



HORIZON 2020

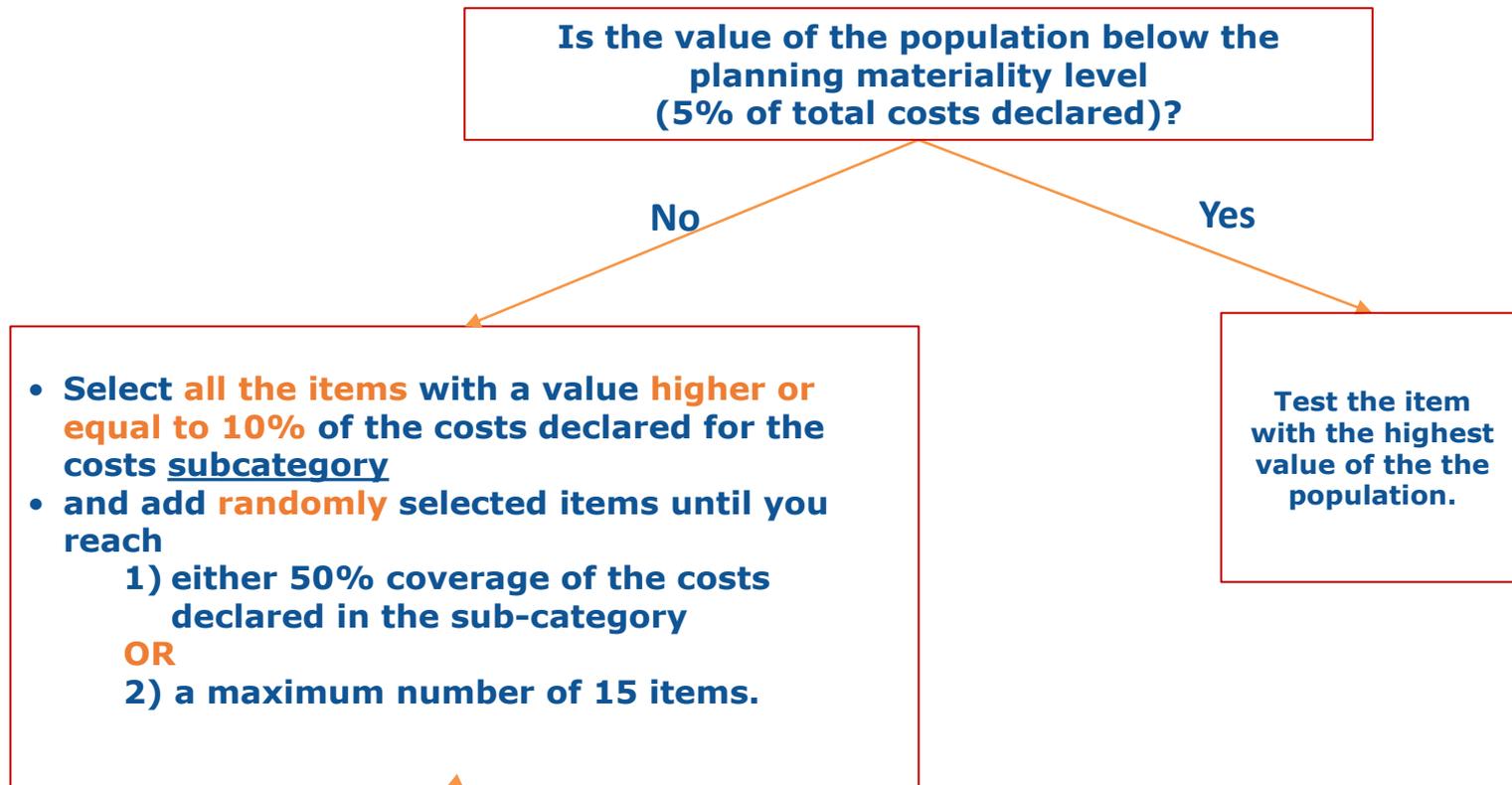
H2020 Audit Programme V.3.0

29 July 2019

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

***Review of the key
audit procedures for
Subcontracting and
Other Direct costs***

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

Key issues

! Compliance with the principle of Best Value for Money (BVfM) or Lowest Price

! Double funding

! Approach towards contracting authorities

Eligibility criteria which are deemed to be complied with, under certain given circumstances

1. Costs are necessary for the project;

2. Costs are justified, not reckless, comply with the principle of efficiency;

3. In case of "light" approval – the decision of the grant's award is not questioned, no breach of equal treatment of applicants



The tasks to be implemented and the estimated costs of each subcontract must be set in Annex 1 of the GA (Art.13.1.1).

Consequence of non-compliance:

A.Report – material discrepancies in the nature of the costs;

***B.Reject – costs above the budgeted amount + 10% subject to assessment by the operational services.
(To be reviewed at the level of the PAR)***



Costs must be actually incurred by the Beneficiary (Art.6.1.a).

Consequence of non-compliance:

If claimed amount $>$ amount form list of items -> reject the difference

If claimed amount $<$ amount form list of items -> adjust only if in same situations as for personnel costs

Step 1 Accounting (1)



Costs must be actually incurred by the Beneficiary (Art.6.1.a). Costs must not include deductible VAT (Art.6.1.a.xi).

- 1. Underlying documentation exists in proper form;***
- 2. Costs are recorded and paid;***
- 3. VAT is excluded if deductible for the Beneficiary.***

***Consequence of non-compliance:
Costs are rejected***

Step 1 Accounting (2)



Costs must be incurred during the project period defined in Art.3 of the GA. Costs must not be incurred during suspension of the action.

- 1. Check if delivery lies within the project period;**
- 2. Check if costs are linked to final reports;**
- 3. Specific case – suspension of the action.** (Case by case analysis needed)

**Consequence of non-compliance:
Costs are rejected**

Step 1 Accounting (3)



Costs must not include costs declared under another EU or EURATOM grant (Art.6.5.b).

3-steps procedure (in cascade - mutually exclusive):

- 1. Check for exclusive reference to EU project;**
- 2. Walk-through - cost accounting;**
- 3. Review of 5 other EU funded actions.***

***ONLY IF NO PROJECT ACCOUNTING (NEW)**

**Consequence of non-compliance:
Costs are rejected**

Step 1 Accounting (4)

Ensure that:

- **National accounting standards are respected (Art. 6.1.a.v);**
- **Costs do not contain ineligible elements (Art. 6.5.a);**
- **Complete Representation letter.**

Consequence of non-compliance:

- **Ineligible elements are to be adjusted;**
- **Non-compliance or missing representation letter will be reported.**

Step 2 Tendering



Review of the original signed subcontracting agreement and verification of:

- 1. Consistency with the accounting documents.*
- 2. Compliance with formal requirements.*

Consequences:

- Not consistent – costs are rejected*
- Formal requirements not complied with – report, except for classified results*

Principle of Best value for money

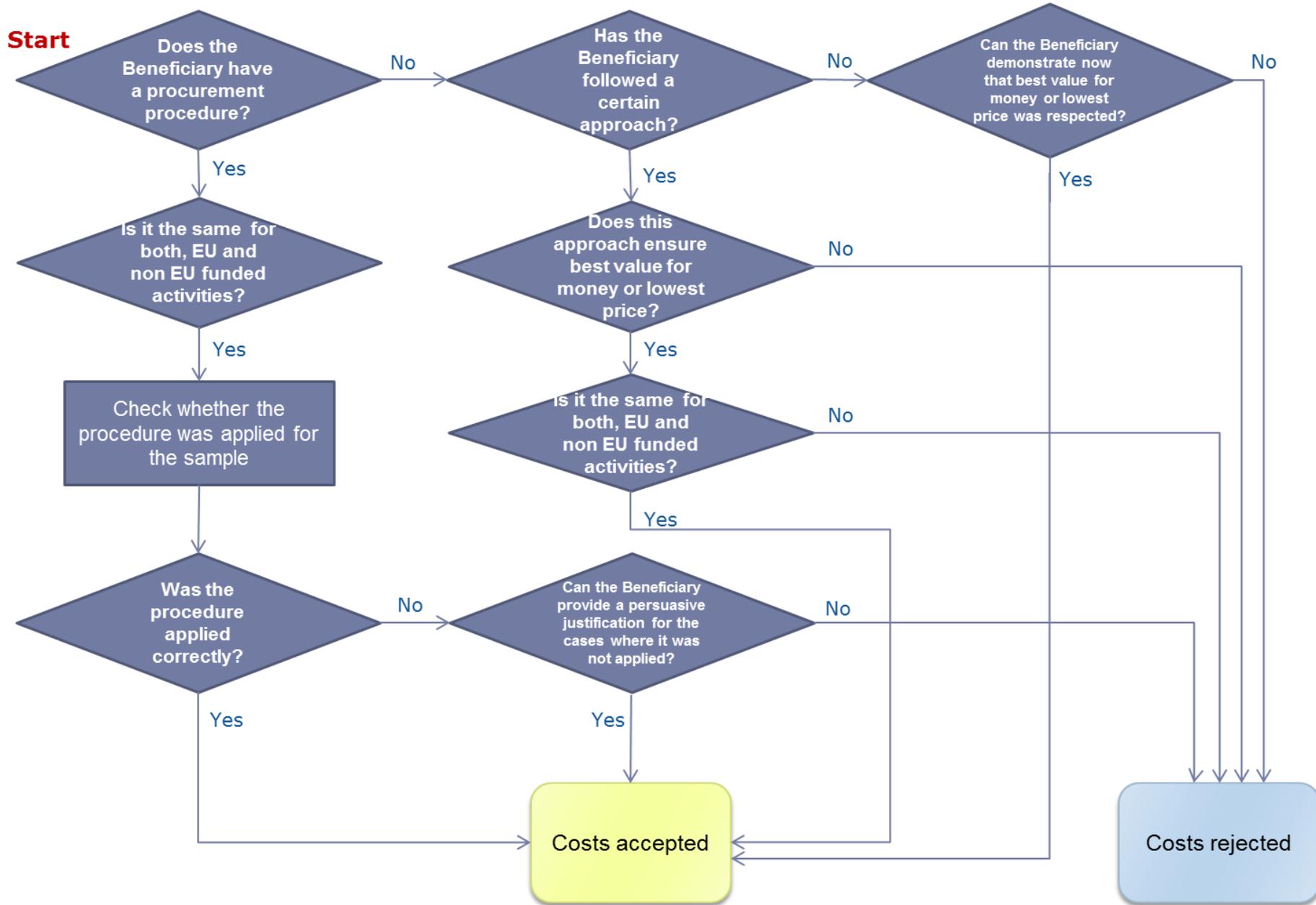
Two different approaches:

1. In case the beneficiary is a contracting authority or a contracting entity within the meaning of Directives 2004/17/EC and 2004/18/EC.

2. All other beneficiaries.

In all cases, the tests foresee detailed re-performance for the sample

SUBCONTRACTING COSTS



Special case : affiliated entities

In case of subcontracting to affiliated entities verification if :

- 1. the affiliate entity is the usual supplier or there is a framework contract***
AND
- 2. the subcontracting is carried out at market conditions***

Specific issues



- ***Auditability of subcontractors: it is an issue only if we need to audit them and we cannot***
- ***Conflict of interests: check internal written procedure for avoidance. REPORT (no adjustment)***
- ***If, anyhow, you detect a documented conflict of interest, refer to "cross cutting issue" procedure***

A. General Eligibility conditions



General eligibility conditions respected

Verify if:

- 1. Claimed costs match breakdown list of Beneficiary;**
- 2. No systematic errors in the calculations;**
- 3. Correct conversion to EUR.**

Consequences:

Adjustments when differences occur

NB: positive differences in point 1, only in same situations as for personnel costs

OTHER DIRECT COSTS

Key issues

- ❗ **Classification Direct vs Indirect**
- ❗ **Direct measurement of costs**
- ❗ **The 'Full Capacity' concept
(*removed*)**
- ❗ **Fiat vs Mercedes**



General Criteria

• Review of Corrections (netting off, credit entry, cancellation) and re-invoicing *

*** ONLY IF NO PROJECT ACCOUNTING (NEW)**

- **Not main purpose of the audit though**
- **However the same approach to check "recorded in the accounts" prevails**
- **Some access and/or review of the IT systems may be necessary**

B. General Eligibility conditions



Costs were actually incurred

Verify:

1. Claimed amounts vs documents (e.g. invoices)
2. Documents are addressed to you (Beneficiary)
3. Costs are recorded in the accounts (GL)
4. Any discount or rebate is accounted for
5. No altering transaction in 6 months *
6. No re-invoicing by the Beneficiary within 6 months *
7. Costs are paid (or netted off)

Consequences:

Adjustments when differences occur

B. General Eligibility conditions



Costs claimed fall within the project period

Verify:

- 1. Dates of Invoices, delivery notes, transport documents***
- 2. Cost before the project period relate to kick-off meeting***
- 3. Costs after the project period relate to final reporting***
- 4. Costs are recorded in the respective accounting period***

Consequences:

Adjustments when differences occur

B. General Eligibility conditions



The Beneficiary complies with national accounting Standards and any digital documents are allowed by national law

Verify:

- 1. Invoices, debit/credit notes vis-a-vis national law requirements**
- 2. Statutory audit reports (if any) for relevant findings**

If unqualified audit report and no other findings: Condition is considered met!

Otherwise adjust for any non-complying items

B. General Eligibility conditions



Beneficiary complies with its usual accounting practices

Verify:

1. Invoices, debit/credit notes vis-a-vis own acc. practices
 2. * Consistency for direct/indirect in H2020 vs FP7
 3. * Consistency for direct/indirect in EU vs non EU
 4. * Beneficiary's own overhead calculation (if any) for possible inclusion of the sampled items.
- * 2/3/4 OBSOLETE

Consequences:

Adjustments when differences occur

B. General Eligibility conditions



***No Costs are claimed also from another EU/
non EU fund***

Verify:

- 1. No sampled item is included in 5 non EU projects (if any)*
*ONLY IF NO PROJECT ACCOUNTING (NEW)***
- 2. No item offered by the State is included in the claims to EU***

Consequences:

***Adjust in full for EU overlaps and
partially for non EU***

C. Ineligible items



Costs do not include deductible VAT



Verify:

- *costs claimed vis-a-vis National law*
- *tax declarations*
- *the accounting system of the Beneficiary, etc.*

Consequences:

Adjustments when differences occur

C. Ineligible items



Costs do not include any other ineligible items such as:

- **costs related to return on capital**
- **debt and debt service charges**
- **provisions for future losses or debts**
- **interest owed**
- **doubtful debts**
- **currency exchange losses**
- **bank charges for incoming EU funds**

~~Non-Eligible~~

D. Travel costs



Beneficiary complies with its usual accounting practices

Verify:

- 1. Travel costs against B's internal policy on traveling
OR (in the absence of internal policy)**
- 2. Travel costs against B's usual practices**

And then:

Adjust when differences occur

D. Travel costs



Travel costs are necessary for the action

Verify:

- 1. Travel costs vis-à-vis list of staff of the project**
- 2. Dates of travelling against dates charged on timesheets**
- 3. Dates of travelling against period of the project**
- 4. Dates of expenditures against duration of the event**
- 5. Beneficiary's justification on necessity of travel cost**
- 6. Travel events vis-à-vis GA and annexes**

Consequences:

Adjustments when differences occur

D. Travel costs



Travel costs are real

Verify:

1. Minutes of meetings, attendance lists, etc.
2. Dates of traveling against dates charged on timesheets
3. Beneficiary's justification on necessity of travel cost
4. Project events vis-à-vis GA and annexes

Consequences:

Adjustments when differences occur

D. Travel costs



Travel costs are Sound Financial Management (SFM) compliant

Verify that:

- 1. No entertainment or hospitality costs**
- 2. No Tips**
- 3. No travel agency fees (unless there is a policy)**
- 4. No private costs (e.g. TV, laundry, mini bar, etc.)**
- 5. Hotel < 150 EUR & daily all. < 120 EUR (unless policy)!!**

Consequences:

Adjustments when differences occur

E. Depreciation costs



Assets for which depreciation is charged, actually exist

Verify:

- 1. Physical existence or demonstration of operation by staff**
- 2. Written confirmation of existence by remote sites**
- 3. Accounting entries for destroyed/sold assets**
- 4. Matching serial numbers on the asset and the invoice**
- 5. JU and EU Logo**

Consequences:

Adjustments when differences occur

E. Depreciation costs



Assets charged are SFM and BVfM compliant

Verify:

- 1. Adherence to the internal rules of procurement OR**
- 2. Adherence to the usual practice/approach OR**
- 3. Ad-hoc persuasive justification**

Consequences:

Adjustments when differences occur

E. Depreciation costs



Sold or offered assets do not result in undeclared profit



Verify:

- 1. Accounting entries in case of sale of asset**
- 2. In-kind contributions in Annex I**
- 3. In-kind contributions charged do not include estimates**
- 4. In-kind contributions charged do not exceed 3rd party's cost**

Consequences:

Adjustments when differences occur

E. Depreciation costs



Depreciation is correct and in compliance with the Standards

Verify:

- 1. Usual accounting practices of B vs Acc. Standards**
- 2. Usual accounting practices of B vs National Law**
- 3. Depreciation charged is based on Accruals Basis**
- 4. Depreciation charged correspond to the period of action**
- 5. (REMOVED) Full capacity principle is respected**

Consequences:

Adjustments when differences occur

OTHER DIRECT COSTS

H. Linked Third Parties



General eligibility conditions apply to linked 3rd parties

Verify that:

1. Claimed costs match breakdown list
2. Linked 3rd parties are mentioned in GA
3. No costs after termination of 3rd party's participation

Consequences:

Adjustments when differences occur

F. Conflict of interest



Conflict of Interest is avoided



Verification procedures:

- ***Review Beneficiary's internal procedures***
- ***Interviews with key personnel***
- ***Representation Letter***

Consequences:

Report any finding

G. Contracting authorities



***If the Beneficiary is contracting authority,
National law on Contracting authorities has
to be applied***

Verify:

- ***Beneficiary's practices on procurement vis-à-vis
National law***

Consequences:

Adjustments for any non-compliance



European
Commission



HORIZON 2020

Thank you

*Research and
Innovation*