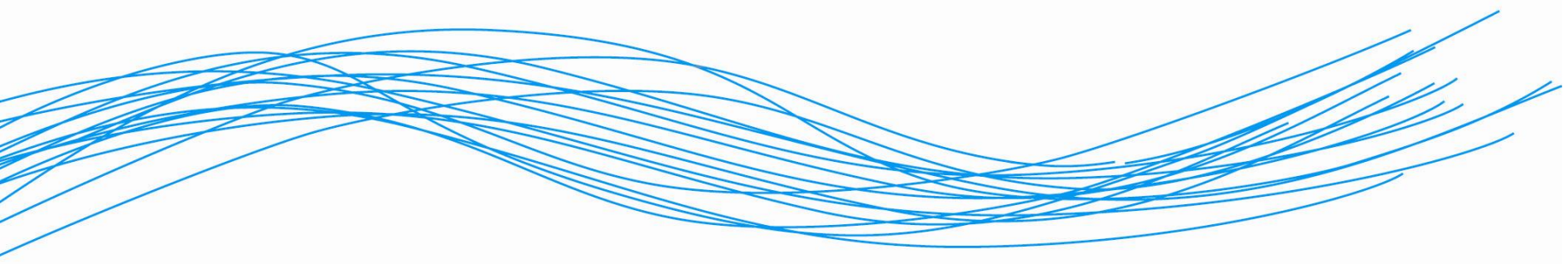


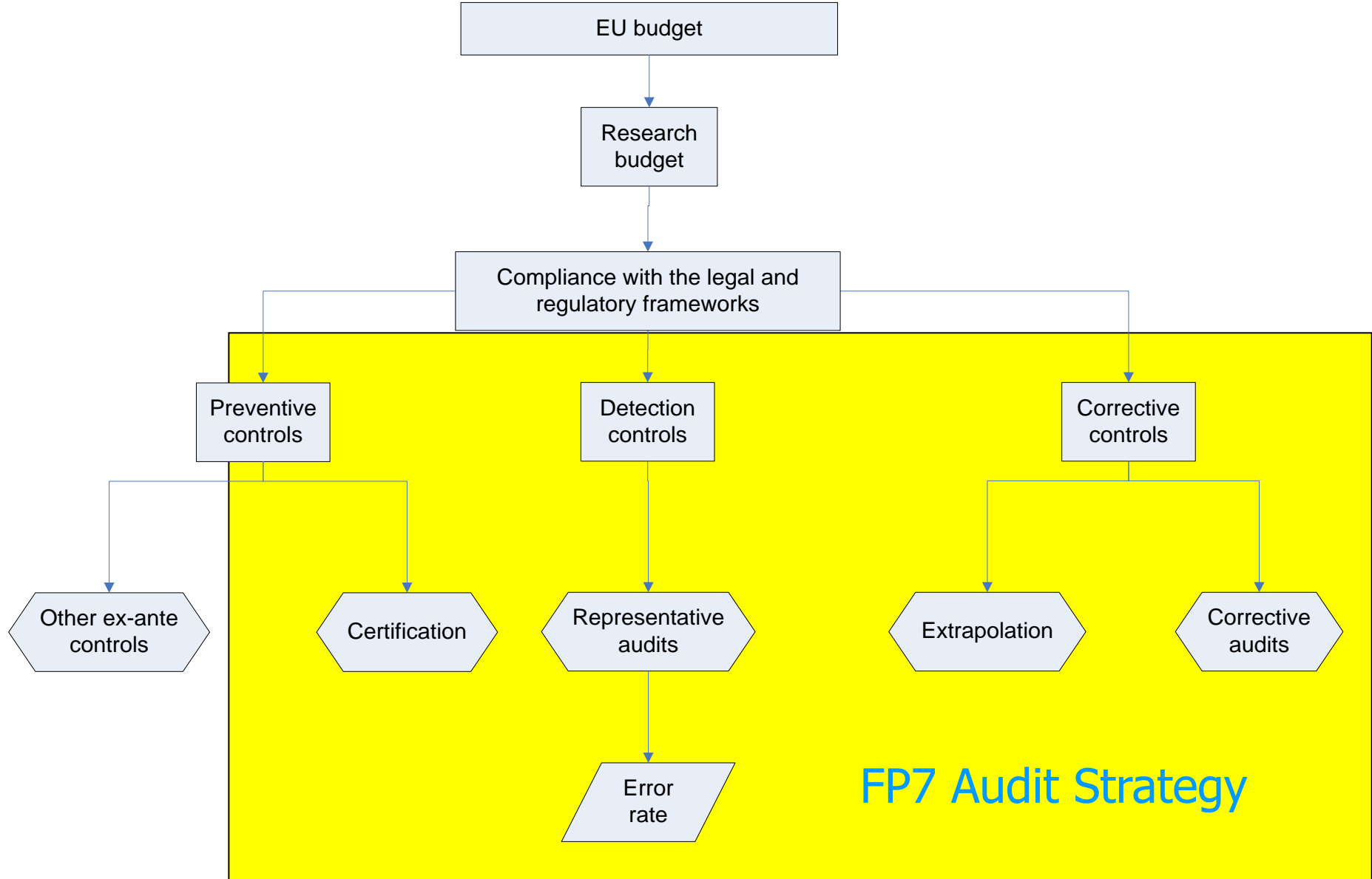
Cost Claims under FP7

View from an auditor



FFG
Vienna
6/10/2011

European Commission
RTD.A.4 External Audits
René Sieron





Types of audit:

- **Regular audits in line with the audit strategy**
- **Fusion audits**
- **Coal and steel audits**
- **Third countries audits**
- **Audits on Request**
- **Follow-up audits**
- **Technical audits & reviews**

- **Audits by the European Court of Auditors**



Audits on-the-spot

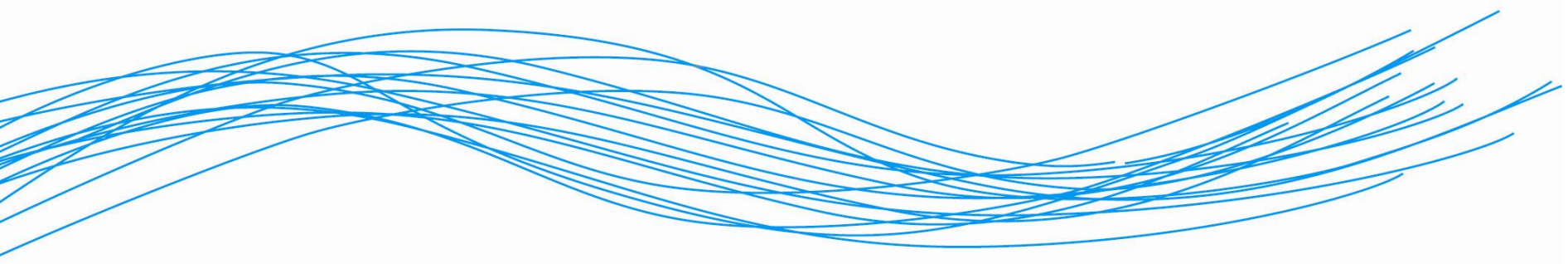
Ex post Audits by EC auditors (RTD-M.1)

- Approx. **30%** of audits
- Own resource audits
- Specific audits (follow-up, audit on request...)

Ex post Audits by Contracted audit firms (RTD-M.2)

- Approx. **70%** of audits
- Batch audits
- Supervision of the audit process by EC services

What will be audited ?





Do costs claimed respond to the eligibility criteria ?

1. Costs = **actual costs** <-> not budgeted nor estimated costs
2. Costs = **economic** <-> non-excessive, not reckless, no profit
3. Costs = **necessary** to carry out the project
4. Costs = charged in accordance with the **usual accounting principles** (not made « on purpose »)
5. Costs = **recorded** in the books
6. Costs = **incurred during the duration** of the project
7. Costs = **indicated in the budget** to the project (Annex I)

- **Direct** costs = Directly attributable to the project
- **Indirect** costs = Attributable to more than one activity
- Problem: consideration under more than one cost category



Link all costs claimed to the project

Personnel costs

- Calculation of productive hours (*standard vs actual*)
- Insufficient evidence of working times (time recording)
- Budgeted costs
- Average personnel costs
- Specific Issues: e.g. bonus payments, In-house services, third-party contributions, subcontracting etc.
- SME/owner-managers

Average Personnel Costs

Commission Decision on Simplification Measures (January 2011)

1. Acceptability criterion: Usual cost **accounting practice** ?
2. Acceptability criterion: Based on **actual** personnel costs registered in the accounts ?
3. Acceptability criterion: **Ineligible** items and double funding **excluded** ?
4. Acceptability criterion: Productive **hours reflect reality** and is auditable ?

Average Personnel Costs

Commission Decision on Simplification Measures (January 2011)

- **ASSUMPTION:** If all Acceptability criteria fulfilled, average personnel cost deemed not to differ significantly from actual costs
- **BEWARE:** The Acceptability criteria applies without PREJUDICE to the other eligibility criteria

Personnel Costs for SME owners

Commission Decision on simplification measures (January 2011)

- **SME owners /physical persons** who do **NOT** receive a salary registered in the accounts can claim flat-rates based on “*Marie Curie*” allowances
- **Procedure:** To be set **before** the Grant Agreement is concluded (recorded in its Annex I)
- **Calculation:** Allowance “*Marie Curie*” ./ 1.575 hours
= **lump-sum / flat rate / scale of unit**



Specific issues in Personnel Costs

- **Bonus payments**

- *If beneficiary's obligation (not discretionary)*
- *If applied to all projects (EU + Non-EU)*
- *If level of remuneration not excessive (benchmarking)*
- *If in the accounts*
- *If part of remuneration*
- *If...*

- **Overtime**

- *If actually paid*
- *If necessary to the project*
- *If it's the beneficiary's policy to pay overtime*
- *If system in place to allow identifying productive hours worked*
- *If...*

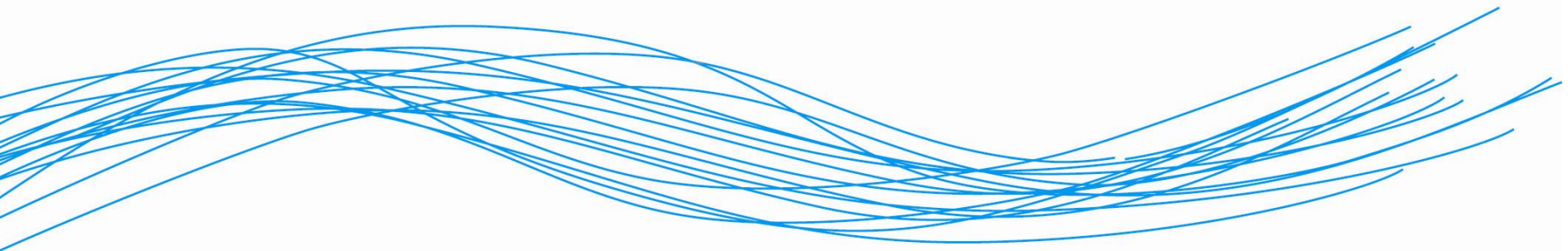
- **Teleworking**

- *If beneficiary's usual practise*
- *If offered to all staff of the beneficiary*
- *If system in place to allow identifying productive hours worked*
- *If...*

Subcontracting

- Prior approval in the contract or by project management of the Commission
- Audit process: Verification at subcontractor in case of significant amounts (foreseen in subcontracting provisions)
- Procedures: transparent / equal treatment / best value for money
- Ineligibility of VAT on subcontracts
- No indirect costs on subcontracting
- Subcontractors vs third parties contribution

Time recording



Basic Principles

Art II.15.1 of the FP7 model Grant Agreement:

"...costs of the actual hours worked by the persons directly carrying out work under the project can be charged."

FP7 Guide to Financial Issues

- *Employees have **to record** their time daily, weekly, or monthly*
- *Time-records have **to be validated** by the project manager or other supervisor*
- *Time recording system should **enable reconciliation of total hours** when personnel works on several projects*

HOWEVER...

Time sheets are not mandatory
A time-recording system is mandatory

A reliable time-recording system is mandatory
The reliability is assessed by the auditor independently

Additional evidences can be requested
Additional evidences can be requested always
Additional evidences are requested in the interest of the contractor

Example of daily full time-recording (per person)

Due to the fact that different activities have different reimbursement rates, work on EC projects is to be recorded by individual EC project **AND** activities

The level of detail of this section is to be defined by the beneficiary. The Commission requests at least time-records by main activities

Absences are necessary to verify the accuracy of the annual productive hours used to calculate the hourly rates

Date	Mon 02/02	Tue 03/02	Wed 04/02
EC-Projects			
R&D Activities			
Project x		3	4
Project y		5	5
Demonstration			
Project x			
Project y			
Management			
Project x			
Project y			
Other Activities			
Project x			
Project y			
Other research projects and Internal activities			
Teaching			
Training			
National Projects			
(...)			
Absences			
Annual Leave			

Other direct costs

- Ineligibility of direct taxes (i.e. identifiable VAT)
- Necessity and plausibility of purchases (not reckless)
- « Entertainment » costs
- Separation of direct and indirect cost items
- Double classification of a cost (e.g. travel)
- Internal invoicing
- Interests incurred on project funds
- subsistence costs and accommodation related to project travel on the basis of flat rates per country

Indirect costs

- “...Indirect costs are all those eligible costs
- which cannot be identified by the beneficiary as being directly attributed to the project,
 - but which can be identified and justified by its accounting system
 - as being incurred in direct relationship with the eligible direct costs of the project...”

Indirect costs

- **Industry, Trade...:**

$$\begin{array}{rclcl} \text{Product} & + & \text{indirect costs} & = & \text{Price} \\ 1 & + & 20\% & = & 1,2 \end{array}$$

- **Research:**

$$\begin{array}{rclcl} \text{Project work} & + & \text{indirect costs} & = & \text{Cost} \\ 1 & + & 200\% & = & 3 \end{array}$$


Indirect costs

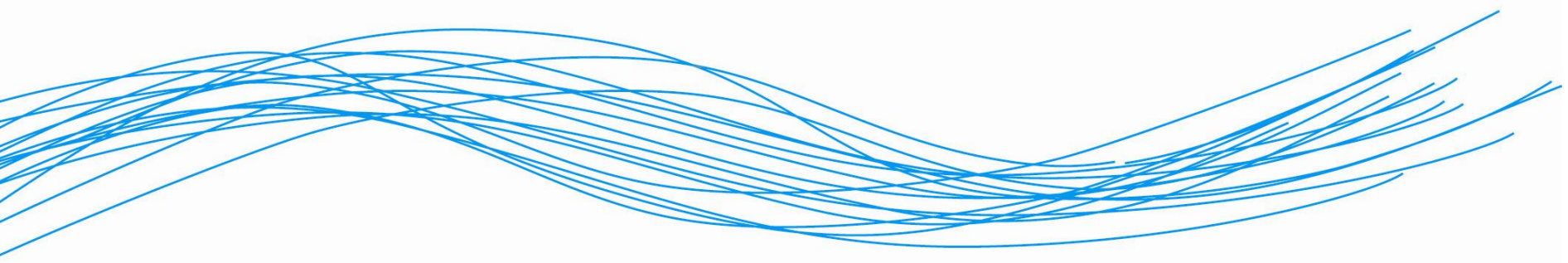
- Inclusion of ineligible cost items (cost of sales, teaching, research funded by other resources, provisions, cost of capital, ...)
- Unfair or unrepresentative allocation keys



Recourse to **published financial data** of the beneficiary

(e.g. balance sheet, profit & loss statement)

Results



Participation of Austria in FPs

FP5 (502 beneficiaries)		
	Number of Participations	Sum of EC Contribution
Total	1343	179,632,872
FP6 (624 beneficiaries)		
Instrument/Project Funding Scheme	Number of Participations	Sum of EC Contribution
Grand Total	2041	427,954,387
FP7(461 beneficiaries)		
	Number of Participations	Sum of EC Contribution
	71	17,213,599
171	10	1,833,810
BSG	66	8,732,072
CP	921	333,908,070
CP-CSA	14	2,629,498
CSA	325	41,325,018
ERC	54	79,927,334
MC	186	46,321,353
Grand Total	1647	531,890,753

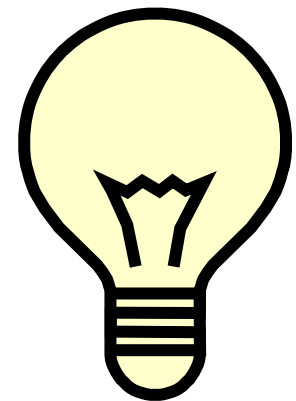
FP5-FP7: 72 Austrian contractors have been audited

<i>Framework</i>	<i>Audited costs claimed</i>	<i>Costs accepted by Financial officers (EC share)</i>	<i>Sum of Adjustments</i>	<i>ER %</i>
FP5 Total (18 auditees)	4,852,139	3,611,803	-50,420	-1.40%
			129,128	3.58%
FP6 Total (36 auditees)	58,691,619	34,107,451	-842,334	-2.47%
			764,085	2.24%
FP7 Total (18 auditees)	10,014,367	7,218,645	-223,936	-3.10%
			209,858	2.91%
TOTALS	73,558,125	44,937,899	-1,116,690	-2.48%
			1,103,071	2.45%

Adjustments by cost category

Cost categories	In favour of the EC (negative adjustments)				In favour of beneficiaries (positive adjustments)			
	% No. of negative adjustments		% of the total adjustment amount		% No. of positive adjustments		% of the total adjustment amount	
	FP6	FP7	FP6	FP7	FP6	FP7	FP6	FP7
Adjustments to costs previously reported	4.9	0.0	21.4	0.0	8.6	0.0	3.0	0.0
Consumables	6.0	2.4	1.8	5.7	3.3	0.0	0.7	0.0
Durable equipment	2.6	1.7	1.9	0.4	2.2	1.0	0.2	1.2
Other direct costs	21.4	28.1	13.5	23.8	10.6	12.8	32.9	5.1
Personnel	19.9	27.1	40.6	34.5	21.6	36.5	13.8	41.1
Protection of knowledge	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Subcontracting	4.3	3.7	5.6	7.1	19.9	6.4	4.9	1.8
Total indirect costs	28.0	32.8	14.1	28.0	28.0	42.4	43.6	49.7
Travel & subsistence	11.5	4.2	0.6	0.4	4.4	1.0	0.2	1.0
Various others	1.4	0.0	0.5	0.0	1.3	0.0	0.7	0.0
Grand Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Questions?





The EC Project & Financial Officer to your project



FURTHER INFORMATION

 Guidance on FP7

http://ec.europa.eu/research/fp7/index_en.cfm



 Practical Guide to FP7 funding opportunities

http://cordis.europa.eu/eu-funding-guide/home_en.html

 In case of doubts contact the: **RESEARCH HELPDESK**

<http://ec.europa.eu/research/enquiries>

