

The European Research Council

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ERC Executive Agency
Audit and Ex Post Controls
Unit C4

Audit Session
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European Research Council
Executive Agency

Established by the European Commission

Objective

Help You...

- Understand the Audit Process
- Effectively prepare for an on-site audit
- Avoid Common Errors by Providing Best Practice Advice



H2020 Audits



Set-Up:

- Common Audit Service undertake all research family audits
- *ERCEA assist CAS with the 1st review of Preliminary Audit Reports*
- Indicative Audit Programme
- Audits limited to 2 years after final payment
- CFS only if reported costs \geq EUR 325.000 at the time of the payment of the balance

Note: CFS can still be undertaken at regular intervals for assurance purposes (once threshold is met) and costs subsequently claimed at project end (costs should be economic/represent best value for money)

Framework for H2020 Ex-Post Audits



Legal Basis for Ex-post Audits

- ✓ **Article 29** of the H2020 Regulation of 11 December 2013
- ✓ **Article 22.1** of the H2020 Model Grant Agreements

ARTICLE 22 — CHECKS, REVIEWS, AUDITS AND INVESTIGATIONS — EXTENSION OF FINDINGS

22.1 Checks, reviews and audits by the *[Agency and the]* Commission

22.1.1 Right to carry out checks

The *[Agency or the]* Commission will — during the implementation of the action or afterwards — check the proper implementation of the action and compliance with the obligations under the Agreement, including assessing deliverables and reports.

For this purpose the *[Agency or the]* Commission may be assisted by external persons or bodies.

The *[Agency or the]* Commission may also request additional information in accordance with Article 17. The *[Agency or the]* Commission may request beneficiaries to provide such information to it directly.

Information provided must be accurate, precise and complete and in the format requested, including electronic format.

Ex-post controls

- in-house (CAS) +/-25%
- outsourced (EAFs) +/- 75%

✓ External audits **ARE NOT** :

- Agreed Upon Procedures performed by CFS auditors
- Controls done by operational officers on deliverables or by financial officers on Financial Statements (Form C)

Above = Ex-ante Controls

Audit Process

- Letter of Announcement (LoA) & Request for preliminary information
- Fieldwork & logistics
- **Closing meeting**
- Draft Audit Report
- **Contradictory procedure**
- Closure - Final Audit Report and Letter of Conclusion



How Best to Prepare for an Audit 1/3

- Be familiar with the Indicative Audit Programme
- Start preparation upon receipt of Letter of Announcement
- Review and submit all requested pre-audit documents
- Assist auditors with questions and set-up of meetings

How Best to Prepare for an Audit 2/3

- **Prepare electronic acc. extracts of project expenses (sampling):**
 - *General Ledger (GL) details - Excel format e.g.*
 - *Details per reporting period and per cost category*
 - *Formulas behind calculations of costs - facilitates*
 - *Personnel Costs, depreciation, unit costs etc.*
- **Point out any errors found in the preparation = errors in audit report**

How Best to Prepare for an Audit 3/3

Provide supporting documents in logical folders, for example:

- ***General information:***

- *Grant Agreement, Annex I, Reports (Financial/Scientific), amendments, key correspondence, list of EU projects etc.*
- *Organisation chart, approval levels and signatories*
- *Procedures (Personnel costs, Time-Recording, Travel, Procurement, etc.)*

- ***Action costs related information:***

- *GL printouts + Project cost accounting + cost category codes*
- *Employees contracts, salary info, timesheets*
- *Purchase requisition/order & payment + credit/debit notes + invoices*
- *Choice of supplier/subcontractor etc.*

Closing Meeting → Contradictory → Closure

- Make sure you understand the preliminary findings & confirm outstanding issues/further information needed
- Use the Contradictory Procedure to present additional arguments/supporting documents
- If you believe you have been misunderstood/mistreated in the audit process – launch query with the CAS or/& inform us!
- Remember - an Audit is an opportunity for you to clarify any issues/concerns

Q&A's

- Questions on Audit Process



Case Study Audit- Introduction

- You are an EC auditor of the financial statements of the Einstein University for a H2020 project (StGr 702354) submitted to the ERCEA for the period of 1/9/2018 – 29/02/2020.
- You selected a transaction of EUR 4800 from the general ledger that was claimed under the Personnel costs category.



Case Study Audit –Invoice N° L254890

PowerPeople Company
Place Vendôme
75.000 Paris
France
VAT registration N° FR1034

Invoice date: 04/01/2019

Invoice Number: L254890

To: The Einstein University
Boulevard des Champs Elysées
75.000 Paris

Description:

Pierre Dupont-development of a database for computation of arithmetical modelling

Deadline:

Task to be completed by 1/12/2018.

Price: EUR 4.000

VAT 20%: EUR 800

Total: EUR 4.800

Case Study Audit– Invoice N° L254890/General Ledger Extract

Extract of General Ledger payments: Commitment					
Cost center	Nº commitment	Payment Date	Name SURNAME	Invoiced amount without VAT	Nº Supporting document
361152	3100116558	15-01-2019	M. Pierre DUPONT	4.000,00	L254890

PowerPeople Company
Place Vendôme
75.000 Paris
France
VAT registration N° FR1034

Invoice date: 01/10/2018

Invoice Number: L254890

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Annex 1 to the Grant Agreement (Description of the Action) Part B



ERC Starting Grant

Action Acronym: GRAVITY

Action number: 702354

Action Title: Quantum modelization

Principal Investigator: Robert DUJARDIN

Resources:

Staff: PI, 2 Post Doc, 4PhD students all working 100% on the project.

Equipment: 1 Semi-conductor laser, 1 computer cluster

Travels: 4000 Euros per year for PostDoc and PhD student to attend conferences.

Subcontracting : Development of a database for arithmetical modeling, around 4000 euros.

Case Study Audit– Temporary work agency contract

TEMPORARY CONTRACT EMPLOYMENT

Between

the employer,
The Einstein University
Boulevard des Champs Elysées
75.000 Paris

And
The employee
PowerPeople Company
Place Vendôme
75.000 Paris
France

This serves to confirm the terms and conditions of employment agreed upon between the parties.
This agreement establishes the performance of the following task for which you are appointed:

“Pierre Dupont: Development of a database for computation of arithmetical modelling” in the framework of the H2020 EU agreement (Starting Grant 702354).

The remuneration is set up by the means of a lump sum of 4000 euro for the completion of the above-mentioned task for the 1/12/2018 at the latest.

Signed the employer
XXX

signed the employee
YYY

Case Study – Audit – Discussions (1)

1. Let's reflect on questions you would ask the beneficiary



Case Study – Audit – Discussions (1)

- How is this invoice linked to the project?
- Was it part of the Description of the Action (DoA)? Or any of the Amendments?
- Why were these costs classified as personnel costs?
- Copy of the contract between the HI and Subcontractor?

Case Study – Audit – Discussions (2)

2. Identify any potential issues with cost eligibility under H2020 rules



Case Study – Audit – Discussions (2)

- VAT
- Proof of work carried out missing
- Wrong classification of the costs

Case Study – Audit – Discussions (3)

What are the eligible costs for the Einstein University?



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Case Study – Audit – Conclusions

The auditor will:

- propose a reclassification to the subcontracting cost category
- consider the VAT as ineligible
- remove the overheads charged under the wrong PC category



Audit Process - exercise

Purchases of Goods & Services – Supporting Docs

What supporting documents/procedures could an Auditor request to verify Purchases of Goods & Services?

Audit Process - exercise

Purchases of Goods & Services – Supporting Docs

Solution (non-exhaustive):

- ✓ Breakdown of costs (project cost accounting + GL)
- ✓ Purchase requisition/order, delivery/credit/debit notes & payment + invoices
- ✓ Contracts/agreements with Suppliers
- ✓ Procurement Procedures (approval levels, thresholds + tender docs/notice, specifications, offers received, evaluation criteria, award committee)
- ✓ Stock purchases & evaluation procedures (LIFO, FIFO etc.)
- ✓ Laboratory books, stock accounting records, logbooks...

Common Audit Errors



All Cost Categories

- Lack of Adequate Supporting Documents
- Costs not related to the Action or not in DoA
- Costs incurred outside reporting period
- Non-compliance to AMGA Rules or to HI's Own Internal Procedures/Practices

Common Audit Errors

Personnel Costs – (69%)
Actual costs – 61%, Unit Costs – 8%

Other Goods & Services (12%)

Subcontracting (9%)

Equipment (5%)

Travel (3%)

*Large Research
Infrastructures (2%)*



Common Errors in Audits- Personnel Costs

Time-recording - **13% of errors:**

- Missing, incomplete, cut-off at contractual hours, percentage fed, batch produced, all signed with same date, non-compliant with min. criteria, inconsistency with HR records (6%)
- Incorrect time claimed (7%)



Actual Costs Calculation – **48% of errors:**

- Incorrect Productive Hours Calculation (20%)
- Other – double funding, non-respect of double ceilings etc. (14%)
- Incorrect remuneration costs (10%)
- No valid supporting documents (4%)

Audit Best Practice - Personnel Costs



- ✓ Calculate costs in accordance with MGA methodology + use 3 Productive Hour Options correctly
- ✓ Ensure researcher salaries comply with HR salary grids
- ✓ Keep time records and/or declarations for exclusive work
- ✓ Be aware of ALL PI's working arrangements (100% FTE)
- ✓ Ensure policies exist e.g. teleworking, conflicts of interest etc.
- ✓ Administrative Support Staff eligible ONLY if directly linked to the Action, if NOT = Indirect Costs
- ✓ Ensure job descriptions exist/updated regularly

Audit Best Practice – Third Parties

Third parties making staff resources available at a cost:

- ✓ Calculate Personnel Costs according to AMGA methodology
- ✓ Keep Timesheets signed by supervisor & incl. all minimum criteria
- ✓ 25% overheads can be charged by third party if resources working on their premises
- ✓ Request supporting documents before you pay the cost to third party

Audit Best Practice - Subcontracting

- ✓ Ensure costs are mentioned in DoA or approved by ERCEA
- ✓ Demonstrate Best Value for Money
- ✓ Maintain adequate supporting documents – contract between both parties, terms and conditions etc.

Audit Best Practice - Equipment

- ✓ Depreciate according to AMGA, IAS & national accounting rules
- ✓ Charge according to proportionate usage
- ✓ Respect internal/EU procurement principles:
 - ✓ Best value for Money/Sound Financial Management/no artificial split
- ✓ Document reasons for Single Source Providers
- ✓ Ensure visibility of EU/ERC funding & physical check
- ✓ Combined equipment – costs only in one category



Audit Best Practice - Other Goods & Services

Consumables, Supplies, IPR, CFS, dissemination, translation costs...

- ✓ Keep suppliers contracts, credit/debit notes, delivery notes, transport documents and stock registers
- ✓ If consumables bought in bulk, justify actual usage
- ✓ Ensure overheads/profit removed from internal service orders

Audit Best Practice - Best Value for Money

"Best Value for Money" Principle – *focus in H2020*



Sub-contracting and Purchases of Goods

Best price-quality ratio - transparency & equal treatment

- ✓ Need to demonstrate 'Best Value'
e.g. tender, three offers, market survey, etc.
- ✓ Naming the supplier in the grant does not exclude demonstrating
- ✓ Standard practices will normally be accepted when applied correctly

Audit Best Practice Travel – Interactive Exercise

Let's analyse/find the errors in the travel supporting documents: Travel Procedure Key Rules, Travel Agency Invoice, Hotel Invoice, Travel Costs Statement & Conference Agenda



Audit Best Practice - Travel

Team Members & Visiting Experts

✓ **Recommend:**

- ✓ written travel costs policy (incl. combined trips conditions)
- ✓ travel pre-authorisation & small mission report
- ✓ question extensive duration & repetitive trips

✓ **Keep supporting docs:**

- ✓ conference agendas showing active role
- ✓ emails to support set-up of visits & necessity
- ✓ reconciled timesheets for team members

✓ **Visiting Experts: – in Annex I & justified**

- ✓ recommend keeping a list of names & roles
- ✓ ensure paid in accordance with your rules



Best Practice - Travel - What Not?

- ✓ No entertainment/hospitality costs
- ✓ No tips or gifts
- ✓ No special meals/dinners (unless prior approval)
- ✓ No private costs (TV, laundry, minibar etc.)

Key Messages

- ✓ Be well acquainted with the AMGA, IAP & your own internal rules and regulations
- ✓ While organising the supporting documents for audit, inspect them yourself for skipped errors!
- ✓ Don't sit on a problem and wait for an audit to detect – Be proactive & seek NCP/ERCEA help/advice!
- ✓ Consider periodic CFS for assurance (one final invoice)
- ✓ Implement recommendations for systems improvements from past audits

Web Links

- **Annotated Model Grant Agreement (AMGA) :**

http://ec.europa.eu/research/participants/data/ref/h2020/grants_manual/amga/h2020-amga_en.pdf

- **Indicative Audit programme (IAP) :**

http://ec.europa.eu/research/participants/data/ref/h2020/other/gm/audit/h2020-iap_en.pdf