



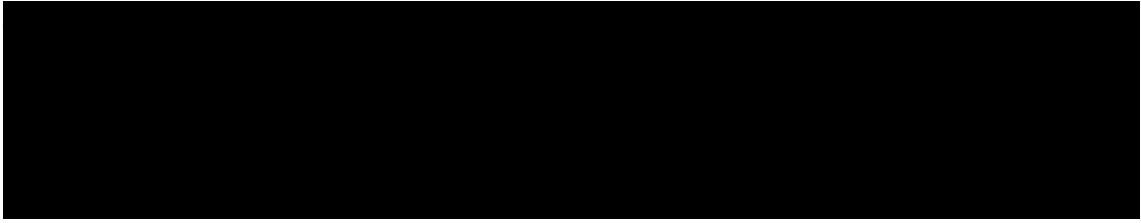
EUROPEAN COMMISSION
DIRECTORATE-GENERAL FOR RESEARCH & INNOVATION

Directorate M - Management Operational Support - Framework Programme
M.1 - External audits

ANNUAL ACTIVITY REPORT ON EXTERNAL AUDITS 2012

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ANNEX I: Mission statement _____ **48**

EXECUTIVE SUMMARY

In 2012, the emphasis of the work of the external audit unit has been on the further implementation of the FP7 Audit Strategy. In total, [REDACTED] audits were closed by RTD M.1 in 2012, of which [REDACTED] audits were part of the FP7 audit campaign, the remainder being [REDACTED] FP6 audits and [REDACTED] Coal and Steel audits.

2012 was also the year of the first FP7 Common Representative Sample (CRS) for the Research family of DGs and Executive Agencies. This new approach to providing assurance has enabled the Commission services to reduce the total number of planned FP7 audits by 25%.

On 1 February 2013, results were known for [REDACTED] out of the [REDACTED] cost statements selected in the CRS; the resulting common representative error rate was [REDACTED]. More than [REDACTED] of the errors stem from the 'Personnel Cost' and 'Indirect Costs' categories. The vast majority of the errors are due to a lack of supporting documentation and relate to issues associated with personnel cost (lack of contracts, incorrect or irregular timesheets, lack of extracts of payroll, lack of invoices for in-house consultants, etc.). Erroneous calculations of depreciation charges or their wrong application comes second. Errors related to subcontracting come third. These findings are in line with the errors that we explain and try to remedy through the Communication Campaign which covered 12 countries in 2012. This campaign focuses on beneficiaries as well as certifying auditors, and it is generally regarded as a success. It will continue in 2013. Further analysis of the error rates has also shown that newcomers to the FP and SMEs are particularly error prone. As a result, additional preventive measures might be usefully considered.

Of the closed audits, approximately one third are done by in-house auditors. [REDACTED]

[REDACTED]

The unit also manages, on behalf of the Research Family, the framework contracts with three private audit firms to whom two thirds of the audits are outsourced. The existing framework contract expires in June 2013 and, in order to ensure the availability of outsourcing capacity following this date, a call for tender for a new framework contract was launched in 2012. The closing date for submission of the tenders was 23 November 2012. The tenders received are being assessed and it is expected that the new framework contract will be ready by June 2013.

Whilst we are in the middle of the FP7 audit campaign, the FP6 campaign has gradually been winding down ([REDACTED] FP6 audits remain to be closed). Both campaigns have hitherto led to proposed adjustments for a total of [REDACTED] in favour of the Commission.

In addition to the FP6 and FP7 audit campaigns, the unit manages a wide variety of issues related to the assurance-gathering process. A significant amount of resources are dedicated to cross-RDG coordination [REDACTED] which from 2012 onwards included not only all research Commission services but also RTD's three Joint

Undertakings (IMI, Cleansky, FCH).



Effective audit management is also underpinned by the development of adequate IT-tools; specific reference should be made to our audit management system AUDEX, which was greatly improved in the course of 2012.

As a concluding remark, let us underline that in the context of the Declaration of Assurance for 2011, the European Court of Auditors concluded that "*overall the system of ex-post audits [...] was assessed as effective*".

1. BACKGROUND

1.1. Introduction

The purpose of this document is to report on the ex-post audit activities in DG RTD during 2012, using the numerical results of the verifications carried out and providing feedback on relevant qualitative issues. Some of the numerical results and some of the qualitative issues included in this report also contribute to the assurance statement of the Director General on the legality and regularity of financial transactions in DG RTD's Annual Activity Report.

1.2. Legal background

For FP6, the legal basis for the external audit activity is Annex III point 2, paragraph 7 of the Decision n° 1513/2002/EC of the European Parliament and of the Council, and Article 18 of Regulation (EC) n° 2321/2002 of the European Parliament and of the Council. For FP7, reference must be made to Article 5 of the Decision n° 1982/2006/EC of the European Parliament and of the Council, and Article 19 of Regulation (EC) n° 1906/2006 of the European Parliament and of the Council.

The model grant agreement for the 7th Framework Programme (Annex II, Article 22) states that: *'the Commission may, at any time during the contract, and up to five years after the end of the project, arrange for audits to be carried out, either by outside scientific or technological reviewers or auditors, or by the Commission departments themselves including OLAF'*.

Similar provisions are foreseen in the model contract for the 6th Framework Programme (Annex II, Article 29).

1.3. The mission of the external audit units

The external audit unit provides a level of reasonable assurance to senior management and, ultimately, to the Discharge Authority (European Parliament and Council) on whether DG RTD beneficiaries are in compliance with the terms of DG RTD's grant agreements. This is done through the execution of ex-post financial audits; ex-post audit results provide a representative error rate and initiate the budgetary implementation of the adjustments proposed including, where needed, financial recoveries or offsets managed by the operational services. Thus, the external audit function contributes to the sound financial management of the EU funds and to the protection of the European Union's financial interests.

In 2012, it was decided to discontinue the existence of two units (formerly RTD M.1 and RTD M.2), and to integrate RTD M.2 as a sector of RTD M.1 from 1 January 2013¹. The new mission statement of the new M.1 unit is in Annex I.

¹ As the unit was still split into M.1 and M.2 during 2012, they will be differentiated in that manner throughout this annual report where relevant.

1.4. Role within the overall internal control framework activities of DG Research & Innovation

Ex-post audit activities need to be seen as part of the overall internal control framework put in place by the Directorate General, together with ex-ante and ex-post evaluations, financial and scientific verifications, and monitoring tools.

In the area of grant management for research expenditure, the focus remains very much on controls after payment (ex-post), reducing controls before payment (ex-ante) as much as possible. This is a conscious decision with the aim of reducing the ex-ante administrative burden for the beneficiaries, and therefore shortening the average time-to-grant and time-to-pay periods.

This conception of the internal control system is regularly under discussion because the results of ex-post controls come relatively late in the process of grant implementation and are often being contested by beneficiaries who claim not to have been aware of certain aspects and details of the legal and regulatory framework. This has led to an intensification of the Commission's communication efforts towards beneficiaries. This is especially important in FP7, given the above-mentioned decision to limit ex-ante verifications: for example, audit certificates are only required if the grant amount is above EUR 375 000. In addition, the ex-ante certification procedures introduced for personnel and indirect costs' methodologies and for average personnel costs have not been taken up by the expected number of beneficiaries.

The field experience gathered by the unit over the years is increasingly considered as a valuable asset. It is particularly appreciated as a useful source of feedback to operational services, and for its contribution towards the design of better legislative measures. The best example is the input into the Commission proposal on the future regulatory framework for Horizon 2020, in particular on issues such as bonus payments or flat rates for indirect costs.

Finally, and as was the case the previous year, the European Court of Auditors gave a positive opinion in their Declaration of Assurance for 2011² of ex-post financial audit activities, as part of their assessment of selected supervisory and control systems in Research and other internal policies.

² Chapter 8 'Research and other internal policies' of ECA's Annual Report 2011, Annex 8.2.

2. ACTIVITIES

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

| | | |
|------------|------------|------------|
| [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] |

[REDACTED]

³ [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

5 [REDACTED]

2.2. The audit campaigns

2.2.1. The FP6 audit campaign

The overall results of our audit campaign for FP6 are summarised in the following table:

Table 2.1 - Overall figures for the FP6 audit campaign

| Year | Number of audits closed | Number of participations audited | EC share of the costs accepted by the FO (€) | EC share of the accumulated adjustments in favour of the EC | | | Representative error rate % | Residual error rate % |
|---------------------|-------------------------|----------------------------------|--|---|---------------------|-------------------------|-----------------------------|-----------------------|
| | | | | Amount (€) | Annual error rate % | Cumulative error rate % | | |
| Up to end of 2011 | ■ | ■ | ■ | ■ | ■ | ■ | | |
| 2012 | ■ | ■ | ■ | ■ | ■ | ■ | | |
| Total | ■ | ■ | ■ | ■ | ■ | ■ | | |
| of which, TOP + MUS | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |

The FP6 Audit Strategy (FP6 AS) was designed after the critical Discharge procedure in 2006, and focused on increasing the number of audits, improving the consistency of approach and the coherence of conclusions, ensuring more homogeneous audit policies among the Commission research services⁶, calculating reliable and representative error rates, and introducing the extrapolation of audit results as a corrective measure.

The FP6 AS originally assumed that most of the errors found during the audits would be of a systematic nature, and that ■ audits would be sufficient to eliminate them from at least ■ of the DG RTD FP6 budget and, in doing so, to achieve the control objective of a residual error rate of 2% or lower at the end of the multiannual FP6 audit campaign.

The mid-term review of the FP6 AS concluded in early 2009 that the proportion of systematic errors was much lower than anticipated (at the end of 2012 it is still only ■ of all errors in terms of amounts in DG RTD). Increasing the total number of audits was then considered necessary to keep alive the possibility of still correcting enough errors to be below 2%. This decision was again re-assessed at the end of 2010; additional attempts to keep the residual error rate below the control objective of 2% were considered as not cost effective. It was therefore decided that no further FP6 audits would be launched other than those related to fraud and irregularities investigations, joint audits with the European Court of Auditors or audits requested by operational services.

At the end of 2012, ■ FP6 audits have been closed in DG RTD and, when including the audits still ongoing, the total will eventually be around ■ Audit coverage⁷ from these audits and those undertaken by other Commission services stands at ■ of the RTD FP6

⁶ The Commission research services are DG RTD, DG CNECT, DG MOVE, DG ENER, DG ENTR, DG EAC and the two Executive Agencies ERCEA and REA. The JUs linked to RTD are Clean Sky (Aeronautics and Air Transport), IMI (Innovative Medicines Initiative) and FCH (Fuel Cells and Hydrogen Initiative). The one linked to ENER/MOVE is SESAR (Single European Sky ATM Research).

⁷ Audit coverage includes both the amounts directly audited and the non-audited amounts received by audited beneficiaries from which systematic errors have been removed. See table 3.9.

budget, and the residual error rate is [REDACTED]. This rate has hardly changed since last year and, with so few FP6 audits still ongoing, it is fair to assume that the final rate at the end of the campaign will be around that value.

Currently, there are still [REDACTED] ongoing FP6 audits. The objective is to finalise the large majority of them in the course of 2013.

2.2.2. The FP7 audit campaign

The overall results of our audit campaign for FP7 are summarised in the following table:

Table 2.2 - Overall figures for the FP7 audit campaign

| Year | Number of audits closed | Number of participations audited | EC share of the costs accepted by the FO (€) | EC share of the accumulated adjustments in favour of the EC | | | Representative error rate % | Residual error rate % |
|-----------------------|-------------------------|----------------------------------|--|---|---------------------|-------------------------|-----------------------------|-----------------------|
| | | | | Amount (€) | Annual error rate % | Cumulative error rate % | | |
| Up to the end of 2011 | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | | |
| 2012 | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | | |
| Total | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |

The FP7 audit campaign completed its third full year in 2012, when [REDACTED] audits were launched and [REDACTED] were closed.

Representative audits

A relatively small number of audits are undertaken on a regular basis in order to identify the percentage of errors affecting the whole budget. The beneficiaries to be audited are selected using statistically representative sampling methods and, therefore, the results of those audits provide error rates which are also statistically representative.

In the first years of the FP7 campaign, each research Commission service drew and audited its own audit samples. Two of these samples were taken in DG RTD, and their results were the basis for error rate reporting until the end of 2011.

However, this approach created a number of planning constraints and administrative burdens on beneficiaries, which were considered unnecessary. During 2011, the external audit units in RTD launched an initiative to change the assurance system for research Commission services towards a unique assurance model. [REDACTED]

[REDACTED] to use a single representative error rate for all services from 2012 onwards, based on the results from a Common Representative Sample. In this CRS, [REDACTED] cost statements for audit were selected.

At the end of 2012, the FP7 representative error rate is [REDACTED] based on [REDACTED] results collected so far out of the [REDACTED], just over half of which are from other services. The final rate will not be known until the whole sample has been audited.

Corrective audits

Corrective audits are selected using a variety of criteria, trying to maximise their potential corrective effect, including preventing errors in future.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

2.2.3. *Additional auditing commitments*

There are additional auditing commitments in the following areas:

■ **Fusion:** the current arrangement with RTD K is to audit all Fusion associations on a cyclical basis. [REDACTED]

[REDACTED]

[REDACTED]

■ **Coal and Steel (C&S):** a number of audits are launched every year on beneficiaries who receive funds from the Research Fund for Coal and Steel (RFCS), which is managed by RTD G. RFCS projects do not receive funding from the Framework Programmes and are therefore not FP-related. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Audits on Request (AoR): audits in this category are performed at the request of the operational services, and they are normally quite specific in their scope. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

- **Joint Audits with the European Court of Auditors (ECA):**

Table 2.3: Joint audits with the ECA in 2011 and 2012

| | Audits by ECA | Joint Audits | % | Disagreement on conclusions |
|------|---------------|--------------|---|-----------------------------|
| 2011 | ■ | ■ | ■ | ■ |
| 2012 | ■ | ■ | ■ | ■ |

In order to increase harmonisation of audit techniques and results, and to improve consistency of audit findings and conclusions, RTD auditors continued their efforts to join ECA auditors on as many missions as possible during 2012.

The experience gathered prior to 2012 showed that carrying out joint audits helps to (a) enhance convergence of views and results regarding the audit findings and (b) better prepare DG RTD's comments in case of disagreement on the conclusions.

- **Technical Audits:**

The objective of these technological and scientific audits is to look at research projects from a scientifically independent point of view, and as a complement to the usual project reviews that take place during the lifetime of a project.

During the period 2010-2011, RTD M.1 closed technical audits, had requests for joint financial and scientific audits, and was asked for support on scientific audits.

2.3. Cross-RDG coordination

In 2012, coordination of the common corporate audit strategies of the Research services continued.

In 2012, these efforts focused especially on the first Common Representative Sample for which the results had to be available by the end of 2012.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

11 [REDACTED]

2.4. Extrapolation

Extrapolation remains a key component of the common audit strategy because of its essential role in cleaning the budget from systematic material errors which, in turn, results in lowering the residual error rate.

2.4.1. Extrapolation policy and coordination

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

| ESC Decision | DG ENER | DG ENTR | ERCEA | DG CNECT | DG MOVE | RE A | DG RTD | Total 2012 | |
|--------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |

[REDACTED]

[REDACTED]

2.4.2. RTD extrapolation cases

[REDACTED]

[REDACTED]

Table 2.5 - Current status of the DG RTD-led extrapolation cases (as of 31/12/2012)

| Current Status | | Grand Total | |
|----------------|--|-------------|--|
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |

2.4.3. Extrapolation implementation

Each extrapolation case can potentially affect numerous projects across the research Commission services. The experience acquired so far within DG RTD has underlined substantial challenges in this area, especially with regard to following up the reception of revised cost statements and coordinating their implementation. To address this issue, RTD M.5 (RTD M.4 as of 1 January 2013) 'Management of debts and guarantee funds' acts as a central reception point dealing with all extrapolation cases launched from 13 March 2009 onwards.

Table 2.6 – Centrally Managed Cases by DG

| DG ENER | DG ENTR | ERCEA | DG CNECT | DG MOVE | REA | DG RTD | Total |
|---------|---------|-------|----------|---------|-----|--------|-------|
| | | | | | | | |

For all DG RTD-led extrapolation cases, (i.e. triggered by a DG RTD audit), so far [REDACTED] participations have been identified as potentially affected by extrapolation. Among these, [REDACTED] have been implemented (i.e. amount adjusted), [REDACTED] are currently under implementation and for [REDACTED] recommendations the extrapolation turned out not to be due.

In addition, [REDACTED] cases resulting from audits of the other research Commission services have an impact on [REDACTED] RTD participations, of which [REDACTED] have been implemented, [REDACTED] are

currently under implementation and for [REDACTED] recommendations the extrapolation turned out not to be due.

Table 2.7 – DG RTD participations affected by extrapolation (cumulative, FP6 & FP7)

| Implementation Status | RTD-led Cases | Non-RTD-led Cases | | | | | Total non-RTD-led Cases | Grand Total |
|-----------------------|---------------|-------------------|------------|------------|--------------|------------|-------------------------|-------------|
| | | ERCEA | DG ENTR | DG CNECT | DG MOVE-ENER | REA | | |
| Not applicable | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| Closed | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| Ongoing | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| Total | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |

Moreover, for the [REDACTED] DG RTD-led cases, [REDACTED] participations managed by other research Commission services are also being revised as part of the extrapolation process.

Regarding the adjusted amounts following extrapolation the table below provides the cumulative proposed adjustments as a result of systematic errors.

Table 2.8 – Cumulative overall adjusted amounts due to extrapolation

| | 2009 | 2010 | 2011 | 2012 |
|--|------------|------------|------------|------------|
| (-) Adjustments in favour of the Commission | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| (+) Adjustments in favour of the beneficiaries | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |

This table relates to the implementation of extrapolations managed by RTD M.5 (RTD M.4 as of 1 January 2013). Therefore only overall information is provided here.

Extrapolation remains a cornerstone of the Audit Strategies. Having said that, the figures in the tables above clearly show that extrapolation is a complex and resource-intensive process.

2.5. OLAF cases

| | |
|------------|------------|
| [REDACTED] | |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] |

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

2.6. Management and quality control tools

2.6.1. Management and quality control

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

2.6.1.3. Mentoring

A mentoring system has been introduced in which newcomers are assigned to a mentor with the intention to:

- answer the many legitimate questions raised by newcomers,
- facilitate their integration into the unit,
- enable them to promptly acquire the knowledge necessary to carry out their functions within the unit, and
- guide their first audits insofar as the preparation, fieldwork, reporting and follow up are concerned.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

| Year | | Meetings | | Cases | |
|------|--|----------|--|-------|--|
| | | | | | |

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

2.7. Collaboration with the DG RTD administration and finance (UAF) network

A continuous inter-service collaboration has been established to provide guidance and support to the operational units and, in particular, to the financial officers who handle the FP7 Certificates on the Financial Statements (CFS). By doing so, a coherent, harmonised and consistent approach on CFS-related matters is ensured across the research Commission services.

In 2012, the external audit units have continued to uphold their close working relationships with the administration and finance units during the planning and preparation of new audit campaigns, during the audits themselves (in order to obtain feedback on the draft audit conclusions), and after the audits' closure (for the implementation of the final audit conclusions and results). With regard to the internal consultation, whenever an operational unit fundamentally disagrees with a draft report, the hierarchy is consulted before the audit can be processed further. Although from a Commission reputational point of view it is understandable that this instruction has been given, this has led to additional internal delays for a number of audit reports.

Several ad-hoc bilateral meetings have been held whenever discussions on specific files were needed. The external audit units also participate in meetings between the UAFs and contractors for cases where the contractor continues to contest the audit findings after audit closure. They also participate in the monthly UAF meetings to present and clarify matters linked to auditing and financial issues.

2.8. IT developments

During 2012, the external audit units focused on the following IT developments:

- **AUDEX** (Audit Management System) is a web-based application that supports the management of the external audits carried out by DG RTD, as well as the management of the extrapolation process of the audit findings. During 2012, it has been greatly improved, positioning it as one of the best candidates for external audit management in the EC IT rationalisation process:
 - New modules have been included to manage the extrapolation of audit results, to review the work of external audit firms and to provide audit and error rate dashboards.
 - New functionalities have been implemented to improve the management of the joint audits with the Court of Auditors, the fusion audits, the recording of the audit results. Furthermore, the e-mailing system of AUDEX has been adapted, and the AUDEX services have been aligned to the new ASUR¹⁶ requirements.
 - The integration of AUDEX with other corporate IT systems (ASUR, CPM/PCM/Force, SAR) has been tightened.

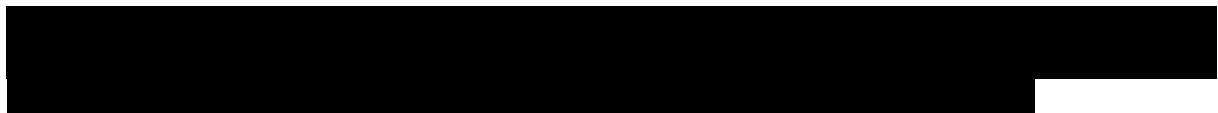
¹⁶ Audit and Supervision Management Application. ASUR is primarily an application to manage recommendations formulated by the Internal Audit Service, Internal Audit Capability, Court of Auditors, external audit unit, etc..., and to support ex-post control activities (external audits, audit extrapolation cases, supervision campaigns, etc...).

- The workflow reporting based on indicators and milestones has been redesigned, resulting in a new module that will replace the local Scoreboard module when it goes in production during the first quarter of 2013.
- The architecture of the application has been redesigned to support operations at cost statement level instead of at participation level, ensuring a better integration with the financial workflows of DG RTD.
- The security layer has been redesigned in order to allow deployment of AUDEX in the Executive Agencies. The first tests have been carried out, but the data migration has been postponed until the first quarter of 2013 when new IT resources will be made available. REA and ERCEA are expected to become full AUDEX users in the course of the first quarter of 2013.
- **SAR** (Sharing of Audit Results) is the information system that supports the sharing of audit-related information within the research family. It comprises SAR-Wiki (report sharing), SAR-EAR (extrapolation) and SAR-PAA (audit planning & clash management). The main activities in 2012 concentrated on giving access to the JUs to SAR-PAA and SAR-Wiki in order to harmonise their audit work with the rest of the research family, migrating SAR-WiKi to the new Confluence platform, aligning the SAR modules with the NOAP/Exchange platform requirements, and performing data analysis and consolidation for the future convergence of the three systems.

In the course of 2012, SAR-Wiki reached its technical and functional limits. Therefore DIGIT has been asked to make a proposal for a replacement system, preferably a proper document management system.
- **CoMET**, which provides a central web-based IT tool dedicated to supporting the FP7 methodology certification, was in maintenance mode during 2012.

2.9. FP7 methodology certification

The Certification policy for the FP7 Grant Agreements was designed with the aim to correct the most common errors identified in the past, and in particular those related to personnel costs and indirect costs. In this context, and in addition to the Certificates on the Financial Statements (CFS) known under FP6 as 'audit certificates', two new types of ex-ante certificates on the methodology were introduced in FP7 which may be submitted prior to the costs being claimed: the *Certificate on Average Personnel Costs (CoMAv)* and the *Certificate on the Methodology for Personnel and Indirect costs (COM)*.



2.9.1. State of play of certification files as of 31 December 2012

Table 2.11 - State of play of all FP7-certification files 31 December 2012

| Type of Certificate | Eligibility Requests | | Requests for certificate ^(*) | Accepted | Rejected | Withdrawn | Ongoing |
|---|----------------------|----------|---|----------|----------|-----------|---------|
| | Submitted | Accepted | | | | | |
| COM Average Personnel Costs and Indirect Costs | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| COM Real Personnel Cost and Indirect Costs | | | ■ | ■ | ■ | ■ | ■ |
| Certificate for Average Personnel Costs (CoMAv) | ■ | | ■ | ■ | ■ | ■ | ■ |
| | | | ■ | ■ | ■ | ■ | ■ |

^(*) Not all accepted eligibility requests resulted in a request for a certificate.

The relevance of the CoMAv diminished considerably in the light of the Commission Decision C(2011)174 of 24 January 2011, which introduced three measures for simplifying the implementation of FP7. The first of these measures was the definition of new criteria for average personnel costs, whereby the usual accounting practices of beneficiaries would become acceptable under certain general and less restrictive conditions.

Thereafter, beneficiaries were no longer required to submit a Certificate on Average Personnel Costs (CoMAv) for approval as a prior condition for the eligibility of such costs. Nevertheless, the CoMAv remains as an option, offering beneficiaries the possibility to obtain prior assurance on the compatibility of the methodology in place with the FP7 eligibility requirements. During 2012, the decline in the number of applications for Certificates continued.

Prior to the same decision on simplification measures, the value of the work of SME owners and natural persons who do not receive a salary could only be reimbursed if they requested an ex-ante certificate of an average cost methodology that had to be approved by the Commission. A very low number of certificates were issued, which lead to the situation where SME owners or other natural persons, who did not obtain a certificate, could not be reimbursed because the value of their work was not registered as a cost item in their accounts.

The same Commission Decision C(2011)174 of 24 January 2011 established rules allowing for SME owners and natural persons who do not receive a salary to charge flat rates in accordance with the Peoples Programme (Marie Curie). The submission of a Certificate on Average personnel costs is no longer possible for SME owners, but remains available to other participants. Compared with 2011, there was ■ for a CoMAv in 2012, which was accepted.

The pattern of CoM submission remained steady throughout 2011. However, increased activity was noted from beneficiaries who previously submitted applications for CoM but had not pursued their requests due to the existing stringent requirements (essentially the requirements related to average personnel costs). As already mentioned, Commission Decision C(2011)174 made the application process easier for those beneficiaries who use average personnel costs. As such, these beneficiaries became more active and were also seeking to obtain a CoM. This may be due to the fact that at this stage of the Framework Programme, beneficiaries are reaching the threshold of EUR 375 000 of EU funding, where they are expected to submit CFS. In order to benefit from the waiver of submitting a CFS, they became interested in obtaining a CoM.

In summary, it can be stated that following the adoption of Commission Decision C(2011)174, the CoMAv lost its initial value, since it became optional for entities using

average personnel costs and is no longer accessible to SME owners and natural persons who do not receive a salary. However, the CoM - a certificate which offers the benefit of not having to submit intermediate CFS - has become easier to obtain and remains attractive for eligible beneficiaries, in particular those who use average costing methodologies.

2.9.2. *Inter-service collaboration and communication activities (cf. 2.11.)*

Ex-ante certification also requires intensive communication efforts:

- Handling questions submitted through the Research Enquiry Service on *Europe Direct*. Approximately [REDACTED] questions concerning the certification on the methodology were answered in 2012.
- Internal awareness-raising on FP7 certification issues, leading to meetings with operational and UAF units.
- Publishing certification-related documents on *CORDIS* 'Guidance notes for Beneficiaries and Auditors' were revised following the publication of the revised Guide to Financial Issues.
- Internal training sessions dedicated to FP7 certification on the methodology are given quarterly.
- Regular meetings with National Contact Points (NCPs) for legal and financial issues.

2.10. Coordination of outsourced audits

Six framework contracts for the provision of audit services are available to procure audit services on FP6 and FP7 grants during the period 2009-2013, with a potential market value amounting to [REDACTED] respectively. They are managed by RTD M.2 on behalf of all research Commission services. These framework contracts are used under a 'cascade' principle, i.e. when the first contractor on the list cannot execute an audit (as a result of a conflict of interest or capacity issues), the second or possibly the third company on the list are taken.

The framework contract for FP6 has not been used by DG RTD since 2011 due to the phasing-out of FP6 audits. Any new FP6 audits are done internally. This framework contract expired on 20 February 2013.

The framework contract for FP7 expires on 9 June 2013. In order to ensure the availability of a framework contract after that date, a new Call for Tender was launched in 2012. This new framework contract will be used not only by the research Commission services, but also by the Joint Undertakings. The deadline for submitting tenders was 23 November 2012. 10 tenders were received. The evaluation committee expects to issue its report by the end of March 2013.

Throughout 2012, the batch audit campaigns outsourced to the service providers [REDACTED] were closely monitored by RTD M.2 in terms of timeliness and quality. There continues to be a strong dependence on the external audit firms, as around two thirds of the DG RTD audit target is achieved through outsourced audits.

As part of the DAS 2011, the Court of Auditors decided to review the working papers of the outsourced auditors, as well as the Commission services' monitoring of them. Although minor weaknesses were detected, the overall conclusion is that the monitoring of outsourced auditors work is effective. In addition, the Court recommended that the Commission services initiate

their own review of the outsourced auditors' working papers. [REDACTED]

In addition to the daily follow-up of individual audits, this monitoring involves the following business processes:

- [REDACTED]
- Occasionally accompanying external audit firms on on-the-spot missions.
- Providing guidance and clarification on specific problems.
- [REDACTED]
- [REDACTED]
- Normal contract management issues, such as setting up contracts, amendments, payments, penalties, etc.

2.11. Communication Campaign

Towards the end of 2011, the audit units prepared a list of the 10 most common financial errors in cost claims that are detected during the audits. This resulted in the document “*How to avoid common errors identified in cost claims*”, which was sent to all registered FP7 beneficiaries and was used to launch a Communication Campaign aimed at improving the reliability of the ex-ante certificates and thereby – hopefully – reducing the number of errors in cost claims. This campaign is aimed at both beneficiaries and certifying auditors (both private audit firms and certified public officials), and is hosted by the NCPs in the various Member States or associated Countries.

In 2012, training events were held in:

- | | | |
|-----------|---------------|-----------------------------|
| • Sweden | • Germany | • Spain |
| • Ireland | • Finland | • Czech Republic / Slovakia |
| • Austria | • Italy | • Denmark |
| • Poland | • Switzerland | |

Additional training sessions are foreseen for Cyprus, France, Germany, the Netherlands, Portugal and the UK during the first semester of 2013.

Based on feedback from the organisers of these events, the overall reaction to these training sessions has been very positive. However, it is important to stress that the impact of the training sessions on the correctness of submitted cost claims, cannot be quantified.

2.12. Other activities

2.12.1. Art. 185 Initiatives

Art. 185 of the EU Treaty foresees the participation of the EU in the joint implementation of (parts of) research and development national programmes. Implementing Art. 185 Initiatives implies that the participating Member States integrate their research efforts into a joint research programme. The EU provides financial support to the joint implementation of the

(parts of the) national research programmes involved, based on a joint programme and on setting up a so-called dedicated implementation structure.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

2.12.2. Access to documents

In 2012, the request for access to documents (Audit Manual, Audit Process Handbook, Letter of Announcement...) by external parties increased sharply. [REDACTED]

[illegible]

[REDACTED]

[REDACTED]

| [REDACTED] | | [REDACTED] | [REDACTED] |
|------------|------------|------------|------------|
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |

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[REDACTED]

| [REDACTED] | | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
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| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |

[REDACTED]

[REDACTED]

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| [Redacted] | [Redacted] | [Redacted] | [Redacted] |
| [Redacted] | [Redacted] | [Redacted] | [Redacted] |
| [Redacted] | [Redacted] | [Redacted] | [Redacted] |
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| [Redacted] | [Redacted] | [Redacted] | [Redacted] |
| [Redacted] | [Redacted] | [Redacted] | [Redacted] |
| [Redacted] | [Redacted] | [Redacted] | [Redacted] |
| [Redacted] | [Redacted] | [Redacted] | [Redacted] |
| [Redacted] | [Redacted] | [Redacted] | [Redacted] |
| [Redacted] | [Redacted] | [Redacted] | [Redacted] |
| [Redacted] | [Redacted] | [Redacted] | [Redacted] |
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| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
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| | [REDACTED] | [REDACTED] | | [REDACTED] | |
| [REDACTED] | | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |

[REDACTED]

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[REDACTED]

| Category | | Sub-category | | Item | |
|----------|----------|--------------|----------|----------|----------|
| Item 1 | Item 2 | Item 3 | Item 4 | Item 5 | Item 6 |
| Item 7 | Item 8 | Item 9 | Item 10 | Item 11 | Item 12 |
| Item 13 | Item 14 | Item 15 | Item 16 | Item 17 | Item 18 |
| Item 19 | Item 20 | Item 21 | Item 22 | Item 23 | Item 24 |
| Item 25 | Item 26 | Item 27 | Item 28 | Item 29 | Item 30 |
| Item 31 | Item 32 | Item 33 | Item 34 | Item 35 | Item 36 |
| Item 37 | Item 38 | Item 39 | Item 40 | Item 41 | Item 42 |
| Item 43 | Item 44 | Item 45 | Item 46 | Item 47 | Item 48 |
| Item 49 | Item 50 | Item 51 | Item 52 | Item 53 | Item 54 |
| Item 55 | Item 56 | Item 57 | Item 58 | Item 59 | Item 60 |
| Item 61 | Item 62 | Item 63 | Item 64 | Item 65 | Item 66 |
| Item 67 | Item 68 | Item 69 | Item 70 | Item 71 | Item 72 |
| Item 73 | Item 74 | Item 75 | Item 76 | Item 77 | Item 78 |
| Item 79 | Item 80 | Item 81 | Item 82 | Item 83 | Item 84 |
| Item 85 | Item 86 | Item 87 | Item 88 | Item 89 | Item 90 |
| Item 91 | Item 92 | Item 93 | Item 94 | Item 95 | Item 96 |
| Item 97 | Item 98 | Item 99 | Item 100 | Item 101 | Item 102 |
| Item 103 | Item 104 | Item 105 | Item 106 | Item 107 | Item 108 |
| Item 109 | Item 110 | Item 111 | Item 112 | Item 113 | Item 114 |
| Item 115 | Item 116 | Item 117 | Item 118 | Item 119 | Item 120 |
| Item 121 | Item 122 | Item 123 | Item 124 | Item 125 | Item 126 |
| Item 127 | Item 128 | Item 129 | Item 130 | Item 131 | Item 132 |
| Item 133 | Item 134 | Item 135 | Item 136 | Item 137 | Item 138 |
| Item 139 | Item 140 | Item 141 | Item 142 | Item 143 | Item 144 |
| Item 145 | Item 146 | Item 147 | Item 148 | Item 149 | Item 150 |
| Item 151 | Item 152 | Item 153 | Item 154 | Item 155 | Item 156 |
| Item 157 | Item 158 | Item 159 | Item 160 | Item 161 | Item 162 |
| Item 163 | Item 164 | Item 165 | Item 166 | Item 167 | Item 168 |
| Item 169 | Item 170 | Item 171 | Item 172 | Item 173 | Item 174 |
| Item 175 | Item 176 | Item 177 | Item 178 | Item 179 | Item 180 |
| Item 181 | Item 182 | Item 183 | Item 184 | Item 185 | Item 186 |
| Item 187 | Item 188 | Item 189 | Item 190 | Item 191 | Item 192 |
| Item 193 | Item 194 | Item 195 | Item 196 | Item 197 | Item 198 |
| Item 199 | Item 200 | Item 201 | Item 202 | Item 203 | Item 204 |
| Item 205 | Item 206 | Item 207 | Item 208 | Item 209 | Item 210 |
| Item 211 | Item 212 | Item 213 | Item 214 | Item 215 | Item 216 |
| Item 217 | Item 218 | Item 219 | Item 220 | Item 221 | Item 222 |
| Item 223 | Item 224 | Item 225 | Item 226 | Item 227 | Item 228 |
| Item 229 | Item 230 | Item 231 | Item 232 | Item 233 | Item 234 |
| Item 235 | Item 236 | Item 237 | Item 238 | Item 239 | Item 240 |
| Item 241 | Item 242 | Item 243 | Item 244 | Item 245 | Item 246 |
| Item 247 | Item 248 | Item 249 | Item 250 | Item 251 | Item 252 |
| Item 253 | Item 254 | Item 255 | Item 256 | Item 257 | Item 258 |
| Item 259 | Item 260 | Item 261 | Item 262 | Item 263 | Item 264 |
| Item 265 | Item 266 | Item 267 | Item 268 | Item 269 | Item 270 |
| Item 271 | Item 272 | Item 273 | Item 274 | Item 275 | Item 276 |
| Item 277 | Item 278 | Item 279 | Item 280 | Item 281 | Item 282 |
| Item 283 | Item 284 | Item 285 | Item 286 | Item 287 | Item 288 |
| Item 289 | Item 290 | Item 291 | Item 292 | Item 293 | Item 294 |
| Item 295 | Item 296 | Item 297 | Item 298 | Item 299 | Item 300 |
| Item 301 | Item 302 | Item 303 | Item 304 | Item 305 | Item 306 |
| Item 307 | Item 308 | Item 309 | Item 310 | Item 311 | Item 312 |
| Item 313 | Item 314 | Item 315 | Item 316 | Item 317 | Item 318 |
| Item 319 | Item 320 | Item 321 | Item 322 | Item 323 | Item 324 |
| Item 325 | Item 326 | Item 327 | Item 328 | Item 329 | Item 330 |
| Item 331 | Item 332 | Item 333 | Item 334 | Item 335 | Item 336 |
| Item 337 | Item 338 | Item 339 | Item 340 | Item 341 | Item |

[illegible]

[REDACTED]

[REDACTED]

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| [REDACTED] | | | | | | | |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |

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[REDACTED]

ANNEX I: MISSION STATEMENT

| |
|---|
| <p style="text-align: center;">Unit RTD M.1 - External audits (including Sector Outsourced audits and audit certification policy)</p> |
|---|

The unit contributes to the assessment of the legality and regularity of DG RTD payment transactions by means of ex-post financial audits performed either by in-house auditors or through independent professional audit firms. It thereby provides a basis for reasonable assurance to the management and other stakeholders (including the budget discharge authorities) that research grant beneficiaries are in compliance with the financial rules. Through close co-operation and harmonisation with the other Research DGs, Executive Agencies and Joint Undertakings, the unit takes the lead in establishing relevant audit policies and strategies and chairs the Extrapolation Steering Committee through which a coherent Research DG approach is defined on the extension of audit results with regard to beneficiaries. The unit defines and implements the cost methodology certification function for FP7, contributing in an *ex-ante* manner to the legality and regularity of future DG RTD payment transactions. The unit manages the relations with OLAF on irregularities and fraud cases concerning research grant beneficiaries. The unit also contributes in an advisory capacity to the developments of future policy rules (in particular rules for participation and model grant agreement provisions) and business processes, based upon the knowledge gained in the audit and certification process.