

The European Research Council

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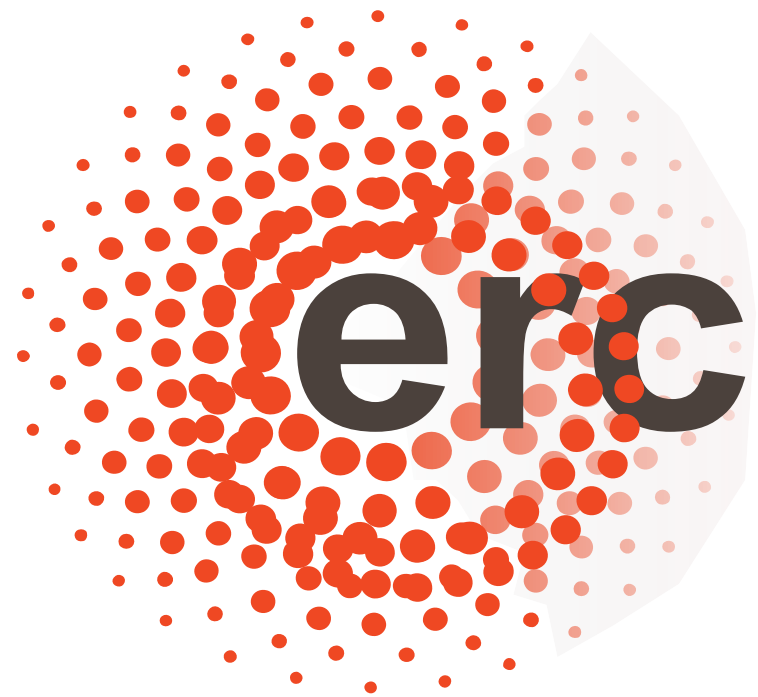
Head of Sector

Audit Support & HI Helpdesk/Events

Unit C4

**UNICA 11th EU Research Liaison Officers
Meeting**

Vienna, 28-29 November 2016



Audit and Ex Post Controls Overview



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- H2020 Financial Novelty
- H2020 Audit Process
- Documents to be kept in case of an audit
- Best Practice

H2020 vs. FP7 – What Changed?

Main changes (1)

- **Single reimbursement rate**
- **More flexible rules for third parties and subcontracting costs**
- **Differentiation between contracts and subcontracts**
- **Unique flat rate of 25% for indirect costs**
- **Differences in treatment of Depreciation & Internal Invoicing**

H2020 vs. FP7 – What Changed?



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Main changes (2)

- 3 options for determining annual productive hours
- Clearer and simpler obligations on time records
- More flexibility for average personnel costs
- Provisions on additional remuneration
- Eligibility of non-deductible VAT
- Common Support Centre (CSC)

H2020 – Contracts – What Changed?



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The following are considered as contracts:

(if not specifically mentioned in Annex 1 as action tasks)

- Certificate on the financial statements
- Catering for meetings
- Translation services
- Setting up and maintenance of a project website



To be reported as other direct costs

H2020 – Rules on Equipment Depreciation



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Under H2020 depreciation costs are eligible if :

- ✓ Equipment was purchased in accordance with Art 10.1.1. ERC MGA and **written off in accordance with international accounting standards** and the beneficiary's usual accounting practices.
- ✓ The **depreciable amount of the equipment must be allocated on a systematic basis over its useful life - H2020 AGA p.79-80.**

The concept of useful life may vary between countries. (defined usually in the national tax regulations) - *H2020 AGA p.80.*

⇒ Such differences will be acceptable as long as all the other eligibility criteria (Art.6 MGA) are met.

H2020 – Equipment Depreciation

practical consequences



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- ✓ The beneficiary must make eventual **changes needed to bring its usual cost accounting practices in line with all GA provisions** (e.g. depreciation costs which may deviate from the accounting rules of the country”) - *H2020 AGA p.37*
- ✓ Even if ultimately in the beneficiary's accounts the equipment is depreciated over the period of one year only, but the equipment's **useful life is more than a year**, the beneficiary will have to declare related costs on basis of the useful life concept within the duration of the project.
- ✓ **Equipment purchased before the start date of the project:**

Only depreciation costs allocated during the duration of the project may be eligible (i.e. portion corresponding to the action duration and the rate of actual use for the action).

H2020 - Calculating Personnel Costs



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Hours worked



Hourly rate

EUR/hour



Additional
remuneration



Time records



Formula for actual costs
& specific unit costs

**Only eligible for
non-profit legal
entities**

H2020 - Calculating Personnel Costs

Declarations & Time Records



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Depends if the person works exclusively on a H2020 action or not

- For this purpose, '*working exclusively*' refers to an uninterrupted period of at least one full calendar month during which all the hours worked by the employee for the beneficiary were dedicated to the H2020 action.

| Working exclusively | Records | Conditions (full details available in the AGA; page 160) |
|---------------------|--|--|
| YES | Declaration on exclusive work for the action | <ul style="list-style-type: none"> → only one per reporting period (per person) → covering one uninterrupted period of exclusive dedication of at least one calendar month |
| NO | Time records (i.e. timesheets) | <ul style="list-style-type: none"> → dated and signed at least monthly by the person and his/her supervisor → minimum conditions and information needed are detailed in the AGA |

H2020 - Calculating Personnel Costs

Productive Hours



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A: General case

Annual or **monthly** personnel costs

Hourly rate =

Annual productive hours or **APH/12**

Annual productive hours ←

1720 hours

Advice



You must use this option if the employment contract does not specify the working time conditions or if the 'annual workable hours' cannot be determined

Individual annual productive hours option not possible with Monthly HR

- Formula: annual workable hours + overtime – absences e.g.
- 365 days minus 104 days (Sat & Sun) minus 22 days annual leave, minus 8 days public holidays = 231 days x 8 hours per day = 1.848

Standard annual productive hours

- According to the beneficiary's usual accounting practices. Minimum threshold: annual productive hours $\geq 90\%$ of the standard annual workable hours

H2020 - Calculating Personnel Costs

Hourly Rate



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A: General case

Personnel Costs

Include:

- ✓ *Salaries (basic remuneration)*
- ✓ *Social security contributions (employers' and employees')*
- ✓ *Taxes and other costs included in the remuneration if they arise from national law or the employment contract*

➤ Do not include:

- ✗ *Any ineligible item (article 6.5)*
- ✗ *Any costs included in other budget categories (e.g. indirect costs)*
- ✗ *Any part of the personnel costs that qualifies as additional remuneration*

$$\text{Hourly rate} = \frac{\text{Annual personnel costs}}{\text{Annual productive hours}}$$

NEW

$$\text{Hourly rate} = \frac{\text{Monthly personnel costs}}{\text{Annual productive hours}/12}$$

H2020 - Calculating Personnel Costs

Hourly Rate



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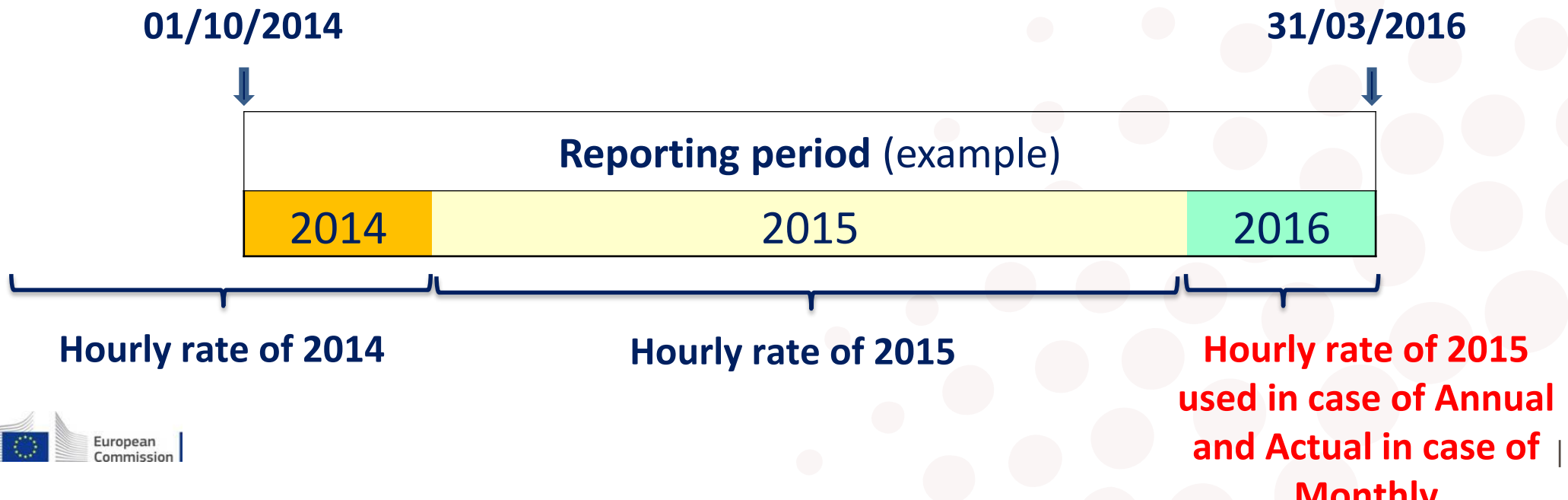
A: General case



$$\text{Hourly rate} = \frac{\text{Annual or *monthly* personnel costs}}{\text{Annual productive hours or *APH/12*}}$$

The hourly rate is to be calculated per financial year

If the financial year is not closed at the time of reporting, the beneficiary must use the hourly rate of the *last closed financial year available if annual personnel costs used*. In choosing the monthly option, the actual rates for the 2016 months can be used.



H2020 - Calculating Personnel Costs

Hourly Rate



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Options:

- ✓ 2 possible options: Annual or Monthly
- ✓ Monthly option = 2 productive hour options only (1720 and Standard)
- ✓ Only one option can be used in a given financial year
- ✓ Chosen option has to apply to all H2020 grants
- ✓ Change to a new option can only be made in the next financial year
- ✓ New monthly option applies retroactively so reported costs falling into the months of the last financial year can be amended.
 - ✓ *If choose this, has to be done for all on-going H2020 grants*
- ✓ May use different productive hour options for different categories of staff as long as applied consistently and used for a full financial year

H2020 - Calculating Personnel Costs

Additional Remuneration Ceiling



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Additional Remuneration

Eligible additional remuneration is subject to a eligibility ceiling fixed at EUR 8 000 for a full-time employee working exclusively for the action during the entire year.

| Occupation | Contract | |
|--|--|--|
| | hired full time during the entire year | NOT hired full time during the entire year |
| working exclusively for the EU action during the entire year | EUR 8 000 | pro-rata amount of EUR 8 000 |
| NOT working exclusively for the EU action during the entire year | {8 000 / annual productive hours FTE} * hours worked for the action over the year | |

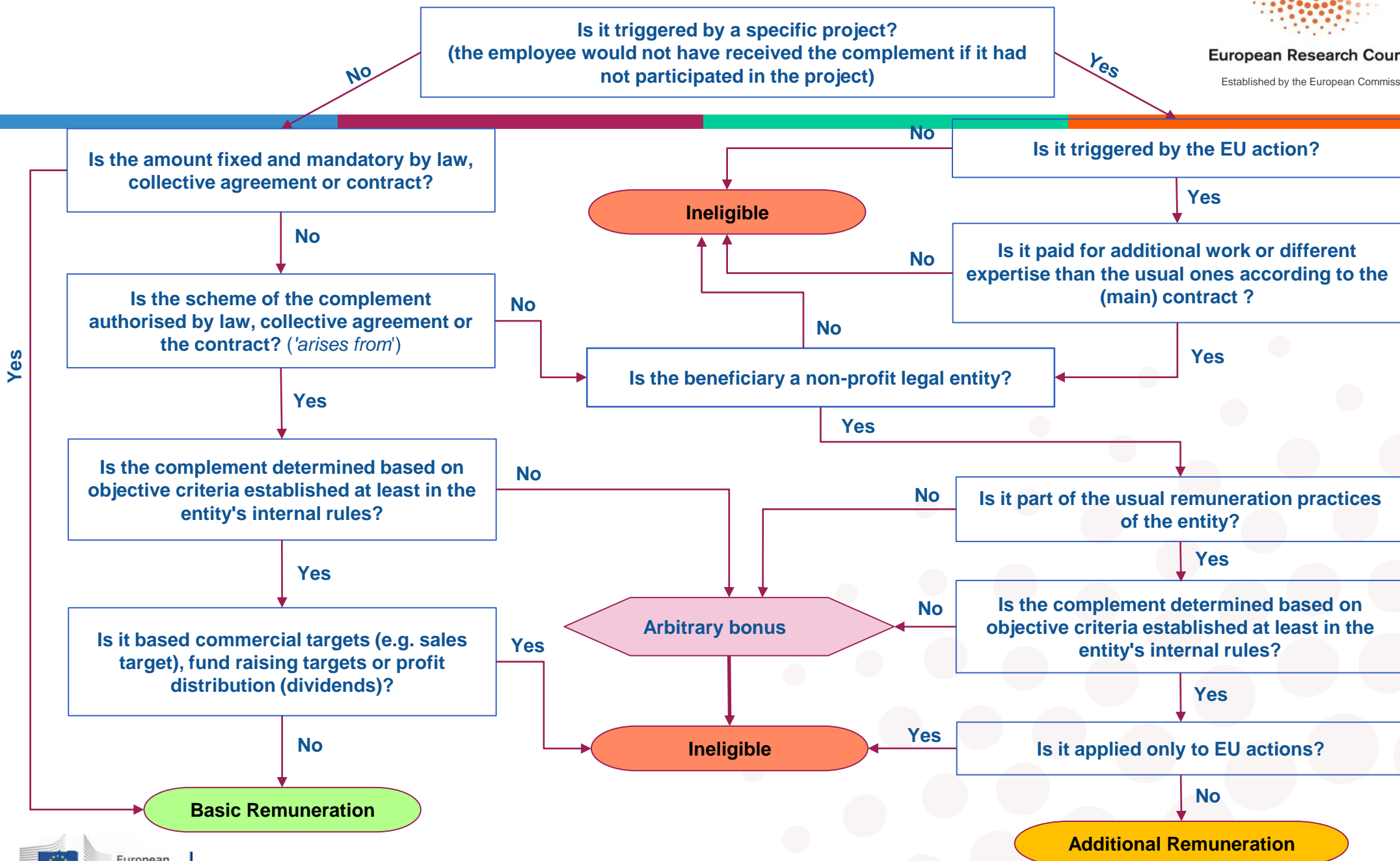


The ceiling covers the additional salary + all additional taxes, costs and social security contributions triggered by the additional salary.

Salary complement or supplementary contract resulting in a higher hourly rate



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H2020 Audits

Level of controls



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- Common Audit Service (CAS) Ex-ante controls: Certificate on the Methodology (Unit Costs for average personnel costs)
- Ex-post controls:
 - *First level audit: Certificate on the Financial Statements (CFS) → auditor selected by beneficiary*

Note:

CFS can be undertaken at regular intervals for assurance purposes (once 325.000€ threshold is met) and costs subsequently claimed at end of the project (costs should be economic/represent best value for money)

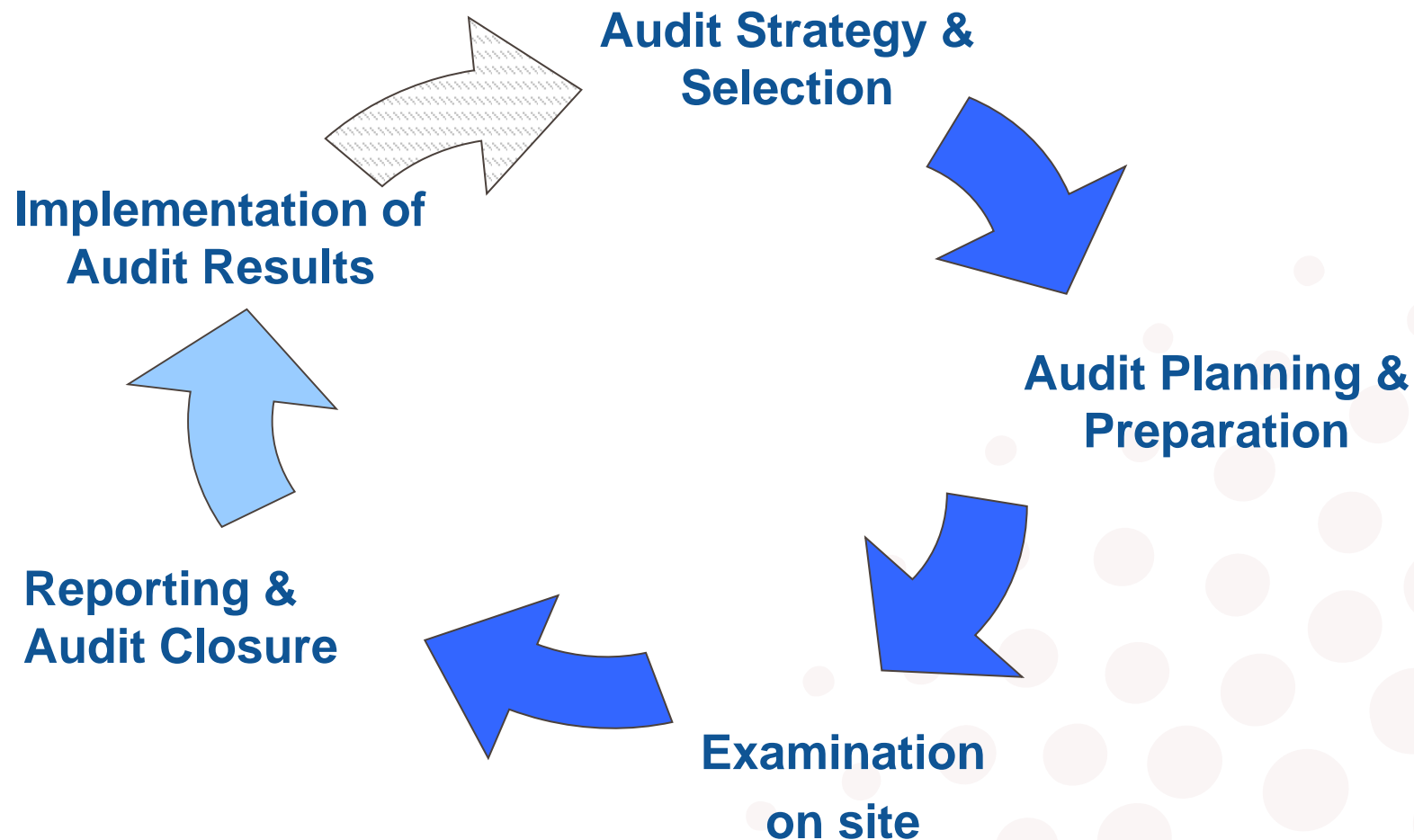
- *Second level audit for all H2020 actions: Financial audits, investigations → by European Commission or external auditors (**Common Audit Service**), ECA, OLAF*

H2020 Audit cycle



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H2020 Audit Strategy & Selection



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- Random Sampling
- Risk based analysis: high amounts, large proportion of subcontracting, new beneficiaries, etc.
- Fraud-risk audits
- Audits of biggest beneficiaries
- Audits on request
- Technical / Scientific audits

H2020 Audit Planning & Preparation



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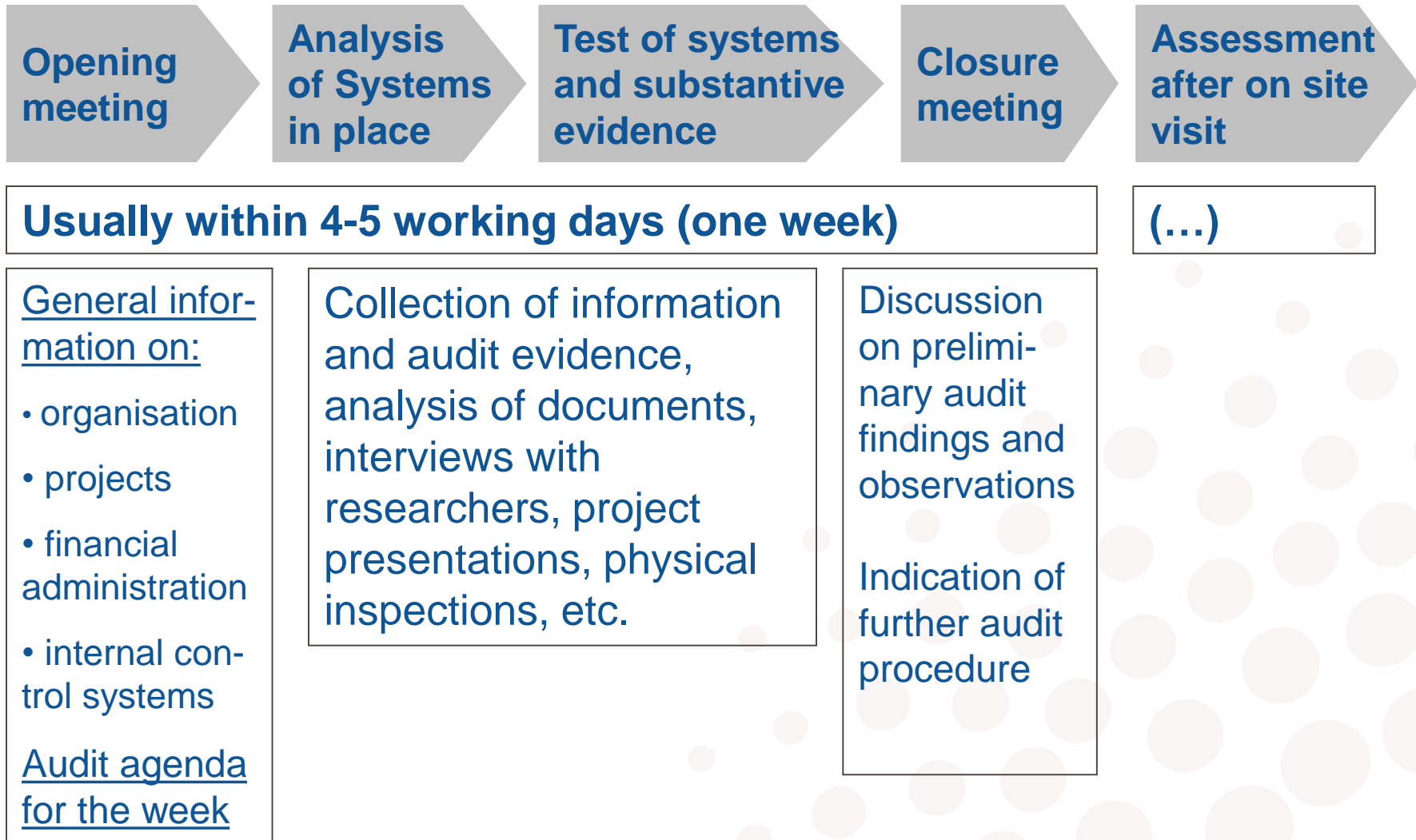
- Selection of actions to be audited
- Initial contact with responsible auditors to agree on dates and logistics for audit visit
- Formal “Letter of announcement” of audit including detailed annex with information and documents to be provided **prior** and **during** the on-site examination

H2020 Examination on site



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H2020 Audit Reporting & Closure



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- Draft audit report followed by CAS internal quality check
- Review by ERC Audit Liaison Officer/Management
- Contradictory procedure: max. 30 days for beneficiary to send comments/"Letter of representation"
- Final audit report with CAS review by Internal committees and final quality check
- Audit closure with formal "Letter of Closure" of audit and indication of further procedures for the implementation of audit results

H2020 Implementation of Audit Results



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

Documents to be kept in case of an Audit



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Recommend Beneficiary keeps an audit-oriented file per project:

- Copy of the Grant Agreement, annexes and any amendments.
- Copy of the submitted Financial Statements and CFS.
- Detailed transaction listing of all costs claimed (project expense listing/print-out from General Ledger)
- Supporting documents for ALL costs claimed
- Relevant Internal Procedures/Policies
- List of all EU projects the Host Institution is currently involved in.
- Host Institution's Corporate Annual Income Statement together with EU annual percentage of funding.
- Any relevant project correspondence (internal correspondence or exchanges of e-mails/letters between the Host Institution and the ERCEA).

Documents to be kept in case of an Audit



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Supporting documents for ALL costs claimed:

- **Purchase orders, invoices, proof of payments**
- **Travel** - internal travel requests, travel itineraries/flight evidence, subsistence receipts, hotel invoices, minutes of meetings/event with list of participants
- **Equipment/Consumables** – inventory listing, equipment delivery notes, records concerning equipment usage, rental contract (in case of rented equipment).
- **Subcontracting** – sub-contracts, evidence to support tendering/procurement procedures (if necessary) & deliverables.
- **Personnel** – timesheets, contracts, job descriptions, salary grids, payslips/employer's costs and productive hours calculation used for the calculation of the hourly rates.

Documents to be kept in case of an Audit



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Relevant Internal Procedures/Policies:

- Organisational chart and reporting responsibilities
- Finance & Accounting Procedures
- Human Resource Procedures
- Travel and Subsistence Procedures
- Equipment Purchasing/Depreciation Procedures/Asset Registration Procedures
- Procurement Procedures (if relevant)
- Conflict of Interest Procedures


All Cost Categories



- Lack of Supporting Documents
- Non-compliance to EU Financial Rules
- Non-compliance to HI's Own Internal Procedures/Normal Practices

Personnel costs = Biggest source of error!

Personnel Costs:

- ✓ Team members = employment contract with HI
- ✓ Time-sheets used correctly when not 100% employed
- ✓ Researcher salaries comply with HR salary grids
- ✓ Bonus Payments respect criteria defined in AMGA
- ✓ Clear guidelines for Teleworking 
- ✓ Administrative support staff proportionally charged as a Direct cost if it is the normal HI procedure and mentioned in DoW



Travel Costs:

- ✓ Ensure PI's/researchers avoid excessive/ uneconomic long-duration trips
- ✓ Introduce a travel pre-authorisation procedure
- ✓ Maintain conference agendas
- ✓ Encourage production of small mission reports
- ✓ Keep emails to support set-up of any visits

Equipment & Consumables:

- ✓ Follow HI Depreciation procedures
- ✓ Follow HI Asset Registration procedures
- ✓ Follow HI procedures for accounting classification as equipment or consumable (e.g. large piece of equipment with small component parts)
- ✓ Exclude overhead elements from methodology used to charge back shared equipment
- ✓ Exclude overhead elements from consumables purchased via internal warehouse




Equipment & Consumables:

- ✓ Respect internal procurement procedures
- ✓ Respect EU Public Procurement Principles
- ✓ Demonstrate Best Value for Money e.g. tender, three offers, market survey, etc.
- ✓ Document reasons for Single Source Providers
- ✓ Do not directly award additional contracts to the same contractor
- ✓ Do not artificially split tenders into smaller contracts to avoid public tendering calls



Key Messages

- Avoid unnecessary purchases in the last few months/weeks of the project just to consume budget
- Be proactive and don't wait for an audit to seek advice or detect problems
- Audit is a two-process from which both sides benefit
 - Helps you:A photograph showing two hands, one from the left and one from the right, shaking in a firm grip. The hands are positioned horizontally, with the fingers interlaced. The background is dark and out of focus.
 - Avoid errors & thus reimbursement of ERC funds
 - Make improvements to your financial cost reporting & your internal control systems

Contact Details



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