

## Participant Guidance - Audit

The SKEP project financial accounts will be audited twice within the lifetime of the project (18 months and 48 months). This guidance note is to provide advice on the audit process to the SKEP consortium. Participants are free to use their own accounting systems if they wish.

### Contracted requirements of the audit

In month 18 and month 48, each participant is asked to provide the co-ordinator with the following documents –

- Audit certificate
- Form C
- Description of the work carried out
- Explanatory note of major cost items
- Overview of budget vs actual costs
- Person-month budget comparison

### Timetable for the first audit

- **By 31 October** - Select your auditor and arrange a time with them to do your audit
- **Ongoing** - Prepare your accounts for auditing
- **30 November 2006** - End of the reporting period.
- **4 December 2006** - Accounts/ Form C should be sent to the auditor
- **22 December 2006** - Submission of the hard copy Form C, tables and audit certificate sent by courier to the co-ordinator

### Background

The audit certificate is a document provided by an external auditor (or in the case of a public body it may be provided by a competent public officer) certifying that the costs claimed during a specific period meet the contractual requirements established by the FP6 model contract.

Each contractor is free to choose a qualified external auditor, including its usual external auditor, provided that the following cumulative requirements are fulfilled:

- the external auditor must be **independent** from the contractor;
- 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.

### Auditor selection

#### 1) Auditor selection

- Select your auditor and arrange time with them to do the audit.
- Send your auditor the audit guidelines and financial guidelines so that they know about Framework Programme 6 projects.
- Agree the content of the audit certificate with your auditor in advance of the audit.

2) Submit the following to your auditor –

- The cost reporting model used. If an AC/FCF cost reporting model is used, indirect costs do not need to be examined as a flat rate is applied. If an FC cost reporting model is used the indirect costs will need to be certified.
- The number of staff involved in the project. The major cost of a project is normally personnel costs. Certification of these costs may imply a verification of the time spent by staff on the project<sup>13</sup>, the calculation of the hourly personnel rates, the calculation of the productive hours and for example, an examination of the employment contract. In particular for contractors using the AC cost reporting model, the temporary nature of the contract or the dependence on external funding will need to be verified (see Article II.20.2 of Annex II of the FP6 model contract).
- The usual accounting rules for example, whether travel costs are usually considered to be direct or indirect costs. – This can be a written note.
- Form C Financial statement
- Model certificate

### **Third parties**

In most cases, the costs of the third party may be identified in the financial statement (Form C) of the contractor and therefore covered by the audit certificate of the contractor.

### **Internal or External Audit?**

Public bodies have the choice between an external auditor or a competent public officer. Where a public body elects to use a competent public officer, the auditor's independence is usually defined as independence from the audited contractor "in fact and/or in appearance".

A preliminary condition is that this competent public officer was not involved in any way in drawing up the Financial Statement (Form C).

### **Eligibility of costs**

This means that the costs must in principle be real and not estimated, budgeted or imputed. Where actual costs are not available at the time of establishment of the audit certificate they may be reported in the subsequent period.

Costs must be economic and in accordance with the usual accounting principles of the contractor.

### **Model Certificate**

The model certificate has been provided by the Commission as a guide to how the audit certificate should look. The certificate must be signed (signature and stamp) and dated by the external auditor (or competent public officer). To state the amounts that were subject to verification, the Financial Statement (Form C) completed and signed by the contractor should be attached to the certificate. It is recommended that the Financial Statement (Form C) is signed for identification by the auditor. The audit certificate should be submitted in English

### **The cost of the audit certificate**

The cost of an audit certificate (excluding VAT) is an eligible cost according to Article II.26.1 of Annex II of the FP6 model contract. It is usually a direct cost<sup>12</sup> and is declared in both Form C, box 2 – “Declaration of costs”, under “Management of the Consortium Activity” and in box 6 - “Audit certificates”.

- If a competent public officer internal to the contractor has provided the audit certificate (public bodies only) then the identifiable direct actual costs (gross remuneration and related charges) will be considered eligible. Overheads can also be charged to this amount, except in case of permanent staff when the contractor uses the additional cost (AC) model (see page 45 of the FP6 Guide to Financial Issues).
- If an external auditor is used to provide the audit certificate (which is a form of subcontract), no overheads can be claimed on this amount by contractors using the AC of full cost flat rate (FCF) because the flat rate does not apply to direct costs related to subcontracting. Full cost (FC) contractors may charge indirect costs if their normal accounting practices and system permits and they do so normally.
- The auditor invoices directly to the contractor giving a breakdown of the amount of fees charged and the VAT applied. The amount of VAT is not an eligible cost reimbursed by the Community financial contribution.

### **Additional information**

- Model Audit certificate
- Form C template
- Overview of budget vs actual costs template
- Person-month budget comparison template
- Guide to the financial issues relating to indirect actions of the sixth framework programme (February 2005)
- Audit certificate working notes (June 2005)
- Project reporting in FP6 (October 2004)