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The FP7 Audits: Practical concepts and usual findings

European Commission

Research DG Unit A5

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GENERAL CONCEPTS

General concepts: Time recording

Characteristics to bear in mind:

- Recorded during duration of project
- Signed and countersigned
- Indicating project number
- Including a short description of activity
- Recording all working time
- Periodicity

Example of daily full time-recording (per person)

Due to the fact that different activities have different reimbursement rates, work on EC projects is to be recorded not only differentiating by individual EC project but also by activities (further details as for instance the work-package are advisable)

The level of detail of this section is to be defined by the beneficiary. The Commission requests at least time-records by main activities

Absences are necessary to verify the accuracy of the annual productive hours used to calculate the hourly rates

Date	Mon 02/02	Tue 03/02	wea 04/02
EC-Projects			
R&D Activities			
Project x		3	4
Project y		5	5
Demonstration			
Project x			
Project y			
Management			
Project x			
Project y			
Other Activities			
Project x			
Project y			
Other research projects and Internal activities			
Teaching			
Training			
National Projects			
(...)			
Absences			
Annual Leave			
Special Leave	8		
Illness			
Total hours	8	8	9

General concepts: Productive hours

Example:

• Total days in a year	365
• Weekends	-104
• Annual holidays	-21
• Statutory holidays	-15
• Illness/Others	-15
• Workable days in a year	210
• Number of hours per day(ex.7,5)	1575

General concepts: Productive hours

- Must not deduct:
 - Sales and marketing
 - Proposals preparation
 - Administrative time
 - Unsold time/non billable time
 - Not project related training and meetings
- As they are part of productive time
- Notion of productive time: **ALL AVAILABLE TIME OF THE RESEARCHER**

General concepts:

Flat rate subsistence and accommodation

- If indicated in work programme
- Travel costs: real costs
- Flat rate is optional (negotiations)
- Rates per country
 - Example Belgium subsistence EUR 92; hotel EUR140
- Audit: flat rate higher than real ok, not considered receipt
- Auditor will check reality and duration of travel not bills and receipts/invoices



General concepts: Internally invoiced costs

- If time is substantiated by time records
- Based on actual costs –profit margin not allowed!
- Calculation of cost must be auditable
- Overheads as part of internally invoiced costs are not allowable
- Examples: use of equipment, facilities, computer runs, labo tests

General concepts: Simplified overheads method

- Pooling of overheads at the level of the legal entity
- Start from the last approved annual accounts
- Remove non eligible costs (VAT, marketing, etc)
- Use a fair key or driver for the distribution
- Example: overhead pool includes research and teaching; then the number of productive hours should also include both teachers and researchers
- Simplified method does not require previous registration nor certification



General concepts: Subcontracting (SC)

- Entity is neither beneficiary nor signatory or third party (new FP7)
- Price, not a cost; no direct supervision, motivation is pecuniary, responsibility remains with beneficiary
- Not possible between partners in the same GA
- Not core part of the project; not distribution of funds
- Include audit provision in your SC
- Details In Annex I
- Best price-quality ratio, transparency, equal treatment
- Minor tasks not in Annex I - ex.: Catering meeting
- Space research: special clause 25

General concepts: Interest yielded by the pre-financing

- Only for coordinators or mono-partner
- Only on part of pre-financing not yet distributed
- Obligation expires when fully distributed
- Exception for public entities and international organisations
 - can be exonerated if legal impossibility or heavy administrative procedure
 - Supporting documents to REA-URF



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FREQUENT FINDINGS

Frequent findings: General eligibility criteria

Grants are given on a «fair» cost sharing basis:

Eligible costs (article 11.14 of Grant Agreement)

- Costs = **actual cost** <-> not budgeted or estimated costs
- Cost shall be : economic, non-excessive, not reckless, not include any profit (exception subcontracting)
- Necessary for & linked to the project

Frequent findings: General eligibility criteria

Eligible costs (article 11.14 of Grant Agreement) cont.

- Charged in accordance with usual accounting principles of the beneficiary
- Not explicitly disallowed by contractual provisions
- Incurred and recorded in the books during the project lifetime
- Sufficiently and reliably documented (audit trail)

Frequent findings: Direct Vs Indirect costs

- Direct costs = Directly attributable to the relevant project
- Indirect costs = Only attributable to more than one project
- Problem: consideration under one category only!
- Link to the project needs to be substantiated - also for indirect costs!

Frequent findings: Personnel costs

- Average or standard cost systems (hourly rates) instead of actual costs -> significant deviation, certification
- Calculation of productive hours
- Insufficient Time Recording or evidence on working times
- Specific cases: Maternity leave, Bonus payments, Inhouse-consultants, owner managers (certification)
- Contractual status of personnel employed and charged to the project according to cost model

Frequent findings: Indirect costs

- Inclusion of ineligible cost items/ categories (cost of sales, self-funded research, provisions, costs of capital, ...)
- Allocation keys or procedures not respecting the general principles

Frequent findings: Subcontracting

- Exception to the non-profit philosophy of the EC grants
 - Requirement of prior approval in the contract or by the project management in the EC
- Certificates (CoM, CoMav, CFS) are considered accepted as subcontracting
- Impact on the audit process: Verification of the documents and calculations of the subcontractor in case of significant amount to be granted (foreseen in subcontracting provisions)
- Ineligibility of VAT on subcontracts

Frequent findings: Durable Equipment

- Potential conflicts between general principles and usual accounting rules of the beneficiary (i.e. cash-based accounting) if economic use longer than the project life-time
- Substantiation of calculation of depreciation
- Ineligible cost items for depreciation (i.e. VAT, duties)
- Respect of internal procurement policies

Frequent findings: Other costs

- **Consumables and Travel cost**
 - Ineligibility of direct taxes (i.e. identifiable VAT)
 - Necessity and plausibility of purchases (not reckless, excessive)
 - Separation of direct and indirect cost items
 - «Entertainment» costs
- **Services bought**
 - Internal invoicing - intercompany services
 - (Inhouse-) consultants
- **Interests incurred on project funds**

ADDITIONAL INFORMATION

 And in case of doubts, don't forget: **RESEARCH HELPDESK**

<http://ec.europa.eu/research/enquiries>

 **Guidance notes on FP7 audit certification**

http://cordis.europa.eu/fp7/find-doc_en.html#guidance

 **FP6 / FP7 Audit certification policy website**

http://cordis.europa.eu/audit-certification/home_en.html

 **FP7 Certification FAQs**

ftp://ftp.cordis.europa.eu/pub/fp7/docs/faq-certification_en.pdf



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Thank you very much for your attention!



ACCEPTABILITY CRITERIA

Adopted by Commission Decision on 23 June 2009

- ⇒ Methodologies in which, for each personnel category, the difference between the average rate and the extreme values (upper and lower rates) is $\leq 5\%$: the methodology is acceptable.
- ⇒ Methodologies in which, for any personnel category, the difference between the average rate and the extreme values (upper and lower rates) $> 25\%$: the methodology is not acceptable.
- ⇒ Methodologies not fulfilling the first criterion and in which, for each personnel category, the difference between the average rate and the extreme values (upper and lower rates) $\leq 25\%$: only methodologies applied by beneficiaries having participated in at least 4 FP6 projects with an EU contribution¹ in each of them equal or above EUR 375.000 or 4 FP7 projects with an EU contribution in each of them equal or above EUR 375.000 are acceptable.

¹ In this context, EU contribution is defined as the European Union/Euratom financial contribution allocated to the beneficiary in the estimated breakdown of the budget

GOOD TO KNOW FOR FP7



AUDITS ✎ What if the beneficiary has charged average personnel costs without a certificate?

The FP7 Audit Strategy states that:

“FP7 beneficiaries found to have charged average personnel costs without the average personnel cost methodology being approved by the Commission will be subject to a standard audit comparing costs charged with actual costs. Deviations from actual costs will be reported for relevant corrections including the application of extrapolation.”

✎ What is the auditor expected to verify when the methodology is covered by a certificate?

Article 4 of the Commission Decision C(2009)4705 establishing the acceptability criteria for a average personnel costs methodology states:

“Personnel costs charged on the basis of methodologies approved by the Commission will not be subject to financial adjustments [...] unless an inappropriate use of the methodology is identified by the Commission.”

Thus, the FP7 Audit Strategy explain that the auditor should deliver an opinion whether:

- The methodology applied is the methodology certified
- The certified methodology operates effectively
- The certified methodology is applied in an appropriate manner