

Audit certificates

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Introduction

- An audit certificate is a contractual requirement
- The purpose of an audit certificate is essentially to give the Commission reasonable assurance that eligible costs are claimed in accordance with the relevant provisions of the contract
- As such an audit certificate provides an independent professional control of source documents held by the contractor

- An audit certificate is not to be confused with an audit which the Commission may launch at any time and up to 5 years after the end of the project



Audit certificate requirements

- What
 - See Art. II.26.1
 - For each period for which an audit certificate is required, each *contractor* shall provide an audit certificate prepared and certified by an external auditor, certifying that the costs incurred during that period meet the conditions required by this *contract*.
 - The certificate 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 this Article.



Audit certificate requirements

- When
 - See Art.7.2 of the contract
 - Reports referred to in Article II.7.3 shall be submitted at the latest 45 days after
 - The end of each reporting period; or
 - After the end of the following periods:
 - » P(x) covering reporting periods from ...
 - » ...
 - Minimum requirement is that each contractor requesting EU funding will have to deliver at least 1 audit certificate covering the full project duration
 - See Art. II.7.3
 - The consortium shall submit the audit certificate provided by each contractor in conformity with Art. II.26 for each period for which the audit certificate is required. Even though an audit certificate is not required for a specific period an audit certificate must be provided by each contractor where the Community financial contribution requested by that contractor exceeds Euro 750,000 for that period.



Audit certificate requirements

- When (cont'd)
 - Special clause 32 (only for IP and NoE)
 - Notwithstanding the provisions of Art. 7.2 of this contract, audit certificates shall be submitted by all contractors, at the latest 45 days after the end of the following reporting periods:
 - P(x) covering periods from
 - ...
 - Special clause 39
 - Notwithstanding the provisions of Article 7.2 of this contract, contractors requesting a Community financial contribution for one or more reporting periods of less than €150,000, need not submit an audit certificate, until the cumulative request for Community financial contribution is equal to or exceeds €150,000 for the reporting periods for which an audit certificate has not yet been submitted.
 - In all cases an audit certificate shall be submitted at the latest 45 days after the final reporting period. This final audit certificate shall cover all period/s for which an audit certificate has not been previously submitted.



Audit certificate requirements

- By whom
 - See Art.11.26.2&3
 - Each contractor is free to choose any qualified external auditor, including its usual external auditor, provided that it meets the cumulative following professional requirements:
 - 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
 - A contractor that is a public body may opt for a competent public officer to provide an audit certificate, provided that the relevant national authorities have established the legal capacity of that competent public officer to audit that public body



Audit certificate requirements

- Certification by external audits does not diminish the liability of contractors
- The agreement between the contractor and the auditor is a bipartite agreement in which the Commission does not intervene



Audit Certificates Template - excerpt (1)

- *Addressed to:*

Full name and address of the contractor concerned

We, [legal name of the audit firm], established in [address], represented for signature of this audit certificate by [name and function of an authorised representative], hereby certify that:

- We have conducted an audit relating to the cost declared in the Financial Statement(s) per Activity of [name of the contractor] hereinafter referred to as contractor, to which this audit certificate is attached and which is to be presented to the Commission of the European Communities under contract [EC contract reference: title, acronym, number], for the following period(s) covered by the EC contract [insert period(s) covered by the Financial Statement(s) per Activity].



Audit Certificates Template - excerpt (2)

- We confirm that our audit was carried out **in accordance with generally accepted auditing Standards** respecting ethical rules and **on the basis of the relevant provisions of the above-references contract and its annexes.**

The above mentioned Financial Statement per Activity was examined and **all tests of the supporting documentation and accounting records deemed necessary were carried out** in order to **obtain reasonable assurance** that, in our opinion, based on our audit:

- the amount of the **total eligible costs** [insert amount in number] [insert amount in words] declared in Box 2 of the attached Financial Statement ... is **complying with the following cumulative conditions**
 - They are actual and answer to the contractor's economic environment;
 - ...
 - They are exclusive of any non-eligible costs ...
 - They have been claimed according to the following cost reporting model ...



Audit Certificates Template - excerpt (3)

- as declared in Box 3 of the attached Financial Statement ... , the total **amount of receipts** for the periods covered by this Financial Statement ... is equal to ...;
- as declared in Box 4 of the attached Financial Statement..., the **total amount of interest yielded by the pre-financing received** from the Commission of the European Communities for the periods covered by this Financial Statement ... is equal to ...;



Audit Certificates Template - excerpt (4)

- accounting procedures used in the recording of eligible costs and receipts **respect the accounting rules** in the State in which the contractor is established and permit the **direct reconciliation** between the **costs and receipts** incurred for the implementation of the project covered by the EC contract and the **overall statement of accounts** relating to the contractor's overall business activity;
- **Our company is qualified** to deliver this audit certificate in full compliance with the second and third paragraphs of Article II.26 of the contract
- As declared in the Box 6 of the attached Financial Statement ... the contractor paid for this audit certificate a price equal to ...
- Date, signature and stamp of the audit firm.



Audit certificate guidance notes for contractors and certifying entities

- See ftp://ftp.cordis.lu/pub/documents_r5/nat_dir0000001/s_6918005_20050727_150035_2521en.pdf
- Includes
 - Practical hints for contractors and essential background documents
 - Frequently asked questions
 - List of frequent errors in financial statements
 - Indicative model of an audit programme



Audit certificate guidance notes for contractors and certifying entities

How to go about obtaining an audit certificate

- Select and contract the auditor well before the financial statement is due
- Ensure that the auditor understands the audit certificate requirements and the scope of work
- Provide the auditor with a complete set of documentation
- Co-operate with the auditor in the certification process
- Adjust if needed the financial statement
- Submit the audit certificate as part of the periodic activity/management report through the coordinator to the Commission



Audit certificate guidance notes for contractors and certifying entities

- The following is an indicative set of documents that should be made available to the auditor
 - Contract including the Annexes
 - Periodic management report, including the justification of the resources deployed by the contractor and Form C 'Financial statement' as completed by you
 - 'Guide to Financial Issues relating to Indirect Actions of the Sixth Framework Programmes' – particular reference to Part 2, 3, 6.1 Annex I
 - Proposed template for an audit certificate
 - Audit certificate guidance notes which includes and indicative model for an audit programme



Audit certificate guidance notes for contractors and certifying entities

Indicative model for an audit programme

1. Ensure availability and access to all relevant documents (and key staff)
2. Establish which cost reporting model is applicable
3. Review costs that are claimed
 1. Direct costs – personnel
 2. Direct costs – other
 3. Indirect costs
4. Verify receipts
5. Verify conversion rates
6. Verify interest yielded by the pre-financing (only for coordinator)
7. Verify accounting procedures
8. Verify any adjustments to previous financial statements
9. Complete and sign the audit certificate –and submit to the contractor



Some frequently made errors (1)

- Non- substantiation of working time
 - There must be a system that allows the time of anyone working on the project to be recorded and audited. Good practice suggests that the link between the project/activity and the time record is clearly established and that the type of work performed is indicated
- The calculation of hourly personnel rates
 - Inclusion of non-eligible costs in the calculation of hourly personnel rates
 - Audit evidence indicates that in general a plausible number of productive hours are in the order of 1680 hours per year
- Personnel costs for contractors using the AC cost reporting
 - conditions for claiming personnel costs are not fulfilled
- Reimbursement is claimed for costs incurred out of the reporting period



Some frequently made errors (2)

- Indirect costs
 - Inclusion of cost items that do not meet the eligibility criteria set out in the contract in particular 'necessary for the implementation of the project' (e.g. non-productive hours of researchers or non-chargeable activities like time and costs spent by the contractor on internal research projects)
 - Inclusion of notional costs
 - Unbalanced apportionment of overheads
- VAT
 - The contract excludes any identifiable taxes, including VAT
- Substantiation of costs claimed
 - The contractor is obliged to keep full supporting documentation to justify the costs claimed



Some frequently asked questions (and answers)

- Competent public officer
 - Relevant national authorities establish the legal capacity of the internal audit unit (of a given public body) to act as competent public officer.
- Cost of the audit certificate
 - The cost of the certification may be charged to the management of the consortium activity. The costs are reimbursed at a rate of 100% to all contractors regardless of their cost model, up to a limit of 7% of the EC financial contribution
- Selection of the audit firm
 - A contractor may – but is not obliged – select its statutory auditor and may during the course of the project change auditor



Some frequently asked questions (and answers)

- Language of the audit certificate
 - Article 7.1 of the contract states 'Reports shall be submitted in [language]'. As an audit certificate is a report the language chosen for the reports must be used for the audit certificate
- Necessity of costs
 - The necessity of costs (one of the eligibility conditions required by Art. II.19) is NOT determined by the audit certificates
- Subcontracting
 - The audit certificate will only certify that amount paid by the contractor to the subcontractor is correct according to the invoice. A subcontractor is not required to submit an audit certificate.
- Third parties
 - The costs of the third party need to be certified either in the audit certificate of the contractor or a specific audit certificate for the third party



Some frequently asked questions (and answers)

- Use of estimated costs - use of average to determine the personnel costs by class of employees
 - It is possible to use estimated costs if the accounting system of the consortium works on that basis – such an estimate would have to be certified by the auditor who would indicate that this follows the accountancy system of the contractor. The contractor should ensure that any subsequent adjustments is brought forward into the next reporting period
 - In the contract there is no specific mention of the possibility to use average costs. However if the external auditor confirms that costs claimed using averages reflect the requirements of the contract, in particular with respect to the actual and economic aspect and the conformity with the contractor's own accounting principles, in theory such an approach could be used if there is no deviation in the amounts claimed and the actual costs incurred over the life of the project.
- Is the audit certificate template obligatory to be used
 - No, however, deviations may result in additional information and clarification being requested by the Commission and the subsequent risk of rejection of the audit certificate

