



H2020 audits: The perspective of an auditor

NCP Academy Meet & Exchange Workshop

Brussels, 20 March 2017

Agenda

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2nd level control – EC’s audit approach

II

Initial stage – beneficiary’s view

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Audit process – organisational provisions and approach

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How to get things right – auditor’s view

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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)**

1st level certification constitutes agreed upon procedures

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



2nd level audit constitutes a financial audit

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 of financial audit procedure and EC requirements prevents beneficiaries from surprises

— 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

Transparency and close co-operation are the basis for a no-surprise audit

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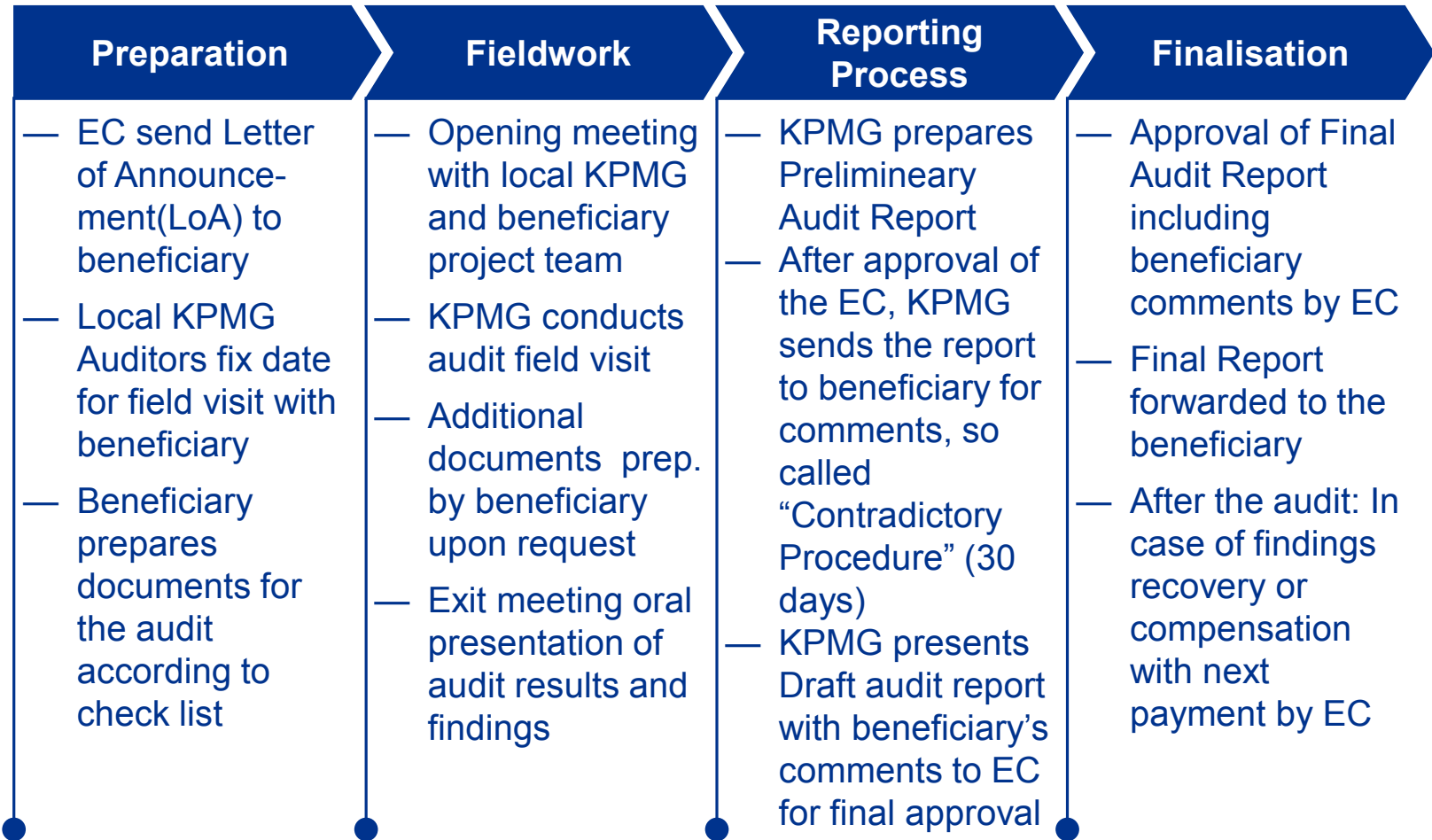
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Familiarity with 2nd level audit phases and milestones fixed by the EC - a critical success factor



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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:

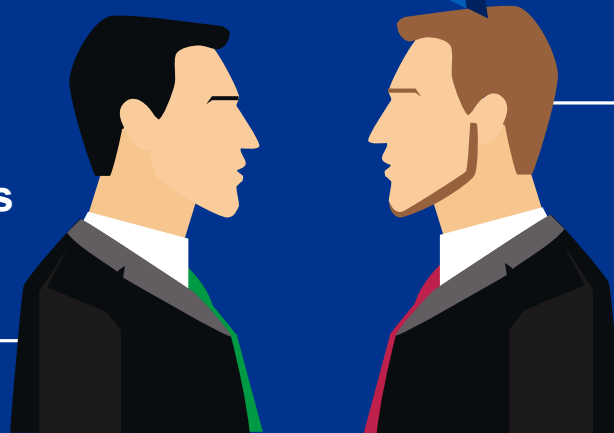
Non-compliance with delivery deadline of final audit reports causes liquidated damages

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

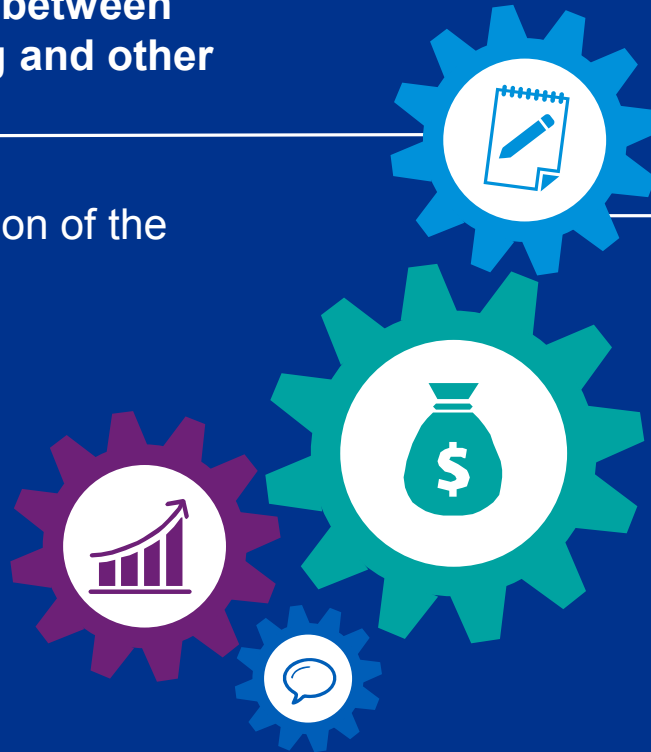
Natural persons with a direct contract (inhouse-consultants)



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

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Thank you for your Attention



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