



Financial errors in FP7

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Introduction

*We will present you with **typical errors** that affect the quality and reliability of cost statements (Forms C) filed with the European Commission.*

*By explaining practical aspects of the application of the underlying **financial rules**, we will show you how you can detect and avoid these errors.*

Errors. Why do they occur?

- *Misunderstandings of the rules;*
- *Lack of attention to the detail of the provisions of the FP7 grant agreements.*

The consequences of errors:

Beneficiaries

- *Non-optimal use of funding available*
- *Delayed payments*
- *Liquidated damages*
- *Recoveries*
- *Extrapolation*
- *Bankruptcy*

European Commission

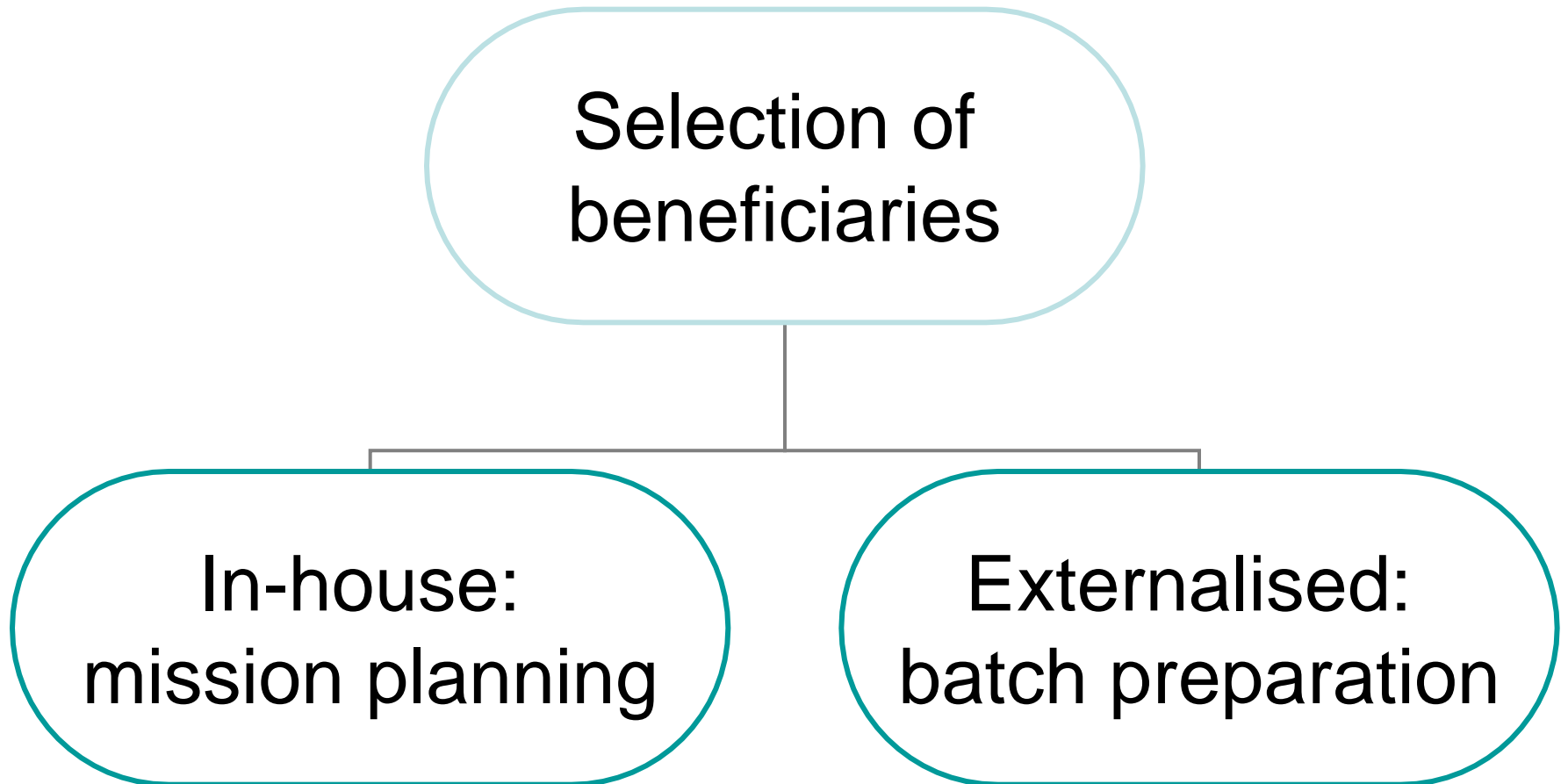
- *Scrutiny of the Budgetary Authority and ECA*
- *Increased error rate*
- *Increased ex post audit efforts*
- *Corrective measures*



Audit Cycle

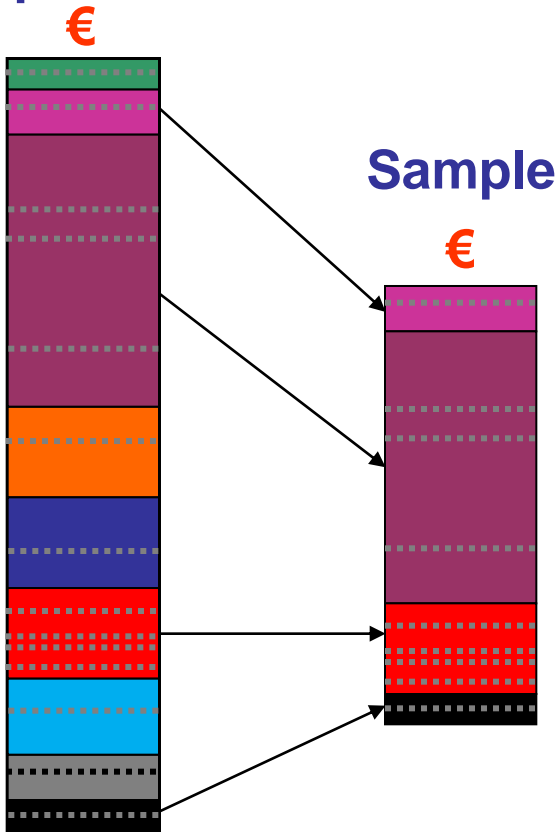


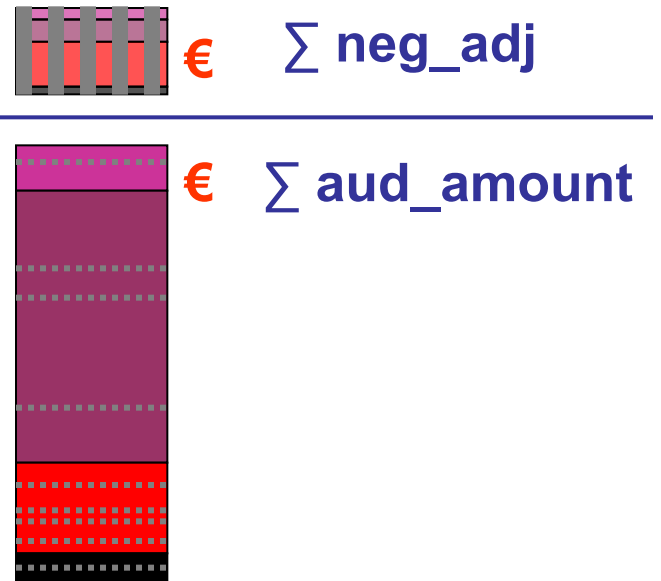
Audit Planning



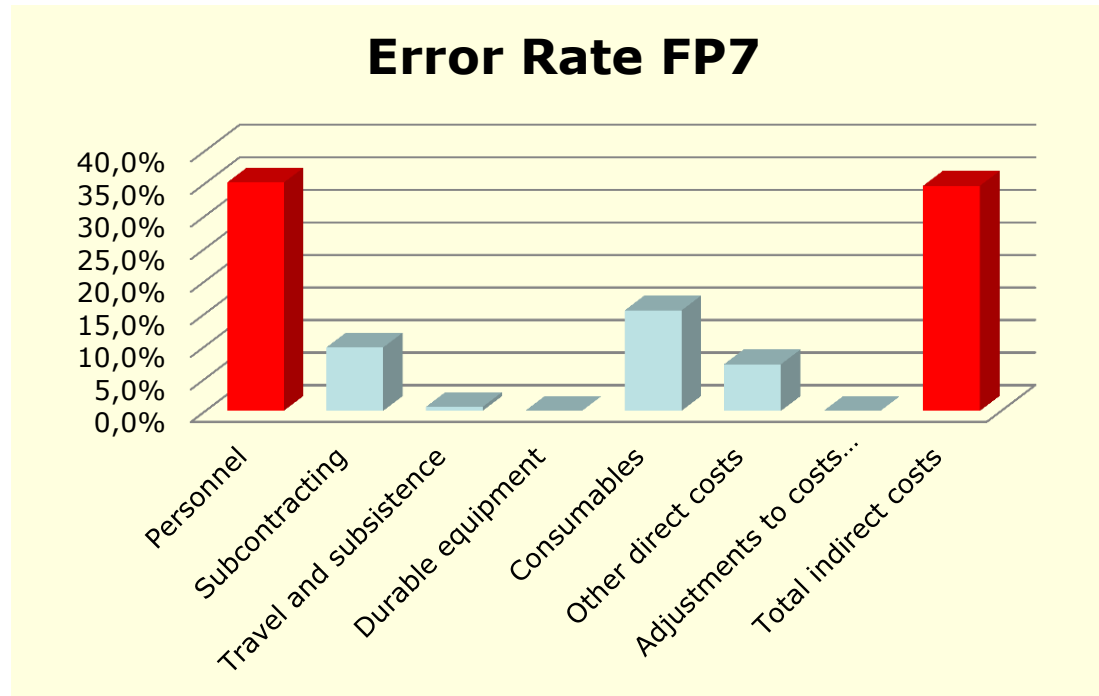
Error Rate

Population



$$\text{Error Rate \%} = \frac{\sum \text{neg_adj} \text{ €}}{\sum \text{aud_amount} \text{ €}}$$


Error Rate per cost category – FP7



General rules for eligibility of costs

To be considered eligible, the costs must be:

- *Actually incurred*
- *Incurred by the beneficiary*
- *Incurred during the duration of the project*
- *Claimed according to the usual accounting and management principles and practices of the beneficiary*
- *Used for the sole purpose of the project under the principles of economy, efficiency and effectiveness*
- *Recorded in the accounts of the beneficiary*
- *Annex I should include a general description of costs*

Direct and indirect costs

Direct costs:

*Are all those eligible costs which can be **attributed directly** to the project and are identified by the beneficiary as such in accordance with its **accounting principles** and its **usual internal rules**.*

Indirect costs:

*Are all those eligible costs which cannot be identified by the beneficiary as being directly attributed to the project, but which can be identified and justified by its accounting system as being **incurred in direct relationship** with the eligible direct costs attributed to the project.*

Personnel costs: underlying principles

- ***Only the costs related to participation in the EU co-funded project may be reimbursed, hence the beneficiary has to record time spent by their personnel.***
- ***Generally, the calculation of personnel costs is based on hourly rates. They are based on all eligible personnel cost elements and the total productive hours.***
- ***The EU co-finances the projects carried out by the entities with appropriate research resources. Beneficiaries need to demonstrate that the project personnel is in fact their personnel.***

Personnel costs: checks and evidence

Beneficiary ensures:

- *Staff has employment contracts*
- *They are on the payroll*
- *Salary related charges appear on the payslip*
- *Time records exist*
- *The calculation of productive hours reflects reality*

Beneficiary provides*:

- *Internal rules/legislation (salaries/bonuses/social charges, time recording, working hours/overtime, etc.)*
- *Employment Contracts*
- *Payslips*
- *Time records*
- *Productive hours calculation*
- *Calculation of hourly rates*

*The list of evidence is not exhaustive, but reflects good practices and examples

Personnel costs: common errors

Issues related to time recording:

➤ ***Time records without the required elements***

- *No description of related activity, insufficient detail (e.g. only monthly activities)*
- *Not signed*
- *Not individual*
- *Time records absent or incomplete*
- *Not subject to the supervision /authorisation by superiors / project manager*

➤ ***Errors in transfer of the data from time records to cost claims***

- *Time records not reconciled with HR (e.g. absences).*
- *Declared project time includes work hours on another activity*

Personnel costs: common errors

Issues related to the calculation of the hourly rate:

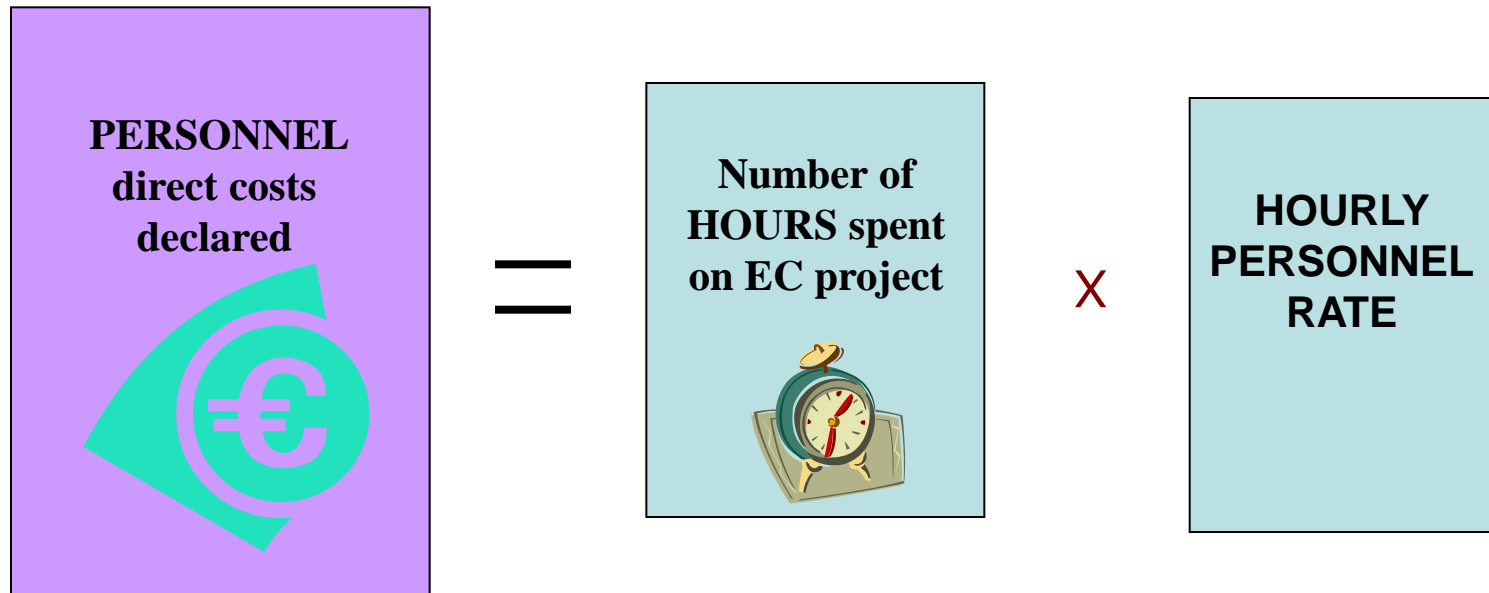
- ***Total remuneration includes ineligible bonus & overheads elements***
- ***The calculation of the total productive hours does not reflect reality***
 - *Productive time is incorrectly reduced by "non-billable" time*

Personnel costs: common errors

Internal control issues:

- *Project personnel not directly employed or paid by the beneficiary (unless use of 3rd party resources fulfilling certain conditions and included in Annex I)*
- *Costs reported in project accounts only (not recorded in the statutory accounts)*
- *Usual accounting or management principles and practices not applied to the EU project*
- *Use of budgeted figures instead of actual costs*

Personnel costs: How to get things right



Personnel costs: How to get things right

**HOURLY
PERSONNEL
RATE**
of an employee

—
—

Total Annual Personnel Costs of an employee

Total Annual Productive hours of an employee

Personnel costs: Productive hours

Productive hours calculation	
Total days in a year	365
Less: Weekends	104
Subtotal	261
Less: Annual Holidays	21
Less: Statutory Holidays	15
Less: Illness & Others	15
Productive days per year	210
Hours per day	8,0
Productive hours per year	1.680

If you use standard productive hours ensure that these reflect fairly the reality of your organisation as regards productive time.

Do not use billable (commercial hours) as they do not represent the total productive time of the personnel.

Personnel costs: How to get things right

- *Time recording **is necessary** in order to justify personnel time spent on the project (estimates of hours worked are not allowed)*
- *We strongly recommend using **full time recording**, which allows to identify time spent on all activities (research & non – research, EU & non-EU) and makes it easier to reconcile non-productive time (sick leave, holidays) with HR records.*
- *Irrespective of the system chosen for time recording (integrated computerised system, excel or paper timesheets, etc.), the beneficiaries should ensure that the **time is recorded and reported regularly, and is verified** by the personnel and the supervisor (i.e., the timesheets are signed).*

Personnel costs: How to get things right

Salary Top-ups/Bonus Payments:

Acceptable if part of normal salary and benefits package, and ALL of the following criteria are met:

- *Based on internal regulations*
- *Applied to all projects of the same kind (EU and non EU, national and international) Implemented in a consistent manner for the same type of activities/projects*
- *Level of remuneration remains consistent with market conditions for same category/grade/experience*
- *Recorded in accounts as "Personnel" cost and subject to taxes and social security charges*
- *Paid as part of employees gross remuneration (added to the basic salary for the calculation of the hourly rate)*

Personnel costs: in-house consultants

How to get things right

Eligible as personnel cost if ALL of the below conditions are met:

- *A contract to engage a physical person is in place;*
- *The in-house consultant works **under the instructions** of the beneficiary;*
- *The in-house consultant works **in the premises of the beneficiary**;*
- *The **result of work** belongs to the beneficiary;*
- *No **excessive costs** paid (not significantly different from those of employees of similar category);*
- *Personnel cost registered in the accounts.*

Average Personnel costs: criteria

➤ **Changes:**

- *the criteria on maximum deviations between averages and individual actual costs*
- *No obligation for ex-ante CoMAv (becomes an optional)*

➤ **New criteria (Com 24 Jan 2011):**

- *usual accounting practice*
- *averages based on actual costs in statutory accounts*
- *exclusion of ineligible costs as defined in the FP7 Rules and no double charging of costs*
- *productive hours: usual practice, verifiable and reflecting actual working standards*

Subcontracting : how to get things right

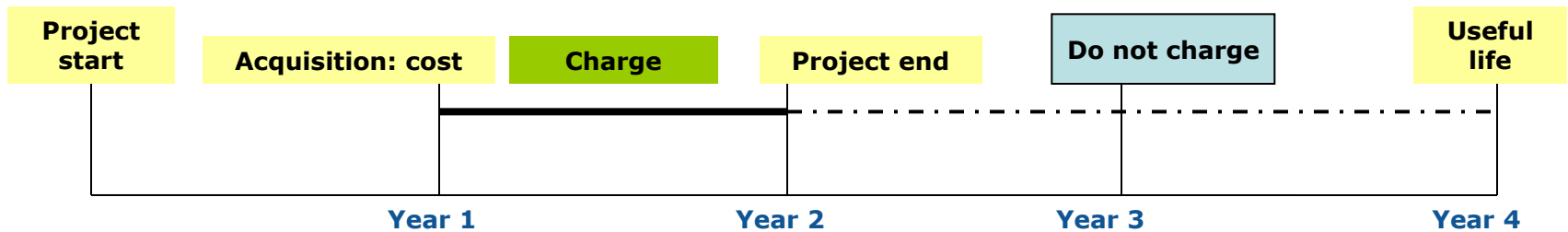
- *Do not charge for subcontracts between partners of the consortium*
- *The Beneficiary must not calculate indirect costs on subcontracting costs (and 3rd parties not working on the premises of the beneficiary). In these cases the overheads are born by the subcontractors or and are deemed to be already included in their remuneration*
- *Subcontracts with respect to minor tasks (not identified in Annex I) must follow the same best value for money and transparency principles and be in accordance with the usual practice of the beneficiary*

Durable equipment

As a rule:

- *Usually the equipment purchased for the project can qualify as eligible (possible to charge equipment bought before the start of the project, but used for the project)*
- *Only depreciation charges can be charged to the EC (exceptions exists for certain specific programmes and demonstration equipment)*
- *Only the portion used on the project may be charged*
- *Leasing costs of equipment may be eligible under specific conditions.*

3. Depreciation



Durable equipment: checks

The beneficiary provides:*

- *Proof of the purchase of the equipment (date and cost)*
- *Proof of existence and the use on the EC project(s)*
- *Description of the depreciation policy and purchase of durable equipment*
- *In the case of rented equipment: rental contract*
- *Equipment's usage diary/register*

*The list of evidence is not exhaustive, but reflects good practices and examples

Durable equipment - How to get things right

- *Consider % use during the duration of the project and the equipment's useful economic life*
- *Apply your normal depreciation policy*
- *Do not charge any residual values*

Travel costs: how to do things right

- *Do not charge costs to travel which is not project specific*
- *Do not charge travel for persons not working on the project*
- *Keep proof of travel expenses*
- *Keep proof of relationship of the travel with the project*

Consumables:

- *Must be necessary for the projects*
- *If the accounting practice of the beneficiary considers consumables as indirect cost, they cannot be charged as direct cost under the project*
- *Eligible cost only if consumables purchased after the start date of the project*
- *When charged internally (with or without an internal invoice), no mark-up or profit element can be added to their costs*

VAT

- *VAT is ineligible;*
- *Please ensure that VAT is always excluded from your cost claims.*

Methods of calculation and reporting of indirect costs

- ***Full cost accounting (actual indirect costs) including the simplified method***
- ***Flat rates (20% and 60%)***

The beneficiaries who have analytical accounting system that can identify and group their indirect costs have a choice between reporting actual indirect costs or 20% flat rate.

The beneficiaries who can only identify indirect costs at the level of the organisation can use the simplified method

The beneficiaries who are eligible for the use of 60% flat rate may continue to use it provided they do not have an analytical accounting system

Indirect Costs - Ineligible items

When actual indirect costs are calculated – all ineligible items have to be removed from the pool of indirect costs.

Examples of ineligible items:

- *Marketing & sales costs;*
- *Financing costs;*
- *Exchange rate losses;*
- *Costs declared or reimbursed by another EU project*
- *Costs with no relationship to the project.*

Exchange rates: Check

The beneficiary provides*:

- *List of currencies used*

The certifying auditor checks:

- *Use of the correct exchange rate (ECB)*
- *At date of incurring the cost or*
- *the first day after the end of reporting period*

*The list of evidence is not exhaustive, but reflects good practices and examples

SME owners

SME owners may choose to:

Pay themselves a salary

For their research work



**Claim the salary as a cost
under the FP7 project**

No salary



**Charge Marie Curie flat rates to
the FP7 project**

Interest on pre-financing

➤ *Until December 2012*

- *Obligation to open an interest bearing account;*
- *Interest is declared:*
 - **on pre financing by the co-ordinator**
 - For **mono-partner actions** the whole amount paid by the Commission to the beneficiary
- *Exemption from obligation to open interest bearing account if:*
 - *opening and/or operating an interest-bearing bank account is not in line with the principle of sound financial management and a derogation is requested and obtained from the EC.*

➤ *As of January 2013*

- *No need to open an interest bearing account;*
- *No need to declare any interest generated*

Key message from today's session

- *Observe the rules and pay attention to the details*
- *Ensure collaboration with your certifying auditor/CPO*
- *Keep reliable proof your expenses*
- *Document the link of your expenses with the FP7 project*
- *If in doubt call, check with your Project/Financial officer well in advance*

ADDITIONAL INFORMATION



How to avoid common errors identified in cost claims

In the welcome pack and soon on CORDIS



Guide to FP7 Financial Issues

http://cordis.europa.eu/europa.eu/pub/fp7/docs/financialguide_en.pdf



And in case of doubts, do not forget: RESEARCH HELPDESK

<http://ec.europa.eu/research/enquiries>

Thank you very much for your attention!

Open Discussion

