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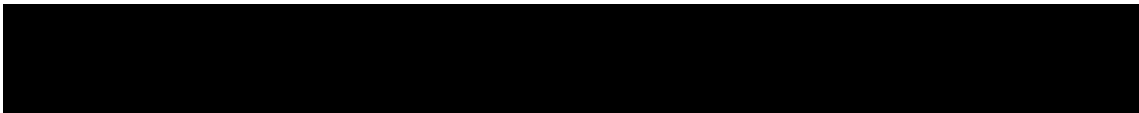
Directorate M – Management Operational Support - Framework Programme

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

ANNUAL ACTIVITY REPORT ON EXTERNAL AUDITS 2011

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EXECUTIVE SUMMARY

In 2011, [REDACTED] audits were closed. The 2011 target was therefore achieved; the FP7 audit campaign is on target. The proportion of audits closed in-house was noticeably higher in 2011 (39%) than in previous years. Cumulatively, in-house audits represent almost a third of all audits closed.

The focus is now very much on the FP7 audit campaign [REDACTED] of the [REDACTED] audits closed were FP7). The FP6 audit campaign is winding down (only [REDACTED] FP6 audits remain to be closed).

Although the proposed audit adjustments do not necessarily correspond to the actual financial recovery made, it is worth noting that the cumulative amount of proposed adjustments at funding level for FP6 is almost EUR [REDACTED] in favour of the Commission.

The FP6 representative error rate stands at [REDACTED] with [REDACTED] representative results still pending. The FP7 representative error rate stands at [REDACTED] the fact that it is higher, according to the data available, is explained by a focus on beneficiaries that had not been audited before; because of the planning constraints agreed among the External Audit functions, some representative audits on beneficiaries already audited could not be launched.

The analysis of the adjustments through either ex-ante or ex-post controls just shows how many of the errors are identified through ex-post controls, and how insignificant the effect of ex-ante controls is by comparison. For FP6, [REDACTED] of the net corrections are identified through ex-post controls. Yet, most of the adjustments are errors of small or medium seriousness. [REDACTED] of the FP6- and [REDACTED] of the FP7-errors fall in the category "small".

Therefore, it is believed that the vast majority of errors arise either from misunderstandings of the rules or a lack of attention to the detail of the provisions of the grant agreements and associated guidelines, despite further efforts for simplification. These efforts also concern the FP7 rules and procedures, and reference can be made to the Commission Decision C(2011)174.07 of 24 January 2011 introducing new criteria for the acceptance of average personnel costs, for SME owner-managers, and establishing a Research Clearing Committee to streamline procedures, working methods and interpretations within the Research family of DGs towards the outside world.

In parallel, in order to reduce the audit burden on contractors, the Commission adapted its sampling method to arrive at a representative error rate for the whole of the research expenditure. On November 8th 2011, the ABM confirmed that the Research Commission services could move to a common representative sample. Yet, this initiative alleviates only partially our important efforts to streamline operations between the different External Audit Units. [REDACTED]

In addition, the need for a minimum degree of co-ordination with the JTIs became apparent over the year. They had already developed their own audit strategies "harmonised" with the overall FP7 Audit Strategy, but this year they launched their first series of batches. The need for access to a series of common IT tools became therewith apparent.

DG RTD intensified its collaboration with the Court of Auditors, with a total of 21 joint audits done. [REDACTED]

Internationally, RTD M.1 co-hosted with the US National Science Foundation, the 9th International Workshop in Science and Research Funding in Brussels.

As concluding remarks, the External Audit Units can be proud of the fact that the European Court of Auditors gave a positive opinion on the ex-post financial audits part of its assessment of selected supervisory and control systems in Research. [REDACTED]

1. BACKGROUND

1.1. Introduction

The purpose of this document is to report on the ex-post audit activities in DG RTD during 2011, 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: RTD M.1, which is responsible for strategy and planning coordination, in-house on-the-spot audits and back-office work¹; and RTD M.2, 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 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.

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

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 and 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. The costs claimed by beneficiaries are thereafter checked by means of desk reviews by the Commission's Project Officers (scientific and financial) 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 for indirect costs' methodologies and for average personnel costs.

The control chain described above, which operates before any ex-post financial audits are carried out, is 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 (draft audit reports are always sent for comments to the Operational Units).

In the course of 2011, together with other RTD services, the External Audit Units were actively involved in the preparation of some key documents which were part of the Inter-Service Consultation on Horizon 2020. Our contributions were requested for the drafting of the details of the management and control systems framework to be put in place for the Horizon 2020 Rules for Participations. To that end, we were invited to share our expertise on matters such as the eligibility of funding, the definition of scale of unit costs, productive hours, flat rates, all types of certificates ... and more generally on accounting, auditing, anti-fraud and internal control matters.

2. ACTIVITIES

2.1. The audit campaigns

Preliminary remark: 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.

2.1.1. 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 among the research DGs of the Commission, calculating reliable and representative error rates, and introducing the extrapolation procedure.

FP6 audits can be grouped under 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 ■■■ contractors which received ■■■ 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 ■■■ 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.

At the end of 2011, FP6 figures are as follows:

Table 2.1

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 %		
2007	1	1	1	1	1	1		
2008	1	1	1	1	1	1		
2009	1	1	1	1	1	1		
2010	1	1	1	1	1	1		
2011	1	1	1	1	1	1		

The FP6 AS assumed that most of the errors found while auditing 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 reported how this assumption was too optimistic after finding that the proportion of systematic errors was much lower than anticipated (■■■■ of all errors in terms of amounts in DG RTD at the end of 2011). Increasing the total number of audits was then considered necessary to keep alive the possibility of still correcting enough errors to be below 2%.

At the end of 2011, ■■■■ FP6 audits have been closed in DG RTD, and when including the audits still ongoing, the total will eventually be around ■■■■. Audit coverage³ from these audits and those undertaken by other Commission services stands at ■■■■ of the RTD FP6 budget, and the residual error rate is ■■■■ up from ■■■■ at the end of 2010. This increase in the residual error rate is the consequence of an increase in the representative error rate from ■■■■ last year to ■■■■

Last year we carried out an estimation of how many more FP6 audits would still have to be launched in order to reach a residual error rate below the control objective of 2%, and whether it would be cost efficient to do so. ■■■■

■■■■ The fact that the residual error rate has increased at the end of 2011 confirms that this was the right decision; otherwise a new lot of FP6 audits would have had to be launched again now in order to bridge the bigger gap between the rate and 2%. No further FP6 audits will be launched in future other than those related to fraud and irregularities investigations, joint audits with ECA or audits requested by operational services.

Instead of launching more FP6 audits, and using their forecast cost inefficiency as an argument, Commission services put their hopes on the adoption of a new tolerable risk of error (=TRE), and on an acceptance by the budgetary authorities that, in the area of direct research expenditure, an error rate higher than 2% ought to be tolerated. Had TRE been already adopted, a residual error rate of ■■■■ would be regarded as tolerable. Unfortunately, this is not yet the case, although the Commission is considering using a different threshold for internal management purposes.

Although it was originally foreseen that the FP6 audit campaign would finish at the end of 2010, there are two main reasons why there are still ■■■■ ongoing FP6 audits: first, the mid-term review made it necessary to extend that period because of the increased efforts in cleaning the budget and in reducing error rates; ■■■■ extending consequently the duration of the audits affected. The objective is to finalise all FP6 ongoing audits in the course of 2012.

³ 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 3.15.

2.1.2. The FP7 audit campaign

In FP7, audits are categorised as:

- **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.

Table 2.2

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 2010	■	■	■	■	■	■		
2011	■	■	■	■	■	■		
Total	■	■	■	■	■	■	■	■

The FP7 audit campaign completed its second full year in 2011. ■ audits were launched, and ■ were closed. In January, a second RTD-only representative sample was taken in an attempt to increase the number of results available by year end, ■

■

■

■

For the moment, though, we still report on the basis of our own samples. A total of ■ representative results (the January 2010 and January 2011 samples combined) have been collected by year end. It was interesting to follow the progression of the FP7 representative error rate as more and more results came in during the year. A bigger body of results increases the precision of the rates, and it became more and more clear that the result would turn around ■

■

Next year's representative rate will be based on the results of the common sample, half of which will be results from other services.

2.1.3. *Additional auditing commitments*

There are additional auditing commitments in the following areas:

Fusion: the current arrangement with RTDK 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 RTD G. RFCS projects do not receive funding from the Framework Programmes, and are therefore not considered as FP-related. [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]

In [REDACTED] cases in 2011, the audit request was accepted and the related audit mission was integrated into the usual audit planning. In [REDACTED] cases, the need to carry out a financial or scientific audit was not recognised.

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

Table 2.3: Joint audits with ECA

DAS campaign	Audits by ECA	Joint Audits	%	Disagreement on conclusions
2010	■	■	■	■
2011	■	■	■	■
Total	■	■	■	■

2011 was characterised by an increased collaboration with the ECA. The Commission auditors joined the ECA auditors in as many missions as possible. The experience gathered in the last two years allows DG RTD to draw conclusions on the added value of accompanying the ECA in the implementation of the DAS audit campaigns. We can now conclude that this experience is positive as it enhances convergence of views and results. It also helps to prepare DG RTD's comments in case of disagreement on conclusions.

Taking into account the increase in the number of joint audits, a set of procedures has been formalised in order to clearly define the duties of all stakeholders.

More generally, and within the institutional mandates of the Commission and the Court, 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 obtain mutual understanding of each other's practices.

Finally, it is important to mention that, for the Declaration of Assurance for 2010, the ECA gave a positive opinion on the ex-post financial audits part of its assessment of selected supervisory and control systems in Research and other internal policies⁶. This

⁶ Chapter 6 'Research and other internal policies' of ECA's Annual Report 2010, Annex 6.2.

is an important achievement because it acknowledges the long way that DG RTD has come from the disastrous Discharge in 2006 to this positive assessment in 2011.

- **Technical Audits:**

The objective of these technological and scientific audits is to look at research projects implemented under the EC's FP funding from an independent scientific view, and complementary to the usual project reviews that take place during the lifetime of a project.

In 2010, RTD M.1 closed the pilot projects, had requests for joint financial and scientific audits initiated and was asked for support on scientific audits.

2.2. 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]

[REDACTED]

[REDACTED]

[REDACTED]

2.3. Extrapolation

Extrapolation remains a key component of the common audit strategy because of its essential role in cleaning the budget from systematic material errors.

2.3.1. *Extrapolation policy and coordination*

[REDACTED]

The confirmation of the systematic nature of an error triggers a number of coordinated actions both by the beneficiary in question and by the Commission services managing the projects in which it participates.

The (2011)174 Commission Decision of 24/1/2011 sets out new criteria on **average personnel costs** which lead to the broader acceptance of average personnel cost methods used by beneficiaries as their usual cost accounting practice. As a result, the extrapolation process was influenced, reflecting the fact that no extrapolation is launched when the correct application of the decision is confirmed.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

2.3.2. *RTD extrapolation cases*

[REDACTED]

Each individual extrapolation case can potentially affect numerous projects across the 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. To address this issue, RTD M.5 'Management of debts and guarantee funds' acts as a central reception point dealing with all extrapolation cases launched from 13 March 2009 onwards.

DG ENER	DG ENTR	ERCEA	DG INFSO	DG MOVE	REA	DG RTD	Total
■	■	■	■	■	■	■	■

In addition, █ cases resulting from audits of the other Research Commission services audits have an impact on █ RTD participations, of which █ have been implemented, █ are currently under implementation and for █ recommendations the extrapolation turned out not to be applicable.

Table 2.7 – DG RTD participations affected by extrapolation

Implementation Status	RTD-lead Cases	Non-RTD-led Cases					Total non-RTD-led Cases	Grand Total
		ERCEA	DG ENTR	DG INFSO	DG MOVE-ENER	REA		
Not applicable	■	■	■	■	■	■	■	■
Closed	■	■	■	■	■		■	■
Ongoing	■	■	■	■	■	■	■	■
Total	■	■	■	■	■	■	■	■

* 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 2.8 – Cumulative overall adjusted amounts due to extrapolation

	On December 31 st 2009	On December 31 st 2010	On December 31 st 2011
(-) 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.

2.3.4. Extrapolation follow-up activities

Monitoring the actual implementation of extrapolation is carried out by RTD M.4 via the ASUR-EXTRA tool, where the operational services encode information on the 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 to be carried out by the audit Units.

As RTD M.5 was charged only with the management of extrapolation cases launched after 13th March 2009, RTD M.1 initiated a follow-up campaign on all DG RTD extrapolation cases launched before that date to ensure that extrapolation had been correctly applied by the beneficiaries. Each case has been analysed through either an audit on-the-spot or a global desk review analysing a 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 decided, of which ■ were desk-audits, ■ joint audit with DG INFSO and ■ on-the-spot audits. Several of these follow-up actions are still ongoing.

Table 2.9 – Follow-up of extrapolation cases launched before 13th March 2009

	■	■	■	■
■	■	■	■	■
■	■	■	■	■
■	■	■	■	■
■	■	■	■	■

Future follow-up campaigns will depend on requests from RTD M.5.

2.4. OLAF cases

[illegible]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

2.5. Management and quality control tools

2.5.1. Management and Quality Controls

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Year	Meetings	Cases
1990	1	1
1991	1	1
1992	1	1
1993	1	1
1994	1	1
1995	1	1
1996	1	1



2.5.4. The Audit Process Handbook (APH) and Audit Manual

The APH provides the procedural framework for the audit process. It describes the complete audit procedures from the 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. The latter mainly contains interpretational and explanatory guidance on the regulatory framework and specific contractual provisions.



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

The External Audit Units have continued throughout 2011 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 discussions on specific files were needed.

The External Audit Units also participate in meetings between the UAFs and contractors for 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.

2.7. IT developments

During 2011, the External Audit Units focused on the following IT developments:

- **AUDEX (Audit Management System):** AUDEX went into production in July, replacing the former AMS as the main IT system for the External Audit Units. AUDEX includes additional functionality to record audit results in detail, and to review the work of external audit firms.

- **Sharing Audit Results (SAR):** Several new releases of SAR EAR (Extrapolation of Audit Results) and SAR PAA (Planning of Audit Activities) was put in production in 2011.
 - **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 September 2011 the production version COMET 1.3.2. became available for use. Data from the MS access database was migrated to the new environment. The application supports the certification activities by allowing a fully integrated and electronic approach for the whole certification process
- The tool has also a reporting function providing for statistical data on certificates.

2.8. 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)*.

2.8.1. *State of play of certification files as of December 31st 2011*

Table 2.12 - State of play of certification files as of December 31st 2011

	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 results of the pilot approach taken on average personnel costs following the Commission Decision C(2009)4705 on 23 June 2009, revealed that the requirements of the Commission were not in line with the usual accounting practices of a significant number of beneficiaries, in particular industrial partners, due to the restrictive criteria set out in Decision C(2009)4705. This led to a situation where the concerned beneficiaries established parallel accounting systems solely for the participation in Seventh Framework Programmes projects, which created additional administrative costs.

In its Conclusions of 12 October 2010 the Council asked the Commission to accept the use of average personnel cost methodologies without delay, based on revised and more flexible acceptability criteria.

The Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the National Parliaments of 19 October 2010 entitled "The EU Budget Review" identified the general acceptance of the accounting practices of participants, including average personnel costs, as a key measure for simplification.

These elements led to the Commission Decision C(2011)174 of 24 January 2011 on three measures for simplifying the implementation of FP7 defined new criteria for average personnel costs, whereby the usual accounting practices of beneficiaries would become acceptable under certain general and less restrictive conditions.

Beneficiaries would no longer be 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. Although all beneficiaries applying average personnel costs are entitled to submit a CoMAv, there was a marked decline in the number of applications for Certificates following the new criteria.

Prior to the current decision on simplification measures, the value of the work of SME owners and natural persons could be reimbursed only if they requested an ex-ante certificate of an average cost methodology that had to be approved by the Commission. The certification of the methodology was judged burdensome and costly both for the entities concerned and 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. The submission of a Certificate on Average personnel costs is no longer possible for these cases.

The figures in the table above illustrate the trends in 2011. The main change is seen in the CoMAv. The number of submissions decreased significantly when compared to previous years. The requests received were mainly from applicants who could not meet the previous stringent criterion for average personnel costs and following the Commission Decision C(2011)174, they were able to pursue their request and eventually obtain a CoMAv based on the broader eligibility criteria defined in the decision.

Furthermore, SME owner managers who do not receive a salary had a final possibility to submit a CoMAv (deadline 24 February 2011) before the new decision became binding on this group of beneficiaries. Some of these SME owners preferred to obtain a CoMAv for economic reasons and filed applications to be treated under the old rules.

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 stringent requirements that existed (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 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 would be expected to submit CFS. In order to benefit from the waiver of submitting a CFS, they were interested in obtaining a CoM.

In conclusion, it can be stated that following the adoption of Commission Decision C(2011)174, the CoMAv lost its initial value intended in the definition of FP7 Grant Agreement, 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, being a certificate which offers a benefit of not submitting intermediate CFS has become easier to obtain and more attractive for the eligible beneficiaries.

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

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 [REDACTED] questions concerning the certification on the methodology were answered in 2011.
- 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').
- Following the Commission Decision C(2011)174 on three measures for simplifying the implementation of FP7, Annex VII (Forms E and D) of the FP7 EC GA was revised.
- 'Guidance notes for Beneficiaries and Auditors' were revised and will be published in Cordis when the revised Guide to Financial Issues is published.
- Internal trainings dedicated to FP7 certification on the methodology are given quarterly.
- Regular meetings with national contact points (NCPs) for legal and financial issues.

2.9. 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 [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 the audit, the second or possibly the third company on the list is taken.

The Framework contract for FP6 was not used in 2011 due to the phasing-out of FP6 audits. Any new FP6 audits will be done internally.

Throughout 2011, the batch audit campaigns outsourced to the different 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 up to [REDACTED] of the DG RTD audit target is achieved through outsourced audits.

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]

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

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

2.10.1. Art. 185 Initiatives

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

2.10.2. *Joint Technology Initiative (JTIs)*

In 2011, the RTD JTIs (Clean Sky, FCH and IMI) launched their first series of batch audits.

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11	12	13	14	15	16	17	18	19	20
21	22	23	24	25	26	27	28	29	30
31	32	33	34	35	36	37	38	39	40
41	42	43	44	45	46	47	48	49	50
51	52	53	54	55	56	57	58	59	60
61	62	63	64	65	66	67	68	69	70
71	72	73	74	75	76	77	78	79	80
81	82	83	84	85	86	87	88	89	90
91	92	93	94	95	96	97	98	99	100

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ANNEX I: MISSION STATEMENTS

Mission Statement - RTD M.1 - External 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, 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]

[REDACTED]

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**Mission Statement - RTD M.2 - Implementation of Audit Certification Policy
and outsourced 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 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]

[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]