H2020 audits: The perspective of an auditor

NCP Academy Meet & Exchange Workshop

Brussels, 20 March 2017
Agenda

I  2nd level control – EC’s audit approach
II Initial stage – beneficiary’s view
III Audit process – organisational provisions and approach
IV How to get things right – auditor’s view
V Discussion
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Audit layers to check eligibility of costs (legality and regularity)

Audit certification
(1st level control)
Free choice of auditor according to given criteria to be assigned by beneficiary

EC audits
(2nd level control)
Conducted and assigned by EC via own staff or external auditors like KPMG

Who audits the auditors:
ECA (external auditors on behalf of EC)
IAS (internal auditors of EC)
Purpose of the work performed

— Verify that issues raised (agreed upon procedures) are properly addressed

— Work performed is based on the requirements of ISRS 4400

— EC uses to draw conclusions as to the eligibility of the costs claimed based on the results of the work performed
Purpose of the audit

— Verify compliance with the Grant Agreement
— Obtain assurance for the EC that the costs claimed by the beneficiary are eligible given the provisions of the grant agreement
— Financial Statements are based on properly incurred expenditure
— All claimed expenditure is recorded in the accounts in accordance with the usual accounting principles of the beneficiary and
  - exclusive of any non-eligible costs
  - actual, economic and necessary for the project
  - incurred during the duration of the project
  - net of indirect taxes (unless non-deductible), duties, interest, etc.
  - without any profit
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Transparency and close co-operation are the basis for a no-surprise audit

— You receive a letter from the EC (Why me?!)

— Arranging a meeting with the auditors (in 20 calendar days)

— Preparation for the audit (20 calendar days maximum!)

— Audit to be done at your premises

— Preparation of the Draft Audit Report (DAR) / reconciliation procedures with EC

— Your comments to be included in the DAR (30 calendar days)

— EC closes audit procedure with / without consequences
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Familiarity with 2nd level audit phases and milestones fixed by the EC - a critical success factor

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<th>Fieldwork</th>
<th>Reporting Process</th>
<th>Finalisation</th>
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<td>EC send Letter of Announcement (LoA) to beneficiary</td>
<td>Opening meeting with local KPMG and beneficiary project team</td>
<td>KPMG prepares Preliminary Audit Report</td>
<td>Approval of Final Audit Report including beneficiary comments by EC</td>
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<td>Local KPMG Auditors fix date for field visit with beneficiary</td>
<td>KPMG conducts audit field visit</td>
<td>After approval of the EC, KPMG sends the report to beneficiary for comments, so called “Contradictory Procedure” (30 days)</td>
<td>Final Report forwarded to the beneficiary</td>
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<td>Beneficiary prepares documents for the audit according to check list</td>
<td>Additional documents prep. by beneficiary upon request</td>
<td>KPMG presents Draft audit report with beneficiary’s comments to EC for final approval</td>
<td>After the audit: In case of findings recovery or compensation with next payment by EC</td>
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<td>Exit meeting oral presentation of audit results and findings</td>
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V. Discussion
How to get things right - audit steps: Overall timely delivery is a critical success factor

**Arrangement of audit date (Letter of Announcement)**

- Commit and comply suggested appointments with the auditor

**Info gathering by e-mail**

- Submit all requested pre-audit documents on time

**Auditor review and analysis of submitted documents/audit sampling**

- Appoint and assure access to an audit contact person to handle and answer all queries timely

**Field Work**

- Assist auditor with questions, provide complete and reasonable documentation upon requests

**Draft Report – Contradictory Procedure – Final Report**

- Provide comments while complying the deadlines
How to get things right - audit steps: Overall timely delivery is a critical success factor

**Beneficiary:**
Claimed costs with missing evidence result in audit adjustments (recovery of EC payments)

**Auditor:**
Non-compliance with delivery deadline of final audit reports causes liquidated damages
Our recommendation: Pro-active approach towards your auditor

Documentation and evidence:

- Provide your auditor with clear and precise information for approval of claimed costs
- Make it easy for you and your auditors to review your work positively

Keep in mind: your financial report reflects the quality of your financial management

Regular progress control

Timely delivery

Open-minded and prompt communication with your auditor

If in doubt or difficult field situation escalate immediately to your auditor
Our recommendation: Pro-active approach towards your auditor

The science is very important, but reliable financial accounting, efficient management of the audit process and professional communication are also essential success factors!
Personnel costs - common mistakes

- People not directly employed or paid by the beneficiary
- Budgeted, standard or estimated rates used instead of actual
- Billable hours used instead of productive hours
- Wrong calculation of productive hours
- Time sheets absent, incomplete, approval not documented
- In absence of time sheets no credible equivalent evidence to back up time charged for the funded project
- Overhead costs included in personnel cost calculation
- SME-owners: receiving a salary or not
- Natural persons with a direct contract (inhouse-consultants)
Subcontracting and other goods + services

Differentiation between subcontracting and other services
- Main criteria: implementation of the action tasks

Procurement/selection procedures
- Documentation (in an auditable manner)
- In line with usual practice of the beneficiary
- Reasonable arguments in case selection procedures are not applicable
Thank you for your Attention

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