



Third Meeting of the WG 2Finance COST Targeted Network TN1302: BESTPRAC

Financial Audit of FP7 projects by EC

Staška Mrak Jamnik, Head of the Office for European projects,
University of Ljubljana

COMMUNICATION AT THE BEGINNING

- **5 years after the end of the project**
- **The Principal investigator got the notice of the EC**
- **Usually auditing company on behalf of EC**
- **Experience: 3 projects**
- **Quick reply expected: within one week**
- **START within 20 calendar days except agreed otherwise**
- **Auditors provided a list of documents to be prepared by the beneficiary for the audited Project(s)**
- **Some documents had to be sent in advance (like detailed breakdown of all costs, hourly rate calculation)**

AUDIT ON-THE-SPOT

- **All original documents;**
- **One single location**
- **Availability of the persons involved in the administrative and management of the Project who have a deep understanding of the administrative/accounting/financial aspects of the Project and can answer to all the questions (e.g. Project Manager, Project Director, Financial Administrator, Payroll officer, the general and cost accountant of the Organisation);**

I. General information :

- **Basic data** about the beneficiary and its activities
- Summary of the usual **accounting principles** and rules used by the beneficiary
- Copy of the official statutory **Financial Statements** of the beneficiary and some financial indicators for the last three years
- Presentation of the **accounting system**
- Presentation of the time **recording system**
- **Organisation chart** of the beneficiary with the brief summary of the **internal control system** of beneficiary
- All the **documents regarding the project** (Grant Agreement, Project Financial Statements (FORMs C)), audit certificates if any, list of personnel working on the project, full print-out of project account with the detailed breakdown of all cost items and transactions charged to the project, bank statements showing the pre-financing, final payments and paying the costs, conversion rate policy/method applied and other relevant documents)
- Copies of the audit reports issued in **previous audits** (if any) of beneficiary



II. Direct costs – Personnel costs

- **List of personnel** involved in the project,
- Employment contracts, ledgers/accounts, payroll records, time records including time sheets, teleworking system (if applied)
- **Justifications** of any special salary conditions, bonuses, national social security reductions, indirect taxations
- **Methods** of calculation of workable hours, monthly/hourly rates
- **Certificates on Methodology** (if issued) and all the explanations regarding the average personnel costs
- Any other important documents



Direct costs – Equipment and consumables

- **Inventory list** of all equipment dedicated to the project
- Original purchasing **invoices and proofs of payment** and list of rabates and discounts
- **Rental contracts** (if any)
- **Justifications of the portion of costs** allocated to the Project (in case of partly used equipment)
- **Depreciation policy** applied and detailed calculation of depreciation

Direct costs – Travel and subsistence expenses

- **List nad dates of trips**
- **Missions approval forms** with original invoices and proofs of payments, reports, records, minutes
- **Written policy** on the reimbursement of travel expenses
- **Most comon error: VAT**



Direct costs – Subcontracts and other contracts for thirs party assistance

- **Description of procedures** usually applied by the beneficiary for procuring contracts from third parties, internal guidelines and rules concerning procurement
- **Original** subcontracts, relating invoices and proofs of payments (bank statements), evidences of respect of the procurement policies and rules
- **Original documents** evidencing the **delivery** of the services
- **List of third parties** resources used on the project

Indirects costs

- **Explanation** on the use of cost accounting or analytical accounting system
- **Justification of cost drivers**, reconciliation of the indirect costs allocated to the project and other justifications (in case of analytical accounting system)
- If using **flat-rate** method – the **calculation** of the indirect costs



Receipts/interests yielded

- **List of financial transfers** from third parties, contributions in kind other receipt/income generated by the project
- Detailed calculation and justification of the **interests** yielded by the advanced payment made by the European Commission (for coordinators or for monopartnering actions) – from January 2012 no obligation to open an interest bearing account and to report interests (before this only if derogation is obtained from the EC)

COMMUNICATION AFTER THE AUDIT

- **Draft audit report** sent to the beneficiary for comments and additional explanations.
- The **final results** of the audit distributed to the relevant EC services
- EC could issue **recovery orders** and apply **sanctions** including liquidated damages.
- **Any detected errors of a systematic nature ???**
- In case of systematic errors the final audit report would require the beneficiary to apply the findings of the audit and to correct the errors in all FP7 projects by resubmitting the financial statements of all projects where the audited entity participated and recalculate the costs affected by the systematic error (possible application of a flat-rate correction).

THE MOST FREQUENT ERRORS IN FP7

1. **Cost** claimed that were not substantiated or were **not linked to the project** (evidences missing)
2. **Third parties and sub-contracting were not identified** during the negotiations and set out in Annex I (« Description of work ») or in amendment to the Grant Agreement. Also sub-contracting between partners of the consortium is not permitted. Costs of subcontracting can also not be used as a basis for calculating indirect costs
3. Beneficiaries claimed the **full purchase cost of equipment** immediately instead of claiming depreciation of the equipment according the usual depreciation policy of the beneficiary and according to the real use of the equipment by the project
4. **Unproper use of calculation of indirect costs** regarding the possible models



THE MOST FREQUENT ERRORS IN FP7

5. **Ineligible costs included** in the pool of the indirect costs, specially in case of actual indirect costs models
6. **Unproper calculation of productive hours**
7. **Non-reliable time sheets** and time record systems, e.g. time charged to the project, while the staff members were on leave of attending conferences unrelated to the project
8. Use of **average personnel costs without meeting the criteria** and conditions for the use according to the Comission Decision 174 of 24/1/2011
9. **Wrong calculations of costs for owners/managers of SMEs** who would need to charge flat rate payments based on the « Marie Curie » rates
10. **Charging VAT** to the project which was ineligible cost in FP7.



THANK YOU !

Staska Mrak Jamnik
University of Ljubljana
Staska.Mrak-Jamnik@uni-lj.si