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ERC Audit Presentation
Together For Less Errors in IDEAS


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ERCEA
European Research Council Executive Agency
Unit C3 – Audit Management and Implementation





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Together For Less Errors In IDEAS
Overview

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- Common Goal
- Audits role
- How to make best of an audit
- Error cases
 - ✓ Systematic errors
 - ✓ Common/Non-systematic errors
 - ✓ Cases in the grey zone
- How to get things right
- Simplifications & Anomalies

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Common Goal


➤ **What is it?:**

Demonstrate low error environment for IDEAs program
To “clean” significant amount of the implemented program budget (= tax payers’ money) from systematic and non-systematic errors

➤ **Why is it common?**

- * Cornerstone for the program budget negotiations for the next period as well as an indicator for efficient and effective program implementation
- * Protect the program through the FP success story
- * Reduce administrative burden for HI and PI in a trust based environment




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Common Goal


➤ **How measured?**

European Court of Auditors set materiality level of 2% < target rate at the end of FP7 , i.e. error rate not higher than 2%

This error rate is the best indicator to assess the extent to which financial transactions of a Framework Programme are considered being legal and regular, on a multiannual basis.




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Common Goal

- **How established?**
Through the implementation of the common "FP7 Ex post control audit strategy", which also covers the recovery of ineligible costs.

The purpose of this strategy is to provide, at FP level, comparable data on the reasonable level of assurance on the legality and regularity of the expenditure on a multiannual basis, detecting and correcting errors using a structured, systematic and **coordinated approach**.


  

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Audits role


- Audits role - not only to control, but to prevent and advise
- Audit checks eligibility of costs (legality and regularity) of spent budget
- Any time after GA signature until 5 years after last transaction
- Financial, legal as well as technical issues
- Might call on assistance of Scientifics
- Audit results (at FP level):
 - ✓ verified by the European Court of Auditors (ECA) ???
 - ✓ Send to EU Parliament (EP) as part of the Commission's Annual Report







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Audits role

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- **Categories of audits**
 - ✓ Random sampling
 - ✓ Risk based audits
- **Audits by EU staff or external audit firm**
- **The majority of ex-post controls carried out for the ERCEA in 2010 was based on risk assessment**
 - ✓ 68 audit reports on common FP7 beneficiaries were closed
 - ✓ representing approximately 18% of ERCEA payments
 - ✓ out of which 62 audits did not reveal any significant systematic errors
 - ✓ 6 extrapolation cases were agreed

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Audits role

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- Analysis based on existing audit reports Internal Control Questionnaire (ICQ) etc
- Reliance on beneficiary's co-operation and assistance to get things right
- Permanent shared file is planned to be created for top beneficiary



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How to make the best of an audit Be Pro-active and Co-operative

- **Planning of audit dates & organisation**
 - ✓ Prompt feedback to the 1st contact e-mail sent at least 4 weeks before planned dates
 - ✓ Try & accommodate suggested dates
 - ✓ **Appoint a contact person**
 - ✓ Start planning the audit organisation (meetings, presentations, documents, logistics) according to the Letter of Announcement
- **Pre-audit info delivered on time**
 - ✓ Submit filled in ICQ – helps for the Internal Controls (IC) understanding
 - ✓ Submit info from Annex I of Letter of Announcement (LoA)
 - ✓ Submit extracts of accounting information or fill in suggested Excel forms
 - ✓ **Inform about archiving/accounting location specificities, if needed**

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How to make the best of an audit Be Pro-active and Co-operative (cont.)

- **Upon auditor's analysis of pre-audit info**
 - ✓ Prepare sampled invoices, if requested
 - ✓ Ensure that all requested cost supporting documents are available at place including timesheets
 - ✓ Try & accommodate all requested interviews from the proposed agenda
 - ✓ Ensure the presence of key officials both from scientific (PIs key researchers) and financial side and **be pro-active to propose other relevant meetings**
 - ✓ Consider presentation/demonstration of IT systems, if needed
- **Field Work**
 - ✓ Start from briefly presenting "*who you are*" (e.g. in figures, statistics, achievements etc.)
 - ✓ Clarify HI's internal control structure and any organisational specificities related to the project management – **important for ERCEA permanent file!!!**
 - ✓ Prepare original supporting documents logically ordered in folders ready for inspection
 - ✓ Assist auditor with questions and provide additional documents upon request
 - ✓ Physical inspection – ensure access to project equipment/consumables
 - ✓ Closing meeting-clarify all preliminary observations
- **Draft Report - Contradictory Procedure - Final Report**
 - ✓ **Provide comments within the deadline**


  

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Error Cases

General Statistics

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- Concentration
- Top 100 Host Institutions = 74 % of ERC committed budget
- Top 150 = 82 % of ERC committed budget
- A top 100 HI today absorbs 0.4% of ERCEA total budget = > 5 grants
- ??? ERC HI only 4 or not (yet) beneficiary of a FP7 grant of sb else
- ERC Total number of beneficiaries Today = ??? 391 HI and
- 223 have been audited in FP6


- Our Top beneficiaries are
- Top 100 HI = 80 of these are equally RTD and/or INFSO Top beneficiaries in FP6/FP7
- ERC HI 183 of a total 391 ERC HI are Top beneficiaries in RTD and/or INFSO in FP6
- Top 100 = 84 have been audited in FP6
- Top 150 = 118 have been audited in FP6

- FP6 general: Frequent Errors in Financial Statements

	Frequency	50 %	budget impact
➤ Personnel	20 % in frequency		
➤ Indirect cost	29%		17%
➤ Other direct	21		14
➤ T&S	12		1
➤ Consumables	6	3	
➤ Subcontract	4		10

- Overall 36% of errors found are of a systematic nature





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Error Cases


Systematic errors - Extrapolation



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- Systematic and non systematic errors
- Systematic errors < 40% of error rate
- Systematic error have a high impact -> top HI
- Correction of systematic material errors by applying the audit results to all running and closed grant agreements in the same framework programme

- FP7: At least 9 financial statements in 3 different FP7 Grant Agreements need to be audited before concluding that no material systematic errors are present for a given beneficiary -> low risk = "clean"





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Error Cases

Systematic errors - Extrapolation

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Personnel cost (FP7):

- ✓ Inappropriate method for calculating hourly rate
- ✓ Declared billable hours rather than actual
- ✓ Unpaid overtime included in hours claimed
- ✓ Budgeted figures used to charge the personnel costs
- ✓ Used average productive hours per month instead of actual productive hours based on the labour agreement
- ✓ More hours claimed than mentioned on time sheets
- ✓ Ineligible provisions for unemployment
- ✓ Ineligible bonus payment



Error Cases

Systematic errors - Extrapolation

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➤ Other cost (FP7)


- ✓ systematic claim of VAT
- ✓ Systematic claim of internal invoices with an element of profit
- ✓ Estimated internal charges
- ✓ Wrong exchange rates used
- ✓ Inclusion of indirect costs as direct
- ✓ Durable equipment depreciation calculation errors are considered systematic
- ✓ Costs claimed by ineligible third parties

➤ Interest rate calculation (FP7)

- ✓ Interest on pre financing for the project not declared/ under declared.



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Error Cases

Systematic errors - Extrapolation

ERCEA at current :

- Under declaration for interest rate of pre financing
- Specific bonus paid by the HI for excellence to ERC PIs not based on results/hours worked.
- Incorrect methodology of personnel cost calculation




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Error Cases


Common errors

Personnel cost

- Timesheets not complied with required elements
 - ✓ No description of related activity
 - ✓ Not global
 - ✓ Not signed
 - ✓ Not individual
 - ✓ Not counting absences
 - ✓ Filled out only monthly
 - ✓ Not reconciled with HR (re absences).
 - ✓ Time sheets absent or incomplete
- Productive time includes non productive days
- Declared project time includes absence or work hours on another activity
- Total remuneration includes ineligible bonus & overheads elements

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Error Cases




Common errors


Personnel cost (cont.)

- People not directly employed nor paid by the beneficiary
- Average hourly rates used without approved CoMaV
- Unpaid/ineligible overtime charged
- Bonus payments applied to ERC grant holders only

Accounting systems

- Costs reported in project accounts only
- Usual accounting or management principles and practices not applied
- No controls on double accounting entries
- 1 person responsible for approving, recording and payment of a transaction
- No reconciliation between budget and actual cost accounting
- No possibility for apportionment of reported costs in cases of common expenses between projects




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Error Cases


Common errors

- **Other**
 - ✓ Outside eligibility period
 - ✓ Not budgeted nor clearly explained in Description of Work
 - ✓ No appropriate supporting documents
 - ✓ Incorrect conversion rates
 - ✓ VAT included
 - ✓ Not relevant to the project (hospitality/entertainment costs)
- **Do not forget Art II 14.1a (actual)**
 - ✓ If you use estimates, because actuals are not available at the moment of submission, declare so in the reporting
 - ✓ Correct in a separate Form C in the following period




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Error Cases
Recent Top Examples

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- 100% budgeted project costs were charged at 1st interim FS while only 20% were supported by documents
- No link between scientific and financial project management – elements of the reported costs are not substantiated as necessary and recorded only as a total against the acc practice

Error Cases
Recent Top Examples

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- Problematic PI autonomy – cases of non-controlled expenses and duration of scientific travels
- Depreciation charged for the whole calendar year while project period ends in June – best estimates rule not used (Art.14.1 GFI)

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Error Cases Recent Top Examples

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- No link between the GL and project cost accounting – data has been transmitted via no regular nor traceable means and costs generation could not be substantiated (notably gross salary)
- Subsistence and travel cost, otherwise eligible, of personnel belonging to another beneficiary in the project was charged to HI project account.



Error Cases Recent Top Examples

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- Employment termination total costs charged to the small 3 month ERC participation because of the coincidence of the two end dates
- Exchange rate used is NOT the one on the first day after the end of a reporting period from the ECB website



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How to get things right Personnel costs

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Hours worked

- Time-sheets are highly recommended to justify a person's time spent on the project (estimates of hours worked are not allowed)
 - ✓ Full/complete time-recording system recording total productive hours spent on ALL activities (reconciliation of total hours for personnel working on several projects during the same period).
- However, time-sheets may not be necessary if:
 - ✓ a person is working 100% on a project and has a specific contract/job description to this effect, and
 - ✓ there is appropriate/alternative evidence to support the declared working arrangements and this is compliant with the usual accounting practices of the beneficiary
 - ✓ Be aware of the min time devotion requirement (GFI)



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How to get things right Personnel costs

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- Directly hired by the Host Institution (HI)
- Work under sole technical supervision and responsibility of HI
- Be remunerated in accordance with normal practices

$$\begin{array}{|c|} \hline \text{PERSONNEL} \\ \text{direct costs declared} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{N}^\circ \text{ of} \\ \text{HOURS} \\ \text{Spent on} \\ \text{ERC Project} \\ \hline \end{array} \times \begin{array}{|c|} \hline \text{HOURLY} \\ \text{Personnel} \\ \text{Rate} \\ \hline \end{array}$$



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How to get things right Personnel costs

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Salary Top-ups/Bonus Payments:

- Acceptable if part of normal salary and benefits package, and ALL of the following criteria met:
 - ✓ Referenced in internal regulations
 - ✓ Applicable to ALL projects (EU & non EU)
 - ✓ Level of remuneration is consistent with market conditions for same category/grade/experience
 - ✓ Recorded in accounts as “Personnel” cost and is subject to taxes and social security charges
 - ✓ Paid as part of employees gross remuneration
 - ✓ Proportionate to time spent on project



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How to get things right Personnel costs – In House Consultants

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Eligible as a Personnel Cost, if the following criteria are met:

- The beneficiary has a **contract** to engage a physical person
- The physical person works **under the instructions** of beneficiary and **in the premises of the beneficiary**
- The **result of work** belongs to the beneficiary
- The costs are **not significantly different** from the costs of employees of the same category working under labour law contract for the beneficiary
- Their remuneration is recorded as a Personnel cost in the accounts
- Travel and subsistence costs would have to be paid **directly by the beneficiary** in order to be eligible.



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How to get things right Personnel costs

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Third Parties Making Resources Available

Must be indicated in Annex I & Form C

- Free of charge (no reimbursement) or
- Beneficiary reimburses the third party

- Special Cases:
 - ✓ Foundations, spin-off companies etc.
 - ✓ Resources (staff/equipment) working for, or used by a university but whose salaries/costs are paid by the government



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How to get things right

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- Ensure a proper reconciliation between timesheets reported absences & hours and HR unit accounting/recording
- Ensure a proper link between scientific and financial project management (control structure)
- Ensure proper segregation of duties and traceable controls at each level
- Ensure all IT control systems correspond properly and generate correct reports
- Ensure controlling staff is well acquainted with program rules and regularly updated (e.g. GFI, Annex I, Addendum to GFI)



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How to get things right Avoid overlapping funding

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- EU financial contribution must not give rise to profit for the beneficiary
- Costs claimed for other European Union funded projects are not eligible



- Proposal should include list of funds already awarded
- In case of running projects in parallel-ensure availability of % time for team members
- PIs to distinguish different funding sources
- Projects with several funding sources should have a consistent key to allocate fair and equitable costs
- ERC will reinforce monitoring



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How to get things right New Guide to Financial Issues

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- Tuition Fees
 - ✓ Eligible as a Personnel Cost, when (in kind) amount is clearly stated in employment contract and eligibility criteria met
- Recruitment Costs
 - ✓ More generally accepted for ERC Starting Grants and replacement of staff during the life of the contract
- Internal Invoicing
 - ✓ Eligible for the sharing of equipment/facilities between different units if their use for the project and the usage is properly recorded & the methodology for calculating the costs is clearly auditable






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Error Cases
Grey zone


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➤ Top ups/bonus payments – if supplement salary is paid to a PI by a second organisation is this a bonus?

- ✓ PI recruited on a permanent contract by one institution while working on the ERC project in another. The former pays full salary and the latter a supplement. Although it is not considered bonus by the latter organisation the supplement is ineligible acc to bonus requirements in GFI.




  

Error Cases
Grey zone

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➤ Teleworking - can I have all my team teleworking?

- ✓ Definition
- ✓ OHDs for a team member and for a in-house consultant
- ✓ Mentioned in the DoW (Annex II , GA)
- ✓ Non envisaged and needed in the middle of project duration for certain member(s)




  

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Error Cases
Grey zone

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- Cost of Financial Statement (CFS) – in what cost category shall I report it?
 - ✓ Subcontracting – external audit company/individual
 - ✓ Direct cost – public authorised auditor/internal auditor
- Entertainment/excessive cost – could they be eligible costs?
 - ✓ Upon condition that they are accord to usual accounting practice, (if not minor) envisaged in DoW with a proven link and importance for the project implementation

Error Cases
Grey zone


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- Visiting experts costs – in which category to report them? How many experts can I invite? What expenses can I claim?
 - ✓ Envisaged in Dow
 - ✓ If on need-case basis and not in DoW– may need budget amendment
 - ✓ Need to be justified (direct link to project, evidence of contribution/ collaboration etc.)
 - ✓ Reported in Other cost
 - ✓ Normally travel & accommodation. Per diems – only if normal practice envisages (dinners, lunches may be treated as excessive/entertainment)




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Error Cases
Grey zone


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➤ Common own labs and facilities – how to charge the ERC project for its use?

- ✓ Pricing and invoicing practice must follow usual practice and no profit is eligible. If no practice is available - realistic price model closest to actual costs excluding OHDs elements.
- ✓ Recommendable is the maintenance of timesheets for important common equipment use




  

Error Cases
Grey zone

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➤ Equipment NOT in the assets

- register as per accounting practice– do I have further responsibility for registration and inventory?
- ✓ All project equipment should be traceable, assigned to a person/place and accountable
- ✓ If of a lower value (printers, laptops, scanner etc) either the local IT unit practice is imported into the project accounting or a new project related registering procedure is developed

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Error Cases Grey zone

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➤ Not budgeted but important equipment claimed – is it eligible?

- ✓ Scientifically – DoW is not changed. Justification for use clarified
- ✓ Financially – it could be accepted provided that a revised budget table is submitted
- ✓ and DoW is not changed.

In doubt ERCEA will advise if an amendment procedure has to be started and cost will be eligible only after its approval



Simplification & Assisting Tools

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- Project reporting period 18 months
- Only alternative evidence possible for project hours for staff working 100% on the project
- 20% flat rate for overheads
- Helpdesk for PIs & HIs
- Global Internal mechanism for uniform interpretation and application of rules (CleC – Clearing Committee)
- Recruitment costs – eligible if in GA
- Per diems
 - Com Dec 15 Dec 2009
 - Com Dec 24 Jan 2011






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**Simplification
Flat Rates**

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- **Optional Flat rate for Subsistence Costs and Accommodation**
 - If indicated in text of Call for Proposals
 - Discussed at Granting
 - Fixed rates per country e.g. Belgium subsistence €92, hotel €140
 - Otherwise Travel costs = real costs
- **In case of Audit:**
 - Flat rate higher than real = ok, not considered receipt
 - Auditor will check reality of the trip


**Simplification
Average Personnel Costs**

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- **Removed:**
 - ✓ obligatory ex-ante CoMAv (becomes an optional)
 - the criteria on maximum deviations between averages and individual actual costs
- **New criteria:**
 - ✓ usual accounting practice
 - ✓ averages based on actual costs in statutory accounts
 - ✓ exclusion of ineligible costs as defined in the FP7 Rules
 - ✓ productive hours: usual practice, verifiable and reflecting actual working standards

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Anomalies in projects


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- Working group on conflict of interest
- Scientific dimension

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- Preventive Fraud Strategy with Zero tolerance
- Quickly gather written information
- Report: phone, email or post. Can be anonymous !
http://ec.europa.eu/anti_fraud/contact_us/index_en.html
- or to ERCEA Staff




  

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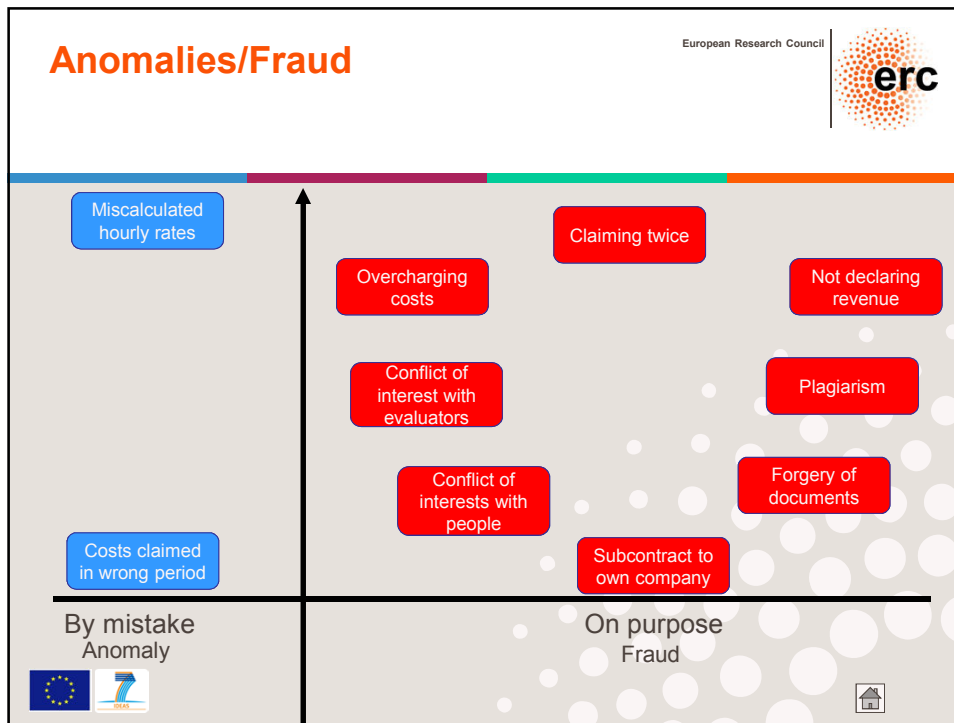
Anomalies: It happens!

2 researchers apply separately for a Grant but...


- ...they do not declare they are partners
- ... the proposals are not their own
- ...claim same days on both Grants
- ...do not declare that they changed Host Institution


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Key messages


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- Our common goal - Error free budget implementation or error rate $\leq 2\%$
- Measured on completed representative sample
- Outreach events, Preventive audits and consulting = the way to a lower error rate by the project end
- Collaboration between auditees & auditors = increases possibility for higher performance






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Key messages from today

- Beneficiaries can help speed-up the process by submitting documents on time
- The PI should also understand legal and financial guidelines and be involved from the start
- HI's should follow their usual management principles and accounting practices
- Audit is an opportunity for constructive dialogue and advice

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Questions or suggestions?

- Mail box: ERC-external-audit@ec.europa.eu
- Q & A session



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