

Audit Reports (Certificates) within FP6

Introduction

Having contractors provide audit reports with cost statements allows the EU to make payments more quickly and enables each payment period be considered as final. But note; a “voluntary” audit report, when not specified in the contact with the EU should not have this effect.

1. For each period where an audit report is required, each contractor shall provide an audit report prepared and signed by an external auditor, confirming, with a high level of assurance, that the costs incurred during that period meet the conditions required by the contract. The audit report should expressly state the amounts that were subject to verification. Where third parties’ costs are claimed under the contract, such costs shall be audited in accordance with the provisions of the contract.

The cost of this certification is an eligible cost under the activity relating to Management of the consortium.

2. Each contractor is free to choose any qualified external auditor, including its usual external auditor, provided that it meets the cumulative following professional requirements:
 - a) the external auditor must be independent from the contractor;
 - b) the external auditor must be qualified to carry out statutory audits of accounting documents in accordance with the 8th Council directive 84/253/EEC of 10 April 1984 or similar national regulations.
3. A contractor that is a public body may opt for a competent public officer to provide an audit report, provided that the relevant national authorities have established the legal capacity of that competent public officer to audit that public body.

Provision of the audit report, prepared and signed by external auditors according to the contract, **does not diminish the liability of contractors** according to the contract nor the rights of the Community with respect to carrying out its own controls and audits.

The reasonable cost of audit reports should be included in the management costs of a project and are then 100% refundable (except for VAT) by the Commission within its contribution. Overheads can not be added on this cost as it is regarded as a sub-contract.

The auditor should be able to provide you with a detailed list of documents he needs before he starts the offices, divided between general organisational documents and information, project documents and information and accounting documents, information and calculations.

How much should the audit cost?

Audit fees vary greatly between countries and firms.

Audit fees should never be based on a percentage. This practice is unethical since the payment of audit fees based on results is not allowed by the professional bodies or State authorities who authorise individuals or firms of accountants to act as auditors.. Although the practice is not permitted, we have been made ware of cases where it does happen!

It is difficult to know what is a reasonable level of fee for the audit of Form C. The auditor may be prepared to offer a “fixed fee” quote or cost per hour quote, according to the level of staff. Either way he/she will assess the time he/she thinks it will take (or has taken) to audit the information and documents provided by you. His/her assessment will be based on his/her past experience and on the number of staff within the contractor’s section of the project, number of transactions, competence and anticipated cooperation of the organisation’s accounting department, whether the books of account are up to date, how time has been recorded, ease of access for the auditor of personnel cost calculations etc.

From our experience the level of the fee may also be affected by the knowledge, or rather lack of knowledge, of the auditor about the requirements of FP6 reporting and recording costs. Because he/she does not realize

what is required of him/her, the time he anticipates for the audit may be excessive or too little. Even worse the level and amount work may be tailored to fit the fee, and the client will be exposed to potential problems or embarrassment if the EU sends in its own auditors. It seems from the informal discussions with various representatives of organizations, particularly within the various New Member States, some auditors may be deliberately pitching the fee high on the first audits they undertake, so as to give themselves plenty of time to learn what is required and prepare their own standard audit programmes and questionnaires for future audits.

Our recommendation is:

1. Do not always go for the cheapest (it may work out expensive in refunds to EU and your time explaining the situation).
2. Likewise, do not automatically go for one of the “big names” in our experience, in certain countries and offices, they are on the same learning curve as small firms.
3. Do not automatically choose the organisation’s auditor of annual financial accounts (he may be excellent in this field and know little or nothing about the Framework Programme requirements and rules).

Make sure the auditor you choose already has his own audit programme, questionnaire, list of departments he will need to contact for information and a standard list of documents he needs from you and can provide this before the audit - so as to give you time to prepare for his visit to your organisation. If the auditor can not provide this, it can reasonably be assumed that he has not undertaken a previous FP6 audit.

Finally, choose an auditor who really knows about the requirements of FP6 reporting, overhead calculations and eligible (direct and indirect) costs and has a thorough working knowledge of the Financial Guidelines.

Who is a ‘Competent Public Officer’?

Any contractor that is either a national Government department or under the full legal control of a national Government may use some one internal to the government to provide the audit report provided that some senior public official says he is authorised to do so .

The situation can differ from country to country. In essence though, if this is used then the Commission will decide whether the person who provided the audit report has the necessary level of approval. In the case of a public organisation in Israel, if the Chief Scientist together with the Ministry legal council said the Ministry director of Finance or one of his staff could do it, then that person would provide the audit report and Brussels would double check they have the necessary clearance.

Only use a CPO if you are sure that he has sufficient knowledge to carry out the audit and can recommend improvements to the financial procedure in question, if needed.. We suggest that you use a qualified auditor that has past knowledge and workings of the framework program .

In our experience, an auditor that knows what he is doing can make a big difference.

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