**Project audit burden:**

The burden of project audits on beneficiaries is considered by the EUCAR members as too high. Of particular concern are the following points:

Regular audits place a substantial burden on research administration departments, which in most cases are small, dedicated operations. The unwanted result for both the Commission and industry is that too many R&D resources are spent on administration instead of research.

The level of control and scrutiny applied is not necessarily commensurate with the budgetary risks and the professional nature of the companies / organisations involved in research.

In several cases, the intermediate audits are not accepted as valid during the final audit.

Recommendation: The most effective method to reduce audit burden is to reform the procedures such that fewer audits are performed.

Recommendation: Even without full reform under the current regulations, it should be possible to remove the most damaging audit practices, mainly by allowing a high tolerable risk of error and defining audit objectives in a way that huge burdens are not created due to minor errors.

Annex: Examples for EUCAR members of difficulties in project audits

Example 1:

One EUCAR member had the experience that one certified public accountant in the final audit did not accept an accounting methodology that was accepted by another certified public accountant in the intermediate audit.

Although both CPAs are well known and very experienced they came to different conclusions. This demonstrates that the regulatory framework is much to complex and needs simplification.

Example 2:

Audits procedures are extremely heavy. As a result, external auditors, which were initially given a mandate by the E.C. to carry out the audit for three collaborative projects for a EUCAR members, consider that they may not carry out any audits of that kind any more.

Example 3

One cannot rely on already audited years. For example, one member had to order new Audit Certificates for project partners, since a (new) officer noted that three years ago a text passage did not meet the requirements.

On some occasions this member had to undergo double checks of several years old cost overviews, because somewhere some marginal difference came up, which had not been discovered at that time.

Example 4

It has been reported that cascade-style audits often encourage accountants to engage in personal or professional competition with their respective preceding colleagues. Since cost-effective random audits often leave acceptable unchecked 'holes', subsequent full audits will by definition find minor errors, which will be used to depict the respective former accountant's deficiencies. As a consequence, for the sake of their professional honour, accountants are forced to engage in time consuming full audits.

Moreover, several of EUCAR's members have reported that accountants often presume fraud and thus continue the audit until fraud has been established.

Example 5:

During the final audit of a project the following problem appeared.

At first, the specific cost of a minor task done by an affiliate company was not accepted under the category “other costs”, although in the project review, our company informed the European Commission about the authorization of an affiliate company. Because our company did not offer calls and the beneficiary was fixed right from the beginning, the European Commission was assured, that it could not be a sub-contracting. Therefore our company as well as the European Commission were convinced that the costs have to be applied to “other costs”. In the following years this process was accepted by the EC Financial Officer and by an external auditor. Because of all these reasons our company was convinced about the correctness of the claiming process.

| Status of project | | Participant | Category of costs |
|---|---|---|---|
| start of project | Work described in technical Annex (DoW) | all partner + EC-officers | other costs |
| start/during the project | order by affiliate company | communication with scientific officer | other costs |
| during/ end of the project | financial audit | done by internal auditor | other costs |
| during the audit-time | “financial audit EC” | done by external auditor | subcontracting + 20% mark-up |
| during the report-time | “financial audit EC” | external auditor in communication with EC financial board | not accepted |
| after the comment of beneficiary | “financial audit EC” | communication with scientific officer (DG Research) | other costs |
| independent Consultant (EU-Büro) | “financial audit EC” | | no mark-up, if other costs |
| end of the ”financial audit EC” | “financial audit EC” | comment of beneficiary (actual mark-up 3 %) | other costs + 5% mark-up |

The final auditor did not accept this process and remarked that this cost has to be claimed under subcontracting but that a mark-up of 20% could not be accepted. After the auditor corresponded with EC financial board the costs for the affiliate company were not accepted at all.

After we pointed out, that the European Commission was informed about the process and this was confirmed by the EC, the costs were accepted. But there still was confusion about the possibility to charge mark-up of an affiliate company. A consultant from the EU-Buro told us, that it is allowed to charge mark-up if the costs are claimed under other costs. But in the end it was not accepted by the final auditor.

In the calculation a mark-up of 20% was estimated by the auditor. In contrary the actual mark-up was investigated to an amount less than 3% but could not be proved to the auditor because there was not contract between the auditor and the affiliate company. So, after some negotiations, a mark-up of 5 % was agreed.

This leads to two conclusions:

Unfortunately we had to experience that one certified public accountant in the final audit did not accept an accounting methodology that was accepted by another certified public accountant in the intermediate audit. So the intermediate audits do not make sense at all.

Although the involved partners are real experts, are highly skilled and have a very good image they came to different perceptions.

This proofs, that the regulatory framework is much to complex and needs simplification.