



Audits in FP6 and FP7

Experiences and suggestions of an auditor

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Agenda

Purpose of an Audit

Terminology

Qualification of Auditors

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Purpose of an Audit

- Verify that the costs incurred in performing research contracts have been claimed in compliance with the contractual rules (in accordance with accounting, originated during project period, adjusted of all non-eligible costs, etc.)
- Acceleration of the settlement of Cost Statements
- Model Audit Program designed as guideline to cover the main areas during a complete audit – assurance opinion

Changes from FP6 to FP7 resulting from experiences of re-audits by the Commission

- Decision to perform agreed upon procedures – Auditors will provide information according to the agreed terms of reference (Annex VII Form D – „CFS“-Certificate on Financial Statements)
- Terms of Reference correspond to international audit standards
- Introduction of the Certificates on Methodology (Annex VII Form E – „COM“) – Rationale

Terminology

- Contract -> Grant Agreement
- Contractor/Partner -> Beneficiary
- Instrument -> Funding Scheme
- Audit Certificate -> Certificate on Financial Statements

Qualification of Auditors

For any legal entity:

- An external auditor
 - Must be independent from the contractor
 - Must be qualified to carry out statutory financial audits (in accordance with the 8th Council directive (2006/43/EC))
 - Beneficiary is free to choose

For public bodies/research organisations:

- An external auditor or a competent public officer

Public officer

- May not be involved in preparation of financial statements
- Independence/legal capacity has to be assessed by responsible national authorities

Necessity of Certification (1)

FP 6:

Audit Certificate to deliver to Commission within 45 days after end of period
Audit Certificate necessary according to contractual laid down obligation
(dependent on Type of Instrument)

FP 7:

CERTIFICATE ON FINANCIAL STATEMENTS (CFS) to deliver to Commission
within 60 days after end of period

CFS only mandatory, when requested funding for the period exceeds EUR
375.000 per beneficiary

If Certification on Methodology – no intermediate CFS

For projects of 2 years or less, only CFS at the end – no intermediate CFS

EC-Contribution ≤ EUR 375.000 – no Certificate (not even at the end)

Necessity of Certification (2)

Example:

- Year 1: EC Contribution EUR 200.000 – no CFS
- Year 2: EC Contribution EUR 180.000 – CFS has to be submitted (EUR 200.000 + EUR 180.000 > EUR 375.000)
- Year 3: EC Contribution EUR 250.000 – no CFS because < EUR 375.000

Example certificate on methodology :

- Year 1: EC contribution EUR 200.000 - no CFS because < EUR 375.000
- Year 2: EC contribution EUR 180.000 (EUR 200.000 + EUR 180.000 > EUR 375.000) no intermediate CFS (because of certificate on methodology)
- Year 3: EC contribution EUR 250.000 - CFS for all years

General Rules of Eligibility

Regarding non-eligible costs:

➤ No differences between FP6 and FP7 (e.g. identifiable indirect taxes, interest owed, provisions for possible future losses, exchange losses, costs reimbursed in respect of another community)

New in FP7:

➤ Acceptance of average personnel costs when consistent with management principles and accounting practices and no significant deviation from actual personnel costs => Certification of methodology is required and has to be approved by the Commission (valid throughout FP7)

➤ Concerning public bodies formerly using the AC-Model: Inclusion of full-time staff possible

➤ Concerning Management Cost: Removal of 7% limit

Abolition of cost models – indirect costs

FP 6	FP 7
<p>FC-Model – all project-related direct and indirect cost</p> <p>▲</p>	<p>Real indirect costs</p> <p>▲</p>
<p>FCF-Model – all project-related direct costs and indirect costs in the extent of 20% (minus costs of subcontracting)</p> <p>▲</p>	<p>Simplified method</p> <p>▲</p>
<p>AC-Model – all additional direct costs and lump sum of 20% of direct costs (minus costs of subcontracting)</p>	<ul style="list-style-type: none"> • Flat – rate 20%: for all • Flat – rate 60%: for SMEs, research organisations and non profit public bodies unable to identify real indirect costs

Certificate on Methodology (COM)

➤ Two ways of Certification

1. Methodology of calculating personnel costs and overheads (voluntary – EC makes final decision on acceptability)
2. Methodology of calculating average personnel costs (obligatory)

➤ Consequences

Point 1 waives the obligation of certificates for interim payments
Simplified certificate for final payments

➤ Advantages

Early assessment of compliance with contractual provision; timely detection and correction of possible errors
Simplification (fewer number of certificates to be provided)

Frequent Errors in Financial Statements – lessons learnt

Personnel Costs

- Time Reports:**
- Settlement of times outside of project period
 - Insufficient level of detail
 - No fulfillment of requirement that time records have to be signed by the employee and by the project leader (at least on a monthly basis)

Indirect Costs:

- Settlement of costs, which are not project relevant (e.g. unproductive hours, internal research projects)
- Settlement of budgeted costs
- Settlement of non-eligible costs (e.g. provisions, interests owed)

Other Direct Costs: Settlement of Costs inclusive VAT (particularly regarding business trips)

Audit-oriented documentation as an essential factor of success

- **Contract with the commission**
- **Relevant correspondence**
- **Audit-oriented preparation of invoices – traceability to book keeping**
- **Preparation of time records, calculation of personnel and indirect costs**
- **Project folder with all documentation**
- **Access to book keeping**

Literature/Links

Guide to Financial Issues -

ftp://ftp.cordis.europa.eu/pub/fp7/docs/financialguide_en.pdf

Annex II –General Conditions

Annex VII – Form D and Form E

<http://rp7.ffg.at/home>

http://cordis.europa.eu/audit-certification/home_en.html

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**Thank you for your
attention!**