

EUROPEAN COMMISSION

DIRECTORATE-GENERAL FOR RESEARCH & INNOVATION

Directorate M – Management Operational Support - Framework Programme

M.1 External audits M.2 Implementation of audit certification policy and outsourced audits

**ANNUAL ACTIVITY REPORT ON EXTERNAL AUDITS
2010**


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ANNEX I: mission statements45

true for the joint audits with the Court of Auditors and the requested technical audits.



2010 was equally the year during which the Commission Communication SEC(2009) 1720 of December 15th 2009 was implemented, which introduced the possibility of flat-rate corrections in cases of extrapolation. This eased the extrapolation process to some extent. At the end of 2010, DG RTD had ■ extrapolation cases on file, ■ of which were "ongoing" and ■ were "centrally managed" by the external audit units. The latter category usually concerns larger beneficiaries common to all RDGs which require a single contact point for the implementation of the extrapolation process.

In 2011, further lessons will have to be drawn from the audit findings when the new research funding programmes post-FP7 will be conceived, seeking an appropriate balance between the simplification requested by the beneficiaries and the principles of sound financial management. Nonetheless, some lessons, distilled from the work of the external audit Units, are already available in parts of this report and can be usefully considered in the design of post-FP7 programmes.

1. BACKGROUND

1.1. Introduction

The purpose of this document is to report on the ex-post audit activities in DG RTD during 2010, using the numerical results of the verifications carried out and providing feedback on relevant qualitative issues. This report also contributes 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 contract 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 grant agreement for the 6th Framework Programme (Annex II, Article 29).

1.3. The mission of the External Audit Units

The External Audit Units provide a level of reasonable assurance to senior management and, ultimately, to the Discharge Authority (European Parliament and Council) on whether DG RTD contractors are in compliance with the terms of the DG RTD contract(s). This is done through the execution of ex-post financial audits; ex-post audit results provide a representative error rate and initiate the budgetary corrections managed by the operational services. Thus, the external audit function contributes to the protection of the European Union's financial interests.

Since 2008, the responsibilities related to external auditing are attributed to two Units in DG RTD: M.1¹, which is responsible for strategy and planning coordination, in-house on-the-spot audits and back-office work²; and M.2³, which is responsible for outsourced on-the-spot audits and for the implementation of the audit certification policy. The mission statements of both Units are in Annex I.

¹ Unit A.4 became M.1 as from January 1st, 2011.

² Back-office work refers to a number of tasks in support of the auditing function including audit information systems and data maintenance, batch preparation, extrapolation, management reporting and a variety of administrative tasks.

³ Unit A.5 became M.2 as from January 1st, 2011.

1.4. Role within the control framework activities of DG Research

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

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

Accounting transactions included in the cost statements are processed through the internal control systems of beneficiaries and checked by their certifying auditors (where appropriate), who then issue an audit certificate. These transactions are also monitored by the Commission's Project Officers (scientific and financial) even before the arrival of the cost statements, and thereafter checked by means of desk reviews before payments are made. The use of certifying auditors has been adapted under the 7th Framework Programme (FP7). Simulation exercises have shown that around 80% of the transactions for which an audit certificate was needed under FP6 would no longer require an audit certificate in FP7. As a counterweight, ex-ante certification procedures were introduced.

The control chain described above, which operates before any ex-post financial audit is carried out, has to be considered in the overall evaluation of risk and of the external audit results. Close cooperation exists between auditors and Operational Units in the preparation phase of an audit, as well as in the implementation phase of the audit findings. [REDACTED]

1.5. The audit campaigns

Given this conscious reliance on ex-post audit controls, the generic approach defined for FP5 was replaced by proper audit strategies for FP6 and FP7.

Before we look at each audit campaign in detail, there are a number of implementation issues common to the FP6 and FP7 campaigns which have not yet been completely addressed:

1. Despite constant coordination efforts, the 'corporate' character of the audit strategies reaches its limits in the independence of the AODs.
2. The reinforcement of the process of extrapolation has turned out to be very time-consuming and labour-intensive (see section 2.4.3)

1.5.1. The FP5 audit campaign⁴

For the 5th Framework Programme (FP5), DG RTD's audit policy was mainly based on random sampling based on the assumption that provided the sample was large enough, conclusions could be drawn for the whole population.

DG RTD closed its last two FP5 audits in 2010. The final error rate for FP5 is [REDACTED] More details can be found in part 3 of this report.

1.5.2. The FP6 audit campaign

The FP6 Audit Strategy (FP6 AS), established after the critical Discharge procedure in 2006 and intended to cover the period 2007-10, focused on increasing the number of audits, improving the consistency of approach and the coherence of conclusions, ensuring more homogeneous audit policies, calculating reliable and representative error rates, and introducing the extrapolation procedure.

2010 was the last year of the original FP6 audit campaign. By its end, DG RTD's overall minimum target of [REDACTED] audits over its four-year lifespan has already been largely surpassed (see section 3.1).

On January 1st 2011, the FP6 figures are as follows: [REDACTED] audits were closed with an overall error rate of [REDACTED] a representative error rate of [REDACTED] and a residual error rate of [REDACTED] [REDACTED] audits are still ongoing, which should be finalised in the course of 2011. Of these, [REDACTED] are part of the representative sample; only once they are all closed, the final representative error rate of FP6 will be known. More details can be found in section 3 of this report.

The FP6 AS assumed that most of the errors found while auditing would be of a systematic nature, and that [REDACTED] audits would be sufficient to eliminate them from at least [REDACTED] 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 reported how this assumption was too optimistic after finding that the proportion of systematic errors was much lower than anticipated ([REDACTED] of all errors in terms of amounts in DG RTD at the end of 2010). Increasing the total number of audits was then considered necessary to keep alive the possibility of still removing enough errors to be below 2%. At the end of 2010, [REDACTED] FP6 audits have been closed in DG RTD, and when including the audits still ongoing, the total will eventually be around [REDACTED].

At the end of the period covered by the FP6 AS (2007-2010), the residual error rate is [REDACTED] This has been achieved after those [REDACTED] audits, which have identified systematic errors in [REDACTED] of the FP6 budget. If the related recoveries have been processed, in line with the AS, DG RTD can claim that systematic, material errors have been removed (= 'cleaned') from [REDACTED] of its budget. Yet, in order to be below 2% instead of the present [REDACTED] an estimation based on the characteristics of the DG RTD FP6 population and the results obtained so far indicates that it would be necessary to remove systematic errors from about [REDACTED] of the budget in total. In order to bridge the difference between the [REDACTED] coverage achieved and the

⁴ This will be the last year in which reference to the FP5 audit campaign will be made, since this audit campaign can be now considered over.

needed, another audits would have to be launched in addition to the still ongoing.

The reason for needing to launch these many more audits to cover just an additional of the FP6 budget, when the first audits covered already almost , is that the FP6 audit campaign mainly focused on big beneficiaries.

This assessment, coming at the end of the period covered by the original FP6 AS, and considering the need to devote the necessary resources to the implementation of the FP7 AS, which is now in full flow, have led to the decision that no further FP6 audits will be launched in future other than those related to fraud and irregularities investigations or those requested by operational services.

This decision is strengthened by the ongoing debate on the tolerable risk of error (=TRE), in which the Commission argues that in the area of direct research expenditure, an error rate higher than 2% ought to be tolerated. If TRE had already been adopted, a residual error rate of would be regarded as tolerable.

In any case, the assumption that the very large majority of errors were systematic led decision-makers to conclude that effective auditing, extrapolation and recovery would lead to a residual error rate of less than 2%, justifying the emphasis on ex-post audits instead of ex-ante controls. As mentioned above, this assumption has not been confirmed by the facts. The Research Commission services must revisit this issue so that it can be taken into account for the design of FP8 rules. This may require the revision of the internal control framework as a whole, as well as taking into account the costs and the benefits of any possible additional controls, ex-post or ex-ante, since it is clear now that the Audit Strategy and the corrective actions it triggers might not suffice by themselves to bring the residual error rate to 2% or lower, unless at considerable cost.

1.5.3. The FP7 audit campaign

The FP7 audit campaign completed its first full year in 2010. audits were launched, and were closed, of which were audits from the representative sample.

[REDACTED]

[REDACTED]

It is due to these constraints that it has not been possible to launch yet a substantial number of audits in the first FP7 DG RTD representative sample, taken in January 2010, and consequently why only [REDACTED] representative audits have been closed at the end of 2010, which do not give any useful results yet.

The start of the campaign was also delayed by the natural time lag between the start of a framework programme and the point in time at which it begins to become 'auditable'. During 2008 and 2009, DG RTD M.1 run four checks at different points in time to assess the 'maturity' of the FP7 auditable population, and only after the last one of these, carried out in May 2009, it was considered that a first set of FP7 corrective audits could be cost-effective.

2. ACTIVITIES

2.1. Types and nature of the audits carried out

The External Audit Units select the ex-post audits in accordance with the methods described in the Audit Strategies.

For FP6, this meant according to three strategic strands:

- **TOP:** this was a selection of the beneficiaries which received the most money from the Commission. The DG RTD list of top beneficiaries consists of [REDACTED] contractors which received [REDACTED] of the FP6 budget managed by DG RTD. All beneficiaries in this sample have been audited at least once (on at least three participations) and, where necessary, further audits were carried out in order to confirm the presence or not of systematic material errors for each beneficiary.
- **MUS:** a selection of [REDACTED] beneficiaries was taken from the non-TOP DG RTD population using the monetary unit sampling technique. One audit was carried out for each of them.
- **RISK:** the audits of this strand are intended to have a corrective effect on the amount of errors present in the DG RTD population. Beneficiaries are selected on the basis of different risk profiles, and the results of these audits are not taken into account for the calculation of the representative error rate.

For FP7, the strategic strands are:

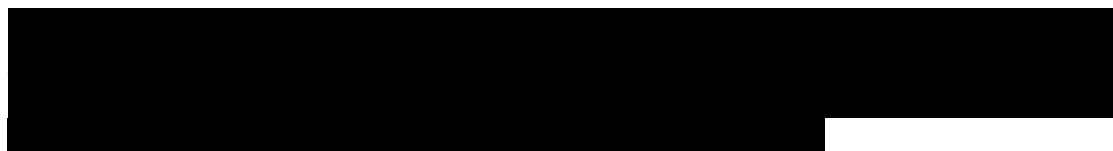
- **Representative:** using statistically representative sampling methods for selection, a number of audits are undertaken for the purpose of accurately identifying the amount of error present in the population (i.e. representative error rate).
- **Corrective:** audits are selected using a variety of criteria trying to maximise their potential corrective effect.

There are additional auditing commitments in the following areas:

- **Fusion:** the current arrangement with DG RTD K⁵ is to audit all FUSION associations on a cyclical basis [REDACTED].
- **Coal and Steel (C&S):** a small 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 DG RTD G⁶. RFCS projects, do not receive funding from the Framework Programmes, and therefore these audits are not considered as FP-related.
- **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]

⁵ DG RTD J during 2010

⁶ DG RTD K during 2010



██████ AoRs were put forward to DG RTD M.1. In ██████ cases, the audit request was accepted and the related audit mission integrated into the usual audit planning of DG RTD M.1. Priority is given to these audits and, hence, more than half of the accepted audits were already closed in 2010.

In the remaining ██████ cases, the need to carry out a financial or scientific audit was not recognised. The audit request was considered either incomplete or premature, so these audit requests were discarded or put 'on hold'. Requesting units were duly informed of the reasons for this.

- Joint Audits with the European Court of Auditors (ECA): see section 2.2.
- Technical Audits: see section 2.13

Audits can be either done by the European Commission auditors (in-house audits) or outsourced to an external audit firm (batch audits) under a framework contract. The aim is to have at least 25% of the audits carried out in-house.

2.2. Coordination with the European Court of Auditors (ECA)

During 2010, our collaboration with ECA continued along the lines of the previous two years, with the exception of an increased effort on our part towards the end of their DAS 2010 audit campaign to join as many of their missions as possible. We plan to evaluate the pros and cons of this approach with a view of possibly adopting it for the whole of the DAS 2011 campaign.

At the same time, DG RTD M.1 carried out some audits which were directly triggered by previous audits by ECA, mostly in cases where extrapolation was proposed by them. DG RTD sought to confirm and reinforce this assessment on the basis of a bigger sample. This approach will be continued in the future as a way of increasing the corrective effect of our auditing efforts.

DG RTD M.1 and M.2 participated in joint meetings between the ECA, the DGs of the Research family and Commission central services, which were organised to discuss methodological issues and to ensure good collaboration.

Finally, it is important to mention that for the Declaration of Assurance for 2009, the ECA gave a 'green light' of approval to the ex-post financial audits part of its assessment of selected supervisory and control systems in Research, Energy and Transport⁷. This is an important achievement and it acknowledges the long way that DG RTD has come from the disastrous Discharge in 2006 to this positive assessment in 2010.

⁷ Chapter 5 'Research, Energy and Transport' of ECA's Annual Report 2009, Annex 5.2.

2.3. Cross-RDG coordination

The adoption of common corporate audit strategies requires close coordination between the Research Commission services in a significant number of areas.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

⁸ DG RTD, DG INFSO, DG MOVE, DG ENER, DG ENTR, DG EAC and the two Executive Agencies ERCEA and REA.

[REDACTED]

[REDACTED]

- A common training day for all staff of the Research Commission services was held in January 2010.

[REDACTED]

[REDACTED]

[REDACTED]

2.4. Extrapolation

Extrapolation remains a key component of the common audit strategies because its essential role in 'cleaning' the budget from systematic material errors must have its maximum effect in order to significantly reduce the representative error rate to the residual error rate.

2.4.1. Extrapolation policy and coordination

[REDACTED]

[REDACTED]

[REDACTED]

15

[REDACTED]

This overview shows that extrapolation frequency has remained stable in the period 2008-2010.

Each individual extrapolation case can potentially affect numerous projects across the 12 Directorates in DG RTD and up to 8 Research Commission services. Within DG RTD, the experience acquired so far has underlined the substantial challenges in this area, especially with regard to the follow-up of the reception of revised cost statements and the coordination of the implementation.

relate to the extrapolation cases currently 'on hold' (i.e. the centrally managed cases) and for recommendations the extrapolation turned out not to be applicable.

In addition, cases resulting from audits of the other Research Commission services audits have an impact on RTD managed participations, of which have been implemented, are currently under implementation, relate to cases for which the audit results are under discussion ('on hold' cases) and for recommendations the extrapolation turned out not to be applicable.

Table 2.3 – DG RTD participations affected by extrapolation

* ASUR data

Moreover, for RTD-led cases, participations managed by other Research Commission services are equally to be revised as part of the extrapolation process.

Table 2.4 – Cumulative overall adjusted amounts due to extrapolation

	On December 31 st 2009	On December 31 st 2010
(-) Adjustments in favour of the Commission		
(+) Adjustments in favour of the beneficiaries		

This table relates to the implementation of extrapolations managed by M.5. Therefore only overall information is provided here.

2.4.4. Extrapolation follow-up activities

Monitoring the actual implementation of extrapolation is carried out by DG RTD M.4 via the ASUR-EXTRA tool, where the operational services encode information on the actual implementation of extrapolation for each participation concerned. This information in turn serves as the basis for reporting and as input for the follow-up audits carried out by the audit units.

As DG RTD M.5 was charged only with the management of extrapolation cases launched after 13th March 2009, DG RTD M.1 initiated in September 2009 a follow-up campaign on all DG RTD extrapolation cases launched before that date to ensure that extrapolation adjustments had been applied correctly by beneficiaries. Each case has been analysed through either an audit on-the-spot or a global desk review with a focus on the contractor's cooperation level, number of corrected cost statements received, amount of the adjustments, etc. So far, cases have been selected and analysed. Of these, follow-up audits have been concluded, of which were desk-audits and on-the-spot audits. Several of these follow-up actions are still ongoing.

Table 2.5 – Follow-up of extrapolation cases launched before 13th March 2009

	Closed	Open	Grand Total
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

It is important to highlight that, for this part of the process, the audit units very much rely on other services, mainly the operational services in charge of implementation. [REDACTED]

[REDACTED]

[REDACTED]

2.4.5. Further considerations

Overall, and as already highlighted in last year's report, the extrapolation process and its follow-up remain extremely complex, time-consuming and in need of substantial resources.

[REDACTED]

The overall financial impact of actual recoveries/adjustments related to extrapolation is potentially very significant. It is important to note that the time needed to actually implement the financial adjustments and to initiate the related recoveries can be up to two years or more in difficult cases, as the end of subsequent cost reporting periods is [REDACTED]

This is likely to be even longer in FP7 as the cost reporting periods are longer. [REDACTED]

[REDACTED]

In short, extrapolation remains a bottleneck in many regards and, in order to ensure its effectiveness, it will be necessary to improve working procedures further, particularly in relation to financial implementation and follow-up actions.

2.5. OLAF cases

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

2.6. Management and quality control tools

[illegible]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

2.6.3. *The Audit Process Handbook (APH) and Audit Manual*

The APH provides the procedural framework for the audit process, complemented by links to existing documents related to specific contractual framework programs such as the Audit Program for FP7 or reporting templates. It describes the complete audit procedures from planning of the audit until the audit closure. The APH is common for all Research Commission services and it is used for all their in-house on-the-spot audits.

The APH complements the guidelines of the Audit Manual. This manual mainly contains interpretational and explanatory guidance on the specific contractual regulations. It should be consulted and used during an audit engagement as a reference of the contractual requirements and typical errors detected during audits.

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

The External Audit Units have continued throughout 2010 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).

Moreover, ad-hoc bilateral meetings have been held whenever appropriate to discuss specific files. The External Audit Units also participate in meetings between the UAFs and contractors in those 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 audit and financial issues.

2.8. IT developments

During 2010, the External Audit Units were focused on the following IT developments:

- AUDEX (former AMS, Audit Management System) in DG RTD: AUDEX is intended to supersede AMS as the main IT system in the External Audit Units. AUDEX will also incorporate all the remaining local applications as listed in the 2010 'Schéma Directeur'. Unfortunately, at the end of 2010 the system did not reach the minimum requirements to go into production. This mismatch between the expectations and results has resulted in additional workload for the user group. Until this replacement is ready, the current functioning applications are being used.

- **Sharing Audit Results (SAR):** A set of new releases of SAR EAR (Extrapolation of Audit Results) and SAR PAA (Planning of Audit Activities) was put in production in 2010. A list of improvements for the next year has also been agreed among the Research Commission services to improve SAR Wiki, SAR PAA and SAR EAR.
- **CoMET:** This project aims to provide a central web-based IT tool solely dedicated to supporting the FP7 methodology certification, and it was launched in June 2008. In 2009 the DG RTD-IT-Unit initiated a contract with an external service provider for its development. Throughout 2010 the application was being developed by the service provider, yet no production version was made available. Until the deployment in production environment of the new tool, the local MS Access database initially developed in 2007 still supports the certification activities.

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, FP7 introduced, in addition to the Certificates on the Financial Statements (known under FP6 as 'audit certificates'), two new types of ex-ante certificates on the methodology 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 December 31st 2010

Table 2.7 - State of play of certification files as of December 31st 2010

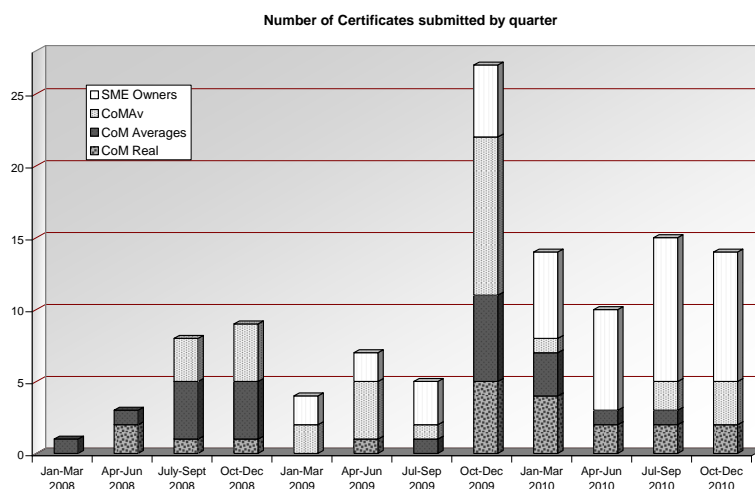
	Eligibility Requests		Certificates				
Type of Certificate	Submitted	Accepted	Submitted	Accepted	Rejected	Withdrawn	Pending
CoM Average Personnel Costs and Indirect Costs	■	■	■	■	■	■	■
CoM Real Personnel Cost and Indirect Costs			■	■	■	■	■
Certificate Average Personnel	■		■	■	■	■	■
■			■	■	■	■	■

The figures indicate that the cost methodology certification has not really been taken up by beneficiaries as anticipated. The number of certificates submitted is low for the following reasons:

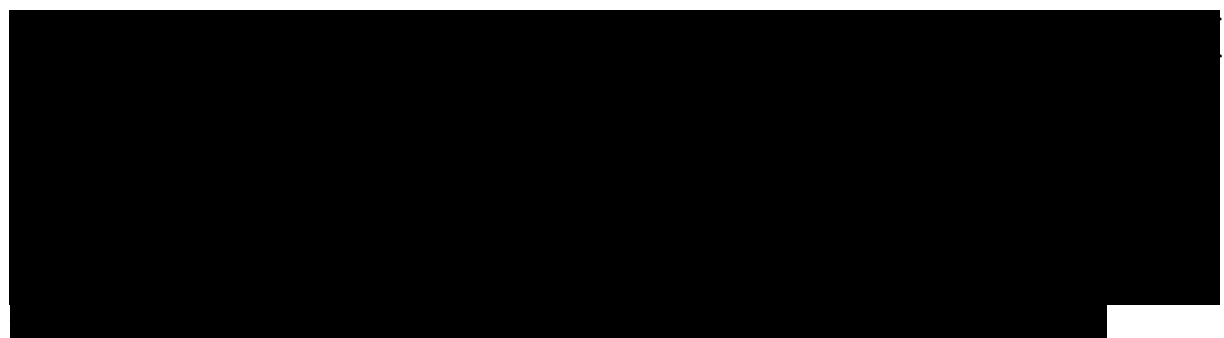
- the strict acceptability criteria for average personnel cost methodologies;
- restrictive eligibility criteria for the certificate on the methodology for personnel and indirect costs, implying that only a limited number of larger beneficiaries are eligible;
- ongoing migration of many beneficiaries who previously participated under the FP6 additional cost model (many with cash-based project accounting systems) to FP7 full cost accounting approaches;
- being a pilot-concept launched as of FP7, ex ante methodology certification seems not to appeal well. Most beneficiaries seem to want to apply their usual methodology without any prior checking and approval by the Commission.

The graph below indicates the evolution over time of the methodology certification activity between July 2007 and December 2010 and it shows an uninterrupted increase, both in eligibility requests and in submissions. Where initially they were mainly CoM, the CoMAv has afterwards surpassed the CoM. This indicates that beneficiaries were gradually finding out that this is a mandatory requirement to claim average personnel costs and acting upon it.

Graph 2.1 - evolution over time of the methodology certification activity



While only a limited number of methodology certificates have been approved so far, an important amount of 'behind the scenes' activity is taking place. FP7 introduced the requirement for 'full cost' accounting for all beneficiaries. This means that all beneficiaries previously participating under the 'additional cost' regime – mostly universities and public research organizations without analytical accounting, or even cash-based accounting – now must account for the full costs of their research. Feedback obtained from many stakeholders indicates that most are in a preparatory or, at best, transition phase due to which their cost accounting methodology is not yet in a 'steady state', and accordingly no methodology is yet presented for certification. DG RTD M.2 were in contact with a number of European universities who are currently upgrading their cost accounting methods and are keen to seek approval of their methodologies within the short to medium term.




The actions foreseen pursuant to the Communication to the Council and the European Parliament on simplification, which were being prepared throughout 2010, will address this issue within a broader simplification effort, both for FP7 and future FPs. Also, in this context, the parallel work on the concept of the tolerable risk of error to ensure the right balance between control costs and error rates, sound financial management and simplification should be referred to.


2.9.2. *Inter-service collaboration and communication activities*

A continuous inter-service collaboration has been established to provide guidance and support for the Operational Units and, in particular, for 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

Ex-ante certification also requires intensive communication efforts:

- Handling questions submitted through the Research Enquiry Service on *Europe Direct*. Approximately  questions concerning the certification on the methodology were answered in 2010.
- Internal awareness-raising on FP7 certification issues leading to meetings with operational and UAF Units.
- Participation in seminars, conferences, bilateral meetings...
- Posting of certification-related documents on *CORDIS* (FAQ document, specific certification-dedicated pages, 'Guidance notes for Beneficiaries and Auditors').
- 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 2009-2012, with a potential market value amounting to  respectively. They are managed by DG 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

¹⁶ Commission Decision C(2009)4705 on interim implementation rules concerning acceptability criteria for the average personnel costs.

on the list cannot execute the audit, the second or possibly the third company on the list is taken.

The new framework contracts brought new firms to the scene and throughout 2010 extensive efforts were made by DG RTD M.2 to prepare these firms for the EC's audit requirements and expectations.

Throughout 2010, the batch audit campaigns outsourced to the different service providers were closely monitored by DG RTD M.2 in terms of timeliness and quality.

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

- Occasional accompanying of external audit firms on on-the-spot missions.
- Providing guidance and clarification on specific problems.

- Normal contract management issues, such as setting up contracts, amendments, payments, penalties etc.

2.11. Other activities (Art. 185 Initiatives/JTIs/Executive Agencies)

2.11.2. *Executive Agencies – REA and ERCEA*

The overall relationship between the Agencies and DG RTD has been defined in Memoranda of Understanding. Although the Executive Agencies are part of the different Committees referred to above (see section 2.3), the External Audit Units are consulted on the main audit related documents of the two 'DG RTD' Executive Agencies. At operational level, regular contacts are maintained with the audit units of the Agencies.

2.11.3. *Joint Technology Initiative (JTIs)*

DG RTD M.1 has also been involved in the process of defining parts of the internal control systems of the JTIs, in particular concerning ex-post audit issues. In 2010, DG RTD M.1 participated mostly in the elaboration of their 'harmonised' audit strategies, the reporting requirements and the procedures to assess 'in-kind' contributions. DG RTD M.1 also assessed the acceptability of such strategy for DG RTD as DG RTD is a member of the JTI's Board of Directors.

2.12. Scientific/technical audits

The focus in the financial audits carried out by both External Audit Units is on compliance with the legal and regulatory framework.

to undertake, where applicable, on-site technological and scientific audits as foreseen by Art. II.23, Annex II of the FP7 Grant Agreement and Art. II.29, Annex II of the FP6 Contract. The aim is to look at these projects from an independent scientific view and independently from the project reviews that take place during the lifetime of a project.

[REDACTED]

[REDACTED]

Regarding the scientific audits requested by the External Audit Services, we note certain reluctance from the operational Directorates because of the workload that this may entail in view of the availability of resources.

[REDACTED]

Despite the complexity of this type of audits, they may gain importance in the course of the following years if there is an increased emphasis on value-for-money, but this will require a cultural change for the operational services, as well as a proof of the added value of full audits when compared to scientific reviews.

3. RESULTS AND ANALYSIS

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ANNEX I: MISSION STATEMENTS

Mission Statement - DG RTD M.1 - External Audits

The unit contributes to the assessment of the legality and regularity of the DG RTD payment transactions by means of ex-post financial audits, thereby providing a basis of reasonable assurance to the Management and other stakeholders (including the budget discharge authorities) that research grant beneficiaries are in compliance with the financial rules. The corrective actions and follow-up measures which result from the ex-post audit activity contribute to the protection and safeguarding of the European Union's financial interests in the research area. The unit manages the relations with OLAF on irregularities and fraud cases of research grant beneficiaries.

[REDACTED]

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Mission Statement - DG RTD M.2 - Implementation of Audit Certification Policy and outsourced audits
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The unit contributes to the assessment of the legality and regularity of the DG RTD payment transactions by means of ex-post financial audits performed through independent professional audit firms. Through the definition and implementation of the cost methodology certification function for FP7, the unit contributes in an *ex-ante* manner to the legality and regularity of future DG RTD payment transactions. The aim is to provide an overall basis of reasonable assurance to the responsible authorising officers, senior management and other stakeholders (including ultimately the budget discharge authorities) that research grant beneficiaries are in compliance with the financial rules. The corrective actions and follow-up measures which result from the ex-post audit activity contribute to the protection and safeguarding of the EU's financial interests. On the basis of its experience the unit provides advice to managers of research grants and contributes to policy development.

[REDACTED]

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