

H2020 Master of Finance and Administration and EC Audits

EC Audits in Theory

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Legal obligations from the FP7 GA
(Annex II, Article 22):

The Commission may, at any time during the implementation of the project and up to five years after the end of the project, arrange for **financial audits** to be carried out, by external auditors, or by the Commission services themselves including OLAF



Legal obligations from the H2020 GA



22.1.2 Right to carry out reviews

22.1.3 Right to carry out audits

22.2 Investigation by the OLAF

22.3 Audits by the ECA

23.1 Right to evaluate the impact of the action

Legal obligations from the H2020 GA



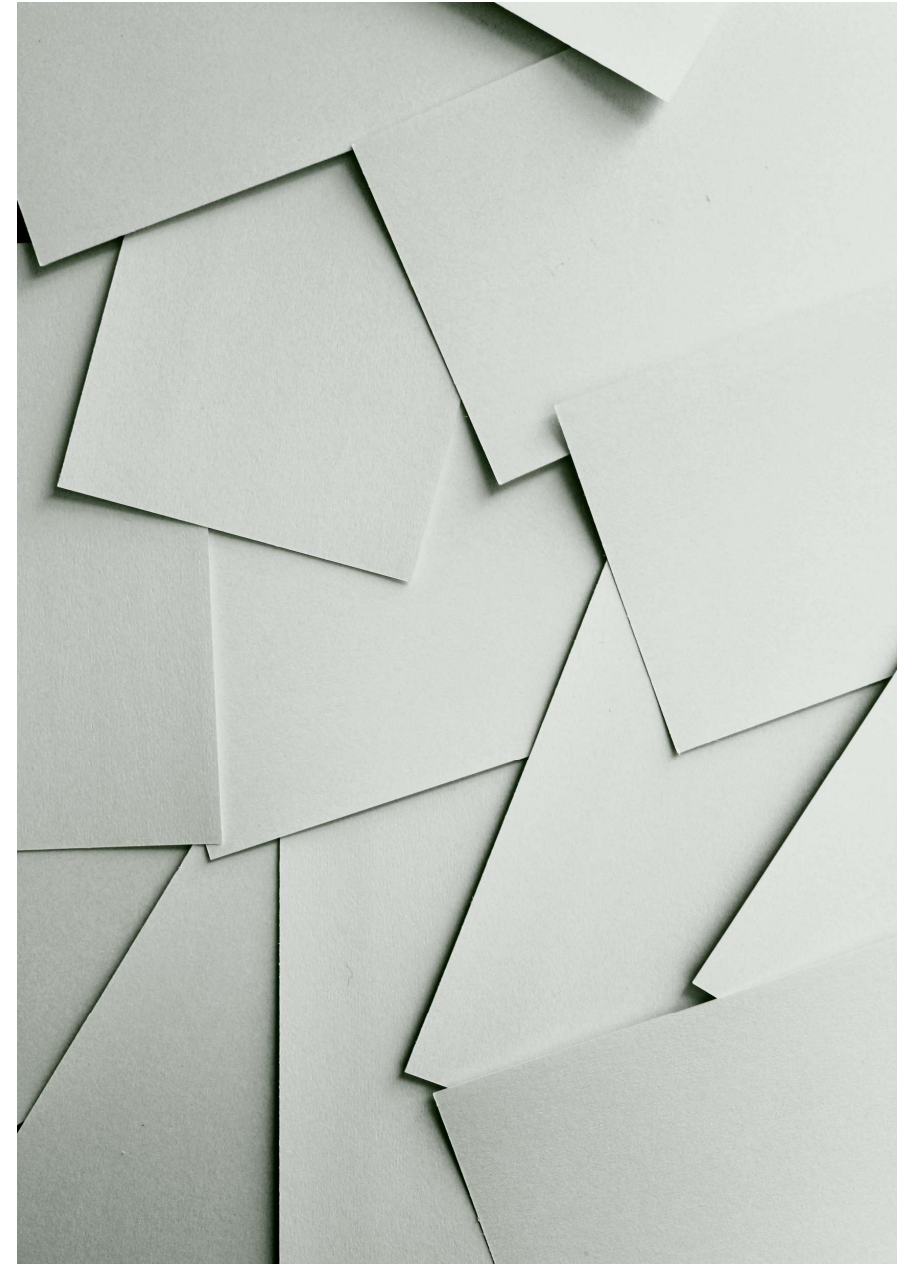
22.1.2 Right to carry out reviews

- The Commission [or the Agency] may – during the implementation of the action or afterwards – carry out reviews/audits on the proper implementation of the action (including assessment of deliverables and reports), compliance with the obligations under the Agreement and continued scientific or technological relevance of the action.
- Reviews/Audits **may be started up to two years after the payment of the balance.** They will be formally notified to the coordinator or beneficiary concerned and will be considered to have started on the date of the formal notification.
- OLAF and ECA can perform a review/audit within “???” years after the grant is completed
- If the review is carried out on a third party (see Articles 10 to 16), the beneficiary concerned must inform the third party.

What docs shall be kept?

Everything....but especially:

- Reports, deliverables, results, publications, project website (!), all EC communications, etc.
- Original invoices, timesheets, salary slips, mission reports, inventory registers, etc.
- Contracts, internal documentations, description of selection procedures, etc.



Types of Audits

1. Technical Audits (NOT a technical review!)
2. Financial Audits

Both audits are conducted on the
Beneficiary's level ONLY,
and are always done
on-the-spot!

Scope of the technical audit:

- Done at the Beneficiaries level, to assess its technical and research performance within one (or more) FP7/H2020 Grant Agreement(s)
- Usually done by the Project Officer and/or by the assistance of any external experts (conflict of interest?) (evaluators or reviewers)
- Preferably done during the project, or any time up to five years after the project's closure (**Horizon 2020 → two years**)



In a nutshell: to evaluate the Beneficiary's technical work in its relevance in one or more FP7/H2020 projects

It's like a Technical Review at the partner's level!

Scope of the financial audit:

- Done at the Beneficiary's level, to control, (cross-)check and evaluate its financial reports (Form Cs) submitted to one or more FP7/H2020 Grant Agreements
- Can be done directly by the European Commission (e.g. DG RTD M1) or by a subcontracted body (e.g. Deloitte, KPMG, etc.) representing the EC; or jointly by the ECA/OLAF and the DG RTD (...)
- Auditors are generally from the Beneficiary's country, even if they work for the EC in Brussels, or...
- Preferably done after the project closure, or any time during the project's lifetime, but after the acceptance of the first periodic report.



In a nutshell: to control whether the reported project costs are real, actual and were needed for the project

(i.e.: not a value-for-money audit normally)

Factors leading to an audit

- The Beneficiary is involved in many projects ('just like the lottery')
- The Beneficiary has very large budget(s) - what if any CFS/CoM is submitted and approved?
- The Beneficiary has noticeable administrative difficulties
- There are severe scientific/technical difficulties (Technical audit)
- The Beneficiary is selected 'out of the pot' (blind chance)



Fact: Due to less strict financial rules, more EC project audits will be performed!

e.g.: Beneficiaries having more than 3 projects....

The EC's perspective on Financial Audits

- To remove any systematic (!) and non-systematic errors from the reported (thus reimbursed from the taxpayer's money) expenditures
- To help the Beneficiary in the correct calculation and classification of the project's costs
- To analyse and evaluate the relation between the cost(s) and the project
- To overview the Beneficiary's general accounting systems
- To validate the Beneficiary's project specific accounting and the relevant internal policies (i.e. travel policies, time-recording, etc.)

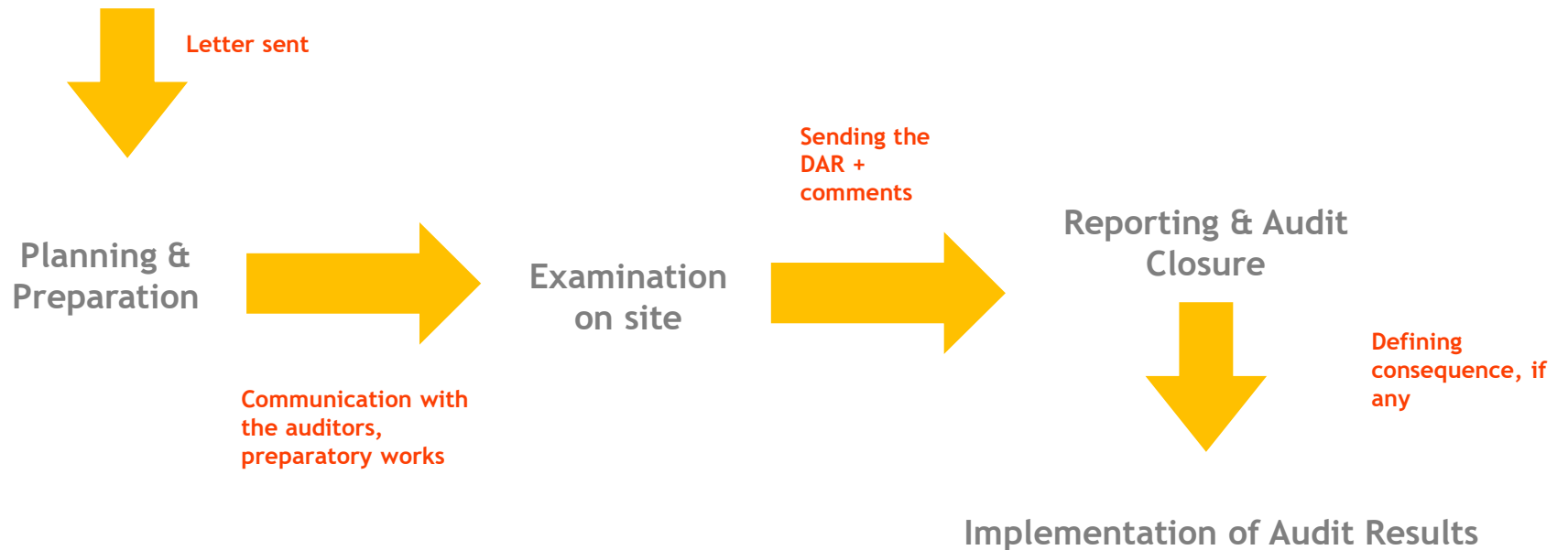
The background of the slide is a deep blue gradient with several jellyfish floating in the water. The jellyfish are translucent with long, thin tentacles trailing behind them. They are scattered across the frame, with some appearing larger and more detailed than others. The overall effect is a serene yet slightly mysterious underwater scene.

Is the EC financial audit really a nightmare?

No, but it can go wrong...

The 5 steps of audits - How it happens?

Audit Strategy & Selection
(EC internal procedure)



Step 1 - The letter

Dear Mr Kitley,

I hereby inform you that the European Commission has decided to carry out a financial audit on the financial statements presented by your organisation relating to the research grant agreements detailed below. As you are aware, the possibility of such audits is foreseen in accordance with article II.22 of the general conditions of the 7th Framework Programme grant agreements.

The relevant grant agreements to be audited are:

CLIMATEWATER -211894

CEUBIOM-213634

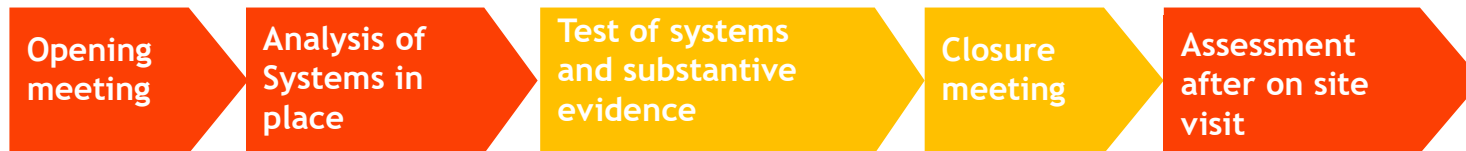
DIBANET- 227248

Step 2: Preparatory works

- Once receiving the formal letter with the documentation to be provided, contact (normally by phone) the appointed auditor to define/refine exact dates and logistics
- Collection of audit information - replacing missing ones...
- Some of the requested docs have to be sent prior to the audit!
- Prepare yourself and your team!

 **DO NOT PANIC!**

Step 3: On-site financial audits



Usually within 4-5 working days (one week)

General info on:

- organisation
- Projects
- Financial administration
- Internal control system

Clarification on audit agenda for further days

Analysis of documents and explanation received and collection of audit evidence

Discussion of preliminary findings and observations

Indication of further audit procedure

3-12 months (!!)

Step 4:

Internal approval of the DAR - sending it to the Beneficiary for comments - Final approval of the Audit Report

Step 5: Closure and Possible Consequences:

- Closed without financial consequences, with or w/o recommendation
- Recovery of the amount paid
 - + Liquidities damages
 - + Interest/penalty
- Compensation on the next payment (if any)
 - Offsetting
- Sanctions
 - Limitation of participation in FP7/H2020
 - Exclusion from all running projects

Any questions



Thank you for your attention!

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List of Requested Documents

I. General Information about the Beneficiary

- Legal registration (trade register e.g.)
- Organisation chart with list of key officers
- **Financial statements of the last three financial years together with the statutory auditors' report (if applicable)**
- Accounting policies
- Description of the cost/profit centre structure (with an indication where the action is carried out)
- **List of personnel associated to the cost/profit centres (where the RTD action is carried out)**
- Guidelines/procedures for the financial/scientific management of EC research agreements (if available)
- List of all other EC project funding received and all grant agreements (both closed and in progress) signed with the Commission (from 1/01/2007 till today)
- List of ICT systems used to manage the projects
- List of authorised signatures

Note! Those highlighted: to be sent prior to the audit visit

List of Requested Documents

II. Receipt and distribution of EC financial contribution

- Bank statements showing amount and date of advance and/or interim and/or final payments received (from the Commission or the coordinator)
- Only for co-ordinator: Bank statements showing the interest yielded by the European Union funds or the calculation of the interest yielded by the European Union funds
- Only for co-ordinator: Table or report on the distribution of the European Union financial contribution
- Only for co-ordinator: Bank statement showing amount and date of advance and/or interim and/or final payments forwarded to the other members of the consortium

III. Project Management Information

- Periodic activity and management reports - no copy required
- Periodic review reports - no copy required

List of Requested Documents

IV. General financial documents

- Detailed breakdown of costs supporting the FormC - specifying the activity to which they relate to; third party resources identification; the table should show the relevant accounting codes/reference numbers for identification in the accounting system)
- General ledger as extracted from the accounting system to be used for reconciliation purposes as referred to in the previous point
- Breakdown of receipts
- Agreements established between the beneficiary and third parties (as identified in Annex I)
- Bank statements showing amount and date of bank transfer/payment receipts for all costs - no copy required

List of Requested Documents

V. Supporting documents for personnel costs

- Internal guidelines/procedures for time recording follow-up (if available)
- Breakdown of personnel costs claimed in the financial statements by individual, indicating the number of hours charged as well as the hourly rate
- Employment contracts for all project personnel - no copy required
- Payroll/salary slips for all project personnel (whole period of project duration)
- Calculation of related charges (social, etc) according to national legislation - no copy required
- Calculation of hourly rates for all personnel categories/project personnel - no copy required
- Certified time records (or any other control document) for all - no copy required
- (Standard) Productive hours calculation (if applicable)

List of Requested Documents

VI. Supporting documents for durable equipment

- Internal guidelines/procedures for procurement of durable equipment (if applicable)
- Valuation rules for accounting treatment of durable equipment
- List of all acquisitions and retirements of durable equipment per period - no copy required
- Purchase orders and delivery notes for durable equipment - no copy r.
- Original invoices for purchase of equipment - no copy required
- Inventory register or fixed asset register/ledger for the durable equipment related to the project - no copy required
- Depreciation table showing the gross look value of the durable equipment, the additions and retirements, the depreciation rate and the depreciation charge per period - no copy required
- In case of rented equipment: rental contract, inventory list of rented equipment and calculation of leasing and/or rental charges - no copy r.
- Equipment's usage diary/register (for equipment used by different projects) - no copy required

List of Requested Documents

VII. Supporting documents for subcontracting

- Internal guidelines/procedures for procurement of services (where applicable) - no copy required
- Description of services provided by subcontractors and/or third party resources in the context of the funded action - no copy required
- Signed original copies of agreements with subcontractors and/or third party resources (including technical annexes) - no copy required
- Request and Commission approval of subcontracting (where required) - no copy required
- Original invoices for external assistance - no copy required
- Evidence of delivery or services provided - no copy required

List of Requested Documents

VIII. Supporting documents for travel and subsistence

- Internal guidelines/procedures for reimbursement of travel expenses (where applicable) - no copy required
- List of dates of trips by project personnel - no copy required
- Authorised travel request forms, if applicable - no copy required
- Original invoices for travel and accommodation expenses - no copy required

IX. Supporting documents for consumables

- Internal guidelines/procedures for procurement of consumables (where applicable) - no copy required
- Purchase orders and delivery notes for consumables - no copy required
- Original invoices for purchase of consumables - no copy required
- Inventory register/ledger (where applicable) - no copy required

List of Requested Documents

X. Supporting documents for indirect costs

- Description of the methodology used for the calculation and allocation of indirect costs (including the analysis of the cost categories included in the overheads)
- Reconciliation of the overhead costs with the profit and loss accounts (P&L)/general ledger
- Calculation of (cost centre/project/personnel) overhead rates (including, where applicable, an analysis of the productive/non-productive hours on the basis of which indirect costs have been allocated)

XI. Certificate on the Financial Statements and CoM

- Original signed certificates - no copy required
- Letter of audit engagement/appointment sent to external auditor - no copy required
- External auditor's letter of acceptance/engagement confirmation - no copy required
- External auditor's invoice - no copy required

Typical Mistakes - 1

- Absence of detailed calculation of direct costs.
- **Costs claimed for people not directly employed nor paid by the beneficiary.**
- **Personnel costs claimed based on a budgeted, standard, estimated rates.**
- Average hourly rates used which differs significantly from actual ones.
- **Billable hours are used instead of number of workable hours.**
- For the calculation of the number of productive hours on the project, including time spent related to maintaining general expertise, administration and/or sales.
- **Absence of timesheets.**
- Timesheets not approved by a project leader.
- For the calculation of the hourly personnel rate, by dividing the payroll costs by the number of productive hours on the project (only) instead of by the total number of productive hours.

Source - EC

Typical Mistakes - 2

- **Personnel costs claimed include overtime hours for which staff have not been paid.**
- Personnel costs claimed include the remuneration of an in-house consultant hired through a contract with a consultancy firm (no labour contract, no direct instructions, not 100% on the premises, commercial rate, etc.)
- **Overhead costs included in the personnel cost calculation.**
- Incorrect conversion in EUR.
- Costs claimed include elements not incurred and recorded during eligibility period.
- Costs include excessive costs and uneconomical expenditure (travel).
- Costs not relevant to the project (hospitality costs, entertainment costs).
- **Costs cannot be substantiated by proper audit trail and full supporting documentation (Invoices, tickets, timesheets).**

Source - EC