

# FP7 audit services

# LITTLEJOHN



## About Littlejohn

Littlejohn is an independent, top 30 firm of chartered accountants and business advisors based in London's Canary Wharf. The firm is one of the largest single office practices in the UK and provides a full range of audit, tax, accountancy and financial services to UK and overseas-based clients.

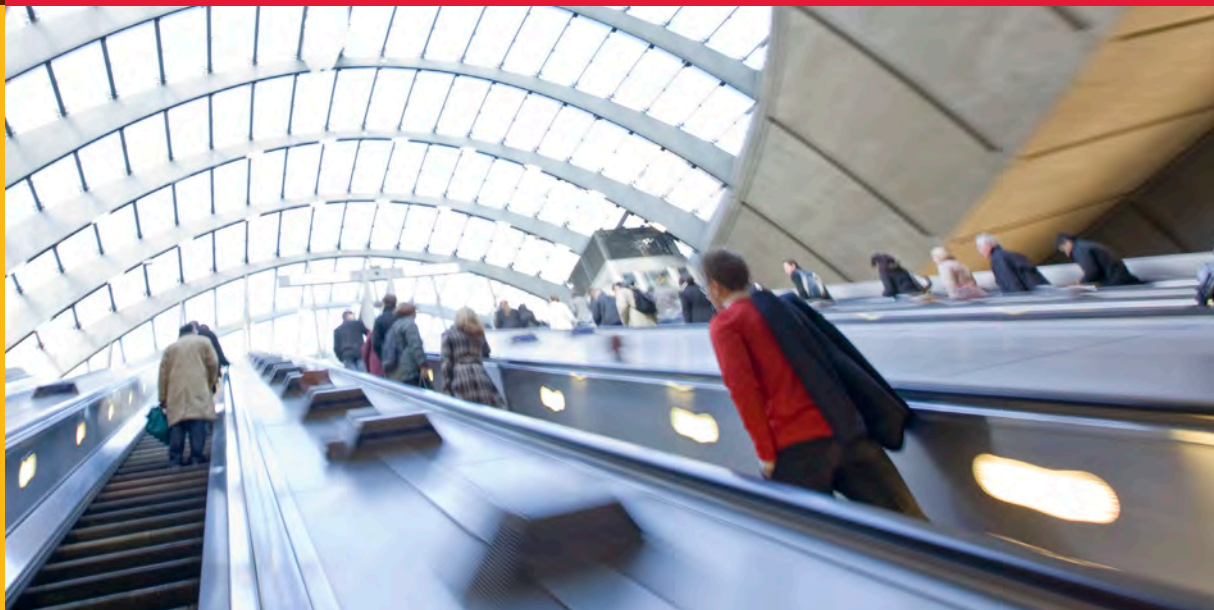
## Our RTD audit team

Littlejohn's dedicated RTD audit team has worked extensively with the European Commission over the last 12 years on the 4th, 5th and 6th RTD Framework Programme financial audits in both the UK and internationally.

We have significant experience of the whole range of business entities involved in this field, ranging from small owner-managed businesses to large plcs, universities and research organisations. Our work has encompassed all the differing types of research activity that the RTD programmes cover.

We recognise the uniqueness and complexities involved in RTD contracts and our team is able to draw on its extensive experience of working with the EC, applying it to address our clients' individual needs.

Strong relationships, substantial partner involvement, honest answers and intelligent solutions from a dynamic team of accountants and advisers. *We work with you to deliver the best for your business.*



## Will you be one of the 40%?

The EC has stated that 40% of its budget under the Seventh Framework Programme Research and Technical Development & Demonstration Activities ("FP7") will be subject to financial audit. The criteria for selecting those beneficiaries to be audited are based on a risk assessment performed by the EC.

Under the terms of the FP7 contract, beneficiaries are required to keep all general and project-related records for the duration of the contract and for a period of five years thereafter; the EC has the right to request a financial audit of the costs claimed at any point during this time. These audits are in addition to any technological or ethical audits. Depending on the nature and type of the findings, they can not only result in the amounts payable under the audited contract being revised, but the EC can then apply the findings arising from systematic errors to all projects managed by the same beneficiary. As an indication of the scale of adjustments made, the annual report issued by the European Court of Auditors on the 2006 budget identified a €201m overstatement of claims made across all EC grants on a total budget of €111.2bn. Of the RTD grants claimed, nearly 7% of the total budget of open contracts audited that year were clawed back.

Under FP7 the minimum claim level triggering the requirement for certificates on financial statements has risen to €375,000 from €150,000 under FP6. As a result, there will be an increase in the number of beneficiaries for whom no independent opinion on claims made is received by the EC unless they are subsequently selected for financial audit; this may increase the risk factor applied to those companies. If your business falls into this category, you may soon receive notification that you have been selected for a contract financial audit.

### What are the chances of costs being disallowed?

In our experience, the vast majority of beneficiaries, regardless of whether they have had their Form C claims certified, have adjustments made to their claims as a result of a financial audit. These adjustments may be positive or negative but in most cases they reduce the amount awarded. The consequences of this will vary depending on the beneficiary's degree of reliance on EC funding, but clearly in many instances a reduction in funds available can prove to be critical. Disallowances are typically the result of either poor systems or poor knowledge of the detail of the contract such as:

- inadequate supporting evidence to justify costs claimed, in particular personnel costs which are usually the largest single cost category
- use of budgeted figures rather than actual costs in calculations
- unjustified allocation of indirect costs
- claims for costs incurred outside of the eligibility period of the projects
- inclusion of ineligible costs.

### If I already have a certificate on my financial statements, can I still be selected for financial audit?

The answer to this is unfortunately yes; however, with our extensive knowledge and experience of working with, and for, the EC research services, we can help ensure that your business is adequately prepared for a financial audit should you be selected as part of the audited 40%.

We can provide detailed guidance on not only how to calculate and fully support various elements of the claims such as standard productive hours and indirect costs, but also how best to organise and maintain project documents and internal control procedures. If you receive notification that you have been selected for audit, we want you to simply reach for the ready prepared audit file, rather than for the process to become a time-consuming exercise that needs to be started from scratch.

*"Littlejohn rapidly grasped the principles of how we manage our business and control both our project work and the preparation of financial statements. We were impressed with the efficiency and expertise of the audit team."*

*Monty Smedley, ABP Marine Environmental Research Ltd*

## A full range of services

### Managing your FP7 contract

We provide a range of services designed to help you manage your FP7 contract from a financial perspective. We can work with you to assist with the following:

- certification of financial statements as to the eligibility of costs
- certification of methodology (eg indirect and owner-managed costs)
- general advice on the interpretation and application of contractual rules and other guidance as to how to determine cost eligibility
- practical guidance on how to prepare for a financial audit including advice on setting up Form C preparation files and contract technicalities (eg standard productive hours and indirect costs calculations).

Through the permanent presence of senior members of our team in Brussels, we have regular contact with EC personnel, including those involved in the RTD FP7 programme. We are therefore able to get swift and direct answers to questions regarding financial compliance and other related issues.

### Research tax credits

We can advise you on the enhanced expenditure reliefs available to limited companies carrying out certain qualifying research and development activities, and reduce the burden of future HMRC enquiries. Littlejohn can also assist you in evaluating whether your project meets the criteria to qualify for R&D tax relief and prepare a claim and relevant supporting evidence.

### International coverage

If you coordinate FP7 projects cross-border, we can also help. We can offer you access to international grant audit expertise through our international association which operates in over 90 countries worldwide.



# LITTLEJOHN

## Contact us

We believe in building enduring professional relationships with our clients. Our RTD specialist partners are supported by a team of managers and staff. We deliver added value by ensuring that each client receives a significant and ongoing level of partner involvement.

For an initial discussion with our experienced team, contact:

### In London:



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