

The Audit procedure in H2020

**BESTPRAC Training School “How to manage key financial tasks for H2020
European research and innovation projects: Finance for Beginners”**

COST Targeted Network TN1302: BESTPRAC

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Agenda:

- The H2020 Audit procedure according to MGA
- How to be prepared for an H2020 Audit (based on UniTrento experience)
- H2020 CHECK LIST of eligibility criteria
- BESTPRAC relevant documents
- Practical Audit experience - *Per Inge Andresen*
- "Be an auditor yourself" – practical exercise

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- 2005 – Degree in Political Science (European Studies)
- 2007 - Master degree in International Relations
- 2008 – Internship at DG Research of European Commission
- 2008 - Internship at Representation of Italian Universities in Brussels
- 2008 /2016 – Eu Project Manager at Euricse – European Research Institute on Cooperative and Social Enterprises
- 2013/2014 –Master degree in Research Management
- From 2017 – Research Project Manager at Scientific Research and Technology Transfer Support Division of Univeristy of Trento



The Audit procedure according to MGA

Obligations of the Institutions

- **To follow general principles of good administration** (Lawfulness, Non-discrimination and equal treatment, Proportionality, Consistency) and of **good administrative behaviour** (Objectivity and impartiality, Information on administrative procedures);
- **To share information on the rights of interested parties** (Listening to all parties with a direct interest, Duty to justify decisions, Duty to declare arrangements for appeals);
- **To deal with enquiries** (Access rights to documents and info);
- **To guarantee protection of personal data** and confidential information;
- **To manage complaints.**

Sources: [EU Charter of Fundamental Rights](#) (Art 8, 41, 42), [Code of Good Administrative Behaviour](#), [TEU](#), Case-law, ...

Obligations of Beneficiaries

- To **keep records** and other supporting documentation for **5 years after the end of the project** (3 years for low value grants \leq EUR 60.000) (Article 18 GA);
- To **provide** the Commission/Agency with any **information or document requested** (Article 17 GA);
- To make **available** all records and documents during checks, reviews, audits or investigations and to keep them until the end of these procedures;
- To keep **original documents or authorised digital copies**;
- To make **no objection based on data protection or confidentiality**;
- To make all evidence **verifiable, auditable and available**.

Sources: [H2020 Model Grant Agreement](#)

Powers of EU Institutions/Bodies

- Carry out **controls** (European Commission, European Court of Aditors, OLAF-European Anti-fraud Office);
- Applicate **sanctions** (European Commission).

Two level of «ex-post» control

- **Control/Audit of 1st level** (art. 20.4 GA H2020+Annex 5 – art. II.4.4 in FP7 – Annex D) so called **CFS – Certificate on the Financial Statement**: is the Certificate that each beneficiary has to present to EU if the EU Contribution requested in a specific reporting period exceeds 375.000,00 Euros (in FP7) or 325.000,00 Euros (in H2020). Auditor has to be selected by beneficiary.
- **Control/Audit of 2nd level** so called **AUDIT BY EU (by Common Audit Service or external Auditors/agencies appointed) (art. 22 GA H2020)**: it is the audit that the EU carries out during the implementation of the action or afterwards.
- **Other types of audit** are also possible:
 - ✓ OLAF for anti-fraud, corruption or any other illegal activity affecting the financial interests of the EU;
 - ✓ ECA (European Court of Auditor) or other International Organisation

1. Audit of 1st level: CFS

The CFS is an **independent report** of factual findings produced by an Auditor in support of the payment requested by a beneficiary. It has to be **submitted directly to the Project Officer** via the Participant Portal together with the beneficiary's **Form C** (financial statements, where the beneficiary declares project costs of a specific reporting period) in periodic and final reports. CFS is **mandatory for every cost claim** whenever the amount of the EU contribution is equal or superior to EURO 325.000,00 in H2020 and Euro 375.000,00 in FP7.

2. Audit of 2nd level: types

According to **Article 22 MGA**:

- **Checks:** on any aspect; by European Commission/Executive Agencies – European Court of Auditors;
- **Reviews:** on technical + scientific + ethics aspects; by European Commission/Executive Agencies;
- **Investigations:** on illegal conducts (Fraude, Corruption, see Article 325 TFEU); by OLAF;
- **Audits:** on financial aspects; by European Commission/Executive Agencies – European Court of Auditors.

The Competent Judge is only the Court of Justice of the European Union.

Subjects of the controls

- **Each beneficiary** (checks, reviews, financial audits, investigations);
- **Third Parties and Subcontractors** (via beneficiary);
- **Consortium** as a whole (checks, reviews).

*Any form of control can include third parties and subcontractors
(Article 10-16 MGA)*

Focus on Audit

- In-depth examination of the implementation of the project;
- It is carried out by EU **directly** (using its own staff) or **indirectly** (using agency or external auditors appointed to do so);
- It could occur **during** the implementation of the action or **afterwards** (up to two years after the payment of the balance due from the EU in H2020; 5 years in FP7);
- This Audit mainly concerns **financial implementation** of the action, but it can **cover also scientific, technological and other aspects** relating to the proper execution of the project and the contract.
- Usually includes **desk review and on-the-spot visit**;
- **Audit report and 30 days “contradictory audit procedure”**.

Consequences of findings

- **Rejection of ineligible costs (Art 42 of MGA);**
- **Reduction of the grant (43);**
- **Recovery of undue amounts (44);**
- **Suspension of payments (48);**
- **Suspension of the action implementation (49);**
- **Termination of the agreement (50);**
- **Administrative and financial penalties (45).**

In some cases, findings may result in the acceptance of additional costs.

Extension of findings

Systemic or recurrent errors produce the Extension of findings to non-audited/reviewed reporting periods of this grant or to any other H2020 grant (on-going/closed) of this beneficiary (90 days contradictory process).

In 7FP «Extrapolation procedure» for systematic errors: no contradictory process

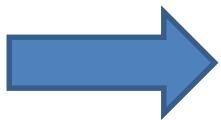
How to be prepared for an EU Audit (based on UniTrento experience)

Audit Planning & Preparation

- **“Letter of announcement”** via e-mail from European Commission with reference to:
 - Art. 22.1.3 del GA
 - List of projects under Audit
 - Information on Agency/External Auditor appointed
- **Detailed Annex:**
 - Beneficiary Information fiche, to be filled in;
 - List of required supporting documents, to be provided before and during on-site examination.
- **Request:**
 - 1 week to identify a University contact person, expert on finance, administration and accountability, available also for the on-site visit;
 - 20 days for the Audit beginning.

Links to the docs (based on UniTrento experience):

- E-mail from EU Agency
- Beneficiary Information fiche
- List of requested documents



Mother language, when possible



Sample of costs to be analysed (communicated couple of days before the visit)

“Sources” on Audit

- **Article 22.1.3 of MGA on “Rights to carry out Audits”;**
- **Article 6 of MGA on “Eligible costs;**
- **Annex 5 of MGA on “Model for the CFS”** with the description of procedures to be performed and the standard factual findings to be confirmed by the Auditor;
- **Annex 1 – Indicative Audit Programme** (p.65) of the Framework Contract for Service between the European Commission and external Auditors for H2020, which includes the “Condition to be checked and Procedure to be performed”.

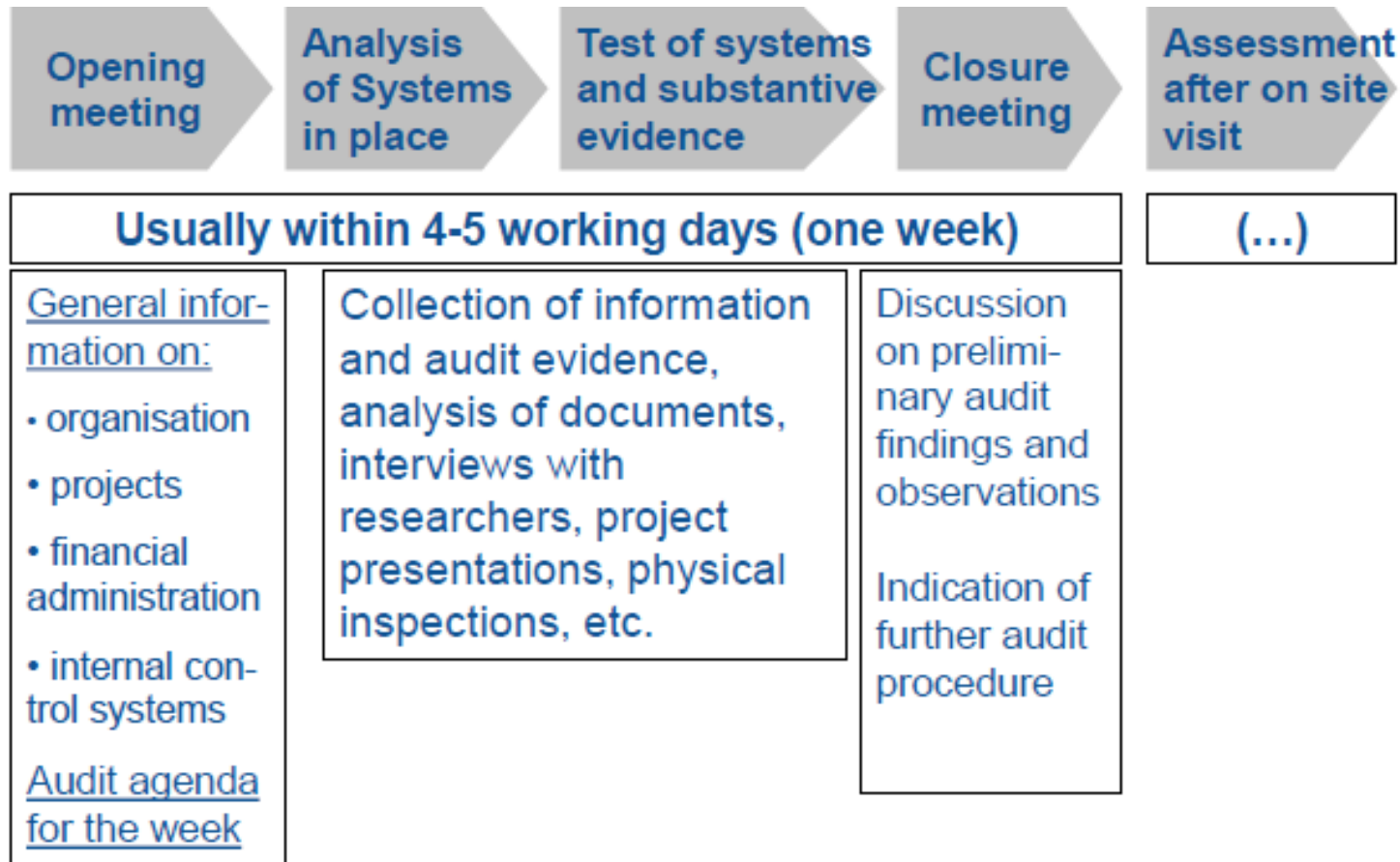
Type of documents to be provided

- All relevant documents for the specific project (prepare a folder with: GA, CA, DOW, Amendments, Contribution received , Distribution of the contribution (if coordinator), Form Cs per each Reporting Period with related accepted cost declaration sent by the PO, Periodic Reports submitted, ...);
- All relevant documents according to the GA Annex 5 and Indicative Audit Programme;
- All internal University Regulation (on travel, timesheet, ..)
- Additional supporting documents required by Auditor.

Organisation of the documents

- It's **really important** that you prepare folders in **logic, accurate, clear order. One folder for each topic;**
- On the right top of each documents write a **code** and prepare **an index** to guide the auditor when he needs to find that specific document;
- If you need to send electronic files, save them with a specific **numerical code in front**, use different folder for each topic and prepare an index;
- For all the cost category **try to follow the definition provided in Annex 5** (A. Personnel Costs, B. Subcontracting, C. Third Parties, D. Other Direct Costs).

Examination on site



Tips on on-site visit

- During the on site visit, identified **one administrative staff totally** devoted to the Auditor;
- **Auditor could ask for meetings with PI/researchers.** It's very important to assure their presence and to prepare them for interviews with Auditor;
- **Auditor could ask to visit labs.** It would be appreciated to organise phd presentations of instruments and experiments related to the project.

Reporting & Audit Closure

- **Final meeting:** Auditors and administrative staff involved answer together to the issues of the **Indicative Audit programme** (to agreed on **procedures performed** by the Auditor and to confirm the standard **factual finding**) and read together the **Audit minutes**, with heads on Audit report and communication of eventual additional documents to be sent by 7 days;
- **Draft Audit report;**
- **Contradictory audit procedure:** 30 days for beneficiary to send comments;
- **Final Audit report;**
- **Letter of Audit conclusion (LoC)** and indication for the implementation of audit results.

Links to the docs (based on UniTrento experience):

- Final Audit Report
- Letter of Audit conclusion (LoC)

Implementation of Audit Results

- Managed by the operational services in charge of project management;
- Normally **adjustment of ineligible costs;**
- **Administrative and financial penalties;**
- Further financial and legal consequences: **reduction of grant, suspension of payments, termination of grant, OLAF investigations, etc;**
- Possibility of extension of audit findings to other grants in case of systemic and recurrent errors.

H2020 CHECK LIST of eligibility criteria

Useful in case of:

- **Submission of a statement of expenditures**
- **CFS**
- **Audit**

Eligible costs – Article 6 of MGA

Costs have to be:

- **Actual and not budgeted costs** (proof by accounting system);
- **Incurred in the project period** (exception for expenses related to the final report preparation);
- **Foreseen in the project budget;**
- **Necessary** for the implementation of the project;
- **Clearly allocated** to the project (and not to different projects);
- **In conformity with Beneficiary's internal guidelines** and procedures and with **national Legislation** (no conflict of interest, ...);
- **Reasonable, justified, identifiable and verifiable.**

Factual findings - Annex 5 of MGA and Indicative Audit Programme

- **Categories of costs** to be checked by the Auditor;
- **Procedures to be performed** by the auditors:
list of all documents/regulations to be verified;
- **Standard factual finding** to be confirmed.

Categories of costs

- A. Actual Personnel Costs and Unit Costs
 - A.1 Personnel Costs
 - A.2 Productive Hours
 - A.3 Hourly Personnel Rates
 - A.4 Time recording System
- B. Costs of Subcontracting
- C. Costs of providing financial support to Third Parties
- D. Other Actual Direct Costs
 - D.1 Travels
 - D.2 Equipment
 - D.3 Other Goods and Services
- E. Use of Exchange Rates

.....

A.1 Personnel costs - 1

- **Declaration of the PI on the research group for each reporting period**, attesting the list of persons involved in the project indicating their role, position (classification or category) and type of contract;
- Updated **CV** of the research group member (check on line CV);
- **Assignment Letters** of the research group member, signed by the Head of the Department for each reporting period;
- Information concerning the **selection procedure** of persons hired on the project and their accordance with the national legislation and with the GA;
- **Employment contracts or equivalent** for all project personnel;
- **Payroll** for all project personnel (**reference to the last closed financial year**) and **Bank statement** showing the amount and date of payments, including the payment of social security contributions and taxes;

A.1 Personnel costs - 2

- **Reconciliation of the personnel costs** declared in the Financial Statement(s) with the accounting system and payroll system (**actual costs**);
- Documents describing the **methodology used to calculate personnel costs**, including the annual cost, the social charges (according to the national legislation), the productive time, the hourly rate for each person involved in the project and the number of hours charged on the project for each person;
- Documents attesting the **Beneficiary's usual policy** regarding payroll matters (e.g. salar policy, overtime policy, variable pay);
- **Applicable national law** on taxes, labor and social security.

A.1 Personnel costs – example of checks

- Check on **other projects** to verify if the same rules have been applied;
- Check on possible **double funding**;
- For natural person working under a direct contract, check that «**hourly rate are not significantly different** from the hourly rates of personnel performing similar tasks and responsibilities under an employment contract with the beneficiary”;
- «**The auditor reclassified costs related to two research contracts** from the subcontracting category to personnel costs, as they **fulfilled the conditions** set out in the Model Grant Agreement version 4.0 (Article 6.2.A.2) for being eligible **as personnel cost...».**

A.2 Productive Hours

- Documents attesting the **methodology of productive time calculation applied** (A. 1720, B. total number of hours worked, C. standard annual productive hours), also for fulltime equivalent (FTEs) employees;
- **Annual calculation** of productive hours (based on the last closed financial year);
- **Correct application** of the selected methods;
- Records, such as **national legislation, labour agreements, and contracts.**

A.4 Timesheets - 1

- Description of the **time recording system** provided by the Beneficiary (registration, authorization, processing in the HR-system) and of its actual implementation;
- All the **individual timesheets of each person involved in the project duly filled in and signed monthly** (on paper or electronically). The data of signature must be indicated near each signature;
- All monthly reports **signed by the PI of the project and by the Head of the Department;**

A.4 Timesheets - 2

- Hours charged to the action in the Financial Statement **matching** those in the TS;
- Hours declared in TS **don't exceed the productive hours**;
- Hours declared worked **within the project period**;
- For the persons selected that worked exclusively for the action without time records, the Auditor verified evidence demonstrating that they were in reality exclusively dedicated to the action (Beneficiary declaration). **Professor can not be considered fully working on the project (educational tasks, etc...).**

B. Subcontracts

- Use of subcontractors **foreseen in Annex 1 – Description of the action;**
- Subcontracting costs declared in the **subcontracting category of the Financial Statement;**
- Supporting documents on **the selection and award procedure** were followed (public selection or tender), in accordance with **applicable national law on public procurement and GA;**
- Beneficiary ensured **best value for money;**
- Evidence that the services were provided by subcontractor: original contracts, **Invoices, debit notes, proof of delivery, proof of payments,**...with reference to the specific project;
- **No subcontracting between consortium partners** or payment for other partner's costs;
- **No subcontracts awarded to other Beneficiaries** in the consortium.

D.1 Travel and Subsistence - 1

- The indication of that travel in Annex I and/or authorizations received from the European Commission;
- The business travel authorization issues by the PI of the project and by the Head of the Department;
- Travel and subsistence costs consistent with the Beneficiary's usual **policy for travel** (e.g. authorization, use of first class tickets, reimbursement by the Beneficiary on the basis of actual costs, a lump sum or per diem, ...);
- Travel costs **correctly identified and allocated to the project** during the with reference to the **specific person who took the expenses**;

D.1 Travel and Subsistence - 2

- **Evidence of the cost:** supplier invoices, debit notes, credit notes, expense claims, tickets, bills, receipts, BORNING PASS,...
- **Proof of payment and correct registration** of the costs in the Beneficiary accountign system;
- **Evidence that the event took place:** minutes of meetings, workshops or conferences, ...;
- **Consistency with time records** or with the dates/duration of the workshop/conference;
- **Best value for money or, if appropriate, the lowest price,**
- Check that travel costs **don't include ineligible expenses** («private expenses» es. minibar, travel agencies' fees, etc..).

D.2 Equipment and consumables

- **Contracts, orders, invoices and transport documents;**
- **Bank statement showing the amount and date of payment**
- **Correct registration** of the costs in the Beneficiary accountign system ;
- **Costs correctly identified and allocated** to the project;
- **Costs and amortization** in conformity with the Beneficiary's internal guidelines;
- **the extent** to which the assets were used for the action (as a percentage) supported by reliable documentation (e.g. logbooks, laboratory registers, diaries, internal invoices if shared equipment..) **(description on invoices have to be clear, with reference to the project);**
- **Physical presence of the asset;**
- **Don't include ineligible expenses. Only non deductible VAT is eligible (VAT on an invoice billed to a SME is not eleigible).**

D.3 Other goods and services

- **Goods and services described in Annex 1 and Reports;**
- **Goods and services acquired in conformity with the Beneficiary's internal guidelines and procedures;**
- **Costs correctly identified and allocated to the proper action, and entered in the accounting system (traceable to underlying documents such as purchase orders, invoices and accounting);**
- **Goods not placed in the inventory of durable equipment;**
- **No ineligible costs or excessive or reckless expenditure were declared (see Article 6 GA);**
- **Best value for money or, if appropriate, the lowest price.**

BESTPRAC relevant documents

- **BESTPRAC Guidelines for Financial Management of MSCA – Supporting documents for audits checks (show doc);**
- **BESTPRAC Workshop in Budapest, September 2015 - Presentation of Cristina FONSECA (EC, Common Audit Service on "Audit Principles of the European Commission).**