



FP7 AUDITS

Scope and procedures of 2nd level audits The auditor's view

Audits im 7. Forschungsrahmenprogramm – KoWi, FFG, Euresearch
Wien, 08. November 2011



Agenda

- **KPMG – our global public sector practice**
- **2nd level control – EC’s audit approach**
- **Initial stage – beneficiary’s view**
- **Audit process – our organisational provisions and approach**
- **How to get things right – auditor’s view**
- **Discussion**



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KPMG @ public services – we combine international co-ordination with local delivery

- **KPMG** is a **global network of independent firms** and represents one of the world's leading providers of **audit, tax and advisory services**, operating in **146 countries**
- **KPMG Europe LLP** is the largest **multidisciplinary services firm** in Europe as of 1 October 2009. Through its **operating subsidiaries** we deliver locally services for our clients in **14 countries**
- **KPMG AG**, one of the founder of KPMG Europe LLP, as **1st contractor for FP7** and **2nd contractor for FP6** conducts **2nd level control audits** on behalf of the EC with the network of KPMG member firms
- We **co-ordinate** the **audits** of the **local audit teams** of our **member firms**, which are located in **all EU-27 countries plus any associated countries**
- **Public Governance Institute**, founded by KPMG with branches in **Germany, USA, UK** and **Africa**, actively supports **modernisation of public management** and **public governance discussion** by offering practitioners a **forum** for exchanging ideas and discussion
- Sources for further information
 - <http://www.kpmg.eu/>
 - <http://www.kpmg.de/>



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Audit layers to check eligibility of costs (legality and regularity)

**Audit certification
(1st level control)**

Free choice of auditor according to given criteria to be assigned by beneficiary

**EC audits
(2nd level control)**

Conducted and assigned by EC via own staff or external auditor like KPMG

- **Who audits the auditors:**
- **ECA (external auditors on behalf of EC)**
- **IAS (internal auditors of EC)**

1st level certification constitutes agreed upon procedures

Purpose of the work performed

- Verify that issues raised (agreed upon procedures) are properly addressed
- Work performed is based on the requirements of ISRS 4400
- EC uses to draw conclusions as to the eligibility of the costs claimed based on the results of the work performed

2nd level audit constitutes a compliance audit – there is no possibility for materiality considerations!

Purpose of the audit

- Verify compliance with the Grant Agreement
- Obtain assurance for the EC that the costs claimed by the beneficiary are eligible given the provisions of the grant agreement
- Financial Statements are based on properly incurred expenditure
- All claimed expenditure is recorded in the accounts in accordance with the usual accounting principles of the beneficiary and
 - exclusive of any non-eligible costs
 - actual, economic and necessary for the project
 - incurred during the duration of the project
 - net of indirect taxes, duties, interest, etc
 - without any profit



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Transparency of financial audit procedure and EC requirements prevents beneficiaries from surprises

WE WANT YOU: ¹⁾

For mandatory financial audit on your cost statements!



- You receive a letter from the EC (Why me?!!)
- Arranging a meeting with the auditors (in 20 calendar days)
- Preparation for the audit (20 calendar days maximum!)
- Audit to be done at your premises (2-4 work days)
- Preparation of the Draft Audit Report (DAR) / reconciliation procedures with EC (2-5 months)
- Your comments to be included in the DAR (30 calendar days)
- EC receives Final Audit Report (?)
- EC closes audit procedure with / without consequences (?)

Transparency and close co-operation are the basis for a no-surprise audit

¹⁾The EC may – **at any time** during the realisation of the project and **up to five years** after the end of a project – arrange for **financial audits** to be carried out by external services or EC services themselves

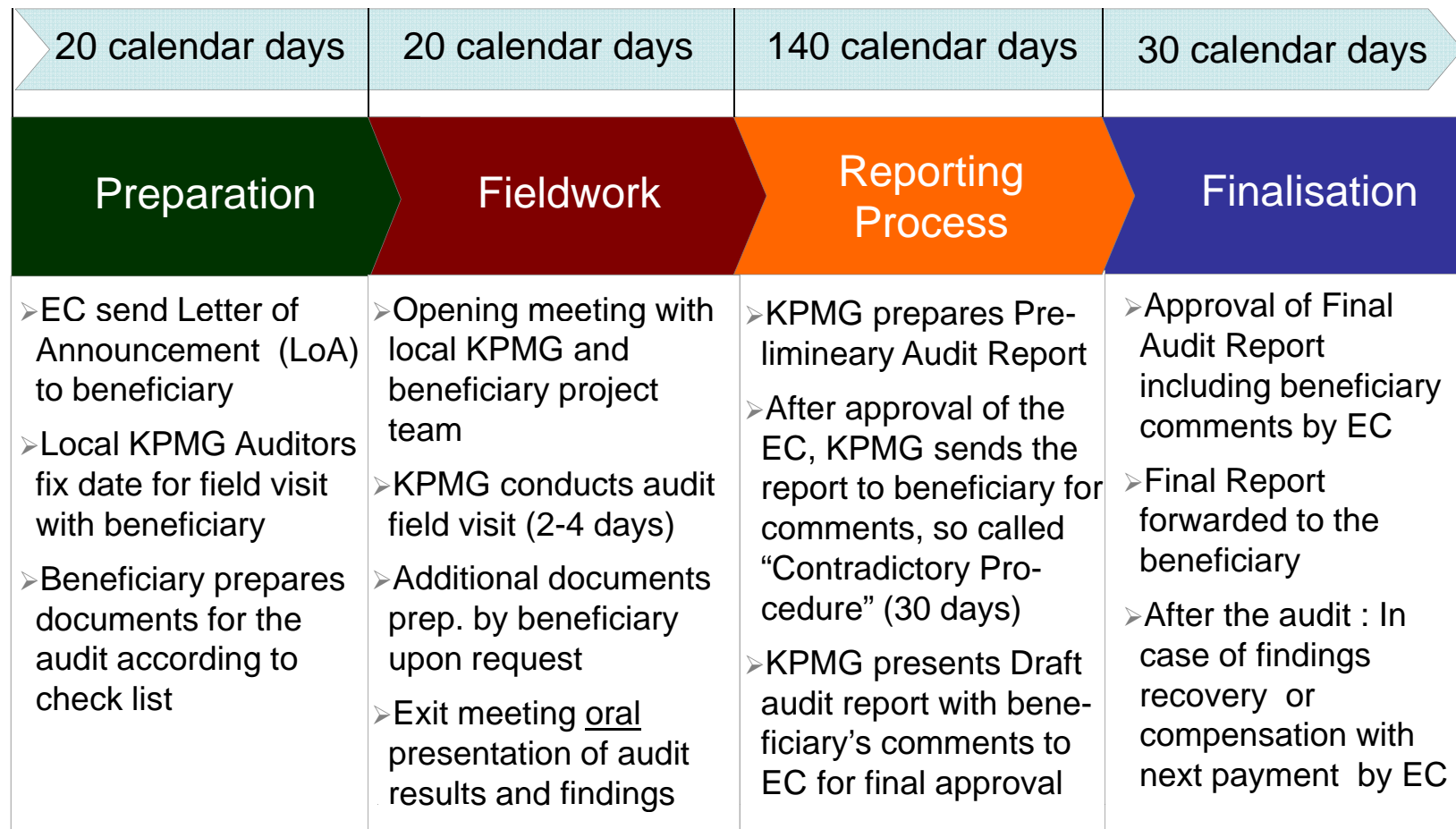


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Familiarity with 2nd level audit phases and milestones fixed by the EC – a critical success factor

7 months





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How to get things right – audit steps: Overall timely delivery is a critical success factor

- Arrangement of audit date (Letter of Announcement)
 - Commit and comply suggested appointments with the auditor
- Info gathering by e-mail
 - Submit all requested pre-audit documents on time
- Auditor review and analysis of submitted documents / audit sampling
 - Appoint and assure access to an audit contact person to handle and answer all queries timely
- Field Work
 - Assist auditor with questions, provide complete and reasonable documentation upon requests
- Draft Report – Contradictory Procedure – Final Report
 - Provide comments while complying the deadlines

- Beneficiary: Claimed costs with missing evidence result in audit adjustments (recovery of EC payments)
- Auditor: Non-compliance with delivery deadline of final audit reports causes liquidated damages



Personnel costs – common mistakes

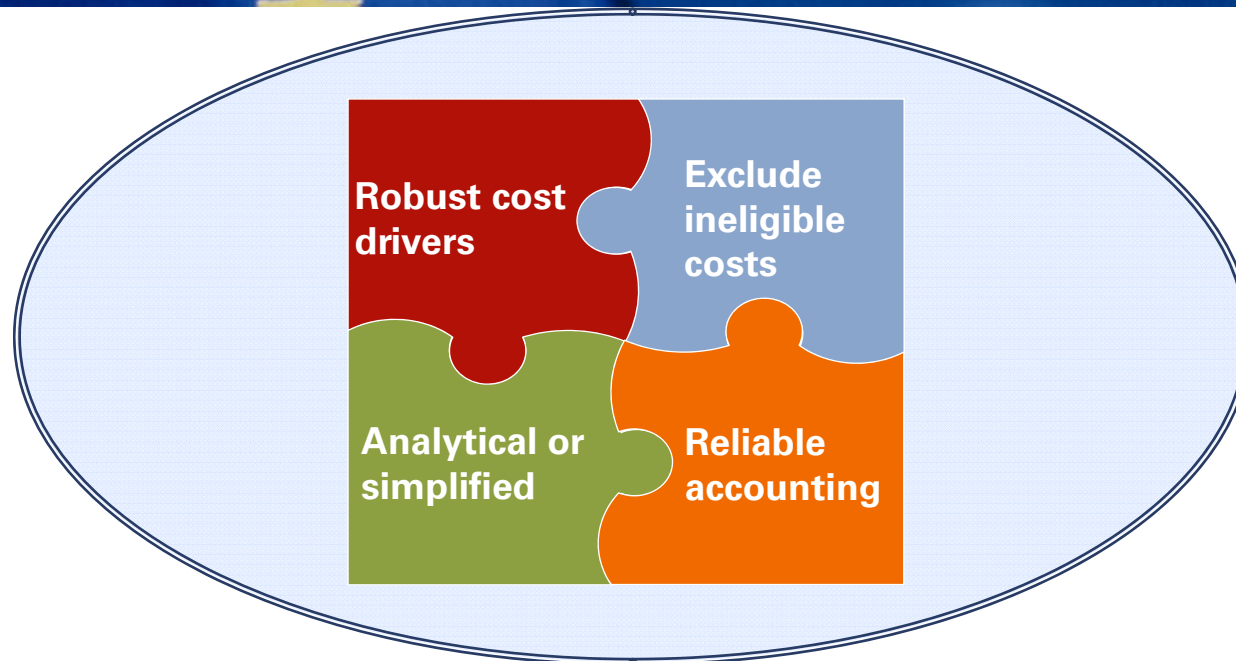
Cost components

- People not directly employed nor paid by the beneficiary
- Budgeted, standard or estimated rates used instead of actual
- Unpaid overtime charged
- Overhead costs included in personnel cost calculation
- In case of average personnel costs: average personnel costs have not been used consistently throughout all EC-funded projects
- In case of SME-owner: definition of salary to decide whether to use Marie-Curie flat rate

Quantity components

- Missing documentation in case of standard productive hours calculation
- Calculation of hourly rates on a monthly or other basis than yearly
- Time sheets absent, incomplete, not signed by individual and supervisor
- In absence of time sheets no credible equivalent evidence to back up time charged for the funded project

Indirect costs methodology - minimum requirements



- Design your indirect cost methodology according to your management, control and decisional needs. Insofar as necessary implement additional adjustments to comply with the EC cost calculation requirements
- Define the most adequate cost drivers for your organisation. Analyse and take into account your structure, needs and information availability
- Compute an adequate denominator for the indirect cost rate – fair allocation of indirect costs to the research activity



Indirect costs – common mistakes

- Cost driver is unsubstantiated estimation
- Use of budgeted/estimated rates instead of actual rates
- Identifiable indirect costs not related to research are charged to the project (cost of sales, idle time, marketing...)
- Not substantiated by an adequate documentation
- No audit trail
- For beneficiaries using flat-rates: percentage is applied on subcontracting costs and on resources made available by third parties not used on the premises of the beneficiary
- For beneficiaries using simplified method:
 - Pool of costs contains clearly differentiable indirect costs not related to research activities
 - Only research hours (and not all productive hours) are used for the allocation of the indirect costs to the projects

Our recommendation: Pro-active approach towards your auditor

- Documentation and evidence:
 - Provide your auditor with clear and precise information for approval of claimed costs
 - Think of finishing touches which signal high quality work
 - Make it easy for you and your auditors to review your work positively
- Keep in mind: your financial report reflects the quality of your financial management
- Regular progress control
- Timely delivery
- Open-minded and prompt communication with your auditor
- If in doubt or difficult field situation escalate immediately to your auditor

The **science** is very important, but reliable **financial accounting**, efficient **management of the audit process** and **professional communication** are also essential success factors!



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For further questions please do not hesitate to contact us...



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