



**EUROPEAN COMMISSION**  
RESEARCH DIRECTORATE-GENERAL

Directorate A - Inter institutional and legal matters – Framework programme  
External audits  
The Head of Unit

Brussels,  
DG RTD/A.4/MB/XX D(2010)  
Adonis D\000000

**REGISTERED MAIL**

**Copy per Fax/E-mail to: <Number>**

AUDITEE NAME  
NAME OF LEGAL REPRESENTATIVE  
TITLE  
ADDRESS  
COUNTRY

**Subject: 6<sup>th</sup> Framework Programme for RTD  
Financial audit of (contractor - country)**

**Our reference: <Audit Reference Number>**

**Project(s) audited:** Project 1 + no  
Project 2 + no  
Project 3 + no

**Contact person:** Mr(s) ..... Auditor in charge  
Phone: (+32-2) 29 ..... – Fax: (+32-2) 296 1094  
E-mail: .....@ec.europa.eu

Dear Mr(s) .....,

This letter hereby confirms the findings of the financial audit on above mentioned contract(s), carried out by <auditor (name(s))>, auditors of the European Commission. It furthermore informs you of the next steps in the process, i.e. the implementation of the results of the audit.

**Audit report and closure of audit**

**[If the contractor agrees]**

The draft audit report was sent to you on **XX/XX/XXXX**, and you were requested to provide the Commission with any comments thereon no later than **XX/XX/XXXX**. You confirmed, by your letter of **XX/XX/XXXX**, that you agree with the findings of the audit report. The Commission therefore considers that the audit in question is now closed.

**[If there has been no answer from the contractor]**

The draft audit report was communicated to you on **XX/XX/XXXX** and you were invited to submit your comments within a delay of **(number)** days after receipt of this draft audit report. As no reply was received, we consider that you implicitly agreed with the findings of the audit report. As such we now consider this audit as closed. The draft audit report sent to you is therefore considered now as the final audit report.

**[If the contractor raises objections to the report]**

The draft audit report was communicated to you on **XX/XX/XXXX** and you were invited to submit your comments. We note from your reply of **XX/XX/XXX** that you do not entirely agree with the audit findings. The Commission services have therefore carefully reviewed the complementary explanations and justifications you have provided and have adjusted the report where necessary. Please refer to **section 13/annex 4** of the report for details. As a result, we consider that the audit findings as they are presented in the attached final audit report are appropriate, and we now consider this audit as closed.

The audit report thus concludes that the following adjustments are necessary:

Contract	Costs claimed (A)	Costs accepted by the Commission's Operational Services (B)	Eligible Costs as per Audit (C)	Gross adjustments to costs accepted (C-B)
				0,00
				0,00
				0,00

Contract	Receipts			Interest on pre-financing		
	Declared	Accepted by the Commission's Operational Services	as per Audit	Declared	Accepted by the Commission's Operational Services	as per Audit

For further details we refer to the final audit report attached to this letter as Annex I.

### Implementation of audit findings for audited periods

The final audit report will now be distributed to the relevant Commission services for the implementation of the audit findings.

#### [If negative adjustments (in favour of the Commission)]

For the audited project(s) where the audit adjustments at the level of costs are in favour of the Commission, you should not take any action in respect of the implementation of the adjustments in relation with the audited periods: the Commission services will make the necessary adjustments to the costs over-claimed. These adjustments could affect future payments due on this contract and/or result in the issuing of a recovery order for the amounts overpaid.

Further to the implementation of the audit adjustments, the Commission services may calculate the amount of liquidated damages due to the [European Union][Community for EURATOM] in accordance with the provisions of Article II.30 of the FP6 Model Contract and issue the related recovery orders when applicable.

#### [If positive adjustments (in favour of the contractor)]

For the audited contract(s) where the audit adjustments at cost level are in **your favour**, please note that supplementary costs **can be declared only as adjustments to costs previously reported in ongoing contracts**. In addition, any complementary payments are limited to the maximum financial ceiling as laid down in the contract(s) and to the availability of funds. Furthermore, please note that the Commission and/or the coordinator, based on a decision of the consortium, may limit in part or in whole the additional payment in your favour.

#### [IF APPLICABLE]

The audit report also highlights recommendations to improve the systems of internal control relevant to your participation in FP contracts.

It is recommended that:

- ...recommendation 1...
- ...recommendation 2...

**\*\*\* DELETE FROM HERE IF NO EXTRAPOLATION \*\*\***

### Implementation of audit findings for non-audited periods/contracts

The audit findings revealed the following errors that the Commission considers to be of a systematic nature:

- calculation of productive hours when calculating hourly rates [insert details];
- hours claimed in excess of productive time: [insert details];
- unreliable time sheets [insert details];
- calculation of personnel hourly rates: [insert details];
- calculation of the indirect cost rate: [insert details];
- inclusion of VAT;
- use of wrong exchange rate;
- wrong depreciation methods;
- (other)

As these errors are considered as errors of a systematic nature, it is therefore assumed that the non-audited periods of the audited contract(s) and non-audited contracts(s) may also suffer from similar errors that need to be corrected.

The correction of these errors should therefore also be performed for the **non-audited FP6 periods/contracts**. We refer to this process as the "extrapolation" of the audit results onto the non-audited periods/contracts.

**Annex II** to this letter lists all projects in which your organisation participates or has participated and which should in consequence be reviewed by you in the context of extrapolation. The list comprises the projects you may have with any service of the European Commission managing FP6 research projects.

We therefore kindly request you to review and analyse whether these systematic error(s) are also present in the financial statements for all the non-audited periods/contracts and to inform us of the results of your analysis using the "Statement on the Implementation of Audit Results" for which a template is available on [http://cordis.europa.eu/audit-certification/results-consequences\\_en.html](http://cordis.europa.eu/audit-certification/results-consequences_en.html) (also attached as **Annex III** to this letter).

To correct the systematic error(s), you may choose one of the following methods:

**Method 1:** You precisely recalculate the costs affected by the systematic error in each of the non-audited periods/contracts and report the corrections to the Commission as indicated below.

**Method 2:** As an alternative to method 1, and where applicable, you may choose to adjust the individual cost category (direct and/or indirect costs) affected by the systematic error by the application of a flat-rate correction to the costs claimed for each of the categories concerned of the non-audited periods/contracts. The flat-rate corresponds to the average of the individual systematic error in a given cost category identified in the audited contracts.

In your case, on the basis of the audit report, the Commission proposes a flat-rate correction in its favour of [XXX] % in relation to direct costs, [XXX] % in relation to indirect costs.

<i>Method 2</i>	Cost Claimed	Adj. Against Costs claimed	Systematic part of the adjustment against costs claimed	Flat rate
Direct costs	0,00	0,00		
Indirect costs	0,00	0,00		
Income	0,00	0,00		

**Method 3:** As an alternative to methods 1 and 2 you may choose to apply an overall flat-rate correction to the total costs of each of the non-audited periods/contracts. This flat-rate corresponds to the average of the individual systematic errors identified in the audited projects in relation to the total project costs.

In your case, on the basis of the audit report, the Commission proposes an overall flat-rate correction in its favour of [XXX] %.

<i>Method 3</i>	Cost Claimed	Adj. Against Costs claimed	Systematic part of the adjustment against costs claimed	Flat rate
<b>Grand Totals</b>	0,00	0,00	0,00	
<b>Income</b>	0,00	0,00	0,00	

\*\*\*\*\*

**[For cases where extrapolation is also based on interest]**

In addition, since - as mentioned in my letter above mentioned - interests earned on the all funds received from the European Commission except final payments [adapt where necessary] were not declared and led to the extrapolation, the Commission proposes an overall flat-rate correction in its favour of [XXX] % (methods 2 and 3 giving the same results).

\*\*\*\*\*

In all cases, whether you opt for method 2 or method 3, you are invited to apply this/these percentage(s) to calculate the corresponding adjustment(s) and report the correction(s) to the Commission as indicated below.

Should you consider applying other flat-rate(s) as the one(s) proposed, you may carry out – at your expense – a further audit on hitherto non-audited periods/contracts. This further audit must be performed by an external, independent auditor and must be in accordance with the Commission's own approach as set out in the audit report with regard to the definition and treatment of errors. Should the audit provide reasonable assurance on the method used, the Commission may accept different flat-rates resulting from such an audit to be applied using methods 2 or 3. In any event, the Commission reserves the right to verify that extrapolation has been carried out in compliance with one of the methods described above, and to carry out further targeted audits to corroborate the average error rate. The auditors you engage for this audit shall complete and sign the declaration attached to this letter as Annex IV.

You are requested to inform me of this initiative before undertaking a further audit in line with the instructions above.

**How to report the results of extrapolation**

**- Extrapolations under methods 1 & 2**

The method of reporting the results of extrapolation onto the non-audited contracts and or non-audited periods of the audited contracts which **you consider to suffer from the same systematic errors** varies according to whether the **contract is closed or ongoing**.

▪ Closed contracts

For **closed contracts**, it is sufficient to fill in the **table in Annex III under 'I. Breakdown of initial and revised cost categories by activity for closed contracts'** and to provide adequate supporting documentation regarding the adjustments performed. The submission of revised financial statements ("Forms C") and audit certificates is not required.

▪ Ongoing contracts

**For ongoing contracts**, you are requested to fill in the **table in Annex III under 'II. Breakdown of initial and revised cost categories by activity for ongoing contracts'**, and to provide adequate supporting documentation regarding the adjustments performed.

Where you have chosen to extrapolate the audit findings under method 2, you are required to confirm to the Commission that you accept the flat-rate adjustment percentage communicated to you, calculate the adjustments accordingly, and report the adjustments in table II of Annex III. Alternatively, where you have performed an additional audit to apply a different flat-rate, you must seek the prior agreement of the Commission that the different flat-rate be applied.

Please note that the adjustments with regard to ongoing projects will only become effective following the presentation of the financial statements for the next reporting period, via the coordinator. You must therefore declare the corresponding positive or negative financial adjustments that you identified in table II of Annex III under the heading "Adjustment to costs previously reported" of the next financial statements. All adjustments must be covered by the next audit certificate due in accordance with the provisions of the contract. The amounts declared must be the same as the ones detailed in table II of Annex III.

In order to facilitate the follow-up of the revised financial statements by the responsible Commission services, we kindly request you to **specifically identify** the "Adjustment to costs previously reported" on the coming financial statements with the **audit reference number together with the indication "Extrapolation"**.

#### **- Specificities for extrapolations under method 3**

Where you have chosen to extrapolate the audit findings under method 3, you are only required to confirm to the Commission that you accept the flat-rate adjustment percentage communicated to you. Alternatively, where you have engaged in an additional audit which has resulted in you proposing a different flat-rate, you must seek the agreement of the Commission that the different flat-rate be applied.

- If these conditions are fulfilled, for **closed contracts** the Commission will calculate and implement the financial adjustments on its own. You will therefore not need to take any further action in this case. However, should the result be a negative balance, i.e. a balance in favour of the Commission, you may be required to repay any amounts not due.
- For **ongoing contracts**, please indicate the financial adjustments for the previous period(s) in the field "Adjustments to costs previously reported" of the next financial statement due under the contract. The next financial statement is to be sent to the Commission via the coordinator. We kindly request that you specifically **mention** the audit reference number together with the indication "Extrapolation" on these financial statements. The next audit certificate due under the contract must cover the adjustments.

#### **- Other**

If you consider that the audit findings cannot be extrapolated to the non-audited periods of the audited contracts(s), or to one or more of the non-audited contracts mentioned in Annex II, you are

kindly requested to justify under point III of Annex III why these projects and/or periods do not suffer from the errors as detected in the audited project(s)<sup>1</sup>.

### **How adjustments are implemented by the European Commission**

- Ongoing contracts

Financial adjustments on ongoing contracts shall become effective following the presentation, via the coordinator, of the financial statements for the next reporting period. Where the adjustments are **in favour of the Commission**, they will be offset against future payments or will lead to the issuing of recovery orders for the amounts overpaid. **Financial adjustments in your favour** are limited to the maximum financial ceiling of the EU contribution as laid down in the contract(s) and the availability of funds.

- Closed contracts

Adjustments on closed contracts will lead to the issuing of recovery orders for the amounts overpaid. Where the adjustments cover several projects, the Commission will, where possible, issue a global recovery order for all the projects concerned.

Please note that, at this stage, financial adjustments from extrapolation shall not entail the application of liquidated damages or financial penalties, if the adjustments are performed in accordance with the instructions contained in this letter.

### **Communication of the extrapolation results**

We kindly ask you to send within **three months** of the date of this letter the duly completed "Statement on the Implementation of Audit Results" attached as Annex III to this letter and related supporting documentation, where applicable, to:

**European Commission**  
**DG RTD - R7 – Management of debts and guarantee funds**  
**Mr. P. Bader**  
**B-1049 Brussels**

A copy should also be sent to the relevant coordinators.

Requests for additional information in relation to the extrapolation procedure may be addressed to the following address:

**RTD-EXTRAPOLATION@ec.europa.eu**

The documents received will be distributed upon reception to the responsible Commission services to implement the necessary financial adjustments.

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<sup>1</sup> Please be reminded that as a contract participant, and according to Article II.3.2.c of the FP6 Model Contract, you should inform the Commission of any event which might affect the implementation of the project and the rights of the Community.

### **Consequences of non compliance with the Commission's request**

The Commission reserves the right to proceed to further audits should you not react to the request for extrapolation within the deadline. The Commission equally reserves itself the right to perform follow-up audits in order to ascertain if the extrapolation has been carried out in compliance with one the methods described above.

Should such complementary audits reveal the existence of non-eligible costs due to systematic errors that should have been corrected through extrapolation, or any other non-eligible costs, liquidated damages and possibly financial penalties may be applied (Article II.30 of Annex II to the FP6 Model Contract).

Where the conditions of Article II.28.8 of Annex II to the FP6 Model Contract are fulfilled, the Commission may also suspend payments due under any ongoing project until extrapolation is performed or until justification is provided why the audit findings cannot be extrapolated to these projects.

**\*\*\* DELETE TO HERE IF NO EXTRAPOLATION \*\*\***

### **Implementation of audit findings for *future periods***

Furthermore, you are reminded that, as a general rule, your financial statements need to comply with the relevant contractually agreed financial provisions and, in particular, that the audit findings of this audit, including recommendations, must be implemented in *all future financial statements* that will be submitted by your organisation in the context of projects under the Sixth Framework Programme.

### **[If adjustments are beyond 2%] Final considerations**

The Commission underlines the importance of submitting reliable audit certificates together with the financial statements, as it relies upon these documents when implementing payment procedures. As a consequence, the Commission invites you to inform the auditors who certified your periodic financial statements of the findings of this audit, so that they may be taken on board in future assignments. Furthermore, in order to increase the level of assurance which can be derived from the audit certificates issued, the Commission urges you to instruct your auditors to consult the information made available for this purpose on the CORDIS website relating to the FP6 and FP7 Audit and Certification Policy at [http://cordis.europa.eu/audit-certification/home\\_en.html](http://cordis.europa.eu/audit-certification/home_en.html), particularly the section "Lessons learnt". Additional guidance may also be obtained by consulting the Audit Certificate Guidance Notes available on the same website at the following address: <ftp://ftp.cordis.europa.eu/pub/fp6/docs/audit-certificateguidance-notes-version25-june2007.pdf>.

We would like to take this opportunity to thank you and your colleagues for your assistance and collaboration during this audit.

Yours sincerely,

Marc BELLENS

Enclosures:	Annex I:	Audit Report
<b>[In case of extrapolation]:</b>		
	Annex II:	List of Projects with contact person
	Annex III:	Template of the "Statement on the Implementation of Audit Results" to be completed by the contractor and returned to Commission Services within 3 months of receipt of this letter
	Annex IV:	Declaration of auditors (if applicable)

CC. (with copy of audit report):

Mr/Ms X. XXXX (<Director operational programme Name>), DG RTD-<Directorate>  
Mr/Ms X. XXXX (HoU F&A), DG RTD-<Directorate/ Unit>  
Mr/Ms X. XXXX (<ALO operational programme Name>), DG RTD-<Directorate/Unit>

CC. (without copy of audit report):

Mr P. Baader, DG RTD-R7  
Mr P. Van Buitenen, DG RTD-R7  
Mrs. J. Saare, DG RTD-R7  
Ms/Mr X.XXXX (<Auditor Name>), RTD DG-A4  
Mrs. J. Horynova, DG RTD-A4

CC by e-mail in case of extrapolation:

HoU UAF of the directorates concerned by extrapolation  
ALOs for each contract audited & those concerned by extrapolation  
DG INFSO  
DG TREN  
DG ENTR

**ANNEX I: Audit Report**

See separate document

**ANNEX II: List of Projects (with contact person)**

<b>DG</b>	<b>PROJECT NUMBER</b>	<b>PROJECT NAME</b>	<b>CONTACT</b>
ENTR	xxx	xxx	[Insert contact address of the lead-DG for extrapolation only!!]
ENTR	xxx	xxx	xxx
ENTR	xxx	xxx	xxx
INFSO	xxx	xxx	
INFSO	xxx	xxx	
INFSO	xxx	xxx	
RTD	xxx	xxx	
RTD	xxx	xxx	
RTD	xxx	xxx	
TREN	xxx	xxx	
TREN	xxx	xxx	
TREN	xxx	xxx	

**ANNEX III: Statement on Implementation of Audit Results**

**(available electronically on: [http://cordis.europa.eu/audit-certification/results-consequences\\_en.html](http://cordis.europa.eu/audit-certification/results-consequences_en.html))**

**[to be printed on organisation's letterhead]**

**TO THE EUROPEAN COMMISSION**

[CONTRACTOR'S NAME],

established [ADDRESS],

represented by [FIRST AUTHORISED REPRESENTATIVE], [QUALITY] and [SECOND AUTHORISED REPRESENTATIVE], [QUALITY], or their authorised representative

Hereby acknowledges having received a letter dated [DATE OF LETTER OF CONCLUSION FROM EC] from the [DG and/or Unit] of the European Commission regarding the conclusions of the audit [AUDIT REFERENCE ] requesting implementation of the audit findings;

Declares that the following actions needed to be performed for the following projects and were actually and fully performed and that appropriate supporting documentation is provided to the Commission for each of the adjustments:

I. Breakdown of initial and revised cost categories by activity for closed contracts

Project (Name and number)	Category	Research			Demonstration			Training			Management		
		initial	revised	Δ	initial	revised	Δ	initial	revised	Δ	initial	revised	Δ
<i>NAME 012345</i>	<i>Direct costs</i>	<i>15 000</i>	<i>14 000</i>	<i>-1 000</i>									
	<i>Indirect costs</i>	<i>10 000</i>	<i>8 500</i>	<i>-1 500</i>									
	<b>Totals</b>	<i>25 000</i>	<i>22 500</i>	<i>-2 500</i>									

Expand as necessary

Red: Examples

## II. Breakdown of initial and revised cost categories by activity for ongoing contracts

[Please note that you must also declare the total positive or negative financial adjustments per project under the heading "Adjustments to costs previously reported" of the next financial statements of the concerned project, in accordance with this table.]

Project (Name, number and period)	Category	Research			Demonstration			Training			Management		
		initial	revised	Δ	initial	revised	Δ	initial	revised	Δ	initial	revised	Δ
<i>NAME 012345 (1.1.2007- 30.6.2008)</i>	<i>Direct costs</i>	<i>15 000</i>	<i>14 000</i>	<i>-1 000</i>									
	<i>Indirect costs</i>	<i>10 000</i>	<i>8 500</i>	<i>-1 500</i>									
	<b>Totals</b>	<i>25 000</i>	<i>22 500</i>	<i>-2 500</i>									

Expand as necessary

[Details in red: Example]

### III. Projects not concerned by extrapolation

The contractor declares that the following projects were not affected in any way by the systematic error(s) identified in the audit [AUDIT REFERENCE] and that no action is thus required in that respect for these projects:

<i>Project</i>	<i>Period</i>	<i>Reasons why not affected</i>
NAME 234567	01.01.-31.12.06	No goods or services were purchased that included VAT
NAME 123456	01.01.-31.12.07	No travel or subsistence costs were incurred in this period

Expand as necessary

[Details in red: Example]

**IV. Declaration on application of audit findings**

The contractor declares to be aware:

That the compliance of costs declared in open and future contracts with the results of the audit may be monitored by Commission services and may further be subject to a follow-up audit.

That, should any overstatement of expenditure of the same nature as the systematic errors of the audit [AUDIT REFERENCE] be found by Commission services during a follow-up audit, the Commission will be entitled to claim liquidated damages in accordance with the provisions of Article II.30 of the contract and to apply penalties pursuant to the same article and to the provisions of the Financial Regulation.

Done in ..... on .....

[SIGNATURE – QUALITY]

## Annex IV – Declaration of auditors

### Declaration related to counter audit performed in the framework of projects funded by the 6<sup>th</sup> Research Framework Programmes

I, the undersigned, (*First name and surname*).....  
In my capacity of (*function*).....  
At (*name and address of the audit firm*).....

#### Declare the following:

1. On (*Date*) ....., our audit firm has been assigned by (*company/organisation's full name and address*)..... (hereafter referred to as "the contractor") to counter audit the non-audited FP6 periods/projects co-funded by the European Union/EURATOM (see annex 1).
2. Before undertaking such a counter audit, we received, from the contractor the final audit report issued by the European Union's/EURATOM auditors annexed to the letter of conclusion dated (*date*).....
3. We understood the nature of the systematic error(s) found by the European Union's/EURATOM auditors as well as the nature and objective of the extrapolation to be performed on the non-audited contracts/financial statements, To support this understanding, we contacted in writing the signatory of the letter of conclusion sent by the European Union's/EURATOM services to the contractor on (*date*)..... (see annex 2) and we received adequate clarifications on (*date*)..... (see annex 3).
4. After having carefully analysed the above-mentioned letter of conclusion, audit report and clarifications, and in accordance with the European Commission's auditor approach, we planned our audit work in order to be able to detect and quantify precisely the financial impact of the systematic error(s) on all the contracts / financial statements affected by the requested extrapolation exercise.
5. We performed the audit at the contractor's premises between (*starting date*)..... and (*end date*).....
6. The audit work has been performed in accordance with the International Standards on Auditing (ISA) as defined by the IFAC, or any other equivalent internationally accepted standards.
7. The contractor did/did not grant us full and unhindered access to the premises, documents and information, even stored on electronic supports.
8. We have obtained representations made by the contractor in relation to the authenticity and completeness of the supporting documentation provided to us.
9. We have been able to determine precisely for each audited contract the financial impact of systematic error(s) identified by European Union's/EURATOM auditors (see annex 4).The average error resulting from our audit work amount to (*amount in €*)..... which represent (*percentage*) ..... of the claimed costs. [*indicate the cost category where applicable*]
10. We presented our final signed audit report(s) to the contractor with letter dated (*date*).....
11. We attach to the present declaration a report describing (1) the scope of the audit, (2) the audit approach [*per cost category where applicable*] which has strictly followed the audit approach of the Commission, (3) the description of the work performed, (4) the audit evidence obtained during the course of the audit, (4) the specific procedures to obtain them and any potential obstructions from the contractor to access to all necessary data, premises and persons , (5) the evaluation of whether sufficient appropriate audit evidence has been obtained, and (6) the auditor's conclusions.
12. [*where applicable*] Audit sampling being used in performing the audit is also described in the above mentioned report (sample design including system assessment, size and selection of contracts and items for testing, the level of assurance and risk of material misstatement).
13. Based on our audit work and after taking into account the proposed adjustments, the audited contracts/financial statements including the adjustments arisen from the extrapolation exercise may be considered free of the systematic errors identified by the European Commission's auditors. [*in case the contractor has chosen the method 2 for extrapolation*] In particular, we are of the opinion that the financial impact of the systematic error(s) identified in the former audit referred to under point 2 above is of X % for [*indicate the cost category*] category. OR [*in case the contractor has chosen the method 3 for extrapolation*] In particular, we are of the opinion that the financial impact of the systematic error(s) identified in the former audit referred to under point 2 above is of an overall flat rate of X % of the total project costs of each non-audited FP6 projects co-funded by the European Union/EURATOM (listed in annex 1)

Date, name, function, stamp and signature