

# Horizon 2020 Audits Webinar - Summary Note

## Overview

The “Horizon 2020 Audits” webinar was jointly organised by the UK Research Office (UKRO) and Directorate General for Research and Innovation (DG RTD) of the European Commission on 22 October 2020.

The virtual event was aimed at those working on Horizon 2020 project finances and those responsible for preparing project audits, including project managers, accountants and auditors working in research organisations, universities, SMEs and other enterprises, and aimed at helping them prepare for Horizon 2020 audits. The event was organised in the context of the EU-wide Horizon 2020 Communication Campaign – an initiative of the European Commission – and included presentations on the financial rules and audit procedures in the current EU Framework Programme.

The Commission’s **slides used on the day** are very informative and can be found on the UKRO Portal. This note is intended to provide UKRO subscribers with a summary of the discussions and key messages from the speakers.

## Speakers

The speakers were:

- Andrew Forde, external auditor from the Common Audit Service; and
- David Mejuto, legal officer from the Common Legal Support Service of DG RTD.

## Main messages from the event

### General Points

- EC audits can be performed directly by auditors from the Common Audit Service (CAS) of DG RTD, or by external audit firms, appointed by the EC. The audit procedure is detailed in the **presentation slides**.
- The European Court of Auditors (ECA) follows a different audit programme than EC auditors – the ECA checks, if the EC audits on beneficiaries had been conducted properly.
- The CAS has around 80 in-house auditors and conducts approximately 500 audits per year, most of them conducted by external audit firms such as BDO LLP, KPMG and PwC.
- The Horizon 2020 Model Grant Agreement (MGA) and the **Annotated Grant Agreement** (AGA) are the standard reference points for lawyers and auditors in DG RTD and should be used by beneficiaries to comply with the requirements of the programme.
- In addition, the Horizon 2020 **Indicative Audit Programme** includes information on what the auditors will be looking for during an audit in terms of evidence of the costs incurred.
- Any information and documents that can help the auditors conduct the audits at the premises of the beneficiary faster, including timesheets, can be sent in advance.
- Standard EC audits normally take a week, but could be longer, if required; usually two auditors are involved in the process. Audits during the COVID-19 pandemic can differ and may take place online (in part).
- Auditors are required to interview many people during audits and check internal documents that confirm the standard practices of the beneficiary.
- The CAS is not directly involved in the implementation of the audit findings (e.g. recovery of costs) and the best moment to question any of the findings is either during the visit or when the draft audit report is sent to the beneficiary.

## Personnel costs

- Personnel costs usually constitute the biggest part of the Horizon 2020 projects' budgets and are the category where most systematic errors occur.
- The Horizon 2020 Grant Agreement specifies the methodology that needs to be used to report personnel costs on projects based on actual costs (e.g. per month or per year). While the beneficiary can continue to calculate the salary of a person working on a Horizon 2020 project in its usual way, when including these in the financial statement, the rules for calculating personnel costs in Horizon 2020 must be followed.
- When auditing personnel costs for a project, the auditors must check a number of things, including the following: usual accounting & remuneration practices of the beneficiary; time recording system documentation and examples; sample employment contracts, etc.
- If the value of the expenditure in this cost category exceeds 5% of the total grant value, the auditors need to follow detailed **rules on sampling**.
- Only the hours **actually worked** on the action should be charged to it, even if this means significant variations from the personnel costs included in the indicative budget submitted in the proposal. However, when claiming the costs, beneficiaries should take into account the so-called 'double ceiling', which is explained in the AGA.
- When establishing individual/standard productive hours, the auditors need to see some sort of reference to the number of hours worked (e.g. per month) in the employment contract, collective labour agreement, etc.

## Time recording

- The minimum requirements for traditional and fully electronic time records are specified in the AGA.
- The auditors will need to obtain an understanding of the time recording procedures of the beneficiary, review any internal guidelines, review the system and finally interview personnel working on the project, if necessary.
- If an individual works on several Horizon 2020 projects, they will need to take the limitations imposed by the so-called 'double ceiling' into account when reporting personnel costs.
- Individuals working exclusively on the project for at least one full calendar month (dedicating 100% of their total working time to the action) can use the '**Declaration on exclusive work on the action**'.
- Exclusive work means that no other non-project-related activities (e.g. teaching, etc.) can be performed by the person using the declaration.
- Auditors might still require supplementary evidence of the hours worked on the action if the declaration is used and a good practice is to keep timesheets as a backup option.
- Those who do not work exclusively on the action, must use time records (e.g. **timesheets**), or alternative evidence such as emails, minutes of meetings, presentation slides, etc. related to the project and personnel working for the beneficiary. However, it can be difficult to prove productive time with such alternative evidence only.
- Timesheets must be signed by the person working on the action and their supervisor at least monthly. It was stressed that during the COVID-19 pandemic, the rules for signing timesheets have been relaxed and can be found **here**.

## Depreciation costs of equipment

- It is necessary to provide a persuasive, quantifiable and demonstrable link to the Horizon 2020 project, even if the equipment is purchased specifically for the project. Auditors will need to be provided with a proof of the cost (e.g. invoice etc.).
- Equipment must be depreciated in accordance with standard accounting practices of the beneficiaries and the International Accounting Standards (IAS). When an institutional practice is not compatible with the IAS, the latter prevails.
- Some equipment (for example a server) may be expected to be covered by overheads and if beneficiaries want to charge the direct cost to the project, they will need a valid reason and proof that it is an actual cost to the project.
- Similarly, laptops are also expected to be part of standard equipment provided by the institution to the researcher, covered by the 25% flat rate for overheads, instead of being claimed as direct eligible costs on the project. However, special rules apply to the unit-based Marie Skłodowska-Curie Actions. for further information, contact the MSCA National Contact Point helpdesk at [mariecurie-uk@ukro.ac.uk](mailto:mariecurie-uk@ukro.ac.uk).

## Subcontracting

- Beneficiaries must follow two main rules when appointing subcontractors: ensuring best value for money and avoiding conflict of interest.
- As part of the audit approach, auditors check if a suitable procurement procedure is in place (if required), or if other clear selection methods are used by the beneficiary when appointing subcontractors.
- If a higher quote is selected by the beneficiary, it is necessary to have a documented explanation that the auditors will want to see.

## Travel

- Auditors verify the eligibility of travel costs against the beneficiary's own travel policy or its usual practice (in case of no clear internal policy).
- Travel costs must be necessary for the implementation of the project, real and reasonable, thus different types of evidence might be required (i.e. timesheets, minutes of meetings, attendance lists, etc.)