



# HORIZON 2020

***H2020 Audit Programme V.3.0***

29 July 2019

**<http://europa.eu/!RY33WY>**

# ***Review of the key audit procedures for personnel costs***

- ***Background and history***
- ***Structure: GA Art, Condition, Procedure***
- ***[Instruction on findings]***
- ***Consequences of findings: Report or Recommendation vs Adjust***

- ***Certified Methodology***

-> **If not applied, calculate eligible costs based on actual costs without proposing an adjustment yet**

-> **report the issue to the CAS**

## Structure of Procedures

- **General Procedures**
- **Time Recording**
- **Specific cases**
- **A.1 Employees**
- **A.2 Natural Persons under a direct contract**
- **A.3 Seconded personnel against payment**
- **A.4 SME Owners**
- **A.5 Natural Persons not receiving a salary**

# **PERSONNEL COSTS – SPECIFIC CASES\***

**\* regardless of the source of funding**



- **Teleworking**
- **Benefits in kind**
- **Recruitment costs**
- **Remuneration of students, PhD, fellows**
- **Academic fees**
- **Parental leave**
- **Costs related to public officials**
- **Supplementary contracts**



**For all these cases refer to the AGA and the IAP**

# **PERSONNEL COSTS – SPECIFIC CASES**

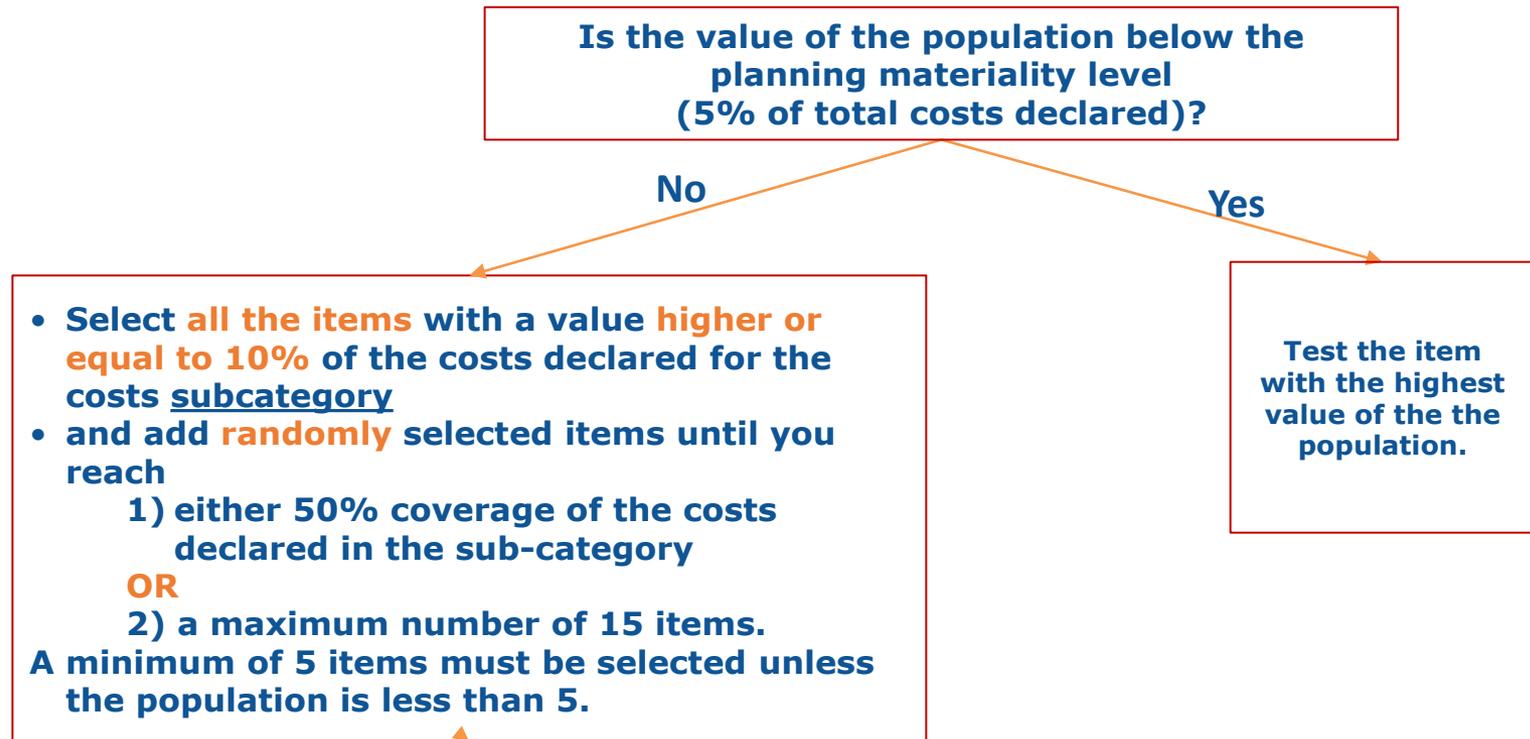
- ***People working exclusively on the action***
- ***Employees hired during on-going financial year***
- ***End-of-contract indemnities (including bonuses paid after the end of the contract)***
- ***Employment contract remunerated "per hour"***

- ***Information request***
  - ✓ **Breakdown per reporting period, with reference to financial years, for each category of personnel costs;**
  - ✓ **Details for basic, complements, additional remuneration;**
  - ✓ **Usual accounting & remuneration practices;**
  - ✓ **Accounting records;**
  - ✓ **Reports for certified statutory accounts.**

- ***Information request***

- ✓ ***Time recording system documentation and examples;***
- ✓ ***Example of Contracts;***
- ✓ ***Schedule meetings with HR, Payroll, Accounting departments, Time recording;***
- ✓ ***Schedule Interviews;***
- ✓ ***Send sampling results -> To prepare payslips, payroll, bank statements, contracts.***

## • Sample selection



### Definition of an item:

Personnel costs: a person declared in the action

Subcontracting: one contract

Travel costs: **one person costs for an event/ conference (NEW)**

Consumables: one line in the breakdown

Equipment: one equipment from the breakdown

- ***Systemic Errors***
  - **Request the Beneficiary to:**
    - recalculate the declared costs;
    - remove the effect of the systemic errors for the whole population.
  - **Verify the accuracy of the above.**

- ***Systemic Errors***

- **If still no collaboration from Beneficiary (even after letter);**
- **Auditor may extend the results obtained from the sample to the rest of the population.**

# PERSONNEL COSTS – GENERAL PROCEDURES

- **Accounting Records and Reconciliation Differences**

**HOW TO TREAT THEM?**

IF CD > DB



- Adjust the difference

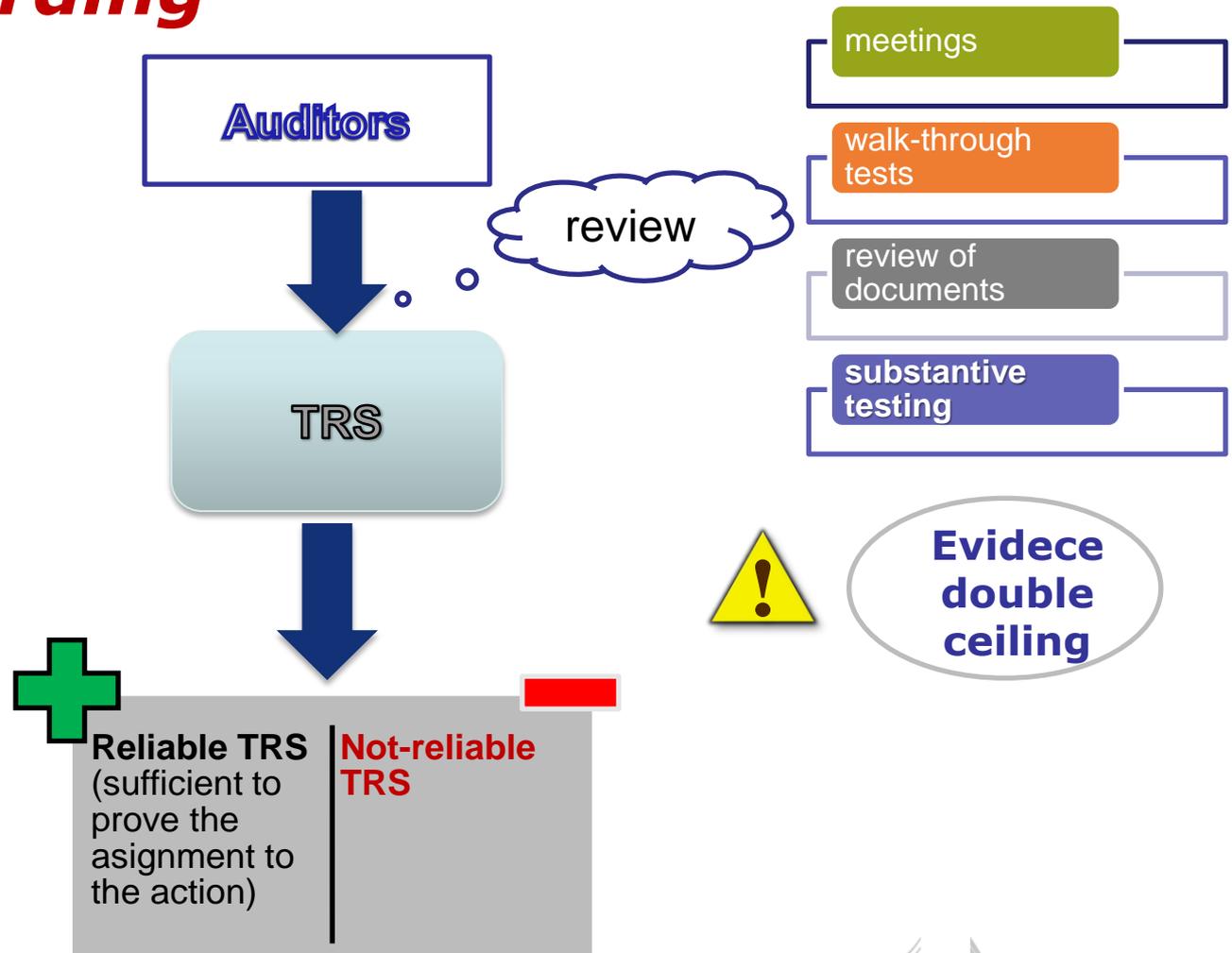
IF CD < DB



- Adjust only if: Limitation of Budget, Error in methodology or Unexplained difference

- **REVIEW FOR NETTING OFFS, CREDIT ENTRIES, CANCELLATIONS, RE-INVOICING (6 MONTHS AFTER) -> ONLY IF NO PROJECT ACCOUNTING (NEW)**
- **EVIDENCE FOR DOUBLE CEILING**

## Time Recording



# PERSONNEL COSTS – TIME RECORDING

- Obtain an understanding of the time recording procedures of the Beneficiary.
- Review internal guidelines, review the system and perform interviews.

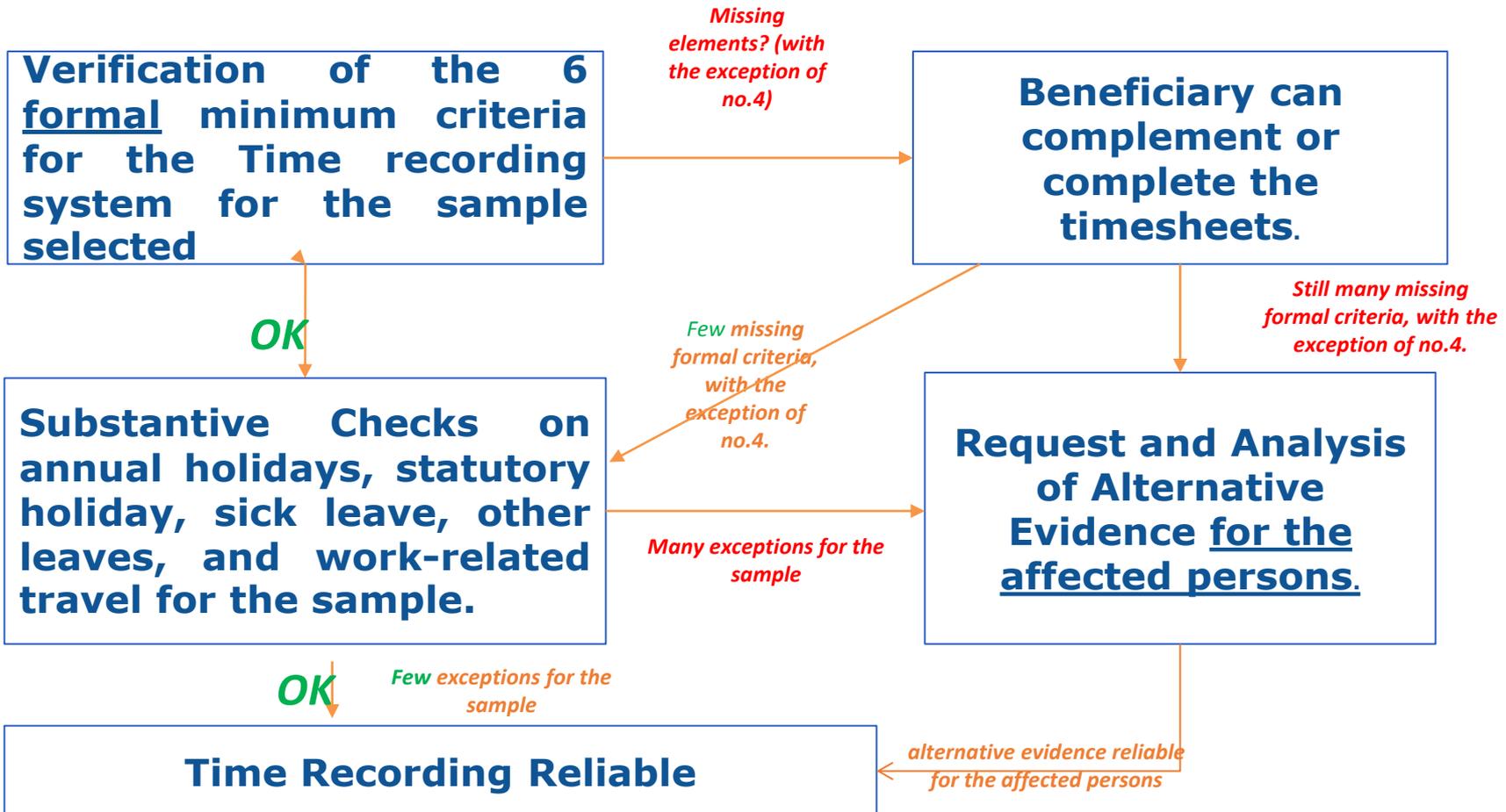
For fully computer-based time-recording system verify the 3 listed criteria (electronic signatures + password and user names policy; process for managing user rights; log of all electronic transactions)

Request and Analysis of Alternative Evidence for all declared persons

*If the issues identified are significant request the beneficiary to provide alternative evidence to support the relevant time declared.*

Report and raise recommendations if any of the 3 listed elements to be checked for computer-based time recording is not fulfilled.

# PERSONNEL COSTS – TIME RECORDING



## *Alternative evidence*

### ▪ How?

#### *Acceptability criteria:*

- Clear identification of the person;
- Clear link to the project under scrutiny;
- Possibility to quantify time spent on project-related tasks.

## ***Declaration for persons working exclusively\* on the action:***

\* *NO OTHER activities than those of the action*



- **Formal checks (i.e. signature, date, countersigned)**
- **Un interrupted time-period (min 1 calendar month)**
- **Review CV and internet (including the beneficiary website) -> identify contradictions**
- **Cross check with the scientific reports**
- **EVIDENCE FOR DOUBLE CEILING**



- ***Payments***

- **Review the beneficiary's usual payment timeframe;**
- **Ideally all sampled persons need to be tested;**
- **However the number of months to be checked is left at the discretion of the auditor.**

- ***Law on taxes, labour and social security***
  - **Not intended to re perform statutory audits or national controls for compliance with national provisions.**
  - **Not main purpose of the audit, rather an additional reason for disallowance.**
  - **Reliance on not qualified statutory audit reports.**

- ***Law on taxes, labour and social security***
  - **Direct impact on the amount claimed:**  
e.g. incorrect social security rate -> **Adjust.**
  - **No impact on the costs claimed:** failure to notify local authorities about the list of employees, if identified, report and raise recommendation.

- ***Accounting standards and usual accounting practice (check if costs are identifiable and verifiable)***
  - **Not intended to re perform statutory audits or national controls for compliance with national provisions.**
  - **Not main purpose of the audit, rather an additional reason for disallowance.**
  - **Reliance on not qualified statutory audit reports.**

- **Double funding**

- Only 5 other actions / projects to be tested, instead of a representative sample.  
**ONLY IF NO PROJECT ACCOUNTING (NEW)**

- Selection of the 5 other actions / projects is left at the discretion of the professional judgment of the auditor.

- **Double funding**

- Only cost specifically earmarked for the audited action and funded by other EU sources or national funding for which EU funds are used, are to be rejected in full.

- **ATTENTION:** the same cost item cannot be financed twice but synergies are allowed.

## • *CVs & Interviews (check connection to the action)*



- Selection of at least **1 person (NEW)** per audited action is left at the discretion of the professional judgment of the auditor;
- The auditors are expected to make best use of their qualifications and experience;
- The opinion of the EC project officer may be necessary thereafter.

- ***Reckless and Excessive***

- **2 benchmarks: personnel performing similar tasks or the SME owner unit cost rate.** 

- **Complement with professional judgment if necessary.**

- **Hourly rate for employees with 'declarations on exclusive work on the action'.**

- **REPORT first (no adjustment yet).** 

# PERSONNEL COSTS – SPECIAL CASES (UC)

• *Personnel costs on the basis of the usual accounting practices (Unit costs – procedure)*



**(NEW -**

***Double Ceiling for costs NOT applicable)***

**IMPORTANT: check conditions and application**  
**AND ensure that usual is usual**  
**(5 other projects – not only EU)**

**-> Budgeted elements**

**If the budgeted or estimated figures represent less than 5% of the declared unit cost, it is considered that they do not play a major role and can be accepted.**



**-> Exclude components of indirect nature !!!**

# PERSONNEL COSTS – SPECIAL CASES (UC)

- **Budgeted elements**  :



**If >5% compare with the actual costs:**

**1. If the actual costs cannot be determined the budgeted component will be considered ineligible. OR**

**2. If the actual costs can be determined adjustment will be proposed only if there are negative adjustments in the favour of the EC / AGENCY / JU (due to the use of the budgeted elements) higher than 5% compared to the declared unit cost.**

## ***Consistent application of the options:***

**1. for hourly rate calculation (annual / monthly) in all H2020 actions in same financial OR fiscal year**

**2. Unit costs or Actual costs**

- ❖ ***Case 1A – not project based remuneration***
- ❖ ***Case 1B – project based remuneration***

## Calculation of annual productive hours

### ❖ **Option 1 – 1720 fixed (no restriction)**

**! Does not need to be supported**

**! Pro-rata when not working full time or full year**

### ❖ **Option 2 – Individual annual productive hours**

**! The formula for the hourly rate is mandatory**

**->> The absences and overtime must be supported**

### ❖ **Option 3 – Standard annual productive hours**

**! Minimum 90% of workable hours**

## Calculation of annual productive hours

-  **Consistent application of the options for productive hours per staff category/ type in all H2020 actions in the same financial year**
-  **Option 2 is not allowed for monthly hourly rates**
-  **Option 3 – Verify application AND ensure that usual is usual by testing 5 other projects (not only EU). Selection left at the discretion of the professional judgment of the auditor.**

## *Further tests on Employees*

- **Procedures for Remuneration components: Basic, Complements, Variable, Additional (inspire from national tax law );**
- **ATTENTION: check the non-profit legal entity status ;**
- **Definition of Additional remuneration has changed.**

## *Natural persons under a direct contract*

- **The hourly rates may not be significantly different compared to similar employees.**



- > **there are no OR no similar employees then this test is not applicable.**

- > **A difference of up to 50% can be accepted, if justified.**



## *Natural persons under a direct contract*

- **Identify artificially increased hourly rates;**
- **Eg: Obtain information if the natural persons declared on the EU action have been working before for the Beneficiary based on a different type of contract;**
- **If identified apply project based / additional remuneration criteria.**

## ***Seconded by Third Parties against payment (Art 11)***

- ***Documentation of the temporary transfers:***
  - ✓ **Review secondment contracts, or other equivalent supporting documentation (decisions, engagements);**
  - ✓ **Verify that the seconded personnel work for the beneficiary;**
  - ✓ **Clause that persons are at the disposal of the beneficiary.**

## *SME Owners / Natural Persons not receiving a salary*

- **When Salary exclusively to the management of the SME**
  - > apply SME unit costs.
- **Changes of remuneration status.**
- **SME status NOT CHECKED.**



European  
Commission



# HORIZON 2020

# Thank you



Research and  
Innovation