

# FCH JU Communication Campaign Lesson learned from the experience of the auditor

Presentation by Julian Rummins

23 June 2014



# A brief introduction

- Who am I?
- What does my organisation do for FCH JU?
- How are we structured?



# Where are the key lessons to be learned?

- Personnel costs
  - The importance of recording time
  - How do you determine a productive hours denominator that the JU will accept?
  - What elements can be included in the costs of personnel?
- Indirect costs using the analytical or simplified full indirect costs basis – what do you need to remember?
- Other direct costs – The issue of demonstrators and a few other observations
- The practical side - Some examples of what we have seen over the years

# Time recording and the issues associated with its substantiation

- Does the contract really necessitate the keeping of timesheets?
- So, what's all the fuss about – who needs timesheets?
- However, keeping a timesheet is easy; it's not difficult or overly time consuming
- The key is the control environment within which the time recording system is operated
- The problem of “partial time recording”
- However, a good time recording function is only 1 element of the picture – it needs to be corroborated as well = **Alternative Evidence**

# Time recording - the issue and role of alternative evidence

- Alternative evidence – what does it really mean and what is its value?
- Where you have time recording; it helps to “complete the picture” and prove the final position (the corroboration impact)
- However, you can decide to rely solely on alternative evidence as time recording is not a formal contract necessity
- But then, how easy is it to really get it accepted by the auditor / JU?
- What is “good” alternative evidence - examples???????
- But there is no one definitive / exhaustive list or basis

# What are the correct costs to include as part of the remuneration package?

- Gross basic salary (and paid overtime)
- Other statutory or legally/contractually binding additional costs directly attributable and determined by reference to the gross salary
  - Employers social charges
  - Employers pension contributions pension
  - Monetary equivalent of benefits in kind
  - Medical insurance
  - Other?
- Bonuses and performance related pay
- What about multiple employment contract scenarios?

# Determining productive hours and common issues encountered

- To the JU: productive time = available working time
- What does this mean you can do / include in your calculation?
  - Department or management meetings, training, acquisition time, sick leave, maternity leave
- What about the application of the principle of using usual accounting principles?
- What if you adopt a common standard or benchmark for FP7 work?
- The impact of overtime – paid or unpaid?
- The test of contractual reality and its primacy (eg 35 hour week max in France, the Italian university scenario)

# Full indirect costs – A few things to remember

- What does the contract say and what does the JU think this means?
- The issue of usual accounting practices
- The principle of fair apportionment of indirect costs - the essence of “granularity”
- The question of the hourly denominator again!
- Analytical vs Simplified and is there a % I should not exceed?
- The specific issue of Central costs from HQ or elsewhere
- The directisation of indirect costs

# The issue of the costs of Demonstrators

- To make a demonstrator requires purchasing equipment and parts from other entities, as well as labour to assemble
- The latter element we have already discussed; but the former brings some other interesting issues for an auditor
- Where were the equipment and parts bought from (external third party, affiliate, own existing stocks)?
- How were those decisions on where to purchase from made and how is the premise of best value for money (transparency, equity, etc) satisfied?
- Proving the make up of the total costs – need a complete audit trail
- Where is the final product now and who controls / uses it? What is its expected useful life?

# Other direct costs

A few observations on other common issues encountered:

- Subcontracting – Ensuring you can demonstrate “best value for money” even when you have the subcontractor in place at project outset and named in annex 1 to contract. Keep the tender documentation in entirety.
- Equipment – Eliminate the VAT! General laptops do not normally count. % of usage estimates. Amortisation policy.
- Travel costs – Do not try and take a holiday on the back of a business trip; make sure you really did go to a technical meeting (get minutes), keep the travel vouchers (including flight stubs). VAT and airport taxes
- Consumables – This used to not mean stationary, postage, paper clips; but ..... Now, there has to be a clear and direct link to the project – the test of necessity is key.

# Some real life experiences

- Common areas where material issues / irregularities have been encountered on RTD projects:
  - Time recording
  - Same person(s) employed by several contractors on one or more projects simultaneously
  - Personnel not adequately qualified / skilled for tasks required
  - Related parties and subcontracting arrangements
    - non-arms length
    - non-existent
    - not of any necessity
    - the contracting beneficiary may not even know it is happening!
  - Result plagiarism
  - And don't forget VAT!

# Some real life experiences (continued)

- The audit response
  - More tailored sampling methods in selecting assignments for audit
  - Greater use of targeting several contractors and subcontractors simultaneously
  - Lots of data mining and information gathering in advance
  - CVs and staff interviews on a large scale
  - Heightened auditor scepticism generally
- Why is this important for you to consider now and what will you tell your colleagues tomorrow?

# A final few thoughts to help you make the audit experience easier!

- We do not come to disallow; we come to “confirm eligibility”
- Please help us to do that
- The more you help us from upfront, the sooner we are gone; the easier / less painful and quicker the closure process
- It is all about trust and confidence in each other.
- We did not make the rules, we are merely asked to assess your compliance with them – do not blame us for doing that.
- Remember; there is one contract for all and the JU is trying to achieve equity and common understanding for all at that level.

# A final few thoughts to help you make the audit experience easier!

- Thus what may be OK nationally, is quite possibly not OK here. Make sure you understand the contract thoroughly.
- It is an open and transparent process; hence your right of reply to our report findings and conclusions – “The contradictory procedure”
- It is “our” report and “our” conclusions.
- It is for FCH JU to then decide whether to implement or not.
- We aim to be professional at all times. We need your openness and co-operation to make this happen.

Thank you  
Any questions?