and Security" Payment appropriations: € 284.87 million. Outturn in 2011: € 239.40 million (of which € 2.8 million for FP6)
Reason for the reservation	At the end of 2011, the cumulative residual error rate is 2.83 % and exceeds the 2% multiannual control objective. In 2010, DG Enterprise and Industry finalised the FP6 multi annual ex post control plan. Although the residual error rate has further decreased in 2011 following the extrapolation of audit results to non-audited contracts, a cumulative residual error rate of below 2% will not be achieved. Taking into account cost-benefit considerations, no additional audits will be performed
Materiality criterion/criteria	The materiality criterion is the cumulative residual error rate. The control objective is to ensure that the cumulative residual error rate does not exceed 2% by the end of the management cycle.
Quantification of the impact	The maximum impact is calculated by multiplying the cumulative residual error rate in favour of the Commission (2.83%) by the sum of FP6 payments based on cost claims actually processed in 2011 (€2.8 million) and FP6 pre-financings cleared in 2011 (€2.6 million). This yields € 0.154 million as maximum potential impact on FP6 payments during 2011.
Impact on the assurance	Legality and regularity of the affected transactions. The assurance is affected within the scope of the quantified budgetary impact, which represents 0.02 % of payments made by DG ENTR in 2011.
Responsibility for the weakness and its correction	The Legislative Authorities for the underlying rules as laid down in the basic acts, the Commission services for the management and control systems in place and the beneficiaries and certifying auditors for the correctness of cost claims and audit certificates. Within these limits the remedial action of the services of the Commission is carried out through audit campaigns and the full and timely implementation of audit results as well as by better informing the contractors.

Corrective action(s)	The main corrective actions, as set out in the common FP6 audit strategy which aims at optimising the impact of audits through the exhaustive coverage of the biggest participants, the coverage of an additional sampling of beneficiaries randomly selected according to international audit standards and the issuing of targeted audits in case of identified specific risks, were finalised in 2010. In total, 450 audits were performed which represent an audit coverage of 40 %. Taking into account cost-benefit considerations, a further extension of the audit coverage will not be undertaken. In addition, the implementation of the audit results on systematic errors to non-audited projects and the application of liquidated damages, in case the beneficiary fails to implement audit results on these systematic errors, provide for an additional extension of audit coverage. This detective and corrective strategy will cover over 56% of the DG's FP6 budget.

DG	Enterprise and Industry
Title of the reservation, including its scope	Reservation concerning the rate of the residual error with regard to the accuracy of cost claims in the 7th Research Framework Programme (FP7).
Domain	Research and other Internal Policies, direct centralised management of grants in the 7th Research Framework Programme (FP7).
ABB activity and amount	02 04 – "Cooperation – Space and Security" Payment appropriations: € 284.87 million. Outturn in 2011: € 239.40 million
Reason for the reservation	As the audit sample is not representative, it is not possible to state with certainty that the cumulative residual error rate (4.98 % for DG ENTR at the end of 2011) or the level of financial impact of errors identified will fall below the materiality threshold at the end of the multi-annual period.
Materiality criterion/criteria	The materiality criterion is the cumulative residual error rate. The control objective is to ensure that the cumulative residual error rate does not exceed 2% by the end of the management cycle.
Quantification of the impact	The maximum impact is calculated by multiplying the cumulative residual error rate in favour of the Commission (4.98%) by the sum of FP7 payments based on cost statements actually processed in 2011 (€ 12.8 million) and FP7 pre-financings cleared in 2011 (€ 5.9 million) . This yields € 0.932 million as maximum potential impact on FP7 payments during 2011.
Impact on the assurance	Legality and regularity of the affected transactions. The assurance is affected within the scope of the quantified budgetary impact, which represents 0.1 % of payments made by DG ENTR in 2011.
Responsibility for the weakness and its correction	The Legislative Authorities for the underlying rules as laid down in the basic acts, the Commission services for the management and control systems in place and the beneficiaries and certifying auditors for the correctness of cost claims and audit certificates. Within these limits the remedial action of the services of the Commission is carried out through audit campaigns and the full and timely implementation of audit results as well as by better informing the contractors.
Corrective action	The main corrective actions, as set out in the common FP7 audit strategy, consist of exhaustive coverage of the biggest participants, coverage of an additional sampling of beneficiaries randomly selected according to international audit standards and the issuing of targeted audits in case of identified specific risks. In total, 21 audits were performed which represent an audit coverage of 21%. In addition, the implementation of the audit results on systematic errors to non-audited projects and the application of liquidated damages, in case the beneficiary fails to implement audit results on these systematic errors, provide for an additional extension of audit coverage. The remaining scope to reduce errors will be addressed in particular through the following actions: - Improve guidance and feedback to participants and auditors on most common errors; - Improvement of ex- ante control strategy;

	- Carrying out appropriate number of ex post audits to reduce, together with recovery actions, the residual error rate on a multiannual perspective. Further corrective actions have been introduced for FP7 through the development of audit certification based on "agreed upon procedures". This provides a compulsory set of procedures for a more effective use of audit certification in FP7. Moreover, the simplification measures introduced early 2011 are expected to further reduce the error rate.

DG/Service	Enterprise and Industry
Title of the reservation, including its scope	Reservation concerning the reliability of the financial reporting by the European Space Agency (ESA)[48] about the joint implementation of the space component of the Global Monitoring for Environment and Security (GMES) and about the implementation of the EU satellite navigation (EGNOS and Galileo) programmes.
Domain	Joint management (GMES) and centralised direct and indirect management (EGNOS and Galileo)
ABB activity and amount	02 04 – "Cooperation – Space and Security" Payment appropriations: € 284.87 million. Outturn in 2011: € 239.40 million 02 05 – "EU Satellite navigation programmes (EGNOS and Galileo) Payment appropriations: € 574.62 million. Outturn in 2011: € 570.38 million
Reason for the reservation	Under centralised direct and indirect management (article 54 FR) ESA is responsible for the project management and procurement activities of the GNSS programmes, EGNOS and Galileo. The procurement activities are carried out in full coordination with the European Commission and under the EU Procurement rules. Under joint management (article 53d FR) the Commission entrusts ESA with project management and budget implementation tasks related to the GMES programme. For both programmes, in addition to the industrial procurement expenditure, ESA is entitled to be reimbursed for its own costs incurred in the implementation of the delegated tasks. The audit opinion of ESA's external auditor on the annual accounts 2010 points out weaknesses in ESA's internal control systems, questions the reliability of the financial reporting and identifies several areas of non compliance with IPSAS requirements. At the same time the European Court of Auditors and DG ENTR ex post auditors detected material errors in the financial reports prepared by ESA. DG ENTR considers it therefore to be prudent to highlight the ongoing problems with ESA's financial reporting. Although potential errors will be corrected following the systematic on-the-spot checks DG ENTR cannot totally exclude that errors could stay undetected and uncorrected due to insufficient quality of the financial information provided by ESA which is the basis for on the spot checks.

48 This reservation comprises and extends the scope of the reservation made in the 2010 AAR from own ESA own costs only to ESA's overall costs.

Materiality criterion/criteria	The materiality threshold has been set at 2% of undetected and uncorrected errors at the end of the implementation of the programmes.
Quantification of the impact	It is not possible to quantify the impact, if there is any. Although potential errors will be corrected, DG ENTR cannot totally exclude that errors exceeding the 2% threshold could stay undetected and uncorrected due to insufficient quality of the financial information provided by ESA which is the basis for on the spot checks.
Impact on the assurance	The insufficient reliability of the financial reporting might affect the intended use of resources and the principles of sound financial management for the programmes.
Responsibility for the weakness and its correction	The proper application of the requirements stated in the delegation agreement is the responsibility of both the delegated body and the responsible Commission's services. The initial assessment of the compliance of the delegated body's internal control system with international accepted standards was positive. However, following a financial reform in 2010, a new assessment has been started by the Commission.
Corrective action(s)	During 2011, the DG's monitoring and control strategy towards ESA has been further strengthened. DG ENTR will continue auditing the financial reports provided by ESA and will encourage and support ESA in the implementation of its action plan, developed to address the recommendations made by ESA's external Audit Commission, and to ensure better quality of the financial reporting to the Commission. In addition, regular follow up will be carried out at top management level.

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

In 2011, DG ENTR has managed the resources for which it was responsible to best effect for the intended purposes, in line with the Financial Regulation and according to the principles of sound financial management, legality and regularity.

The internal control system (see part 2 above) in the DG is in place, and it functions effectively to the extent that it enables the Director-General to give his assurance on the resources used. With the help of the internal control system, weaknesses could be detected and corrective measures put in place.

In the area of the accuracy of cost claims in the Sixth Research Framework Programme (FP6) the errors detected lead the Director-General to maintain a reservation on the reasonable assurance. Moreover, as a result of the errors detected and following consultation of the other members of the Research family, the Director-General has decided to introduce a new reservation in relation to the accuracy of cost claims submitted under the 7th Research Framework Programme (FP7). Both these reservations taken together, however, represent only 0.12% of DG ENTR payments for 2011.

Concerning the reliability of the financial reporting by the European Space Agency for the joint implementation of the space component of the Global Monitoring for Environment and Security and the implementation of the EGNOS and Galileo programmes under centralised direct and indirect management, the Director-General considers it prudent to maintain a non quantifiable reservation - widening its scope - on reasonable assurance until he has satisfactory evidence that the reporting by ESA is sufficiently reliable.

PART 4. DECLARATION OF ASSURANCE

I, the undersigned, Director-General of the Enterprise and Industry Directorate General

In my capacity as authorising officer by delegation since 1 February 2012

Declare that the information contained in this report gives a true and fair view[49].

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

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

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

However the following reservations should be noted:

1) Reservation concerning the rate of residual error with regard to the accuracy of cost claims in the 6th Research Framework Programme (FP6).

2) Reservation concerning the rate of the residual error with regard to the accuracy of cost claims in the 7th Research Framework Programme (FP7).

3) Reservation concerning the reliability of the financial reporting by the European Space Agency (ESA) about the joint implementation of the space component of the Global Monitoring for Environment and Security (GMES) and about the implementation of the EU satellite navigation (EGNOS and Galileo) programmes.

Brussels, 28 March 2012

Signed

Daniel Calleja

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