Financial Review:

According to the Financial Guidelines updates the previously employed method of using average hourly labour rates of cost centres is no longer possible, replaced by the requirement to use only *actual cost per employee*.

This causes substantial administrative efforts, including:

- Additional administrative resources for specialist R&D finance teams.
- Sensitive and confidential salary data handled by unauthorised individuals.
- In some cases non-compliance with national regulations on privacy protection in accordance with Directive 95/46/EC.

The option of a Certificate on Methodology (CoM or CoMAv) is very time consuming and costly. The criteria for CoM/CoMAv are too demanding to be met even by most large manufacturers, requiring at least 8 participations of at least €375 000 in either FP6 or FP7 or 4 participations in FP7 during 2007-2009. None of the EUCAR members was successful in securing a Com/CoMAV under these conditions, even after a long and tedious application process.

Due to the difficulties in the above conditions, further criteria were adopted by the Commission in June 2009, to be applied in project audits.

- Permitted 5% difference between the average rate and the extreme values.
- Permitted 25% difference between the average rate and the extreme values for beneficiaries having participated in at least 4 FP6 or FP7 projects with an EC contribution of at least € 375 000.

However, in September 2009, the Commissioner for Research was requested by the Budgetary Control Committee of the European Parliament to apply a maximum difference between average rate and extreme values of 2%.

Examples of difficulties experienced under these guidelines are detailed in the Annex.

The controls and complicated administrative procedures described above amount to a level of budgetary control out of proportion to the financial risk generated by the types of organisations engaged in research. A more trust based procedure is appropriate for research organisations and industry.

Cost claiming should therefore be based on a methodology that is in accordance with the usual accounting principles of the beneficiaries, including use of average actual hourly labour rates per cost centre. No organisation should be compelled to set up financial procedures different to those normally used.

- **Recommendation: Allow average hourly rates cost methodology.**
- **Recommendation: Set a tolerable risk of error of 25% for all participants.**

References:

- "Certificates issued by external auditors – guidance notes for beneficiaries and auditors", European Commission, September 3rd, 2009,
- "Guide to financial issues relating to FP7 indirect actions" on April 2nd, 2009
- The Commission Decision C(2009) 4705 final from June 23rd, 2009.

<u>Annex: Example for EUCAR members of difficulties in financial regulations and guidelines</u>

<u>Example 1</u>

The former use of average hourly labour rates of cost centre costs is no longer possible, although these processes are common practice in our company and accepted accounting rules of our Member State.

The system, which has been utilised in our company for many years, does not fulfil the conditions for a certificate on methodology (CoM or CoMAV) in the current status. The reason for this is the system's inability to distinguish the different type of employee costs which are captured within one cost centre. To accomplish the new requirements proves to be extremely time consuming and costly.

This led to the mandatory use of individual, actual costs per employee in order to continue participation in the Framework Programme meaning extra resources, costs and administrative effort.

Furthermore, the changed criteria pose a challenge in terms of compliance with data protection controls implemented within our company, which are crucial to act in accordance with national data protection regulation. Several in-house consultations with the union and the data protection officer were necessary just to get the allowance to get the number of working hours for each employee, who is working in a funding project. Especially within small projects we do not have a solution yet, because in these cases it is possible to estimate the salary of the single employee.

<u>Example 2</u>

In one of EUCAR members' projects, an EU-certified accountant and a national certified accountant agreed independently from one another that the criteria for a Certificate of Methodology had been met. In the closing procedure, the Commission commissioned an additional accountant, whom requested substantial clarification on a number of issues. The application was rejected without specific justification.

The Commission rejected one member's proposal for a "Certificate of Methodology", on the basis of the argument that the standard deviation of the salaries was higher than 25% and therefore impermissible. In fact, the submitted documents prove that this variance is clearly below the proscribed value. This was checked and signed by a EU-certified accountant on the basis of a method that was approved by the Commission, which was in turn again checked by our national accountant.

In the closing procedure, the Commission commissioned an additional accountant, which has led the member again through the entire procedure, asked us various questions for a better understanding, received our replies, let various amendments be incorporated in a new version of the paper… only to turn it down in the end.

The Commission proposes in the same reply that we could always file a new proposal, without giving any concrete advice for improvement. Both aforementioned accountants have then given comments which for decency's sake will remain uncited. The national accountant will today present this issue (anonymously) on a national conference for all German accountants, since their credibility is at stake. This does not augur well for the Commission recognising national accountants' reviews in the future.