Welcome!

• About us
• Audit: why and how
• What did the auditor look at
  • Employment costs
  • Travel costs
  • Experts
  • Conferences
  • Other
• Learnings for project design/management/reporting/audit prep
• Disclaimer
• Please share your own experience and knowledge in the chat!
What EU auditors are tasked to do

- Reported costs: verify that they are related to the project, verify that the rules were followed
- Organization: how it functions, capacity, policies and procedures
- Report other findings to the Commission and partners on the project
Why??

• EU uses the findings to do a recalculation of final grant.
• Any errors or missing evidence is grounds for partial or complete cancelation of the cost.
• This audit verified 73% of the costs of the project
• Of that, nearly 75% was employment costs, so this is where the auditors spent most of their time.
  • Partners only had staff costs on the budget
  • Our organization had most of the budget: staff, other direct costs.
• They selected in advance which costs they will focus on, and did not expand much beyond this.
Process

• Alerted via letter and email about 2 months prior

• Questionnaire – Due about 1 month prior. Dual purpose: answer key questions and guide us in preparing. Partners must also fill out to the same level of detail as the lead partner.

• Sample – about 2 weeks to do the following, due 1 week prior:
  • Answer questions about taxi usage, line by line
  • Answer questions about staff costs being higher for individuals than budgeted
  • Staff cost calculation sheets for selected staff in the sample
  • Scan and send the supporting documents for
    • Employment costs for 11 people
    • Travel and subsistence costs (B), 15 receipts
    • Other direct costs (E), 17 receipts
4 day visit – Auditors duties

• 2 people came: 1 from Ernst and Young Brussels as audit leader, one from EY Stockholm.

• Opening meeting

• The Audit
  • Focused on the sample – but looked at other things too, and said they could expand the audit to more if they find something systemic
  • Invoices, Proof of payment, Procurement, Exchange rate, other explanations.
  • Day 1, slow start. Focusing first on partner costs + some other general questions.
  • Day 2, many more questions, mostly to partners but also to CBSS.
  • Day 3, big push to answer questions related CBSS costs.
  • Day 4, home stretch, remaining co-partner issues, last chance to submit proof.

• Closing meeting – No more documents should be accepted after this
4 day visit – CBSS duties

• 2 people as main contacts: Project Manager and Financial Controller
• Answer the auditors questions: why, who, how, where is the evidence
• Track down additional documentation and proof
• Send requests to the partners and help them answer the questions
• Time is of the essence
• Sounds simple! But ...
  • Do you remember tiny details from 2-4 years ago?
  • Can you point out someone you met once in a photo to prove they were there?
  • Can you find that email from one time that you made that decision, were you even in CC? Who else would have that email? Are they still working at all, let alone at that organization?
  • What to do when the person with the info is not available?
What evidence were they looking for?

• the employment costs were calculated *exactly* the right way;
• tasks were carried out (including tasks listed on expert’s timesheets);
• we procured experts, hotels, catering, and other services according to EU and CBSS procurement rules;
• even when a verbal agreement was enough we could show an investigation about best value for money was conducted;
• people *actually* traveled and participated in the conferences;
• all of the costs booked on the project were related to the project;
• each cost was booked on the right budget heading (A, B, E headings) and on the basis of final invoices (not preliminary);
• any taxi taken had a clear and acceptable reason;
• redistribution of staff time was well reasoned,
• and more.
What did they look at – CBSS as an organization

• Proof of annual contributions to Core and CAR budgets
• Original signed document showing VAT exemption
• All policies: travel, procurement, pension
• Maybe more? Our documentation was solid so maybe they easily found many answers.
• Can also look into overlapping projects and potential ‘double funding’
What did they look at –
**Project on the whole**

- Co-financing agreement among the partners
- Exchange rate approach
- Maybe more? Our documentation was solid so maybe they easily found many answers.
What did they look at – Employment costs

- This is what takes the most time, they do a full recalculation based on every single individual tiny factor.
- The lead partner have the responsibility to check and correct every tiny detail reported by co-partners.
- Actual project hours in relation to annual productive hours worked (whole calendar year). Not flat rate per hour/day. No percentages or other calculations.
  - Why? Potential of double funding. Establish the annual hourly rate.
  - The staff cost calculation sheet calculates the hourly rate based on the total ACTUAL annual worked hours and annual gross salary.

**Alternative 1:** Complete the staff cost calculation sheet for the **whole year** (all 12 months, include all supporting documents, cumulated payroll, timesheets, pension, insurances, proof of payment) Even if your project starts in October...
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<th>Seq n°</th>
<th>Month</th>
<th>Gross salary according to salary slip</th>
<th>Holiday allowance according to salary slip</th>
<th>Employer's contribution to statutory pension scheme</th>
<th>Employer's Contribution to social security</th>
<th>Other employer's statutory staff costs not included in C-F describe below</th>
<th>Total employer's cost</th>
<th>Hours worked on this project according to timesheets</th>
<th>Hours worked on other projects and activities according to timesheets</th>
<th>Hours worked in total</th>
<th>Total statutory costs related to the project in local currency</th>
<th>Monthly exchange rate from InfoEuro</th>
<th>Total statutory staff costs assigned to the project in EUR L / M</th>
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Total annual statutory staff costs paid by employer: **0.00**

Less compensation received from insurance or other schemes: **0.00**

Total annual statutory staff costs for the employer: **0.00**

Describe the other employer's statutory staff costs incalculated in G:
What did they look at – Employment costs

- Alternative 2: Prefill calculation of total annual productive days/hours (at right) on
  - a) individual level or
  - b) average for the group of people working in the project.
- No estimates. Actual sick days, vacation days, public holidays etc, verify all)
- Establish the annual gross salary on individual level (include supporting documents, evidence of how each number is calculated)
- Divide annual gross salary with annual productive hours = hourly rate
- Multiply project hours x hourly rate.
- Done, you have the total staff cost for the year.
- Do for each full calendar year that the project was active.

The calculation of the total annual productive days or hours must be done as follows:

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<table>
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<tbody>
<tr>
<td>1</td>
<td>Total number of days in a year</td>
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<tr>
<td>-2</td>
<td>Less weekends</td>
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<tr>
<td>-3</td>
<td>Less public holidays</td>
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<td>-4</td>
<td>Less annual leave actually taken</td>
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<tr>
<td>-5</td>
<td>Less time compensation or flexitime</td>
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<td>-6</td>
<td>Less sickness</td>
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<td>+7</td>
<td>Plus any paid overtime</td>
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<td></td>
<td>Total number of productive days in the year (1 minus 2 to 6 plus 7)</td>
</tr>
</tbody>
</table>
What did they look at – Employment costs

When establishing the annual gross salary, the following elements should also be taken into consideration:

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Annual gross salary including paid overtime and 13th and 14th salaries, if applicable. This should be done by adding up the gross salary per month as indicated on the salary slip.</td>
</tr>
<tr>
<td>+2</td>
<td>Holiday allowance, if not included in item 1 above.</td>
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<tr>
<td>+3</td>
<td>Obligatory/compulsory social charges imposed by law, such as pension schemes, health schemes, insurance schemes, contribution to labour market funds, etc.</td>
</tr>
<tr>
<td>+4</td>
<td>Statutory pension schemes established under national law. Employer’s contribution to non-statutory pension schemes is not accepted as an eligible cost and should not be used in the calculation.</td>
</tr>
<tr>
<td>-5</td>
<td>Less compensation received from insurance or other schemes in case of sickness and re-employment schemes to reactivate unemployed people.</td>
</tr>
<tr>
<td>Total</td>
<td>Annual staff cost (sum of 1 to 4 minus 5)</td>
</tr>
</tbody>
</table>
What did they look at – Employment costs

- Cumulated payroll printouts with all details are useful. Pay slips might be asked for at audit.
- Staff insurances: statutory cost in line with collective agreement was considered eligible.
- Sickness or health insurances were considered not eligible
- Individual pension schemes are not eligible
- Group pensions = OK (all staff included)
- Regulated hours per working day is an important factor in the calculations
What did they look at – Employment costs

• If you have no supervisor, someone else must still verify your timesheets (even if there are other verification procedures in place)

• Having 2 directors in a company, and they both work on the project, may be considered a conflict of interest.

• Special employment type: “employed only on the project”
  • If you have multiple project contracts at the same company, then they care about the total amount of time worked at the company.
What did they look at –

**Partner Employment costs**

- *In as much detail as the lead partner.*
- Translations – a good practice to have a sample of each type of employment cost proof translated into English
- Harder!
  - They are not here
  - May have been run by a tiny section of a huge org
  - May not have real project admin experience
  - Check details and calculations during the project. Time consuming at audit.
What did they look at –

**Travel costs**

- Double checked that everyone who stayed in a hotel room paid for by the project also attended the meeting
  - Signature sheet
  - If not then: Photos, Emails about their attendance, dinner signup sheet, evaluation form name and signature
- Boarding passes (both ways! Depends on auditor...)
- Expensive trips – why?
- Route of travel (some of our travel agent invoices had strange formulations)
Learnings!

Travel costs

• “no show” on flight or hotel is considered as ‘not related to the project’, should be covered on Overhead
  • However! Keep a record of the reason, might be accepted.
  • “Sometimes people die.”

• 1 signature sheet per meeting (vs 1 each day of the meeting) was OK, but probably not a best practice.

• Taxies: multiple people, late/early, cheaper than public was OK!

• Paid a preliminary invoice (proforma invoice) on a hotel? Get the final invoice, otherwise the cost is not valid.
What did they look at –
Other direct costs

**Experts**

- Invoices: Double check DAYS X RATE equals the amount invoiced.
- Procurement proof! Asked to see emails where the experts were invited and where they agreed to join the project.
- Timesheets or other specification of work completed: they asked to see the products they delivered and also to see evidence of the work they said they did. For example, interviews to feed into a report – show proof the interviews happened.
What did they look at –
Other direct costs

Conferences

• Payments of conference room and services on a preliminary invoice (proforma invoice)? Get the final invoice, otherwise it is not valid!

• Is catering “travel and subsistence” or “other direct costs”?

• Procurement proof! Final comparison chart not necessarily accepted. Best with original emails showing the discussions, agreement, reservations.
What did they look at –

**Other direct costs**

- Subscription based services were prorated to the duration of the project only
- Many questions on the Webinar! Was it related to the project, 2 months subscription but only 1 webinar, etc.
- Procurement! Had no email discussion proof of why we picked GoToWebinar.
  - Solution: screenshot of my Google Search History ...
Learnings: during project

• It was useful during the project to print important emails which show the decision making process and milestones in the work. They will not answer all questions, but be a good start.

• why travel one day in advance (and price difference from traveling closer to meeting start/end time), why expensive flight, why select X software over other options, why was the location or date changed of a meeting? Expert sickness or family emergency. Reasons why someone canceled trip at last minute. Reason to do something different from how it was described in the project description. Emails between potential suppliers.
Learnings: reporting

• Beyond “best value for money”, procurement defaults to the written policies of your organization. Relevant for verbal vs written quotes, thresholds. Regardless of the policy, must have evidence!

• Putting the wrong budget heading (A, B, E) on the list of receipts triggers a recalculation of the grant. May have implications on the thresholds of budget transfers, subcontracting, etc.
Learnings: during/reporting

• Binders – parallel system.
  • Copies of invoices, proof of payment. Parallel to the regular CBSS accounting binders.
  • Add boarding passes, original contracts, procurement proof, other evidence
  • Samples of all product developed. Including all electronically developed and distributed products. Including all original professionally printed etc products.
  • Meeting documents: signatures, minutes, presentations, evaluations, photos, etc.
Learnings: audit preparation 1

• The sample seemed to target: big costs, costs that might be reckless spending, costs towards the very end of the project, random sample of different types of expenses.
  • Possible to do a practice audit on yourselves.

• It can be worth emailing hotels and other vendors for final invoices for missing documentation, they may still have it on file and be able to submit.

• We would probably hire external help if we are audited again.
Learnings: audit preparation 2

• More than 300 hours in total for all CBSS staff involved
  • (Staff costs of approx. 13,000 EUR)
  • And this was already a well documented project, with a well informed project manager still on staff.
  • And we were still busy answering questions and helping partners most of the 4 days they were here.
• Only had 5 partners.
• Honestly, a good chunk of the organization of the documentation could have actually been done during the project.
• As lead partner, EU expects us to go deep into detail with the partner staff costs and have it exactly right before final reporting.
“Worse” case scenarios

• “Dumpster fire” – 91% penalty on total EU contribution
  • No documentation at all, or partial documentation for everything
  • Everything reported incorrectly
  • “The dog ate my homework”  

• “Survival mode” – 60% penalty on total EU contribution
  • Partial and missing documentation,
  • Lots of travel and participation proof missing,
  • Lots of procurement proof missing,
  • Ran out of time to come up with additional evidence,
  • Employment costs for CBSS were OK, but partners were not prepared enough
“Worse” case scenarios

• “We got this far” – 33% penalty on total EU contribution
  • No/low preparation when notified about Audit (e.g. because this project was better documented than most CBSS projects, or project responsible is not available),
  • Ran out of time to come up with additional evidence, or find where the evidence is, or evidence lost/destroyed
  • Employment costs for CBSS were OK, but partners were not prepared enough

• “The auditor hates me” – 25% penalty on total EU contribution
  • Good preparation, including by partners
  • Strict adherence to unwritten rules: boarding passes, procurement, other
  • Employment costs mostly in place, but some insurances are ineligible
“It’s not a disaster.”
– The auditor
RESULTS (preliminary)

• Between about 7% of EU contribution found to be ineligible:
  • Mostly employment cost technicalities
  • Some preliminary invoices instead of final ones
  • 1 cost determined to be ‘not having to do with the project’
  • 2 Hotel no-shows
  • 1 invoice that charged the wrong amount DAYS x Rate.

• Final recalculation will depend on some factors:
  • Some travel costs booked on E instead of B, recalculated onto B.
  • “Contradictory procedure”
  • 7% overhead
  • 20% transfer between budget
  • 30% maximum for subcontracting
  • They may find other things between the closing meeting and the final report
Final thoughts

• What would I have done differently to prepare for the audit?
  • Based on what we knew before, plus the policies and capacity at the CBSS? Not much! Maybe push for hiring a consultant when we got the notification of the audit.
  • Now?
    • Thorough check of each invoice in the sample, against the learnings in this PPT.
    • Dig as deep as possible to find anything missing. Email partners, experts, ex-bosses, hotels, restaurants, airlines, everyone.
    • Higher demands on partners from the beginning
    • Budget much more for admin staff and ensure someone with the right competence is hired, trained and given a clear mandate to follow through with the contractual obligations

• NB! Specific rules may be different in your programmes.
• No guarantee this is the last audit of PROMISE 1!
You should keep that extra documentation ...

“... in case someone else comes.”

– The auditor