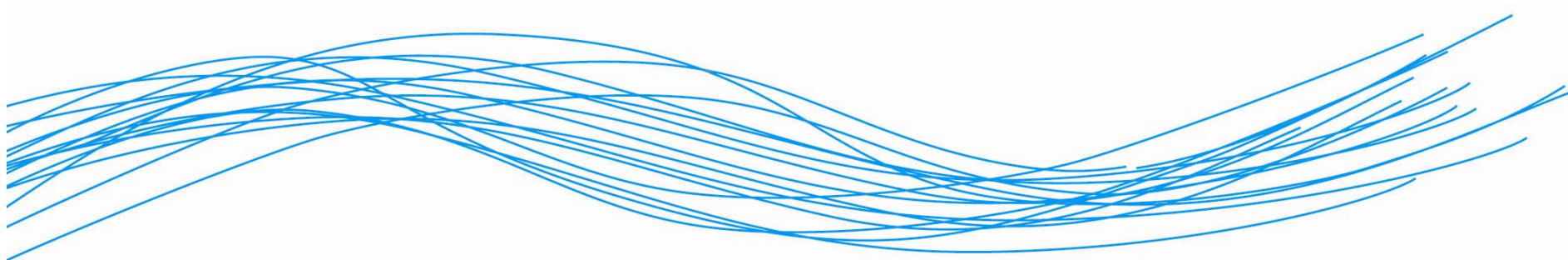


# Workshop on FP7 Auditing and Financial Issues



**APRE- Agenzia per la Promozione della Ricerca Europea**  
**Università di Roma « La Sapienza »**  
**Roma, 24/11/2010**

**European Commission**  
**RTD.A.4 Vittorio Morelli**  
**Deputy Head of Unit External audits**  
**REA.A.2 Filippo De Rosa**  
**Head of Sector Ex-post audits**

# Topics

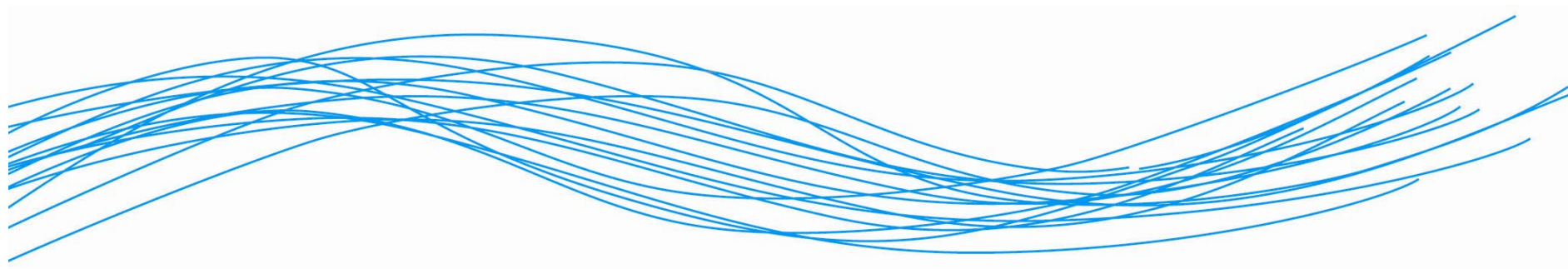
- The context
- Audit tools
  - Cost methodology certification
  - On-the-spot auditing
- General concepts & Frequent findings
- The audit cycle (including implementation of audit results and extrapolation)
- How to handle an auditor
- Questions (and answers?)



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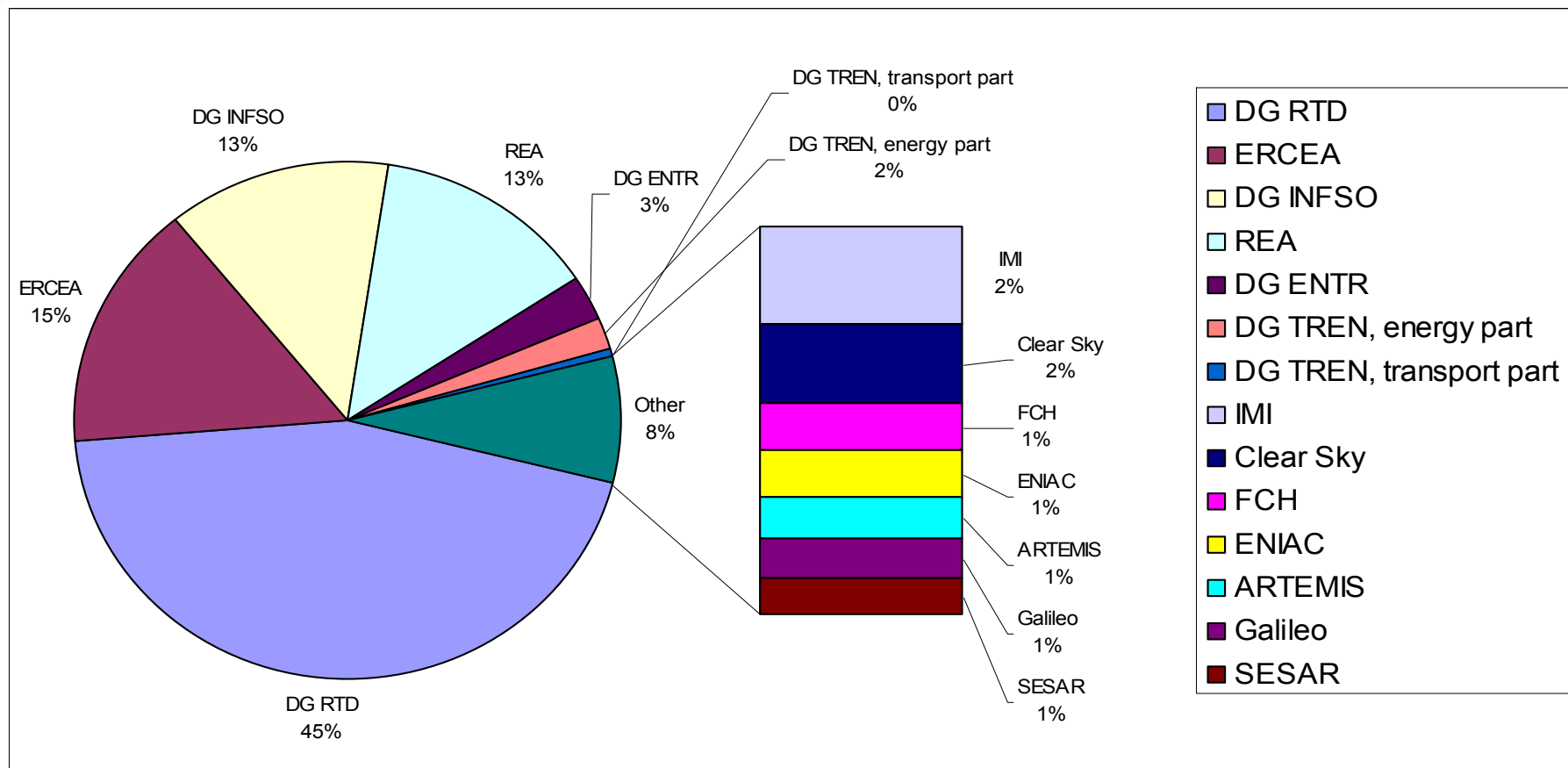
# The context



# Changes from FP6 → FP7

	FP6		FP7	Impact
<b>% EU budget</b>	3.5% (2006)	→	5.1% (2009)	Higher profile
<b>Total allocation</b>	17.5 billion €	→	<b>53.2</b> billion €	Cost-effectiveness Auditing resources Audit coverage
<b>Time line</b>	5	→	7	Multi-annual strategy
<b>Managing entities</b>	4 research DGs	→	5 research DGs + 2 EAs + JTIs + Art.185	<b>Enhanced co-ordination necessary</b>

# Context: FP7 budget breakdown



Need for stronger co-ordination and co-operation across Commission services

# Co-ordination

Error rates per Commission service (x6)

+

Multiple samples (x6 xN)

+

Many common beneficiaries

+

All sampling items must be audited

=

Need for stronger co-ordination and co-operation across Commission services: CAR, ESC, SAR, FAIR, JAC...

- è **co-ordination** of planning
- è **cost-effectiveness** of audits
- è **common audit approaches** ("le poids du passé")
- è **common interpretation of eligibility issues**
- è **sufficient audit coverage for different parts of budget**

# Context: the inherent risk

## Contextual peculiarities:

- Direct expenditure (RDGs),
- Cost-based claims,
- Consortia,
- Numerous and heterogeneous population of beneficiaries
- ...

+

## Risks:

- Limited ex-ante controls
- Complex regulatory framework,
- Fewer audit certificates,
- Accounting errors,
- Fraud
- ...

## ERRORS

Cumulative error rates as of 31/08/2010

	FP6	FP7*
RTD	-3.04%	-1.88%
INFSO	-4.04%	-1.48%
ENTR	-4.92%	N/A
TREN	-6.59%	---
ENER	---	N/A
MOVE	---	N/A

\* Representative only, based on 7 and 6 results respectively so far

Scrutiny of the Budgetary Authority and ECA

**The need for assurance and corrective measures**

Why is the inherent risk important? → DG declaration  
of assurance

I, the undersigned, Mr José Manuel Silva Rodríguez  
Director-General of DG Research in my capacity as authorising officer by delegation  
Declare that the information contained in this report gives **a true and fair view** [1]  
State that I have **reasonable assurance**...

This reasonable assurance is based on my own judgement and on the information at my  
disposal ...

However the following reservation should be noted:

***Reservation concerning the rate of residual errors with regard to the accuracy of  
cost claims in the Sixth Framework Programme 6 (FP6) grants.***

Brussels, 31 March 2008  
"Signed"  
José Manuel Silva Rodríguez

[1]→ True and fair in this context means a reliable, complete and correct view on the state of affairs in the  
service.

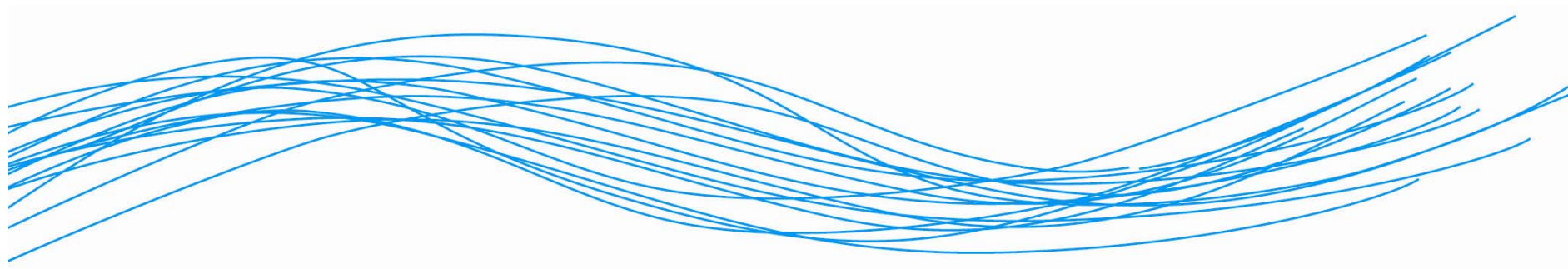




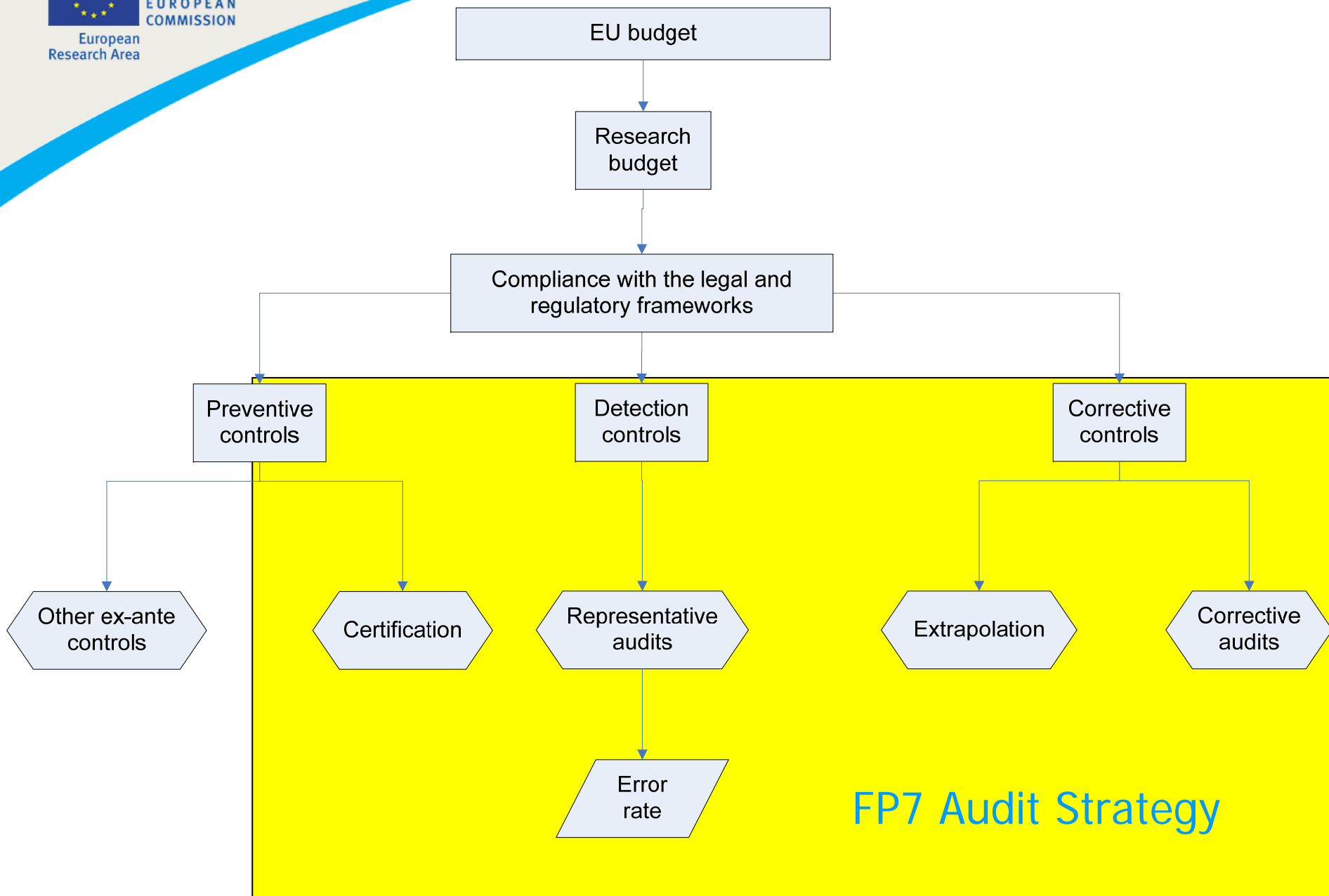
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# Audit tools



# Overview: where do audits fit in?



# Audit tools

New in FP7!

è Certificate on the methodology for personnel and indirect costs (CoM)

New in FP7!

è Certificate on the methodology for average personnel costs (CoMav)

è Certificate on the Financial Statements

è Auditing on-the-spot

è *Extrapolation*



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# Cost Methodology Certification

# FP7 Certificates at a glance

CFS

## Certificate on Financial Statements (Annex VII, Form D)

- Mandatory
- To be submitted only when cumulative EU contribution is  $\geq$  € 375,000 (except for projects  $\leq$  2 years where interim CFS are not required)
- Replaces FP6 Audit Certificates (covers the costs declared in the Forms C)

CoMAv

## Certificate on Methodology for Average Personnel Costs (Annex VII, Form E)

- Mandatory for
  - beneficiaries intending to charge average personnel costs
  - physical persons and SME owners who do not receive a salary
- Covers only the personnel costs methodology

CoM

## Certificate on Methodology for personnel & indirect costs (Annex VII, Form E)

- Optional for the beneficiaries fulfilling the eligibility criteria
- Covers the methodology used to calculate the personnel costs (real or averages) and the indirect costs (analytical, simplified or flat-rate)
- Waives the obligation to submit interim CFS

## Main differences between FP6 and FP7 audit certificates

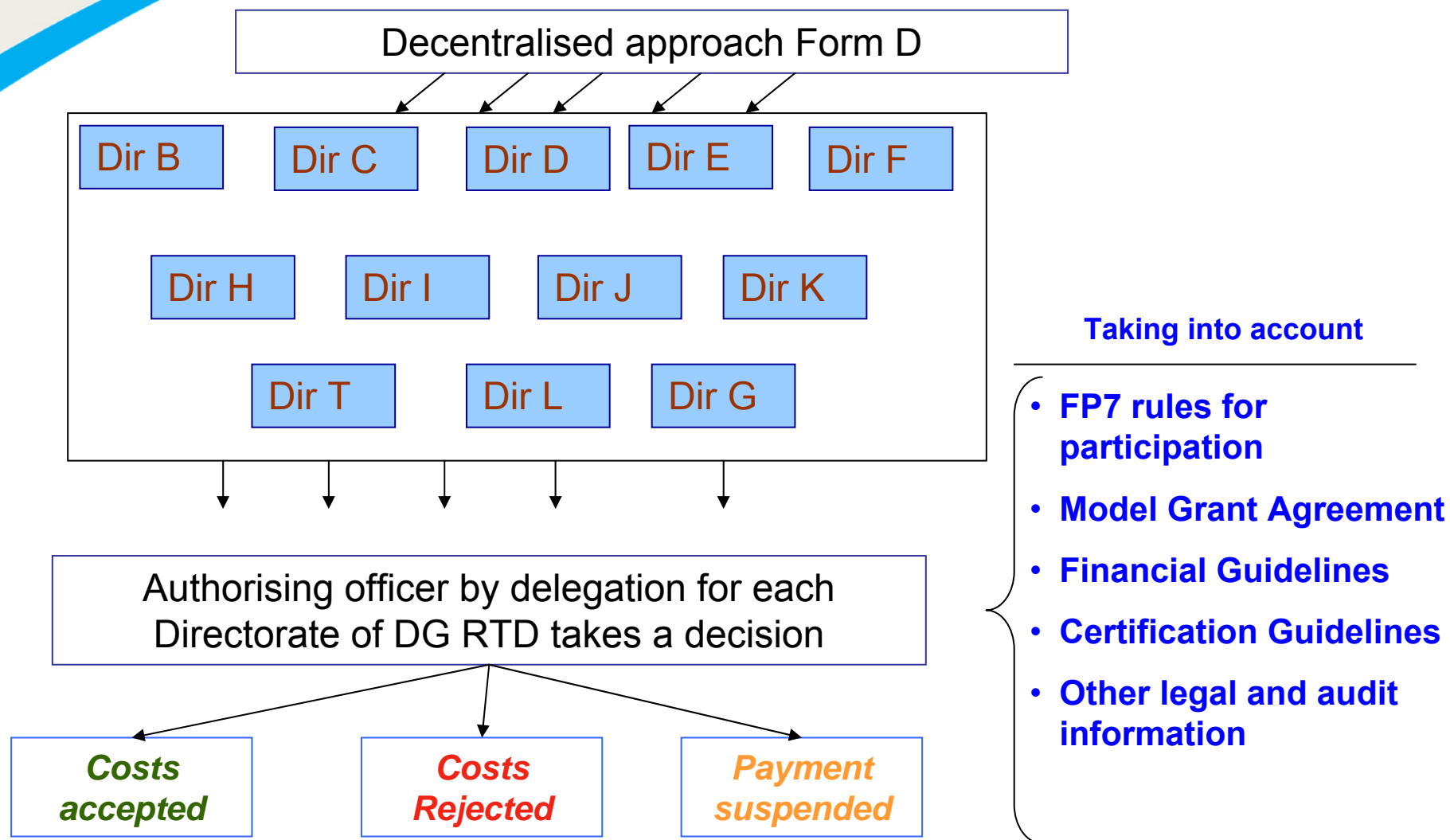
### FP6 Audit Certificates

- Indicative template
- Audit certificate
- Audit tests to be decided by the auditor
- Auditor gives assurance
- Certify amounts declared
- There was always at least an audit certificate for the costs charged in a project

### FP7 Certificates on the Financial Statements

- Mandatory model (Form D- Annex VII)
- Report on factual findings
- Audit procedures to be carried out by the auditor are pre-defined
- Auditor does not express an opinion
- Certify periods declared
- In many (most) cases there will not be any certificate for the costs charged to the project

# Certificate on the financial statements DG RTD



## Common exceptions in Form D

- The average productive hours reported are significantly lower than 1680 hours
- The hourly rate recomputed by the auditor is different from the hourly rate charged
- No time records exist
- Beneficiary declares average personnel costs without the methodology being previously approved by the Commission
- Beneficiary has an approved methodology but the costs declared are not in accordance with the certified methodology
- Costs (average/individual) declared are estimated or budgeted



# FP7 Certificates at a glance

CFS

CoMAv

## Certificate on the Methodology for Average Personnel Costs

- Verification of systems (compulsory Form E – Annex VII of model Grant Agreement)
- Mandatory for beneficiaries intending to charge average personnel costs
- Covers only the average personnel costs calculation methodology
- The methodology described in the certificate is analysed by the Commission who decides on its acceptance/non-acceptance for the FP7 costs declarations

# FP7 Certificates at a glance

CFS

CoMAv

CoM

## Certificate on the Methodology for Personnel and Indirect Costs (CoM)

- **Verification of systems**
- **Form E – Annex VII of model Grant Agreement** (Terms of Reference, Report on Factual Findings, Table of procedures)
- Optional for beneficiaries fulfilling the eligibility criteria
  - At least 8 participations in FP6 contracts with EU contribution for each  $\geq 375.000$  € OR
  - At least 4 FP7 Grant Agreements signed before 01/01/2010 with EU contribution for each  $\geq 375.000$  € OR
  - At least 8 FP7 Grant Agreements signed with EU contribution for each  $\geq 375.000$  € anytime during FP7
- Covers the methodology used to calculate personnel costs (actual or averages) and indirect costs (analytical, simplified or flat-rate)

# FP7 Certificates at a glance

CFS

CoMAv

CoM

## Advantages - CoM for Personnel and Indirect Costs

- **No CFS for interim payments** (only a CFS at the end of the project when EC contribution  $\geq 375.000$  €)
- **Accepted CoM valid for the duration of FP7** (unless change of methodology )
- **Assurance that methodology used to calculate personnel and indirect costs conforms to FP7 requirements** (early detection and correction of possible methodological errors)
- **Contributes to reduce :**
  - audit scope for the certifying auditor in CFS and for ex-post auditors (compliance to methodology versus audit tests / individual recalculations)
  - administrative burden (less CFS to be submitted by beneficiaries of multiple grants)
  - costs for the whole certification system (less funds spent on certificates)

## CFS submission - Beneficiary WITHOUT CoM for Personnel and Indirect Costs

- **Period 1** EU contribution= 185.000€ : No CFS because <375.000€
- **Period 2** EU contribution= 200.000€ : CFS to be submitted (since 185.000€+200.000€> 375.000€)
- **Period 3** EU contribution= 380.000 € : CFS because >375.000€

	Period 1	Period 2	Final Period
EU Contribution	185.000 €	200.000 €	380.000 €
Contribution accumulated not covered by CFS	<b>185.000 €</b>	<b>385.000 €</b>	<b>380.000 €</b>
CFS Mandatory	<b>NO</b>	<b>YES</b>	<b>YES</b>
	(<375.000 €)	(>375.000 €)	(>375.000 €)

## CFS submission - Beneficiary WITH approved CoM for Personnel and Indirect Costs

- **Period 1** EU contribution= 185.000€ ⇒ no CFS because <375.000€
- **Period 2** EU contribution= 200.000€ (185.000€+200.000€> 375.000€) ⇒no intermediate CFS due to the approval of the CoM
- **Period 3** EU contribution= 380.000€ ⇒ CFS for the whole duration

	Period 1	Period 2	Final Period
EU Contribution	185.000 €	200.000 €	380.000 €
Contribution accumulated not covered by CFS	<b>185.000 €</b>	<b>385.000 €</b>	<b>765.000 €</b>
CFS Mandatory	<b>NO</b>	<b>NO</b>	<b>YES</b>
	Interim CFS waived due to the approval of the CoM		(>375.000 €)

## Who delivers the Certificates ?

- Free choice of auditor
- **Competent public officer** (research organisation, public bodies, secondary and higher education establishments)
- Auditors must be: **Independent & Qualified** (Directive 2006/43/CE replacing 8th Council Directive)
- Auditors will provide a report on factual findings according to a compulsory format defined via agreed-upon-procedures (model Grant Agreement, Annex VII, Forms D and/or E)

## Main challenges encountered with submitted CFS, CoM and CoMAv

- Mandatory form not respected
- Terms of Reference are missing (sections 1.1 to 1.8 of the form)
- Agreed-upon-procedures are performed partially
- Benchmarks and support documents are missing to enable proper evaluation of the average personnel costing methodology (Form E, procedure 3)
- Long delays in providing to the additional information requested by the EC



# Submission Process

CoM

CoMAv

## Eligibility Check

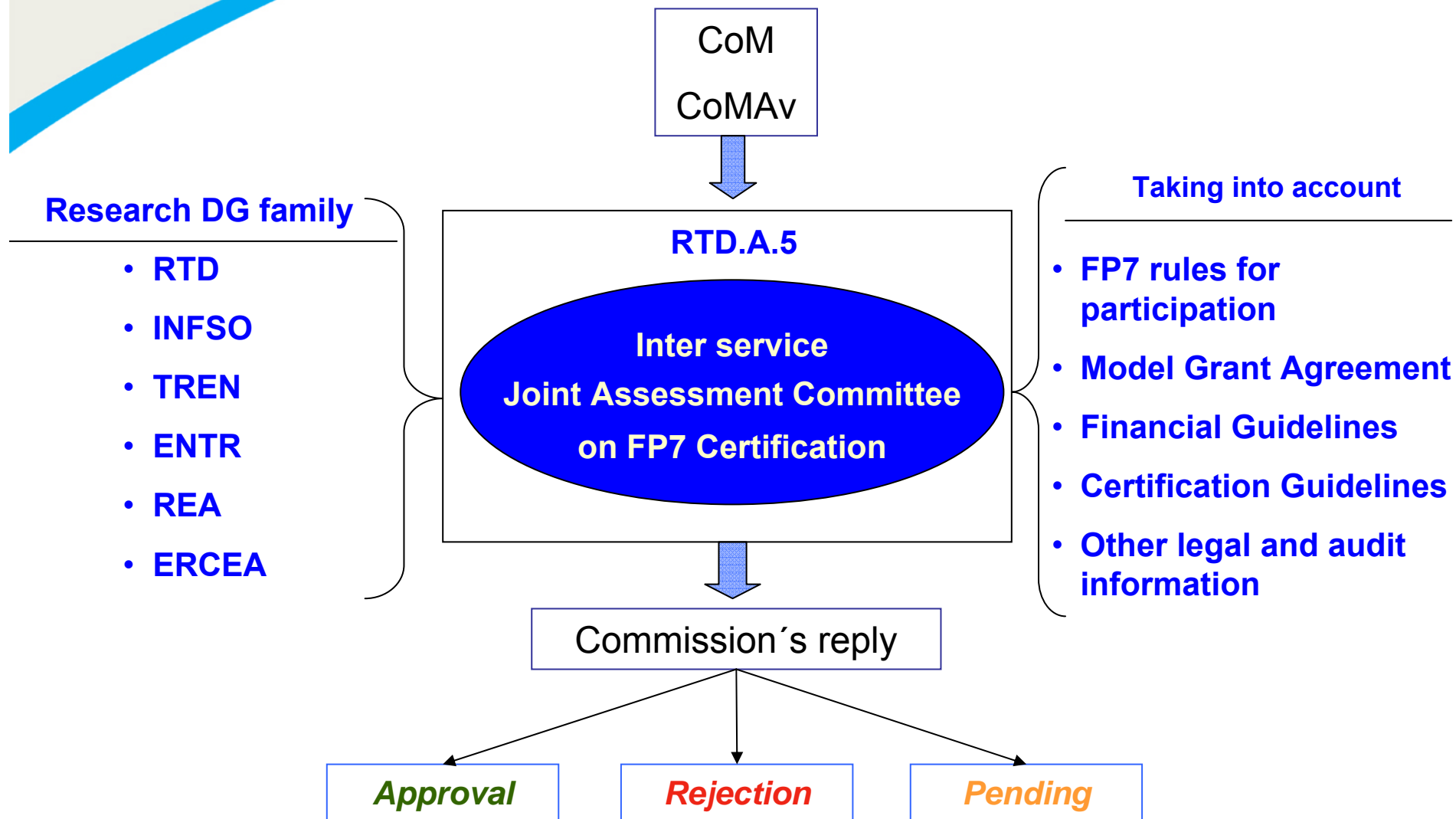
- 1) Request for eligibility submitted to the Commission by the beneficiary (via functional mailbox) at any time during FP7
- 2) Acceptance/Rejection by the EC within 30 calendar days

## Submission

- 3) Submission of the CoM/CoMAv during lifetime of FP7 and at the earliest on the start date of the 1st FP7 project (*warning: the certifying auditor needs a sound basis to perform the agreed-upon-procedures*)
- 4) Acceptance/Rejection by the EC normally within 60 calendar days



# Single entry – Single exit



# How does the FP7 Certificate look like?

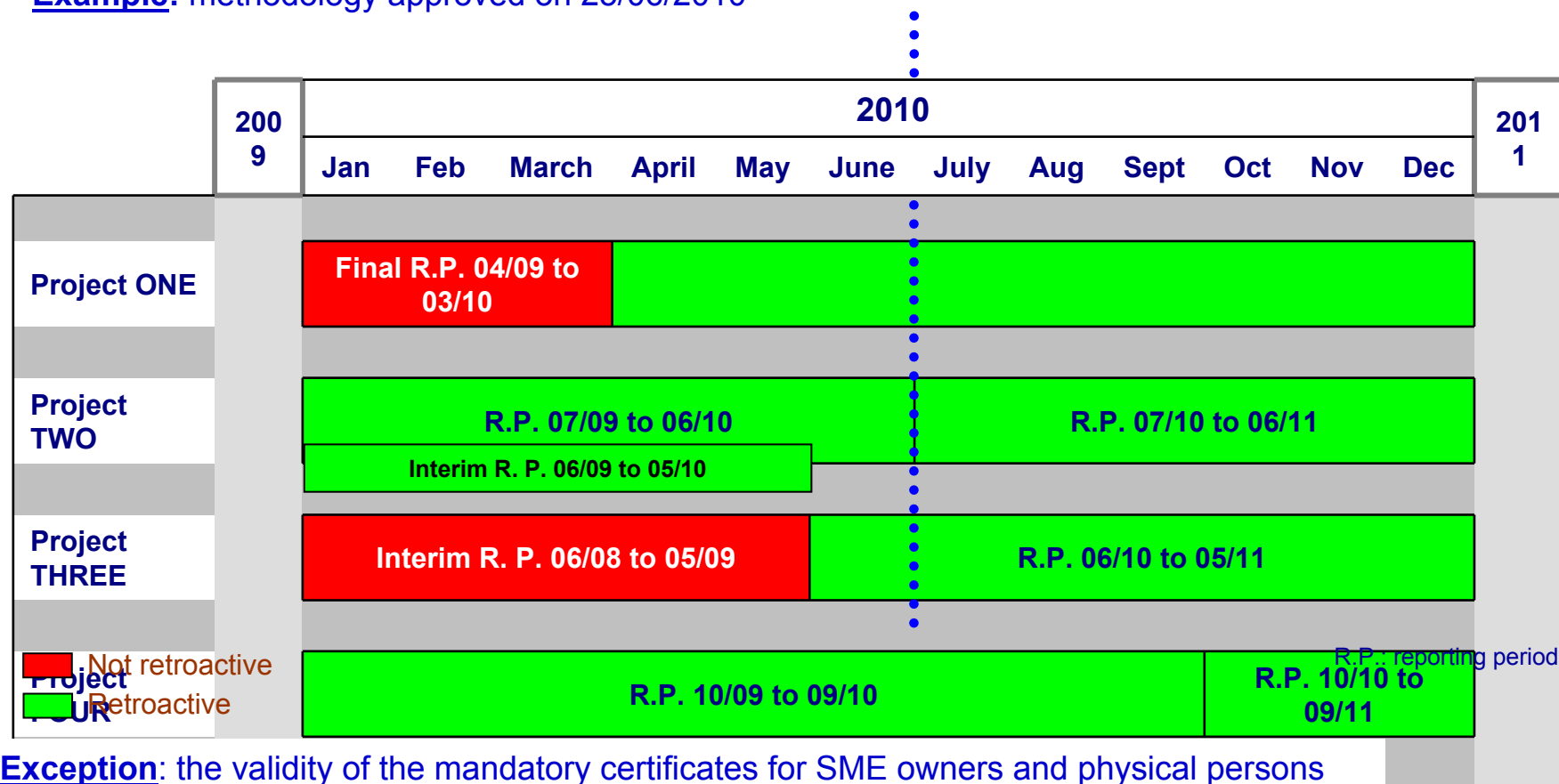
<b>Components of the Certificate</b>		
<b><u>Part 1</u></b> <b>Terms of Reference</b>	<b><u>Part 2</u></b> <b>Report on Factual Findings</b>	<b><u>Part 3</u></b> <b>Table of Procedures</b>

- All three certificates (CoM, CoMAv and CFS) have these three parts
- ToR and Report are nearly the same for all three certificates
- The table of procedures is the same for CoM and CoMAv but different for CFS

## Validity of the Certificate on the Methodology

Once approved, the certificate is valid for all FP7 unless exceptional circumstances (change in the methodology or cancellation of the certificate following an ex-post audit). The validity is retroactive for the ongoing projects when the methodology is approved.

**Example:** methodology approved on 25/06/2010



**Exception:** the validity of the mandatory certificates for SME owners and physical persons without a salary is retroactive to the beginning of FP7



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**FOCUS ON**

# Average Personnel Costs

# Averages in FP7

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Article 31.3 of the FP7 Rules of Participation Regulation (EC) No 1906/2006 settles two conditions to be fulfilled by an average personnel cost methodology to be approved by the Commission:

The very well known:

**It should be the usual accounting practice of the beneficiary**

...and the sometimes forgotten:

**It can not lead to significant deviations vis-à-vis the actual costs**

In addition, article II.14.1 of the FP7 model Grant Agreement beneficiaries may only opt to declare average personnel costs "if based on a certified methodology approved by the Commission".

# ACCEPTABILITY CRITERIA

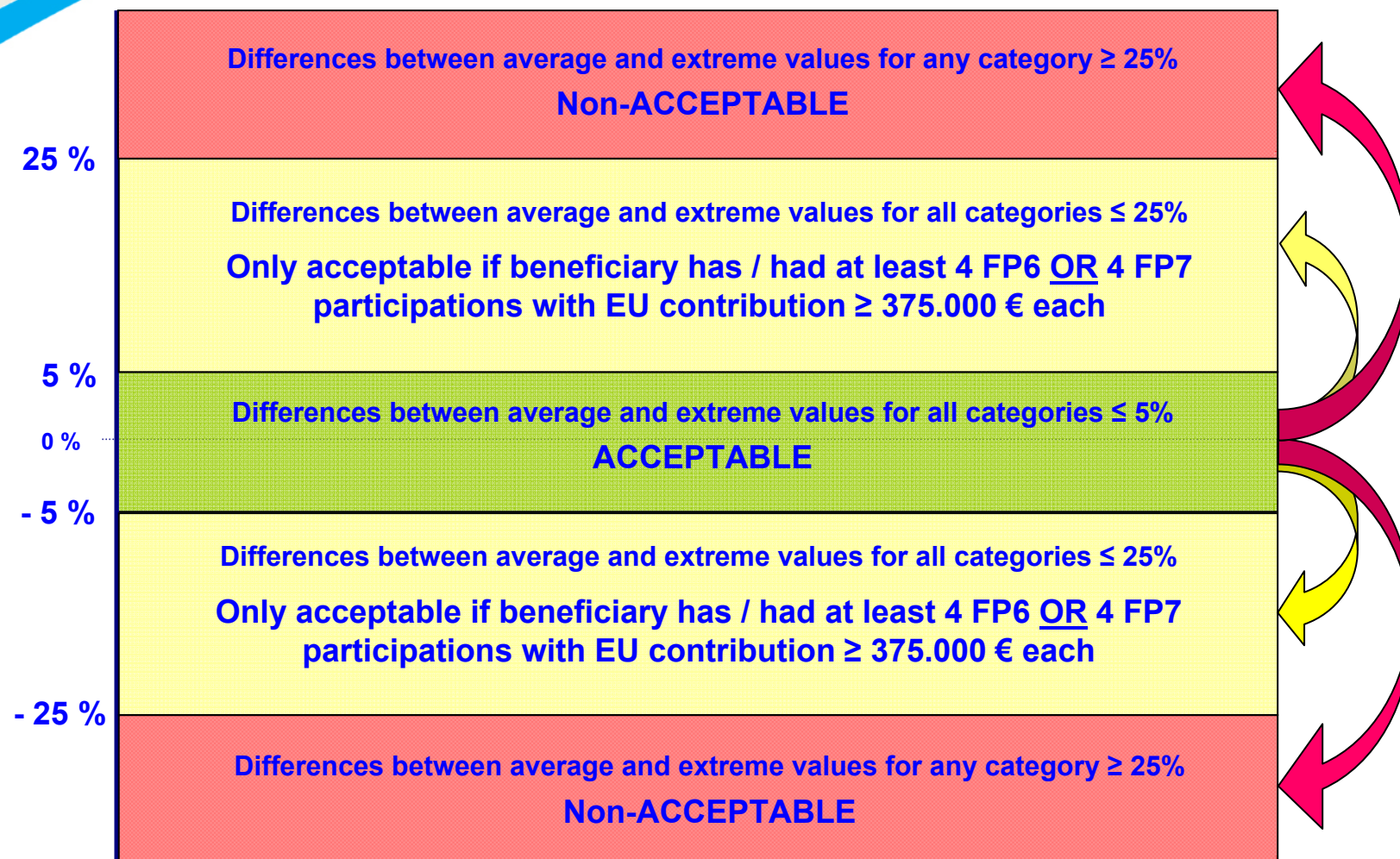
Adopted by Commission Decision on 23 June 2009

- ⇒ 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 contribution<sup>1</sup> 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.

<sup>1</sup> 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

# ACCEPTABILITY CRITERIA

## Graphic view



# PRACTICAL EXAMPLE

The following table presents the different categories of an hypothetical methodology along with the data requested in Form E regarding the personnel costs -

	Category	Number of employees	Lowest pay	Highest pay	Average	Median	Lower % variation with the average	Upper % variation with the average	Annual Prod. hours	Average rates
Heads of department	1	6	163.317,24	187.623,18	176.231,46	177.331,19	-7,33%	6,46%	1600	110,14
	2	12	96.230,09	108.878,16	103.452,78	104.487,42	-6,98%	5,24%	1600	64,66
Senior Researchers	3	27	85.051,33	132.725,16	99.332,67	95.574,42	-14,38%	33,62%	1650	60,20
	4	45	75.171,21	85.051,33	80.813,27	81.621,49	-6,98%	5,24%	1650	48,98
Junior Researchers	5	3	66.438,77	85.051,33	75.266,26	74.659,01	-11,73%	13,00%	1680	44,80
	6	30	58.720,81	75.171,21	66.522,82	65.986,08	-11,73%	13,00%	1680	39,60
	7	75	51.899,37	66.438,77	58.795,06	58.320,70	-11,73%	13,00%	1680	35,00
Technicians	8	30	46.900,00	51.192,14	49.339,30	49.806,42	-4,94%	3,76%	1680	29,37
	9	18	40.541,79	51.899,37	45.928,40	45.557,86	-11,73%	13,00%	1680	27,34
	10	66	27.325,00	45.870,42	39.529,65	40.265,55	-30,87%	16,04%	1680	23,53
	11	12	31.669,67	40.541,79	35.877,47	35.587,99	-11,73%	13,00%	1680	21,36
Assistants	12	7	27.990,70	35.832,14	31.709,70	31.453,88	-11,73%	13,00%	1680	18,87
	13	30	24.739,12	31.669,67	28.026,10	27.799,99	-11,73%	13,00%	1680	16,68
	14	3	21.865,26	32.450,00	25.327,79	24.570,52	-13,67%	28,12%	1680	15,08
Trainees	15	15	19.325,23	24.739,12	21.892,88	21.716,27	-11,73%	13,00%	1680	13,03
	16	6	17.500,00	19.100,00	18.401,15	18.545,86	-4,90%	3,80%	1680	10,95





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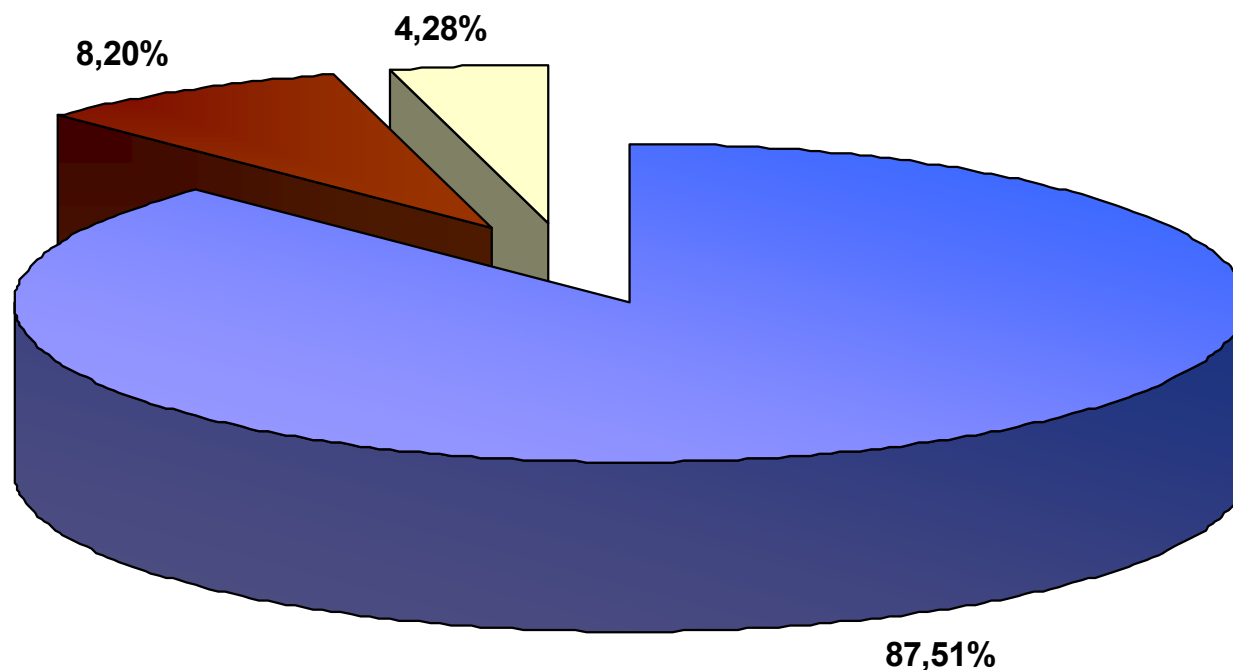
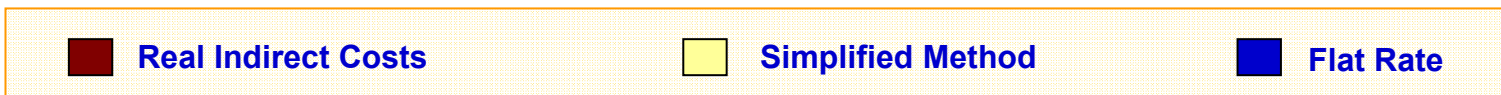
**FOCUS ON**

# Indirect Costs

# Indirect costs methods in FP7

- **Based on actual indirect costs:** as registered in the accounts of the beneficiary according to its usual accounting and management practices adjusted, when necessary, in order to eliminate all ineligible costs
  - **Real** (analytical accounting system)
  - **Simplified**
- **Flat-rates on eligible direct costs:** to be calculated on the direct eligible costs excluding subcontracting and costs of resources made available by third parties which are not used in the premises of the beneficiary
  - **Flat rate 20%** (standard, optional for any beneficiary)
  - **Flat rate 60%** (reserved to non-profit public bodies, research organisations, secondary and higher education establishments, SMEs)

# Universities and indirect cost methods in FP7



Data: sample of 1097 higher or secondary education establishments having signed EU research grants between May 2009 and May 2010

## Simplified Method

Article II.15.2 of the FP7 model Grant Agreement states that:

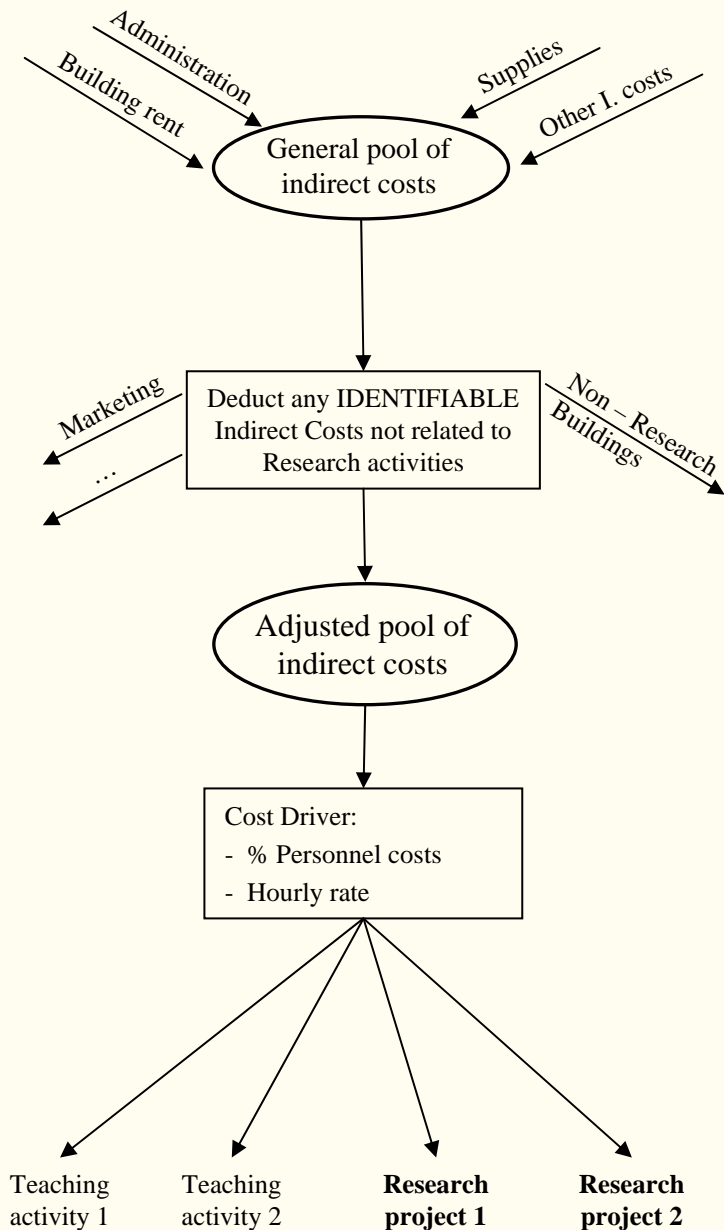
« A beneficiary is allowed to use a simplified method of calculation of its full indirect eligible costs at the level of its legal entity if this is in accordance with its usual accounting practice »

« The simplified approach must be based on actual costs derived from the financial accounts of the last closed accounting year »

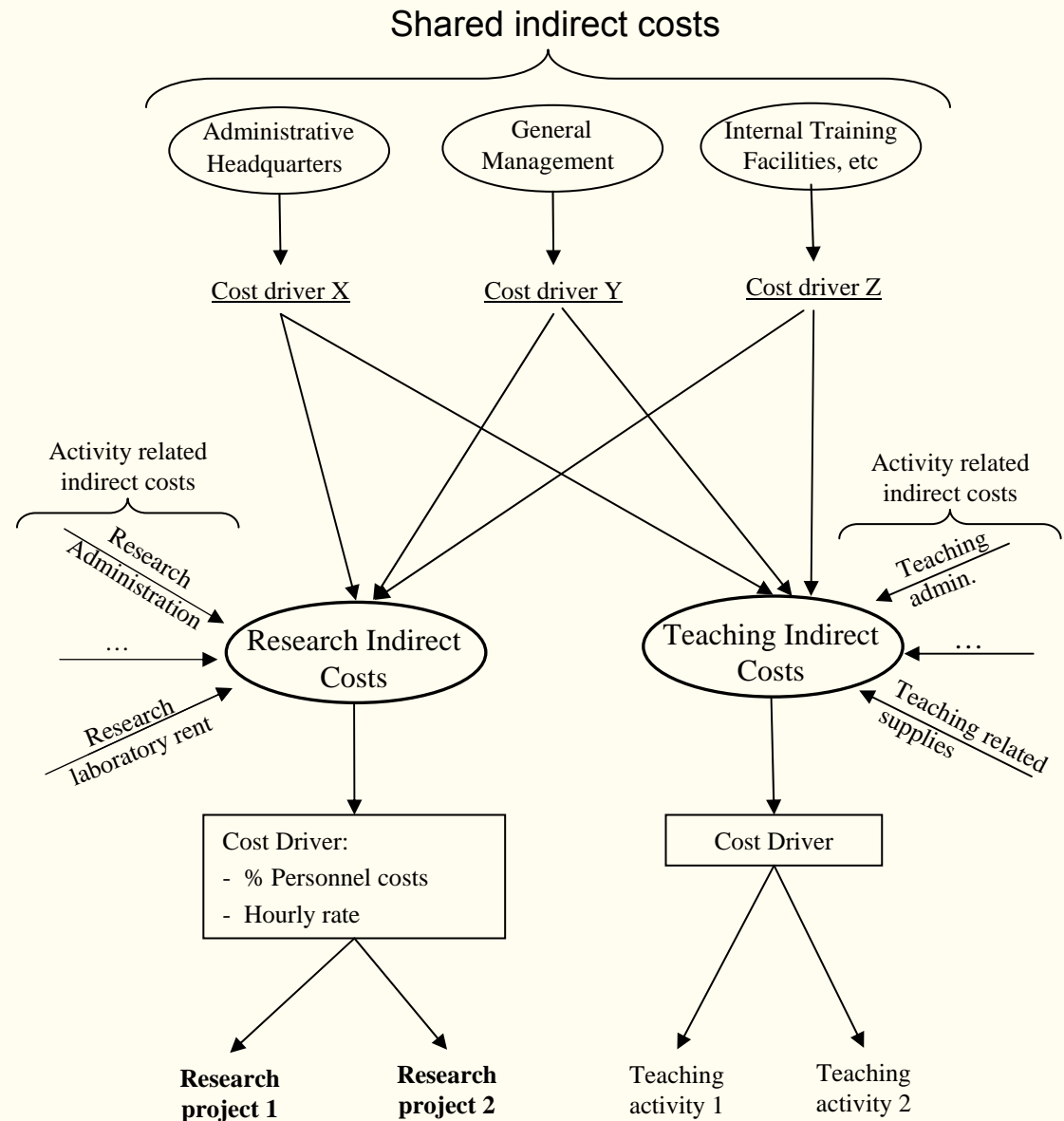
The FP7 Guide to financial issues establishes the following requirements:

- 1/ The system must allow isolation of the ineligible costs
- 2/ It must at least allow for the allocation of the overheads at the level of the legal entity to the individual projects by using a fair "driver"
- 3/ It should follow the normal accounting principles and practices of the beneficiary

## Simplified Method



## Analytical system



## Which method in FP7?

		Real Indirect Costs		Flat Rate	
		Normal	Simplified	20%	60% <sup>1</sup>
Do I have an analytical accounting system allowing to determine with certitude the indirect cost related to research activities ?	YES	✓		✓	
IF THE ANSWER IS <b>NO</b> , THEN:					
Do I have an accounting system allowing to identify all my indirect costs and a reliable cost driver to allocate them?	YES		✓	✓	✓
	NO			✓	✓

*1 Only applicable to Non-profit public bodies, Secondary and higher education establishments, Research organisations and SMEs*

## Particular case of SME owners and physical persons not receiving a salary



In FP6 no specific provisions for the particular case of SME owners without a salary; general eligibility criteria applied (only actual costs registered in the accounts are eligible)



FP7 Guide to financial issues states that:

« [Physical persons without a salary] *must opt to declare average personnel costs, on the basis of a certified methodology approved by the Commission [...], based on their income (e.g. tax declarations) as recognised by national law (usually fiscal law)*”

**In FP7, personnel costs charged by the beneficiary (in this case SME owner or physical person) on the basis of a certified methodology are deemed not to differ significantly from the actual costs**

# Special cases : Physical persons , SME owners

## Salaries paid and accounted for

SME owners  
Self employed,  
One-man companies  
Physical persons



Salaries represent *actual* cost, they are eligible in accordance with the GA



**NO Certificate (CoMAv)**



Costs eligible in the same way as any other company/legal entity which claims costs on the basis of actual costs.

## Salaries NOT paid and NOT accounted for

SME owners  
Self employed,  
One-man companies  
Physical persons



must opt to declare *average* personnel costs, on the basis of a certified methodology



**Certificate (CoMAv) needed**



Costs are eligible if :

1. In accordance with grant agreement
2. Certified methodology, based on their income (e.g. tax declarations) as recognised by national law (usually fiscal law) and **approved by the EC**



# Certification

## State of Play (as of 8 November 2010)

Type of Certificate	Eligibility Requests		CERTIFICATES				
	Submitted	Accepted	Submitted	Accepted	Rejected	Withdrawn	Pending
CoM Average Personnel Costs and IC	109	67	<b>22</b>	<b>5</b>	<b>9</b>	<b>2</b>	<b>6</b>
CoM Real Personnel Cost and IC			<b>19</b>	<b>10</b>	<b>2</b>	<b>1</b>	<b>6</b>
Certificate Average Personnel Costs (CoMAv)	N/A		<b>64</b>	<b>29</b>	<b>9</b>	<b>16</b>	<b>10</b>
TOTALS			<b>105</b>	<b>44</b>	<b>20</b>	<b>19</b>	<b>22</b>

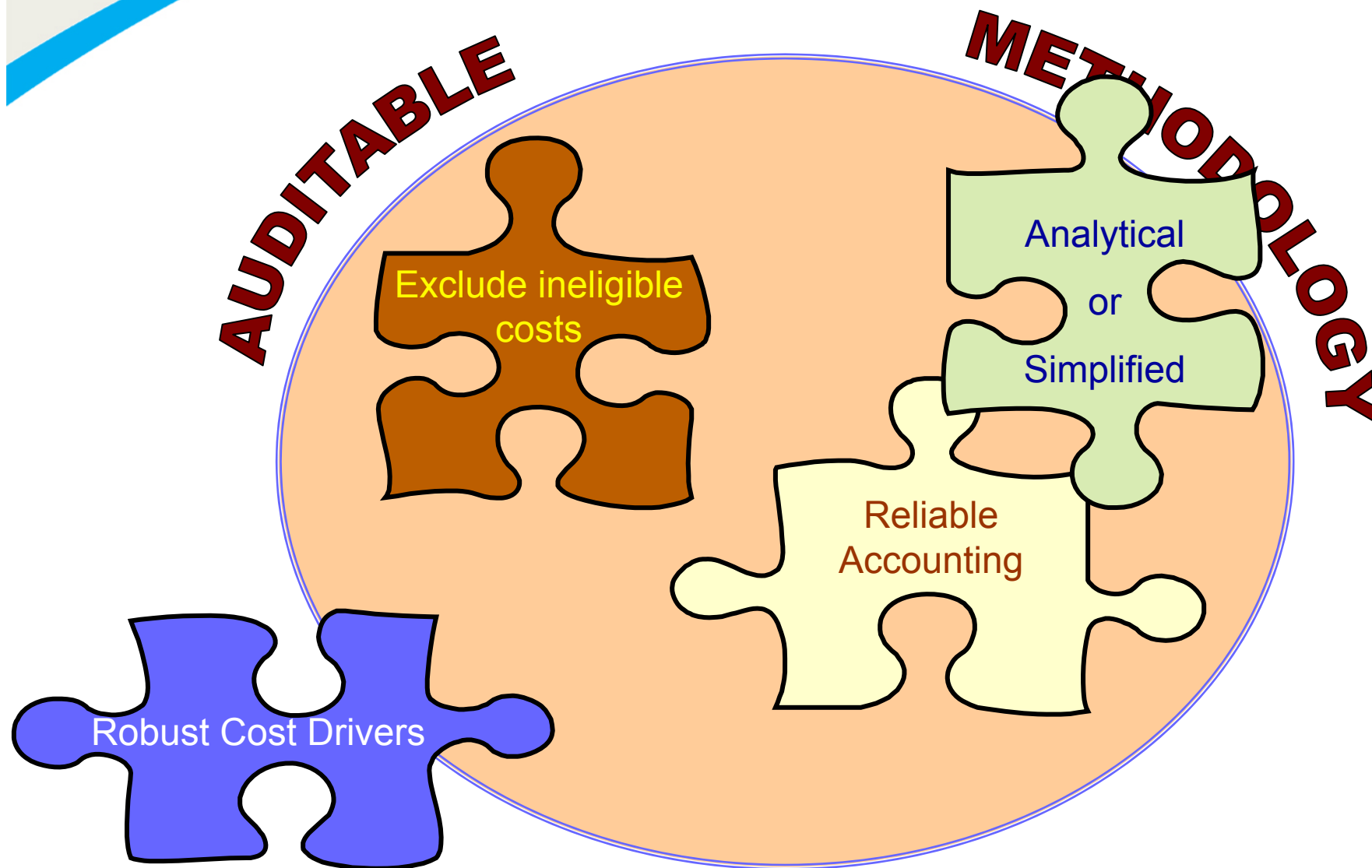
# Rejection of Certificates & Main reasons

Recurrent underlying reasons for the rejection of certificates

- weaknesses in time-recording,
- non-compliance with acceptability criteria decided by the Commission for average personnel costs,
- ineligible costs included in direct and indirect costs

# Actual Indirect Costs Methodologies

## Minimum requirements for FP7



# Reliable accounting

## Definition and requirements (I)



Article II.14.1 of the FP7 Grant Agreement: “*Eligible costs of the project*”

Costs incurred for the implementation of the project shall meet (**ALL**) the following conditions in order to be considered eligible:

- a) They must be **actual** (no estimated or budgeted)
- b) Incurred by the beneficiary (be careful about third party contributions!)
- c) Incurred during the duration of the project
- d) In accordance with the accounting principles of the beneficiary (**when compatible with the other eligibility principles**)
- e) Incurred « for or in relation to the project » and in accordance to the principles of economy, efficiency and effectiveness
- f) **Recorded in the accounts of the beneficiary**
- g) Indicated in the estimated budget (Annex I of the Grant Agreement)

## Reliable accounting Definition and requirements (II)



In addition, the accounting system must permit to differentiate direct costs (charged directly to projects) from indirect costs (allocated via cost drivers) in order to avoid double charging.

### Example:

The university considers chemicals for the laboratory as part of the indirect costs as they are commonly and indistinctly used for several projects. However, a specific research project needs an unusually large amount of an expensive chemical and this is ordered specifically for the project and charged to it as a direct cost.

**The accounting system must permit to identify and deduct these costs from the pool of indirect costs in order to avoid double charging**

# Reliable accounting

## Auditor's verifications (Forms D & E)



### Certificate on the Financial Statements (Form D)

#### Procedure 10: Indirect costs

*"The Auditor obtained a detailed breakdown from the accounting system of the indirect costs which have been charged to the contract, and reconciled the individual amounts to the general ledger of the Beneficiary."*

### Certificate on the Methodology (Form E)

#### Procedure 4: Indirect costs

*"The breakdown of indirect costs used to calculate overhead rates was reconciled to the accounting records"*

*"This breakdown did not contain costs relating to direct project activity"*

## Exclude ineligible costs

### Definition and requirements



Article II.14.3 of the FP7 Grant Agreement: “Eligible costs of the project”

*The following costs shall be considered as non-eligible and may not be charged to the project:*

- a) identifiable indirect taxes including value added tax,*
- b) duties,*
- c) interest owed,*
- d) provisions for possible future losses or charges,*
- e) exchange losses, cost related to return on capital,*
- f) costs declared or incurred, or reimbursed in respect of another Community project,*
- g) debt and debt service charges, excessive or reckless expenditure.*

**Not everything registered as a cost is eligible, the accounting system must be able to identify and deduct ineligible costs from the pool of indirect costs.**

**Example: irrecoverable VAT**

## **Exclude ineligible costs**

### **Auditor's verifications (Forms D & E)**



#### **Certificate on the Financial Statements (Form D)**

##### **Procedure 10: Indirect costs**

*” For each element of the breakdown, the Auditor obtained the Beneficiary's confirmation that it contained none of the ineligible costs specified (typical examples are leasing costs, loan charges, provisions for doubtful debt (but not normal accruals), local business and property taxes, customs duties, exchange losses from billing in a foreign currency).”*

#### **Certificate on the Methodology (Form E)**

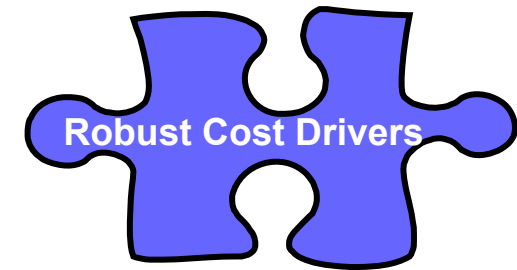
##### **Procedure 5: Indirect costs**

*” The Auditor reviewed the breakdown provided by the Beneficiary in order to check that the ineligible items specified were eliminated ”*



# Robust cost drivers

## Definition and requirements



**A cost driver is a variable with a cause-effect relationship to a cost / a group of costs used as allocation key to distribute these costs among activities / projects / cost objects.**

**In order to be robust and fair, a cost driver should have certain characteristics:**

**RELEVANT:** It must have a reasonable cause-effect relationship to the cost being allocated

Example: the IT maintenance costs being distributed among departments based on the number of PCs of each department

**OBJECTIVE:** Based on FACTS not on thoughts

Measurable and measured

**VERIFIABLE:** Audit evidence supporting the cost driver

Example: using the number of employees working in each department to distribute the costs of Human Resources department (the number of employees in each department can be verified)

## Robust cost drivers

### Objective cost drivers



Estimated costs resulting from subjective cost-drivers can not be considered actual costs

- ~~▪ *I think that...*~~
- ~~▪ *It should be around...*~~
- ~~▪ *My experience tells me that...*~~

} Subjective  $\Rightarrow$  Non-Actual  $\Rightarrow$  **Not eligible**

**OBJECTIVE:** Based on FACTS not on thoughts  
Measurable and measured

To be objective, the cost-driver must be based on measurable (and measured) facts

*Example: working hours of academics is a measurable fact, however, without a reliable time-recording system (thus “not measured”) the cost driver will not be objective as it would be based on estimations*

## Robust cost drivers

### Auditor's verifications (Forms D & E)



#### Certificate on the Financial Statements (Form D)

##### Procedure 10: Indirect costs

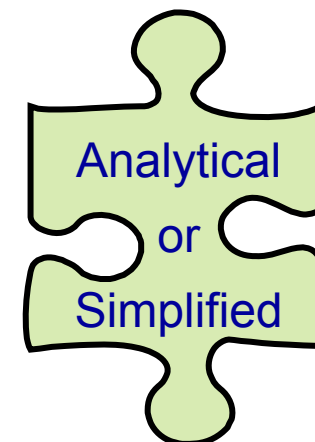
*” The Auditor found that costs for the non-research activities of the Beneficiary, such as manufacturing, education, marketing of products or services, etc., had not been included in the calculation.”*

#### Certificate on the Methodology (Form E)

##### Procedure 5: Indirect costs

*” For each allocation method used by the Beneficiary, the Auditor reconciled the amount to be allocated to the accounting records, and reconciled the allocation basis to the relevant management accounting information (usage records, floor space, activity-based-costing, headcount, etc.)”*

## Analytical or Simplified Definition and requirements (I)



### *Simplified Method*

The use of this method is optional, however “Simplified” does not mean “Simple”

- > accounting system which enables to identify all eligible indirect costs
- > a reliable cost driver to allocate the indirect costs

It is called ‘Simplified’ because the calculation can be done at ‘entity’ level (i.e. not by departments, activities, etc) when a more refined alternative is not possible.

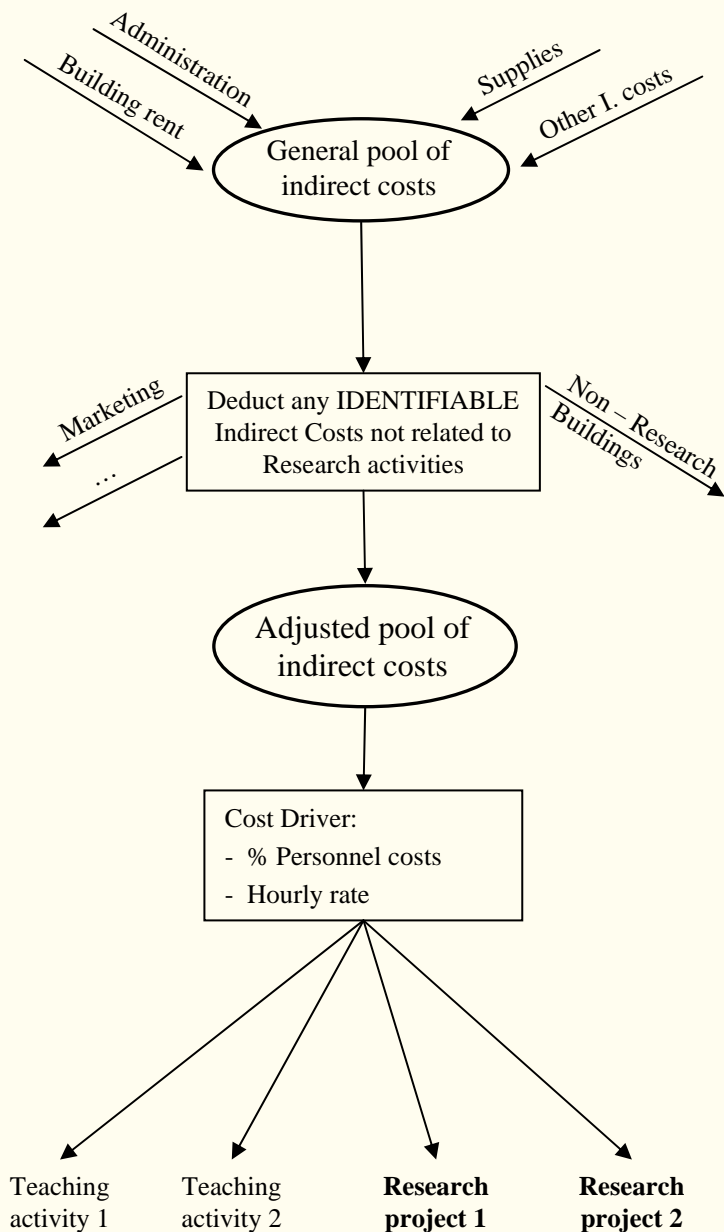
Foreseen for beneficiaries who do not aggregate their indirect costs at a detailed level but at entity level (e.g. beneficiaries without analytical accounting system or with cash-based accounting) and beneficiaries migrating from flat-rate methods in previous framework programmes.

# General concepts: Simplified overheads method

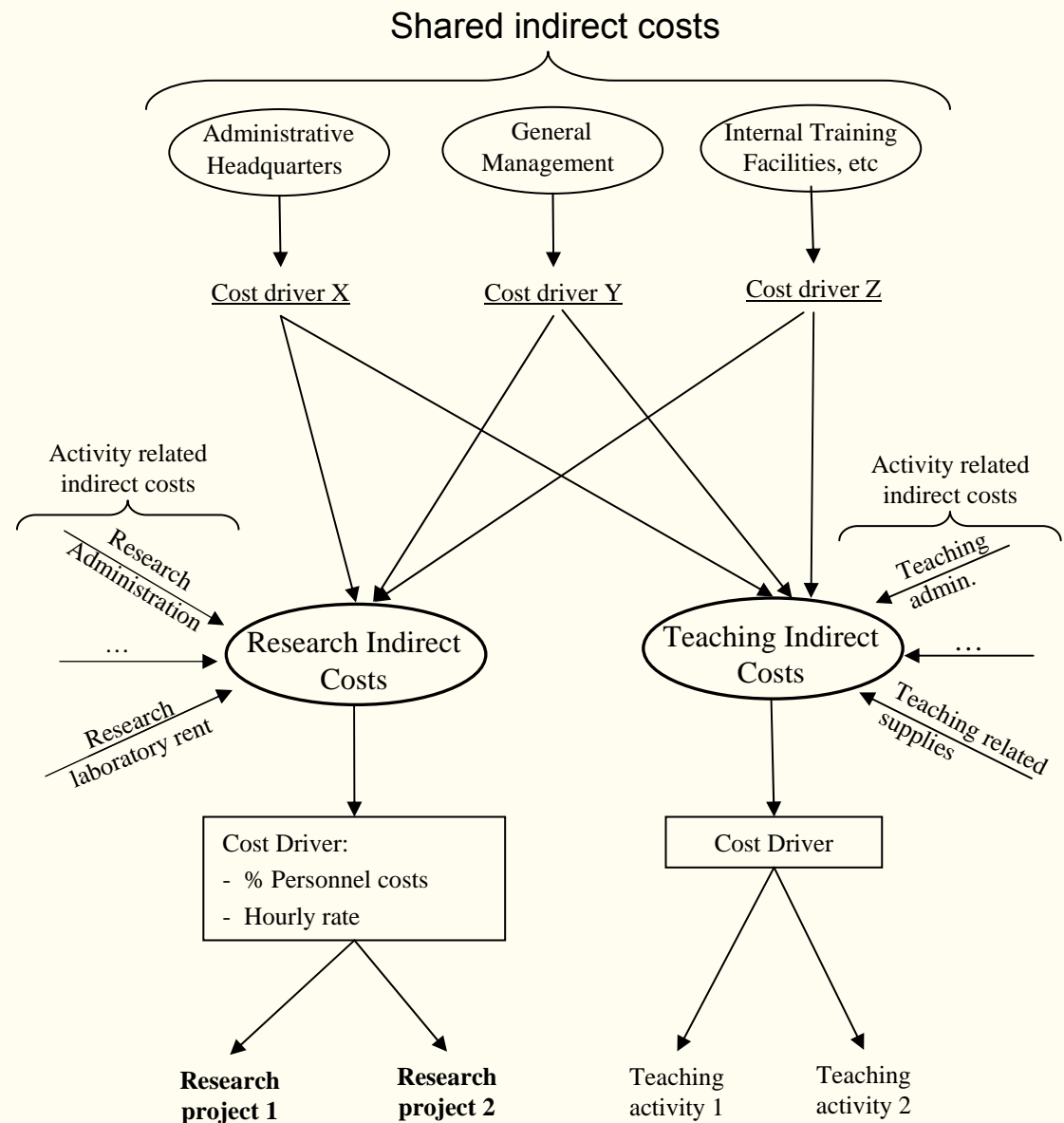
- Pooling of overheads at the level of the legal entity
- Start from the last approved annual accounts
- Remove non eligible costs (VAT, marketing, etc)
- Use a fair key or driver for the distribution
- Example: overhead pool includes research and teaching; then the number of productive hours should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



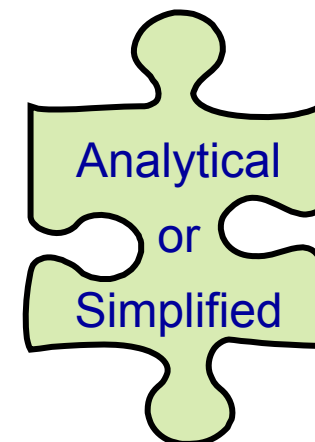
## Simplified Method



## Analytical system



## **Analytical or Simplified** **Auditor's verifications (Forms D & E)**



### **Certificate on the Financial Statements (Form D)**

#### **Procedure 11: Indirect costs – Simplified method**

*” The Beneficiary may use a simplified method of calculation (either due to the lack of analytical accounting or legal requirement to use a form of cash-based accounting). This does not permit the use of a generalised estimate, or the use of a 'standard' rate that is not derived from the accounting records of the period in question.”*

### **Certificate on the Methodology (Form E)**

#### **Procedure 6: Indirect costs – Simplified method**

*” If the organisation is using a simplified indirect cost calculation (either due to the lack of analytical accounting or use of a form of cash-based accounting) all estimates are clearly described and are based on factual criteria which can be objectively confirmed.”*

## SOME ADVICES

- ⇒ Design your full-costing methodology according to your management, control and decisional needs and, where necessary, implement separately adjustments to fulfil the EC cost reporting requirements.
- ⇒ Choose the most adequate costs-drivers for your organisation. Analyse your structure, needs and information availability to make the choice.

And a final advice...

***“ The hardest thing in the world to understand is the income tax ”***

Albert Einstein - 1921 Nobel Prize in Physics

Use wisely your resources:

RESEARCHERS to do RESEARCH

ADMINISTRATIVE STAFF to do ADMINISTRATION





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# On-the-spot auditing



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The way to increased assurance

# Audit tools: audits on-the-spot

## Audits by EC auditors (RTD-A.04)

- Approx. 25% of audits
- i.e. audits of top beneficiaries
- Specific audits (follow-up, requests, ...)

## Audits by Contracted firms (RTD-A.05)

- Approx. 75% of audits
- i.e. MUS selection and risk based
- Supervision of the audit by EC services

## Types of audit:

- Batch audits
- Fusion audits
- Coal and steel audits
- Third countries audits
- Audits on Request
- Joint audits: carried out together with other DGs or the European Court of Auditors
- Follow-up audits (desk review and/or on-the-spot)
  
- Differences with the audits of the ECA
  
- The particular case of the scientific and technical audits

# Technical audits and reviews

## The technical *audit*

- Is performed at beneficiary level, to assess the technical performance of beneficiary(ies) within specific work package(s) of the project
- Is always be done on the spot, preferably during the lifetime of the project (up to 5 years after project end)
- Optional for all FP7 projects.

## The technical *review*

- Is performed at project level by Project Officers and/or external experts to give external advice to the Commission
- Can be done remotely or on the spot
- Optional for all FP7 projects

# Project technical reviews and Technical audits

- Art.23, Annex II of FP7 Grant Agreement
- Guidance notes and templates for project technical review involving independent experts (FP7 Collaborative projects, Networks of Excellence, Coordination and support actions of 10/11/2008)
- (see: [ftp://ftp.cordis.europa.eu/pub/fp7/docs/project\\_review\\_en.pdf](ftp://ftp.cordis.europa.eu/pub/fp7/docs/project_review_en.pdf))
- the main differences between a project technical review and a technical audit are the following<sup>[1]</sup>:
- <sup>[1]</sup> It should be kept in mind that both technical audits and reviews are mentioned in the same FP7 article and have the same 'legal' requirements and contents. Thus the conceptual difference and different requirements between 'project technical review' and 'technical audit' made in this paper does not have a legal basis.

# **A project technical review**

- Is performed at the project level by Project Officers and/or external experts to give external advice to the Commission,
- Can be done remotely or on the spot,
- Is mandatory for FP6 NoEs and IPs and optional for all FP7 projects.

# A technical audit

- Is performed at beneficiary level, to assess the performance of one or more beneficiary (ies) within one (or more) specific work package(s) described in the work plan (DoW),
- Can be performed by POs and/or external experts, in agreement with Art II.23 of the FP7 Grant Agreement and Art II.29, Annex II of the FP6 Contract,
- Is always done on the spot,
- Should (*preferably*) be done during the lifetime of the project but can be done up to five years after the end of the project,
- Is not performed on a planned periodic basis but rather following a PO's request based on his/her assessment of risks and/or a technical review recommendations ,
- Performed with the desk assistance of the UAF and where appropriate with the 'support of' or 'jointly with' the external financial audits unit.

It should be noted that, in the regular follow-up of a project, the PO will monitor its progress essentially with the following tools:

1. Assessment of periodic project reports and complementary documents if appropriate.
2. Assessment of results presented during project meetings and clarified in direct discussions between the beneficiaries and the coordinator.
3. Where appropriate through the project technical review.
4. Any other relevant information gathered through other channels.

# Audit tools: audit types (1)

	Selection	Purpose
Corrective audits	<ul style="list-style-type: none"> <li>• Specific risk profiles</li> <li>• Focus on top beneficiaries (50% of the budget)</li> <li>• Flexible in view of peculiarities present in the populations of different RDGs/EAs</li> </ul>	<ul style="list-style-type: none"> <li>• Wide audit coverage</li> <li>• Identify and correct errors in the most cost-effective way possible</li> <li>• ‘Clean’ min. 50% of budget from systematic material errors</li> <li>• Long-term prevention of issues found (‘fixing the future’)</li> <li>• Fraud detection and prevention</li> </ul>
Other types (system, scientific/technical, FUSION...)	<ul style="list-style-type: none"> <li>• On request or pre-selected</li> </ul>	<ul style="list-style-type: none"> <li>• Verify compliance with certified methodologies</li> <li>• Identify and correct systemic problems</li> <li>• Provide additional assurance on specific parts of the budget</li> <li>• Complement scientific audits</li> </ul>

# Audit tools: audit types (2)

	Selection	Purpose
Representative audits	<ul style="list-style-type: none"> <li>•Monetary Unit Sampling (MUS) methodology (95% confidence level, 2% expected error rate, 5% materiality threshold = sample size 161)</li> <li>•Financial statements as sampling unit (FP6: beneficiaries)</li> <li>•Samples from the whole population (no stratification) of each RDG/EA</li> <li>•Possibility of multiple samples</li> </ul>	<ul style="list-style-type: none"> <li>•Determine the amount of error present in the population</li> </ul> <p style="text-align: center;">↓</p> <p style="text-align: center; color: magenta;">Representative error rate</p> <ul style="list-style-type: none"> <li>•Contribute to the Declaration of Assurance of the AOD</li> <li>*Corrective as well as representative</li> </ul>



# Error rates: representative

## Representative error rate (RepER%)

Measures the amount of error present in the population



**Corrective measures, step 1: The effect of auditing**



# Error rates: representative (2)



All errors removed from the audited portion of the budget

Corrective measures, step 2: The effect of extrapolation



# Error rates: residual

## Residual error rate

Measures the amount of error left in the population after corrections



**Systematic errors removed from the non-audited portion of the budget received by audited beneficiaries**



$$ResER\% = \frac{(RepER\% * (P - A)) - (RepERsys\% * E)}{P}$$

## Participation of Italy in FPs

Only the most  
relevant  
Instruments  
are detailed

<b>FP5 (1671 contractors)</b>		
	<b>Number of Contracts</b>	<b>Sum of EC Contribution</b>
<b>Total</b>	<b>3386</b>	<b>733.018.218</b>

<b>FP6 (1333 contractors)</b>		
<b>Instrument/Project Funding Scheme</b>	<b>Number of Participations *</b>	<b>Sum of EC Contribution</b>
CA	204	27.755.630
CRAFT	154	24.584.672
EIF	105	11.923.848
IP	311	331.510.892
RTN	116	41.051.399
SSA	241	19.502.839
STREP	752	258.061.919
<b>Grand Total</b>	<b>2347</b>	<b>931.124.844 *</b>

<b>FP7(818 beneficiaries)</b>		
<b>Instrument/Project Funding Scheme</b>	<b>Number of Agreements</b>	<b>Sum of EC Contribution</b>
Art.171	34	25.283.552
CP	999	618.207.642
CP-CSA	74	53.469.687
CSA	348	60.305.035
NOE	8	9.260.235
<b>Grand Total</b>	<b>1463</b>	<b>766.526.152 *</b>

## FP5-FP7: 127 Italian contractors have been audited

<i>Framework</i>	<i>Sum of Audited costs</i>	<i>Sum of Adjustments</i>	<i>% resid</i>
Coal & Steel ( 1 auditee)	1.960.294,63	-61.019,83	-3,11%
FP5 ( 51 auditees)	22.593.018,99	-159.156,89	-0,70%
FP6 ( 81 auditees)	196.886.317,91	-3.909.071,55	-1,99%
FP7 ( 9 auditees)	2.238.681,69	16.739,30	0,75%
<b>Grand Total</b>	<b>223.678.313,22</b>	<b>-4.112.508,97</b>	<b>-1,84%</b>

## Open & scheduled audits (IT)

Framework	BA	CA	FA	FU	RA	Grand Total
FP6	2		4		1	7
FP7	24	1		1		26
<b>Grand Total</b>	<b>26</b>	<b>1</b>	<b>4</b>	<b>1</b>	<b>1</b>	<b>33</b>

Total organisations: 134

## Closed audits (IT)

FP	2002	2003	2004	2005	2006	2007	2008	2009	2010	Grand Total
FP7									15	15
FP6					5	16	38	22	22	103
FP5	6	15	12	3	8	8				52
CS								1		1
<b>Grand Total</b>	<b>6</b>	<b>15</b>	<b>12</b>	<b>3</b>	<b>13</b>	<b>24</b>	<b>38</b>	<b>23</b>	<b>37</b>	<b>171</b>

## Audited participations – (closed audits - IT)

FP	NBR of Audited participations	TOTAL Audited costs	TOTAL Adjustments (EC share)	Detected Error rate (EC share)
CS	4	1.960.294,63	-30.509,92	-4%
FP5	67	22.576.417,37	-141.988,25	-10%
FP6	237	206.967.760,57	-3.735.373,22	-9%
FP7	19	4.009.734,97	63.177,33	-1%
<b>Grand Total</b>	<b>327</b>	<b>235.514.207,54</b>	<b>-3.844.694,05</b>	<b>-8%</b>



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# General concepts & Frequent findings

## Frequent findings (1)

<b>RTD audits FP 6</b>	<b>No. of adjustments</b>	<b>% no. of negative adjustments</b>	<b>% of the total adjustment amount</b>	<b>% of the total costs accepted by Financial Officers</b>
Adjustment to costs previously reported	88	3,80%	2,00%	0,20%
Audit certificates	3	0,10%	0,00%	0,00%
Consumables and computing	182	7,80%	2,70%	6,20%
Durable equipment	87	3,70%	3,10%	2,50%
Management of the Consortium	9	0,40%	0,10%	0,20%
Other costs	388	16,60%	8,30%	10,30%
Personnel	420	18,00%	46,60%	41,60%
Protection of knowledge	0	0,00%	0,00%	0,10%
R & T Development / Innovation / Training	7	0,30%	0,30%	0,20%
Subcontracting	90	3,90%	16,40%	13,70%
Total indirect costs	672	28,80%	14,50%	18,60%
Travel and subsistence	378	16,20%	1,30%	3,10%
Various others	13	0,60%	4,80%	3,30%
<b>Grand Total</b>	<b>2337</b>	<b>100,00%</b>	<b>100,00%</b>	<b>100,00%</b>



## Frequent findings: General eligibility criteria

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

*Eligible costs (article II.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 II.14 of Grant Agreement) cont.*

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

### *Direct costs*

- Ineligibility of direct taxes (i.e. identifiable VAT)
- Necessity and plausibility of purchases (not reckless)
- « Entertainment » costs
- Separation of direct and indirect cost items
- Internal invoicing
- *Interests* incurred on project funds

## 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!

# Personnel costs

- Calculation of productive hours
- Budgeted costs
- Insufficient evidence of working times (time recording)
- Specific Issues: **e.g.** bonus payments, In-house services, third-party contributions
- Average or standard cost systems (hourly rates) instead of actual costs -> significant deviation, certification

# Time recording



# Basic Principles

## Art II.15.1 of the FP7 model Grant Agreement:

*"...only the costs of the actual hours worked by the persons directly carrying out work under the project can be charged."*

## FP7 Guide to Financial Issues

- *Employees have **to record** their time on a daily, weekly, or monthly basis using a paper or a computer-based system*
- *The **time-records have to be authorised** by the project manager or other supervisor*
- *The complete time recording system should **enable reconciliation** of total hours in cases where personnel work on several projects*

Records must be detailed by activity performed!

# 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	Wed 04/02
<b>EC-Projects</b>			
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			
<b>Other research projects and Internal activities</b>			
Teaching			
Training			
National Projects			
(...)			
<b>Absences</b>			
Annual Leave			

# 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)	<b>1575</b>

# 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**

### ***In any case...* (on time recording)**

A time-recording system is mandatory

A *reliable* time-recording system is mandatory

The reliability is assessed by the auditors

Alternative evidence can be...

- requested
- *always* requested
- requested in the interest of the contractor

## 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

## 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: 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



# 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**

## 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

# Subcontracting

- Exception to the non-profit philosophy of the EC grants
  - Requirement of prior approval in the contract or by project management of the Commission
- Audit process: Verification at subcontractor in case of significant amounts (foreseen in subcontracting provisions)
- Procedures « best value for money »
- Ineligibility of VAT on subcontracts
- Subcontractors vs third parties contribution

# 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



# 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

## Indirect costs

Population of *Italian* participations in Fp5 to 7 :

61% = AC/FCF

28% = FC

Audits on *Italian* participations in Fp5 to 7

73% = AC/FCF

23% = FC

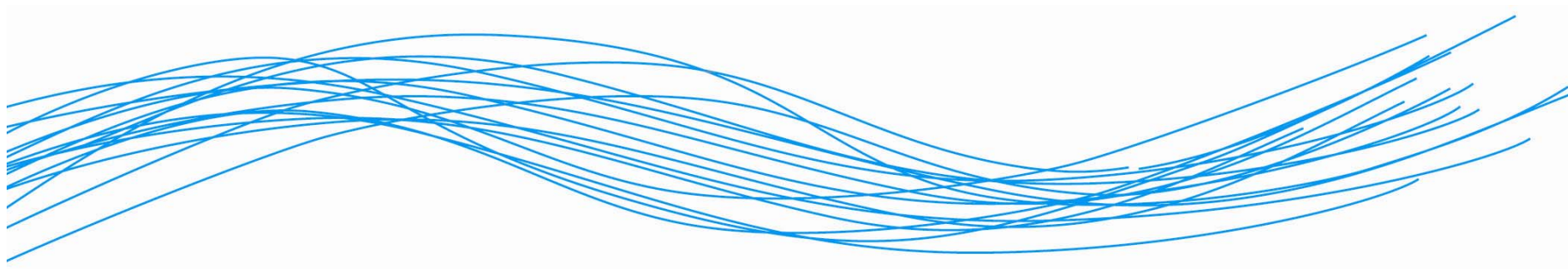
Other specific cases =>100%



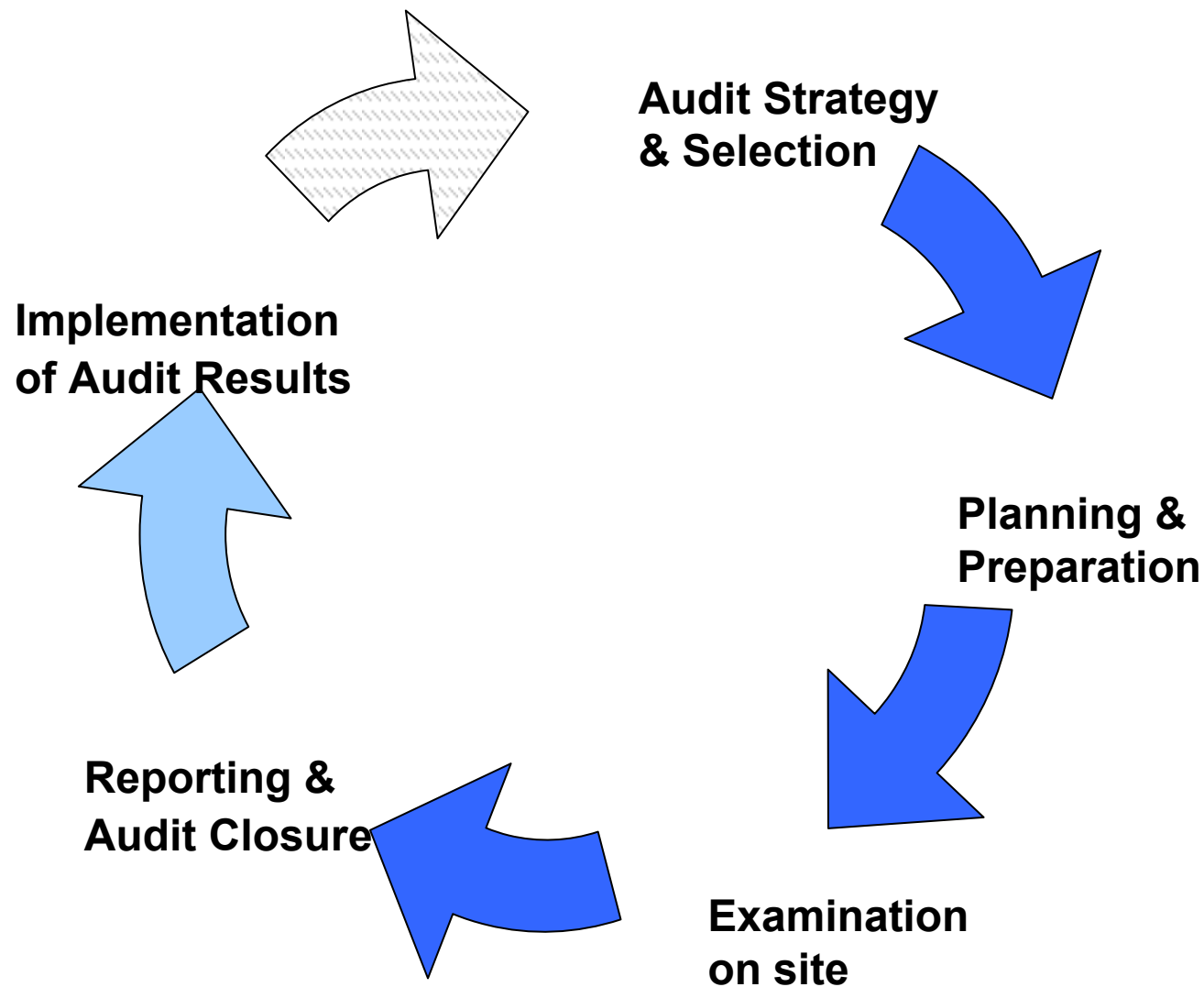
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# The audit cycle



# Audit Cycle





# Audit Cycle - Timeline

**Audit Strategy  
& Selection**



**Planning &  
Preparation**

**3 months**



**Examination  
on site**

**1-3 months**



**Reporting &  
Audit Closure**



**Implementation  
of Audit Results**

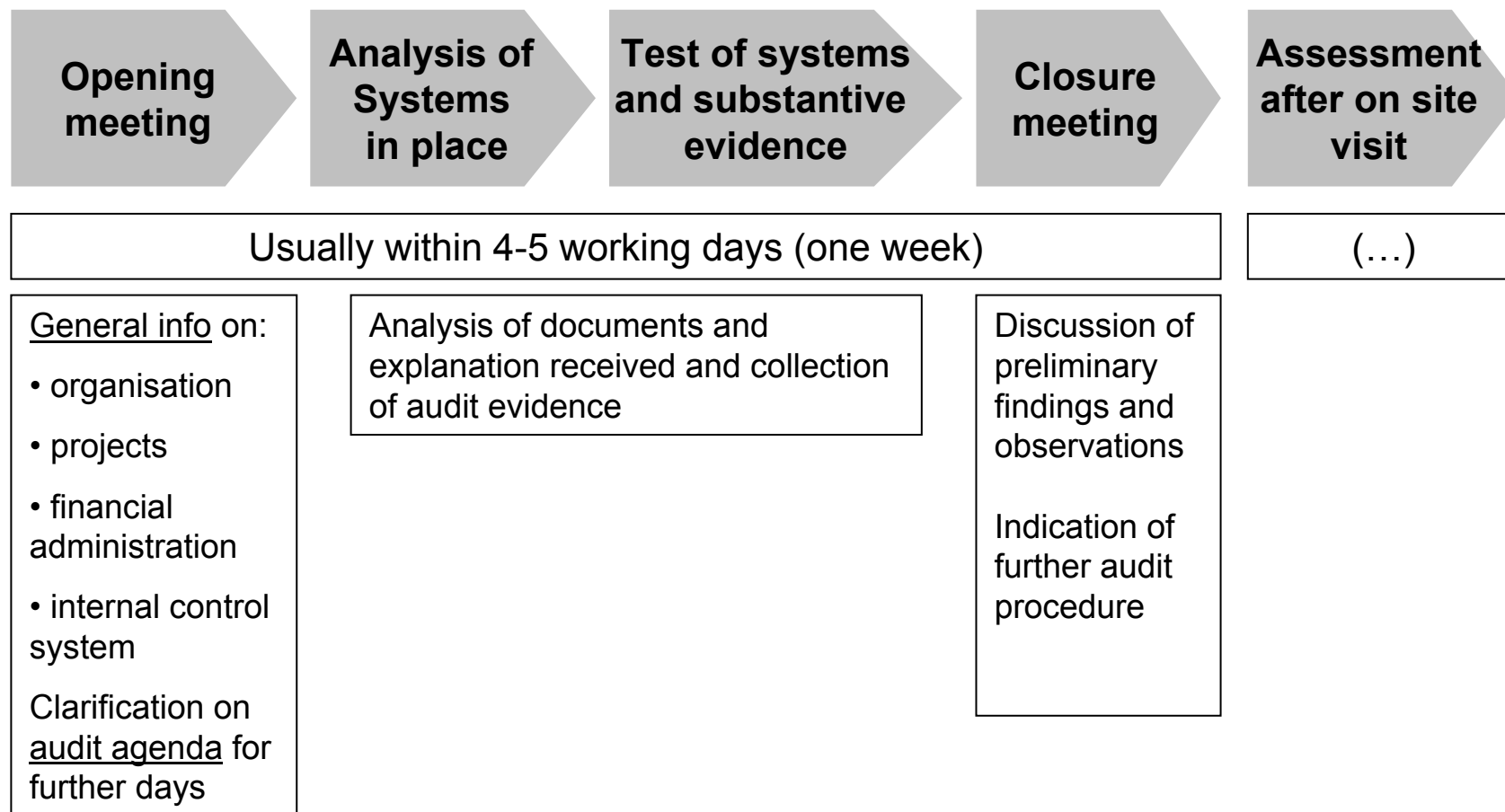
# Planning & Preparation: General

- Initial contact by the responsible auditor approx. 2-3 month before examination on site to agree on dates and logistics
- Formal letter to announce the audit including detailed annex on information and documentation to be provided
- Collection of audit information (internal and external)

# Planning & Preparation: Information requested

- Detailed annex to announcement letter includes precise list of information to be provided either
  - Prior to the audit examination on site (by mail)
  - At the time of the audit examination
- Most relevant information in the early preparation are the detailed project accounts matching the total as claimed in the financial statements (Form C)
- Exact information requests to be provided in advance also depending on the individual project(s) and audit scope

# Examination on site



# Reporting and Closure of the Audit

- Transmission of Draft audit report (after internal consultations) for comments by the audited organisation
  - Usually based on the preliminary conclusions
  - Delay (30 days) to provide comments to the draft
- Consideration of comments and finalisation of the audit report
- Closure of the audit by formal letter indicating the further procedures on the implementation of audit results

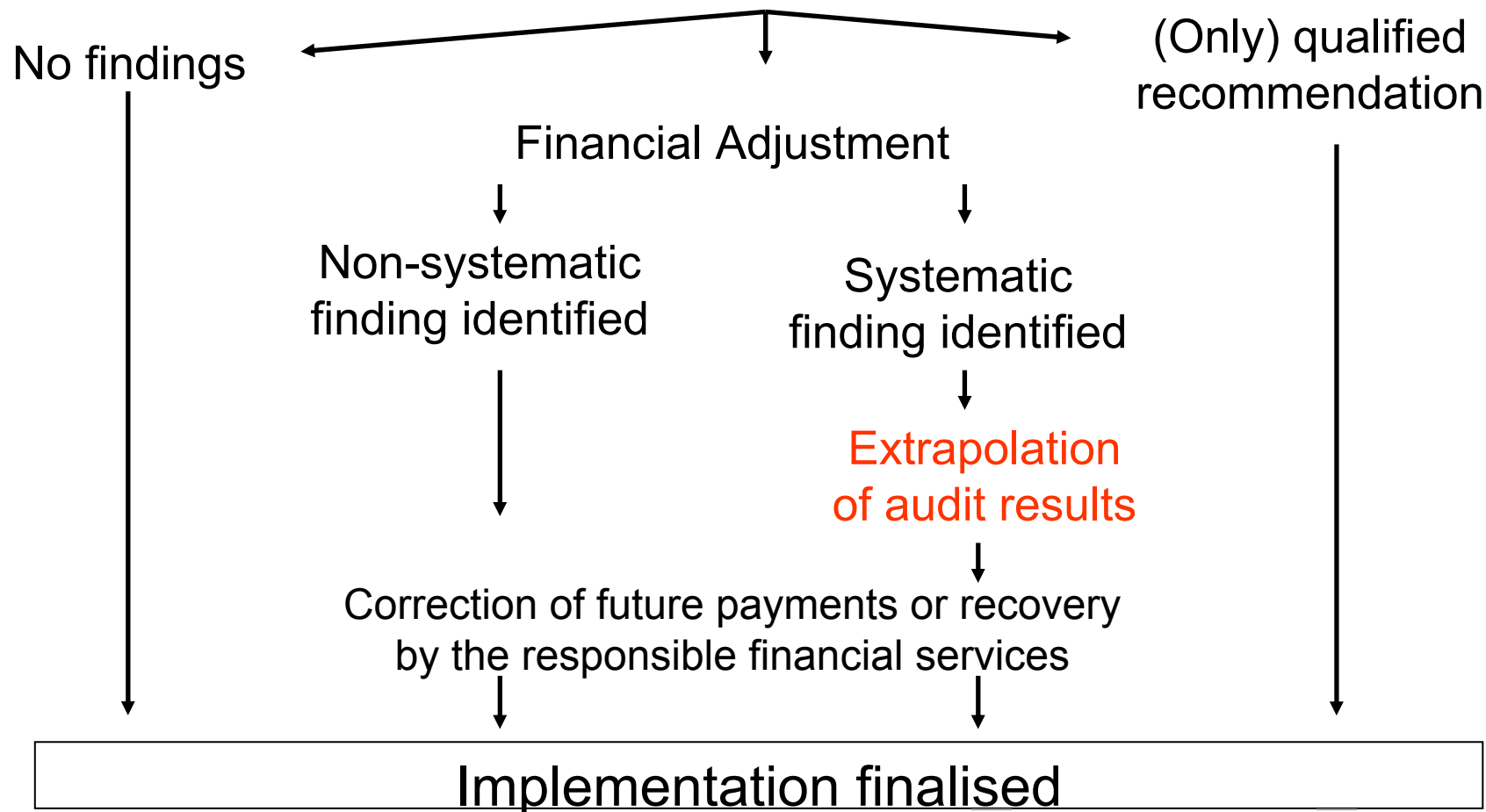


**END OF THE AUDIT**

## Implementation of audit results: General

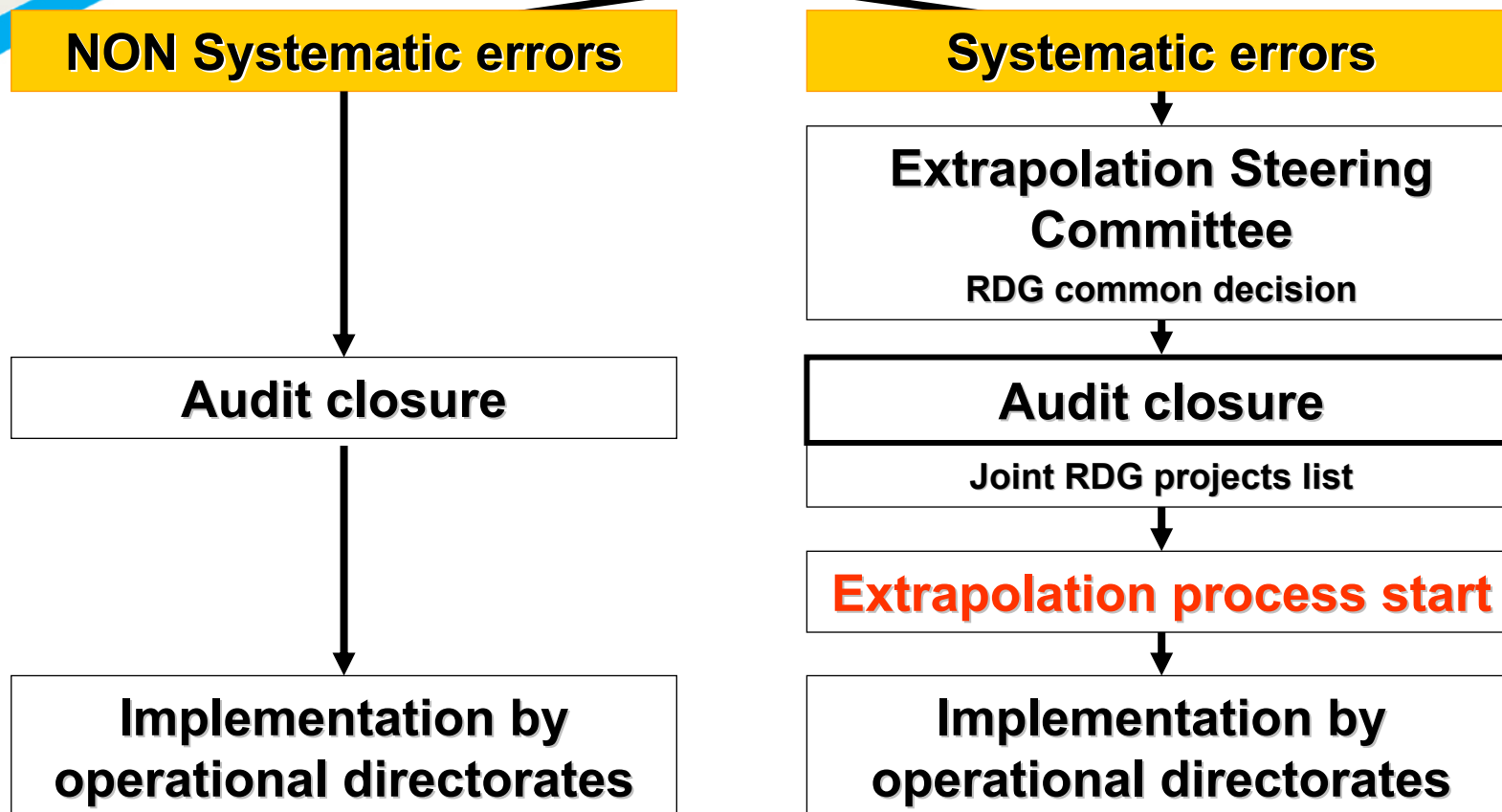
- Financial adjustments administered by the operational EC service in charge of the project management (in RTD, decentralised)
- Besides adjustment possibility of liquidated damages
- Consideration of serious audit findings (i.e. high adjustments) in future project and contract negotiations

# Implementation of Results: Cases



***Follow-up Audit***

## Implementation of Audit Results (2)





## Implementation of Results – Systematic Finding

- The implication of this type of error is that the contractor is not complying with his contractual obligation in a systematic way.
- Assumption:
  - Can imply that all currently open and closed contracts under the same framework program (FP) are affected and might need to be adjusted
- Impact:
  - Contractor will be asked to reconsider all financial statements handed in under the same FP and where necessary recalculate and revise the statements
  - possible adjustments through flat rates correction



# Implementation of Results – Extrapolation procedure I

- Common decision of all Research DGs which are concerned by having contracts with the organisation audited.
  - However, decentralised follow-up of implementation of results
- Detailed formal Letter of Closure of the Audit indicating procedures to be followed and including a list of contracts subject to extrapolation (consolidated for all Research DGs)
- 3 months delay to hand in revised financial statements or appropriate explanations on the listed contracts
- Follow-up audits

## Extrapolation (2)

### Commission Communication (SEC(2009)1720)

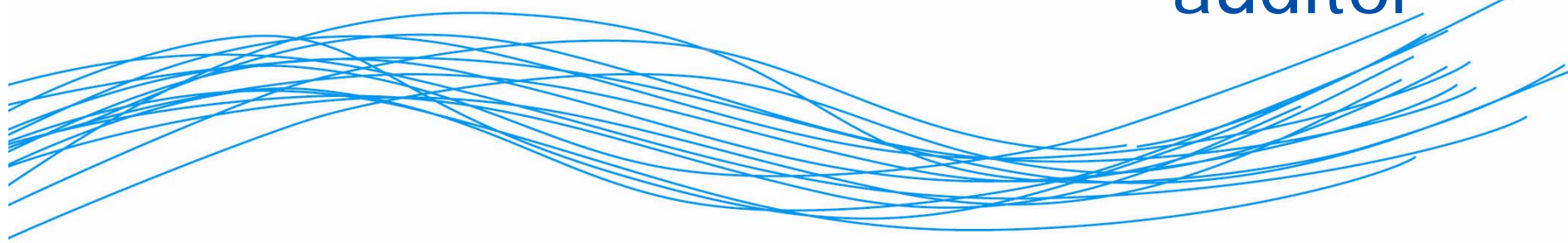
- Eligibility of personnel taxes and social charges
- Re-analysis by the Legal Service
- Different options for the contractors to apply flat-rate corrections



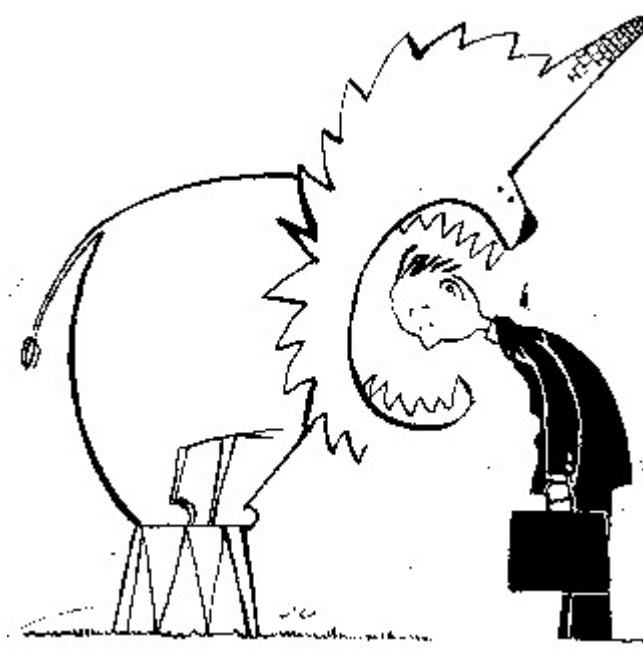
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# How to handle an auditor



# How to handle an audit(or): who is who in the picture?



# Audit *on-the-spot* – Preparation

- Selection of Contracts
- Input audit file
- Contacts with contractor
- Formal Announcement
- Logistics



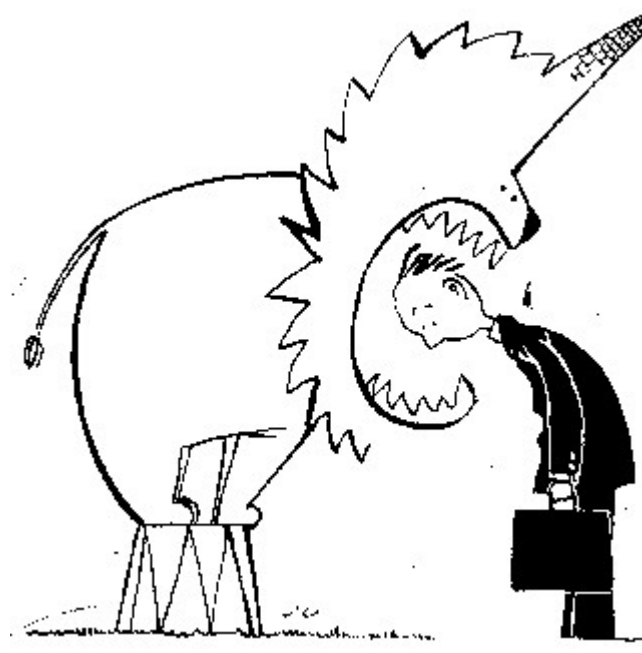
# Audit on-the-spot - Execution

- Opening meeting: clearly explain the audit scope
- Review accounting system and internal control procedures
- Substantive testing (collection of additional audit evidence)
- Closing meeting: clearly preliminary findings

**Audit Process  
Handbook**

# Audit: Behaviour on-the-spot

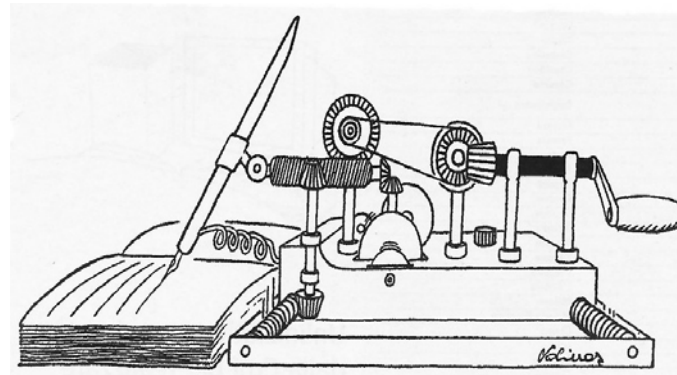
- Be CPF
  - competent
  - polite
  - firm





# Follow-up and finalisation

- Draft reporting
- Contradictory procedure
- Letter of representation (LoR)
- Final audit report
- Letter of conclusion (LoC)



# Quality control

- Quality check on audit report for
  - Coherence
  - Completeness
  - Correctness
  - Compliance with the Audit Handbook
  
- Audit Steering Committee





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# Questions (and answers?)

## Certificazione della metodologia di calcolo dei costi diretti di personale e dei costi indiretti (7FP CE)

L'istruttoria per il rilascio della certificazione è lineare ma non è chiaro in che maniera si può sollecitare la chiusura dell'istruttoria ed allo stesso tempo garantirci il rilascio della certificazione da parte della commissione. Ci sono dei margini di negoziazione nel caso di parere negativo?

## Ex-post audit

Nel caso in cui gli external auditors rilevino dei findings ne fanno ovviamente rapporto.

In seguito alla nostra amministrazione è chiesto un commento “a difesa” che però sembra esclusivamente “formale”.

Qual è la maniera per contestare uno stralcio che la nostra amministrazione potrebbe ingiustamente subire? Solo il contenzioso? Come si attiva? C’è una società di audit inglese che applica in modo del tutto soggettivo la normativa italiana in materia del trattamento di fine servizio (TFS).

## Criteria e procedure

I programmi di finanziamento europei seguono in linea di principio le stesse regole di finanziamento fatte però alcune differenze che possono pesare negativamente se non riusciamo ad istruire i ricercatori/responsabili di progetto in tempo per la negoziazione.

Ci sono delle iniziative volte ad armonizzare i diversi criteri di ammissibilità e procedure tra le diverse DG?

## Network

Questa è una domanda ed una proposta.

Esiste un **canale “informale”** (es. un blog) in cui tutti i soggetti beneficiari” possono:

- incontrarsi per scambiare delle esperienze
- oppure porre dei quesiti
- ricevere delle risposte immediate da parte della commissione
- e discutere le procedure e criteri?

## Certificazione

In caso di accoglimento del certificato di cui al punto 1) è possibile richiedere il certificato anche per le altre azione della CE?





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## Tempo produttivo

Nell'ipotesi di ex-post audit, quali sono gli aspetti presi in considerazione per verificare la metodologia di calcolo del tempo produttivo e, quindi, l'eleggibilità dei costi del personale?

## In-house consultants

Nell'ipotesi di ex-post audit, quali sono i controlli per verificare l'eleggibilità dei costi del personale associati a liberi professionisti (self-employed physical persons) o consulenti intra-muros?

## Costi di manutenzione

I costi del personale tecnico responsabile per la manutenzione quotidiana dell'attrezzatura può essere dichiarato come costo del personale (nei limiti del tempo di utilizzo dell'attrezzatura per il progetto) oppure come *overheads*?

## Metodologia errata

Cosa succede nel caso in cui un audit rileva che un'organizzazione sia stata validata/rimborsata con una metodologia di calcolo dei costi indiretti errata?

## Costi indiretti

Quali sono le principali differenze tra ‘Simplified method’ e ‘Actual indirect costs’ nel calcolo dei costi indiretti? E’ possibile fornire degli esempi pratici?

## Research for the benefit of SMEs/1

Una fattura dell'RTD Performer non è stata completamente liquidata dalla SME nel relativo *reporting period* (perché la CE non ha ancora provveduto alla distribuzione del pagamento intermedio/finale), ma successivamente alla sua fine. E' eleggibile?

## Research for the benefit of SMEs/1 answer

- "No" ,in case of **Intermediary payments**. In the Form Cs, the SMEs should only claim real costs incurred. Real costs for SMEs means costs for the SMEs based on paid invoice(s) from the RTDs. The RTD invoices themselves do not necessarily have to be solely based on costs. As it is a commercial transaction between the SMEs and the RTDs, the RTD may for instance claim half of the budget foreseen if it has done half of the work.
- On the case of **Final payments**, incurred cost but not paid can be claim and accepted in the Form C as an exception as foreseen in the Financial guidelines: " *It may be that despite that the ownership of the good has actually been transferred **or the service provided** some costs have not yet been paid when the request for the final payment is sent. This situation is acceptable if it is certain that a debt exists (invoice or equivalent) for services or goods actually supplied during the lifetime of the project and the final cost is known*" (Article II.14.1 – Eligibility criteria - page 36)

## Research for the benefit of SMEs/2

Nel caso in cui il Coordinatore trasferisca il pre-financing direttamente agli *RTD Performers* per conto delle SME (*Consortium agreement*), come è possibile registrare l'importo nella contabilità delle SME (considerando che non ricevono il pre-financing)? Esempi?



## Research for the benefit of SMEs/2 answer

- REA advises against an arrangement agreed at consortium level whereby the coordinator holds on to the pre-financing and is subsequently mandated to pay invoices of RTD performers on behalf of – **and based on explicit authorisation from the SMEs**. The REA believes that such an arrangement may weaken the effective control of the SMEs over the performance of the RTD performer in accordance with the transaction.
- Each single payment made by the coordinator to the RTD Performer on behalf of an SME must be based on an **explicit approval and instruction for payment on the part of the SME**. The SMEs need to ensure that the invoices issued by the RTD Performers are addressed to the SMEs and duly recorded in the accounts of the latter. All the transfers from coordinator to RTD performers can be done only when receiving the explicit authorisation from the SME. The RTD performer's invoice should match with a payment instruction from SME to coordinator.
- REA requires that the **coordinator is able to prove at any time that payments made to the RTD performers on behalf of the SMEs are based on explicit authorisation from the SMEs concerned**.

## Research for the benefit of SMEs/2 answer EXAMPLE

- In a first step the company should book the *"right acquired by the grant"* (4..) against the *"income generated by the grant"* (74..).
- In a second step, the *"expenditure in R&D"* (6..) ( RTd invoice) should be match by crediting the *"right acquired by the grant"* (4..) ( Payment instruction to coordinator)

---

(4..)  
(book the rights of the grant)

---

(74..)  
Book of the income generated by grant

---

(6..)  
Expenditure in R&D  
(RTD Invoice)

---

(4..)  
Rights of the grant  
(Payment instruction to Coordinator)

## Research for the benefit of SMEs/3

Un RTD Performer può fatturare un importo maggiore e un altro RTD Performer fatturare un importo minore rispetto a quello indicato nella *transaction*, cosicché l'importo totale è lo stesso? Se sì, è necessario un emendamento?

## Research for the benefit of SMEs/3 answer

- It is a case by case issue to be dealt at a technical level with the Project Officer in charge of the project.

## Research for the benefit of SMEs/4

Qual è la procedura di audit applicabile agli RTD Performers? Sono soggetti agli stessi criteri di eleggibilità previsti per gli altri partecipanti al VII PQ?

## Research for the benefit of SMEs/4 answer

- Yes, the costs they report are subject to the same eligibility criteria.
- In addition and if there is no agreement of REA or the SME on the deliverable/outcome of the research activities, the RTD performer may also be subject to the audit of the « effort ».

## Contratti di collaborazione/1

I contratti di collaborazione a progetto non prevedono un costo orario ma solo il pagamento di un corrispettivo per l'attività svolta. I timesheet possono servire per rendicontare l'effort ma non per stabilire il costo da caricare sul progetto. Vede ostacoli alla stipula di contratti di collaborazione con pagamenti mensili di 1/12 dell'importo annuale nonostante nei timesheet siano rendicontate mensilmente effort diversi?

## Contratti di collaborazione/2

E' possibile e, se si, come rendicontare un collaboratore su due o più progetti di ricerca se questi non può avere un costo orario? Si potrebbero stipulare più contratti, ma è accettabile per la Commissione che il ricercatore possa avere su più progetti compensi diversi, se rapportati all'impegno effettivo (che si conosce solo ex post con i timesheet)?



## Contratti di collaborazione/3

E' accettabile che un ente privato stipuli con un ricercatore un contratto a programma per più attività e che poi indichi in addendum successivi i temi/progetti su cui impegnarsi?

**1512 ore/1**

La circolare MIUR indica 7,2 ore al giorno di lavoro per un professore che per 210 giorni lavorativi portano ad un monte ore complessivo annuo di 1512 ore: tali parametri sono usati inter alia per rendicontare i progetti di ricerca finanziati dal MIUR. Un revisore per conto dell'UE ci ha recentemente detto che la Commissione preferirebbe fossero calcolate 8 ore al giorno per 1680 ore annue, a meno che non si riesca a dimostrare con un timesheet complessivo di tutte le attività quale sia l'impegno complessivo annuo di ogni professore. Ci è stato detto che la Commissione non ritiene sufficiente le dichiarazioni del Ministero dell'Università perché non hanno valore di legge e che quindi sarebbe necessario o dimostrare che i professori non lavorano più di 7,2 ore al giorno o passare a calcolare giornate di lavoro da 8 ore, che per 210 giorni lavorativi, portano ad un impegno annuo di 1680 ore. E' effettivamente così?

**1512 ore/2**

La legge di organizzazione delle università, già approvata dal Senato della Repubblica Italiana in data 29 luglio 2010, che dovrebbe essere votata dalla Camera dei Deputati dopo l'approvazione della legge finanziaria dice testualmente all'art. 6.1 "Il regime di impegno dei professori e dei ricercatori è a tempo pieno o a tempo definito. Ai fini della rendicontazione dei progetti di ricerca, la quantificazione figurativa delle attività annue di ricerca, di studio e di insegnamento, con connessi compiti preparatori e di verifica, e organizzativi, è pari a 1500 ore annue per i professori e ricercatori a tempo pieno e a 750 ore per i professori e i ricercatori a tempo definito". Quando questo testo diventerà legge, le università italiane potranno "tranquillamente" passare a rendicontare 1500 ore?

## Tasse Aeroportuali

Proprio sul caso delle tasse aeroportuali, le linee guida finanziarie del 7PQ dicono che le 'fees' sono costi ammissibili mentre le 'duties' non sono rendicontabili. Poiché spesso il costo delle tasse aeroportuali è molto rilevante sul valore complessivo dei biglietti aerei, abbiamo svolto una piccola indagine ed abbiamo scoperto quali sono quelle più frequenti. Secondo lei, quali possono essere sicuramente etichettate come 'fees', quali certamente 'duties' ed ancora quali sono in dubbio? La Commissione non potrebbe redigere un elenco non esaustivo, aggiornato periodicamente anche sulla base di input come questo?

## Tasse Aeroportuali

- EX      tassa di sicurezza sui bagagli da stiva (introdotta con D.M. 14 mar 03)
- FN      IVA sui tre corrispettivi indicati sopra
- FR      tassa aviazione civile, incassata dallo Stato: finanzia il funzionamento dell'amministrazione dell'aviazione civile e della pianificazione del territorio
- HB      addizionale comunale (introdotta dalla legge 350 del 24 dic 03 e pari a €1,00)
- IT      tassa d'imbarco (reiterata da ultimo con D.M. 14 nov 00)
- VT      tassa di controllo sui bagagli a mano (introdotta con D.M. 5 lug 99 e pari a €1,81)
- XT      tassa di sicurezza e di difesa dell'ambiente, riscossa dallo Stato: finanzia le misure di sicurezza, come il controllo dei passeggeri e dei bagagli, o ancora la protezione contro gli incendi
- YQ      codice unico per costi di sicurezza/assicurazione e carburante (ovvero le famigerate *crisis surcharge* e *fuel surcharge*)
- YR      corrispettivo del servizio di vendita (varia a seconda del canale di vendita)
- MJ      passenger service charge Italy
- QX      passenger service charge France
- CH      Airport passenger security Switzerland
- BR      tassa d'imbarco Brasiliana
- AY      Passenger civil aviation security service - USA
- US      Transportation tax - USA
- GB      Air passenger duty - United Kingdom
- UB      Passenger service charge
- JD      Transportation tax

# ADDITIONAL INFORMATION



Guidance notes on FP7 audit certification

[http://cordis.europa.eu/fp7/find-doc\\_en.html#guidance](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](http://cordis.europa.eu/audit-certification/home_en.html)



FP7 Certification FAQs

[ftp://ftp.cordis.europa.eu/pub/fp7/docs/faq-certification\\_en.pdf](ftp://ftp.cordis.europa.eu/pub/fp7/docs/faq-certification_en.pdf)



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

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

# Topics discussed?

- The context
- Audit tools
  - Cost methodology certification
  - On-the-spot auditing
- General concepts & Frequent findings
- The audit cycle (including implementation of audit results and extrapolation)
- How to handle an auditor
- Questions (and answers?)



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# The

Thank you for your attention!

# End

Questions...?

