Agenda

- Introduction
- Personnel costs
- Subcontracting
- Other Direct Cost
- Wrap up
• Background and history

• Instruction on findings

• Consequences of findings: Report vs Adjust
Sample selection

Is the value of the population below the planning materiality level (5% of total costs declared)?

No

• Select all the items with a value higher or equal to 10% of the costs declared for the costs subcategory
• and add randomly selected items until you reach
  1) either 50% coverage of the costs declared in the sub-category
  OR
  2) a maximum number of 15 items.

Yes

Test the item with the highest value of the the population.

Definition of an item:
Personnel costs: a person declared in the action
Travel costs: one person costs for an event/ conference (NEW)
Consumables: one line in the breakdown
Equipment: one equipment from the breakdown
PERSONNEL COSTS

Structure of Procedures

• General Criteria
• Time Recording (we will see this first)
• Specific cases
• Employees
• Natural Persons under a direct contract
• Seconded by Third Parties
• SME Owners / Natural Persons not receiving a salary
PERSONNEL COSTS – TIME RECORDING

• Obtain an understanding of the time recording procedures of the Beneficiary.
• Review internal guidelines, review the system and perform interviews.

For fully computer-based time-recording system verify the 3 listed criteria (electronic signatures + password and user names policy; process for managing user rights; log of all electronic transactions)

Report and raise recommendations if any of the 3 listed elements to be checked for computer-based time recording is not fulfilled.

Request and Analysis of Alternative Evidence for all declared persons

If the issues identified are significant request the beneficiary to provide alternative evidence to support the relevant time declared.
Verification of the 6 formal minimum criteria for the Time recording system for the sample selected

- OK

Substantive Checks on annual holidays, statutory holiday, sick leave, other leaves, and work-related travel for the sample.

- OK

Time Recording Reliable

Beneficiary can complement or complete the timesheets.

- OK

Request and Analysis of Alternative Evidence for the affected persons.

- Missing elements? (with the exception of no. 4)

- Few missing formal criteria, with the exception of no. 4.

- Many exceptions for the sample

- Still many missing formal criteria, with the exception of no. 4.

- alternative evidence reliable for the affected persons

- Few exceptions for the sample
**Time Recording**

- The auditors are expected to review the TRS system. Reliable TRS is sufficient to prove assignment to the action

- The review should encompass
  - meetings;
  - walk through tests;
  - review of documents.

- Substantive testing is essential.

**EVIDENCE FOR DOUBLE CEILING**
PERSONNEL COSTS

Declaration for persons working exclusively on the action:

- Formal checks
- Review CV and internet (including the beneficiary website) -> identify contradictions
- Cross check with the scientific reports

- EVIDENCE FOR DOUBLE CEILING
Accounting Records and Reconciliation Differences

Differences between the Costs Declared & the Detailed Breakdown

HOW TO TREAT THEM?

IF CD > DB
- Adjust the difference

IF CD < DB
- Adjust only if: Limitation of Budget, Error in methodology or Unexplained difference

• REVIEW FOR NETTING OFFS, CREDIT ENTRIES, CANCELLATIONS, RE-INVOICING (6 MONTHS AFTER) -> ONLY IF NO PROJECT ACCOUNTING (NEW)

• EVIDENCE FOR DOUBLE CEILING
General Criteria

• *Certified Methodology*

-> If not applied, calculate eligible costs based on actual costs without proposing an adjustment yet

-> report the issue to the CAS
PERSONNEL COSTS

General Criteria

• Information request

▪ Breakdown per reporting period, with reference to financial years, for each category of personnel costs;

▪ Details for basic, complements, additional remuneration;

▪ Usual accounting & remuneration practices;

▪ Reports for certified statutory accounts
General Criteria

- **Information request**
  - Time recording system documentation and examples;
  - Example of Contracts;
  - Schedule meetings with HR, Payroll, Accounting departments, Time recording;
  - Schedule Interviews;
  - Send sampling results -> To prepare payslips, payroll, bank statements, contracts
General Criteria

• **Systematic Errors**

  ▪ request the Beneficiary to:
    ▪ recalculate the declared costs;
    ▪ remove the effect of the systematic errors for the whole population.

  ▪ verify the accuracy of the above
General Criteria

• **Systematic Errors**

  - if still no collaboration from Beneficiary (even after letter);
  
  - auditor may extend the results obtained from the sample to the rest of the population
General Criteria

- **Reconciliation of hours declared with time records**
  - Time records prevail
  - No positive adjustment if the Beneficiary limited the hours claimed
General Criteria

• **Payments**

  ▪ Review the beneficiary's usual payment timeframe;

  ▪ Ideally all sampled persons need to be tested;

  ▪ However the number of months to be checked is left at the discretion of the auditor
General Criteria

• Law on taxes, labour and social security

  ▪ Not intended to re perform statutory audits or national controls for compliance with national provisions.

  ▪ Not main purpose of the audit, rather an additional reason for disallowance.

  ▪ Reliance on not qualified statutory audit reports.
**General Criteria**

- **Law on taxes, labour and social security**
  - Direct impact on the amount claimed: e.g. incorrect social security rate -> adjust.
  - No impact on the costs claimed: failure to notify local authorities about the list of employees, if identified, report and raise recommendation.
General Criteria

- **Double funding**

  - Only 5 other actions / projects to be tested, instead of a representative sample. **ONLY IF NO PROJECT ACCOUNTING (NEW)**

  - Selection of the 5 other actions / projects is left at the discretion of the professional judgment of the auditor.
General Criteria

**Double funding**

- Only cost specifically earmarked for the audited action and funded by other EU sources or national funding for which EU funds are used, are to be rejected in full.

- ATTENTION: the same cost item cannot be financed twice but synergies are allowed.
PERSONNEL COSTS

General Criteria

• CVs & Interviews

- Selection of at least 1 person (NEW) per audited action is left at the discretion of the professional judgment of the auditor;

- The auditors are expected to make best use of their qualifications and experience;

- The opinion of the EC project officer may be necessary thereafter.
General Criteria

- **Reckless and Excessive**

  - 2 benchmarks: similar personnel and the SME owner unit cost rate. !!

  - Complement with professional judgment if necessary

  - REPORT first (no adjustment yet). !!
PERSONNEL COSTS

Specific Cases (IMPORTANT: regardless of the source of funding)

- Teleworking
- Benefits in kind
- Recruitment costs
- Remuneration of students
- Academic fees
- Parental leave
- Costs related to public officials
- Supplementary contracts: IMPORTANT

For all these cases refer to the AGA and the IAP
Specific Cases

- People working exclusively on the action
- Employees hired during on-going financial year
- End-of-contract indemnities (including bonuses paid after the end of the contract)
- Employment contract remunerated "per hour"
Further tests on Employees

- Procedures for Remuneration components: Basic, Complements, Variable, Additional (inspire from national tax law - !!!);

- ATTENTION: check the non-profit legal entity status – !!!;

- Definition of Additional remuneration has changed;
Specific Cases

- Personnel costs on the basis of the usual accounting practices (Unit costs – procedure)

(NEW - Double Ceiling for costs NOT applicable)

IMPORTANT: check conditions and application AND ensure that usual is usual (5 other projects)

- Budgeted elements
  If the budgeted or estimated figures represent less than 5% of the declared unit cost, it is considered that they do not play a major role and can be accepted. !!

- Exclude components of indirect nature !!!
Personnel Costs

Specific Cases

Budgeted elements!!:
If >5% compare with the actual costs:
1. If the actual costs cannot be determined the budgeted component will be considered ineligible. OR
2. If the actual costs can be determined adjustment will be proposed only if there are negative adjustments in the favour of the EC / AGENCY / JU (due to the use of the budgeted elements) higher than 5% compared to the declared unit cost.
Natural Persons under a direct contract

- The hourly rates may not be significantly different compared to similar employees*

- There are no OR no similar employees then this test is not applicable.

- A difference of up to 50% can be accepted, if justified. !!!
Natural Persons under a direct contract

- Identify artificially increased hourly rates

- Eg: Obtain information if the natural persons declared on the EU action have been working before for the Beneficiary based on a different type of contract;

- If identified apply project based / additional remuneration criteria.
PERSONNEL COSTS

SME Owners / Natural Persons not receiving a salary

• When Salary exclusively to the management of the SME
  -> apply unit costs

• Changes of remuneration status

• SME status NOT CHECKED
Key issues

- Compliance with the principle of Best Value for Money (BVfM) or Lowest Price
- Double funding
- Approach towards contracting authorities
Eligibility criteria which are deemed to be complied with, under certain given circumstances

1. Costs are necessary for the project;

2. Costs are justified, not reckless, comply with the principle of efficiency;

3. In case of "light" approval – the decision of the grant's award is not questioned, no breach of equal treatment of applicants
The tasks to be implemented and the estimated costs of each subcontract must be set in Annex 1 of the GA (Art.13.1.1).

Consequence of non-compliance:

A. Report – material discrepancies in the nature of the costs;

B. Reject – costs above the budgeted amount + 10% subject to assessment by the operational services. (To be reviewed at the level of the PAR)
Costs must be actually incurred by the Beneficiary (Art.6.1.a).

Consequence of non-compliance:

*If claimed amount > amount form list of items* => reject the difference

*If claimed amount < amount form list of items* => adjust only if in same situations as for personnel costs
Step 1 Accounting (1)

Costs must be actually incurred by the Beneficiary (Art.6.1.a). Costs must not include deductible VAT (Art.6.1.a.xi).

1. Underlying documentation exists in proper form;
2. Costs are recorded and paid;
3. VAT is excluded if deductible for the Beneficiary.

Consequence of non-compliance:
Costs are rejected
Step 1 Accounting (2)

Costs must be incurred during the project period defined in Art.3 of the GA. Costs must not be incurred during suspension of the action.

1. Check if delivery lies within the project period;
2. Check if costs are linked to final reports;
3. Specific case – suspension of the action. (Case by case analysis needed)

Consequence of non-compliance:
Costs are rejected
Step 1 Accounting (3)

Costs must not include costs declared under another EU or EURATOM grant (Art.6.5.b).

3-steps procedure (in cascade - mutually exclusive):
1. Check for exclusive reference to EU project;
2. Walk-trough - cost accounting;
3. Review of 5 other EU funded actions.*

*ONLY IF NO PROJECT ACCOUNINTG (NEW)

Consequence of non-compliance:
Costs are rejected
Step 1 Accounting (4)

Ensure that:

- National accounting standards are respected (Art. 6.1.a.v);
- Costs do not contain ineligible elements (Art. 6.5.a);
- Complete Representation letter.

Consequence of non-compliance:

- Ineligible elements are to be adjusted;
- Non-compliance or missing representation letter will be reported.
Step 2 Tendering

Review of the original signed subcontracting agreement and verification of:

1. Consistency with the accounting documents.
2. Compliance with formal requirements.

Consequences:

• Not consistent – costs are rejected
• Formal requirements not complied with – report, except for classified results
Principle of Best value for money

Two different approaches:

1. In case the beneficiary is a contracting authority or a contracting entity within the meaning of Directives 2004/17/EC and 2004/18/EC.

2. All other beneficiaries.

In all cases, the tests foresee detailed re-performance for the sample.
Special case: affiliated entities

In case of subcontracting to affiliated entities verification if:

1. the affiliate entity is the usual supplier or there is a framework contract
   AND
2. the subcontracting is carried out at market conditions
Specific issues

• **Auditability of subcontractors:** it is an issue only if we need to audit them and we cannot

• **Conflict of interests:** check internal written procedure for avoidance. REPORT (no adjustment)

• If, anyhow, you detect a documented conflict of interest, refer to “cross cutting issue” procedure
A. General Eligibility conditions

General eligibility conditions respected

Verify if:
1. Claimed costs match breakdown list of Beneficiary;
2. No systematic errors in the calculations;
3. Correct conversion to EUR.

Consequences:
Adjustments when differences occur

NB: positive differences in point 1, only in same situations as for personnel costs
Key issues

⚠️ Classification Direct vs Indirect

⚠️ Direct measurement of costs

⚠️ The 'Full Capacity' concept (removed)

⚠️ Fiat vs Mercedes
OTHER DIRECT COSTS

General Criteria

- Review of Corrections (netting off, credit entry, cancellation) and re-invoicing*

*ONLY IF NO PROJECT ACCOUNTING (NEW)

- Not main purpose of the audit though

- However the same approach to check “recorded in the accounts” prevails

- Some access and/or review of the IT systems may be necessary
B. General Eligibility conditions

 Costs were actually incurred

Verify:

1. Claimed amounts vs documents (e.g. invoices)
2. Documents are addressed to you (Beneficiary)
3. Costs are recorded in the accounts (GL)
4. Any discount or rebate is accounted for
5. No altering transaction in 6 months
6. No re-invoicing by the Beneficiary within 6 months
7. Costs are paid (or netted off)

Consequences:

Adjustments when differences occur
B. General Eligibility conditions

Costs claimed fall within the project period

Verify:
1. Dates of Invoices, delivery notes, transport documents
2. Cost before the project period relate to kick-off meeting
3. Costs after the project period relate to final reporting
4. Costs are recorded in the respective accounting period

Consequences:
Adjustments when differences occur
B. General Eligibility conditions

The Beneficiary complies with national accounting Standards and any digital documents are allowed by national law

Verify:
1. Invoices, debit/credit notes vis-a-vis national law requirements
2. Statutory audit reports (if any) for relevant findings

If unqualified audit report and no other findings: Condition is considered met!

Otherwise adjust for any non-complying items
B. General Eligibility conditions

Beneficiary complies with its usual accounting practices

Verify:
1. Invoices, debit/credit notes vis-a-vis own acc. practices
2. * Consistency for direct/indirect in H2020 vs FP7
3. * Consistency for direct/indirect in EU vs non EU
4. * Beneficiary's own overhead calculation (if any) for possible inclusion of the sampled items.

* 2/3/4 OBSOLETE

Consequences:

Adjustments when differences occur
B. General Eligibility conditions

No Costs are claimed also from another EU/non EU fund

Verify:
1. No sampled item is included in 5 non EU projects (if any)*
   *ONLY IF NO PROJECT ACCOUNTING (NEW)

2. No item offered by the State is included in the claims to EU

Consequences:
Adjust in full for EU overlaps and partially for non EU
C. Ineligible items

Costs do not include deductible VAT

Verify:
- costs claimed vis-a-vis National law
- tax declarations
- the accounting system of the Beneficiary, etc.

Consequences:
Adjustments when differences occur
C. Ineligible items

Costs do not include any other ineligible items such as:

- costs related to return on capital
- debt and debt service charges
- provisions for future losses or debts
- interest owed
- doubtful debts
- currency exchange losses
- bank charges for incoming EU funds
**Beneficiary complies with its usual accounting practices**

**Verify:**
1. Travel costs against B's internal policy on traveling  
   OR (in the absence of internal policy)
2. Travel costs against B’s usual practices

**And then:**
Adjust when differences occur
OTHER DIRECT COSTS

D. Travel costs

Travel costs are necessary for the action

Verify:
1. Travel costs vis-à-vis list of staff of the project
2. Dates of travelling against dates charged on timesheets
3. Dates of travelling against period of the project
4. Dates of expenditures against duration of the event
5. Beneficiary's justification on necessity of travel cost
6. Travel events vis-à-vis GA and annexes

Consequences:
Adjustments when differences occur
**D. Travel costs**

*Travel costs are real*

**Verify:**
1. Minutes of meetings, attendance lists, etc.
2. Dates of traveling against dates charged on timesheets
3. Beneficiary's justification on necessity of travel cost
4. Project events vis-à-vis GA and annexes

**Consequences:**
*Adjustments when differences occur*
**Travel costs**

*Travel costs are Sound Financial Management (SFM) compliant*

**Verify that:**
1. No entertainment or hospitality costs
2. No Tips
3. No travel agency fees (unless there is a policy)
4. No private costs (e.g. TV, laundry, mini bar, etc.)
5. Hotel $<150 EUR & daily all. $<120 EUR (unless policy)!!

**Consequences:**
*Adjustments when differences occur*
E. Depreciation costs

Assets for which depreciation is charged, actually exist

Verify:
1. Physical existence or demonstration of operation by staff
2. Written confirmation of existence by remote sites
3. Accounting entries for destroyed/sold assets
4. Matching serial numbers on the asset and the invoice

Consequences:
Adjustments when differences occur
E. Depreciation costs

Assets charged are SFM and BVfM compliant

Verify:
1. Adherence to the internal rules of procurement OR
2. Adherence to the usual practice/approach OR
3. Ad-hoc persuasive justification

Consequences:
Adjustments when differences occur
OTHER DIRECT COSTS

E. Depreciation costs

Sold or offered assets do not result in undeclared profit

Verify:
1. Accounting entries in case of sale of asset
2. In-kind contributions in Annex I
3. In-kind contributions charged do not include estimates
4. In-kind contributions charged do not exceed 3rd party's cost

Consequences:
Adjustments when differences occur
E. Depreciation costs

Depreciation is correct and in compliance with the Standards

Verify:
1. Usual accounting practices of B vs Acc. Standards
2. Usual accounting practices of B vs National Law
3. Depreciation charged is based on Accruals Basis
4. Depreciation charged correspond to the period of action
5. (REMOVED) Full capacity principle is respected

Consequences:
Adjustments when differences occur
H. Linked Third Parties

General eligibility conditions apply to linked 3rd parties

Verify that:
1. Claimed costs match breakdown list
2. Linked 3rd parties are mentioned in GA
3. No costs after termination of 3rd party's participation

Consequences:
Adjustments when differences occur
F. Conflict of interest

Conflict of Interest is avoided

Verification procedures:
- Review Beneficiary's internal procedures
- Interviews with key personnel
- Representation Letter

Consequences:
Report any finding
OTHER DIRECT COSTS

G. Contracting authorities

If the Beneficiary is contracting authority, National law on Contracting authorities has to be applied

Verify:

- Beneficiary's practices on procurement vis-à-vis National law

Consequences:

Adjustments for any non-compliance
Thank you for your attention!