

EMRP Contracts
Financial Audit Guidelines

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Financial Audit Guidelines

This document is intended for the financial accounting professionals of funded JRP-Partners and Linked Third Parties, and the Auditors they appoint.



CONTENTS

1	Scope.....	3
2	Introduction	3
3	Form of the Financial Audit Report.....	4
3.1	Procedures to be carried out by the Auditor regarding the Financial Audit Report.....	4
3.2	When can the Auditor change the model answer and when should they report an exception?	4
3.3	Will all exceptions result in a rejection of costs by EURAMET?	5
3.4	Procedures for the Financial Audit Report	5
3.4.1	Personnel costs	7
3.4.2	Travel and Subsistence (T&S).....	12
3.4.3	Equipment.....	13
3.4.4	Consumables.....	14
3.4.5	Subcontracting.....	15
3.4.6	Other direct costs.....	17
3.4.7	Indirect costs.....	19
4	Glossary.....	25
4.1	Accounting records.....	25
4.2	Average personnel rates	25
4.3	Excessive or reckless expenditure.....	26
4.4	Exception.....	26
4.5	Financial statement	26
4.6	General ledger.....	26
4.7	Indirect taxes	27
4.8	Normal accounting policy	27
4.9	Normal employment costs.....	28
4.10	Productive time.....	28
4.11	Project accounts.....	28
4.12	Letter of Representation.....	29
4.13	Simplified method.....	29
4.14	Table of equivalent terms.....	29

If you require further help or guidance after reading this document, please contact the helpline

Email: emrpA169@npl.co.uk

Telephone: +44 20 8943 6666.

1 Scope

The aim of these guidelines is to provide further explanation and clarification of the requirements for Financial Audit Reports beyond those given in the JRP-Contracts, particularly those in Part B of Annex II of the JRP-Contract.

Note 1: The audit requirements for Financial Audit outlined here are based on the FP7 legal and guidance documents published by the European Commission and are only adjusted to the extent to which the conditions be applicable directly to EURAMET and the JRP-Partners.

Note 2: Where Special Clause 7.3 of the JRP-Contract applies, the JRP-Partner and the Linked Third Party are audited separately. Both provide a Financial Statement showing only their own costs and this is the basis of the Financial Audit. Only in the funded JRP-Partners Financial Workbook are the costs of the Linked Third Party combined with those of the JRP-Partner for reporting up to the JRP-Coordinator and EURAMET. **Where a Linked Third Party is using this guide, the wording "the JRP-Partner" shall be read as "the Linked Third Party".**

2 Introduction

The JRP-Contracts are based on those issued under FP7 and the requirement for Financial Audit Reports is also similar to FP7.

The European Commission in FP7 requests independent Auditors to perform agreed-upon-procedures - the Auditor's role is limited to reporting only factual findings as opposed to forming an independent opinion on the eligibility of costs. The European Commission specifies in detail the procedures to be undertaken, and the Auditor reports the factual findings observed as a result of performing those procedures, including exceptions as a basis for the European Commission to conclude on the eligibility of the claims.

EURAMET intend that their audit requirements should mirror those of FP7 as closely as possible, the Reporting Templates associated with this guide follow the same form as those in the FP7 guide "Certificates issued by External Auditors – Guidance note for Beneficiaries and Auditors (version July 2010)". Notable exceptions are:

1. EURAMET has no guidance on issuing "Certificates on the methodology (Form E)". If a JRP-Partner has one approved by the European Commission then it should be the basis of their claims to EURAMET, but EURAMET itself has no equivalent.
2. EURAMET terminology replaces European Commission terms where necessary. A table of equivalent terms is given at the end of this document.
3. EURAMET does not have direct access to decisions the European Commission has made on any exceptions raised by previous FP7 style audits on the JRP-Partner, so while not asking the Auditor to express an opinion on the eligibility of the claims, it does ask the Auditor to record if any exceptions raised have been accepted by the European Commission in previous audits at the organisation, or elsewhere in his experience.

The financial audit process can be summarised as follows:

1. The JRP-Partner prepares the Financial Statement - a summary of the eligible costs.
2. The JRP-Partner appoints an independent Auditor¹ using the standard Terms of Reference supplied by EURAMET.
3. The Auditor carries out the work and reports using the Reporting Templates provided by EURAMET including the Independent Report of Factual Findings and the Procedures Performed by the Auditor.

¹ Part B, Section II of Annex II of the JRP-Contract defines the type of auditor that may be appointed.

4. The JRP-Partner writes a Letter of Representation to the Auditor, using the Reporting Template provided by EURAMET, to confirm specific facts that the Auditor relies on to undertake the audit.

All these documents together form the “Financial Audit Report” required by EURAMET.

3 Form of the Financial Audit Report

The Financial Audit Report is composed of the following documents:

1. Part A - the Financial Statement. This is generated by Reporting Template 10 - Funded JRP-Partner’s Financial Workbook or Reporting Template 11 - Linked Third Party’s Financial Workbook.
2. Part B - The Terms of Reference agreed between the JRP-Partner and the Auditor for the engagement, is based on Reporting Template 12 - Terms of Reference. **This must be dated and signed by both parties.**
3. Part C - The Auditor's Independent Report of Factual Findings including the Table of Procedures performed, based on Reporting Template 13 - Independent Report of Factual Findings, is issued **on the Auditor's letterhead and dated, stamped and signed by the Auditor** (or competent public officer) **on completion of his/her work.**
4. Part D - A copy of the Letter of Representation, based on Reporting Template 14 – Letter of Representation, is provided to the Auditor by the JRP-Partner, **on the JRP-Partner's letterhead and dated, stamped and signed by the JRP-Partner with the same date as Part C.**

The use of the Reporting Templates by the independent Auditor or competent public officer is compulsory. They can be downloaded from www.emrponline.eu.

The language of the Financial Audit Report shall be English or an English translation shall be provided.

The Financial Audit Report has to be transmitted by the JRP-Partner, via the JRP-Coordinator, to EURAMET.

3.1 *Procedures to be carried out by the Auditor regarding the Financial Audit Report*

The procedures listed in Reporting Template 13 ‘Independent Report of Factual Findings’ and this guide are to be carried out unaltered by the Auditor. EURAMET is using these procedures, which mirror those used by the European Commission, in order to obtain standardised and comparable reports from all Auditors, who are expected to carry out the procedures without adaptation for the particular circumstances of the JRP-Partner.

In particular the minimal sample sizes should always be respected, and all procedures should be carried out in full.

3.2 *When can the Auditor change the model answer and when should they report an exception?*

Where the Auditor's factual findings are not consistent with the "Standard factual finding" given in this guide and Reporting Template 13 ‘Independent Report of Factual Findings’, then an exception should be noted. For each standard finding, non-exhaustive examples where EURAMET expects exceptions to be noted are indicated in bold under the corresponding factual findings. In general, if the Auditor is not able to establish whether the information provided by the JRP-Partner matches the standard finding defined by EURAMET, this should be reported as an exception.

3.3 Will all exceptions result in a rejection of costs by EURAMET?

EURAMET will consider each exception in the context of the report as a whole and other evidence at its disposal. It will therefore make eligibility decisions on a case by case basis using the evidence provided. The more detail the Auditor provides regarding exceptions, the easier it will be to assess the situation and come to a reasoned decision on the claim under consideration. The Auditor should report the findings as fully as possible, to facilitate this process.

EURAMET does not have direct access to decisions the European Commission has made on any exceptions raised by previous FP7 style audits on the JRP-Partner, so while not asking the Auditor to express an opinion on the eligibility of the claims, it does ask the Auditor to record if any exceptions raised have been accepted by the European Commission in previous audits at the organisation, or elsewhere in his experience.

3.4 Procedures for the Financial Audit Report

EURAMET does not provide Certificates on the Methodology (Form E). However, when a JRP-Partner has a Certificate on the Methodology, which has been approved by the European Commission, EURAMET will accept its use during the audit of a JRP-Partner.

When a Certificate on the Methodology has been approved by the European Commission, the Auditor will only have to focus on checking compliance with the certified methodology and systems. In this context, some aspects of the procedures included in the Financial Audit Report do not need to be performed by the Auditor.

For JRP-Partners having a Certificate on the Methodology for average personnel costs (CoMAv) only, the Auditor will have to perform all procedures foreseen in the Financial Audit Report except for procedure 1 where the Auditor will be requested to check only the part related to productive hours.

For JRP-Partners having a Certificate on the Methodology covering average personnel costs and indirect costs (CoM), the Auditor will have to perform all procedures foreseen in the Financial Audit Report except for procedure 1 where the Auditor will be requested to check only the part related to productive hours and for procedure 10 where the Auditor will not be requested to recalculate the indirect costs rate.

The table below indicates the procedures to be performed by Auditors in different situations.

Category of costs	Calculation method used by the JRP-Partner	PROCEDURES TO BE PERFORMED		
		With approved CoM ²	With approved CoMAv ³	Without Certificate
Personnel	Individual costs (per employee ⁴)	1, 2, 3	Not applicable	1, 2, 3
	Average rates	1 ⁵ , 2, 3, 4	1 ⁶ , 2, 3, 4	1 ⁷ , 2, 3, 4
Travel & Subsistence (T&S)	All cases	5		
Equipment	All cases	6, 7		
Consumables	All cases	8		
Subcontracting	All cases	9, 10		
Other Direct Costs	All cases	11, 12, 13		
Indirect Costs	Actual Indirect Costs	14 ⁸	14	14
	Simplified Method	14 ⁹ , 15	14, 15	14, 15
	Flat-rate	None	None	None
Indirect Costs: Exchange rates & receipts	All cases	16, 17		

² Certificate on the Methodology (Form E).

³ Certificate on Average Personnel Costs (Form E only covering average personnel costs).

⁴ Employee means researcher or research-related person or person with certain coordinating tasks (if the JRP-Partner is the JRP-Coordinator).

⁵ The auditor is requested to check only the part related to productive hours since the auditor performs the procedure n°4 related to average personnel costs.

⁶ The auditor is requested to check only the part related to productive hours since the auditor performs the procedure n°4 related to average personnel costs.

⁷ The auditor is requested to check only the part related to productive hours since the auditor performs the procedure n°4 related to average personnel costs.

⁸ The auditor is not requested to recalculate the indirect costs rate.

⁹ The auditor is not requested to recalculate the indirect costs rate.

3.4.1 Personnel costs

Procedures	Standard factual findings and basis for exception reporting
Personnel costs	
<p>1. Recalculate hourly personnel and overhead rates for personnel (full coverage if less than 20 employees, otherwise a sample of minimum 20, or 20% of employees, whichever is the greater), indicate the number of productive hours used and hourly rates. Where sampling is used, selection should be random with a view to producing a representative sample.</p> <p>'Productive hours' represent the (average) number of hours made available by the employee in a year after the deduction of holiday, sick leave and other entitlements. This calculation should be provided by the JRP-Partner.</p>	<p>For each employee in the sample of ____, the Auditor obtained the personnel costs (salary and employer's costs) from the payroll system together with the productive hours from the time records of each employee.</p> <p>For each employee selected, the Auditor recomputed the hourly rate by dividing the actual personnel costs by the actual productive hours, which was then compared to the hourly rate charged by the JRP-Partner.</p> <p>No exceptions were noted.</p> <p>The average number of productive hours for the employees selected was _____.</p> <p>If the productive hours or costs of personnel cannot be identified, they should be listed (together with the amounts) as exceptions in the main report.</p>

What is the objective of this procedure?

The objective of this check is to verify that the hourly rates being charged have been correctly calculated from the actual underlying cost information for the period in question, namely the costs to the employer (salary / wages including benefits and other employment costs), divided by the productive hours¹⁰ with a reconciliation of the payroll information for the selected employees to the accounting records and payments.

Which documents should the JRP-Partner prepare for the Auditor?

The actual payroll information for the period in question (base salary, benefits of all kinds, pension contributions, employers' payroll taxes, etc.) and productive hours figures (see the Glossary for a description of productive hours) used to calculate the hourly rates. The JRP-Partner should also provide a reconciliation/calculation showing how the hourly rates were calculated from the payroll information. The period in question will be the period of the Financial Statement or the most recent financial year, to calculate productive hours if this is what has been used to calculate the rates claimed.

The last sentence of the right-hand column should be read as follows "if the productive hours or costs of personnel cannot be identified or *justified* by the JRP-Partner, they should be listed (together with the amounts) as exceptions in the main report".

¹⁰ Actual productive hours (or standard productive hours if it corresponds to the usual practice of the JRP-Partner).

What if the JRP-Partner already has a certificate under Form E?

EURAMET does not provide Certificates on the Methodology (Form E). However, when a JRP-Partner has a Certificate on the Methodology (Form E), which has been approved by the European Commission, EURAMET will accept its use during the audit of a JRP-Partner.

Where there is a Form E approved by the European Commission **on average personnel costs**, the individual calculations and re-computations foreseen under procedure 1 are not applicable since the Auditor is just expected to check the general compliance with the methodology. The Auditor is therefore requested to check only the part related to productive hours in this procedure.

Where individual actual costs have been used and the methodology certified approved by the European Commission, the entire procedure has to be performed by the Auditor (including recalculations).

What employment costs are not considered eligible or should be regarded as exceptions?

Generally all employment costs which are part of the normal remuneration policy of the JRP-Partner are accepted. Costs which have been charged and which relate specifically to involvement in JRPs, and are not part of these normal remuneration and/or accounting principles should be noted as exceptions.

How should sampling be carried out?

The size of the sample proposed in this procedure is based on the population of researchers or research-related persons involved in the JRP. In this context, the size of the sample has to respect the following:

- if the population is less than 20 employees, full coverage
- if the population is equal or greater than 20 employees
 - a minimum of 20 employees
 - or 20 % of the employees (whichever is the greater)

Procedures	Standard factual findings and basis for exception reporting
Personnel costs	
2. For the same selection examine and describe time recording of employees (paper/ computer, daily/weekly/monthly, signed, authorised).	Employees record their time on a daily/ weekly/ monthly basis using a paper/computer-based system. The time-records selected were authorised by the project manager or other superior. If no time records are available which fit the above description, this should be listed as an exception in the main report.

What is the objective of this procedure?

This procedure will provide EURAMET with the information it needs to assess whether the recording of project time is in line with the requirements of the JRP-Contract. Normally time recording should be carried out regularly and authorised by the project manager to ensure that the time worked on the project can be traced and charged correctly. For the employees selected, the hours charged to the project should have been accurately recorded in the time recording system. Any discrepancies between the amount charged to the project and the amount in the time sheets (or if time sheets are absent) should be recorded as an exception.

Which documents should the JRP-Partner prepare for the Auditor?

The JRP-Partner should provide a description of the time-recording system and, for the employees selected for testing, make available all the time sheets or provide full access to the computer system which records

the time of the employees. The Auditor should be able to trace the time charged for the sample selected to the time records of each individual employee.

Procedures	Standard factual findings and basis for exception reporting
Personnel costs	
<p>3. Employment status and employment conditions of personnel. The Auditor should obtain the employment contracts of the employees selected and compare with the standard employment contract used by the JRP-Partner. Differences which are not foreseen by the JRP-Contract should be noted as exceptions.</p>	<p>For the employees selected, the Auditor inspected their employment contracts and found that they were:</p> <ul style="list-style-type: none"> – directly hired by the JRP-Partner in accordance with its national legislation, – under the sole technical supervision and responsibility of the latter, and – remunerated in accordance with the normal practices of the JRP-Partner. <p>Personnel who do not meet all three conditions should be listed (together with the amounts) as exceptions in the main report.</p>

What is the objective of this procedure?

EURAMET seeks to ensure that personnel costs do in fact relate to employees of the JRP-Partner carrying out the research, and to identify cases where this component may have been effectively "outsourced" to a different entity, where this has not been foreseen in the JRP-Contract with EURAMET. EURAMET also seeks to ensure that no special employment conditions are applied to employees working on the JRP which are not normally applied within normal company practices.

Which documents should the JRP-Partner prepare for the Auditor?

Specific employment contracts for the researchers in question, as well as standard employment contracts in use for personnel who perform a variety of work for the JRP-Partner (i.e. are not exclusively devoted to EURAMET research work) should be provided to the Auditor.

The Auditor will have to rely on a written representation by the JRP-Partner (Reporting Template 14 - Letter of Representation) as to the absence of specific bonuses, if none are immediately identifiable from the payroll system. The documentation for checking the employment costs will normally be an output from the payroll system which details the component costs which are used in the calculation of the hourly rate charged for the researcher or research-related personnel.

If the JRP-Partner considers it would be useful to EURAMET, specific aspects of national requirements can be noted in this section. For example, if employers are legally required to accrue holiday pay as part of the normal accounting of personnel costs, this could be brought to EURAMET's attention.

What kind of information would give rise to exceptions?

Clause II.15 of the model JRP-Contract foresees that with regard to personnel costs, the persons directly carrying out work under the project must:

- be directly hired by the JRP-Partner in accordance with its national legislation,
- work under the sole technical supervision and responsibility of the latter, and
- be remunerated in accordance with the normal practices of the JRP-Partners.

Any difference to the above principles should be highlighted by the Auditor as an exception. Please find below some non-exhaustive examples.

Directly hired: Exceptions should be raised if there are indications in the employment contract that the employee is hired by a different legal entity, including a legal entity within the same group (e.g. if the JRP-Partner is XYZ Research Limited and the contract is with XYZ holdings or XYZ registered in a different country). Another example giving rise to an exception is if the employee's services are being charged via a service company or other consulting type arrangement.

Sole technical supervision: An exception should be raised if it is stipulated in the contract that its objective and participation focuses on a specific deliverable or piece of work rather than on the employee's services. This includes indications that the work is not being carried out at the JRP-Partner's premises¹¹ but has more of the characteristics of an external or subcontract. Again, the use of a service company indicates that the JRP-Partner is not directly supervising the technical work and should give rise to an exception.

Remunerated in accordance with the normal practices of the JRP-Partner: Typical examples which should give rise to an exception are being remunerated in a 'lump sum' instead of via a salary arrangement, or any other form of payment/ charging (such as travel expenses) which does not take place within the normal accounting practice of the JRP-Partner.

Procedures	Standard factual findings and basis for exception reporting
Personnel costs	
<p>4. Use of average personnel costs</p>	<p>The Auditor found that the personnel costs charged to the financial statement:</p> <p>either</p> <ul style="list-style-type: none"> - are calculated using average costs in accordance with the methodology as specified in the Report of findings on the methodology dated _____. <p>or</p> <ul style="list-style-type: none"> - are calculated using the usual cost accounting practice of the JRP-Partner based on the actual personnel costs of the JRP-Partner as registered in its statutory accounts, excluding any ineligible cost item and any costs claimed under other costs categories. The JRP-Partner provided the Auditor with underlying calculations showing the basis for the average costs. The Auditor agreed these calculations to the relevant sources of management information. - have been calculated using amounts derived from the relevant period which can be reconciled to the accounting records of the relevant period. <p>Where categories are used, the Auditor verified that the researcher (or research-related person) had been correctly classified.</p> <p>The Auditor obtained confirmation from the JRP-Partner that the rates used were not budgeted or estimated amounts.</p> <p>If amounts cannot be reconciled, or if estimates or budgeted amounts were used, this should be reported as an exception in the main report.</p>

This procedure does not apply if the JRP-Partner does not use averages for the calculation of personnel costs ("*Average* personnel costs per person divided by average/standard productive hours").

¹¹ Tele-working may be accepted if there is a system that allows the identification of the productive hours worked for the project.

The following criteria must be met in order for average personnel costs to be accepted.

- The average personnel cost methodology shall be the one declared by the JRP-Partner as its usual cost accounting practice; as such it shall be consistently applied to all EMRP JRPs.
- The methodology shall be based on the actual personnel costs of the JRP-Partner as registered in its statutory accounts, without estimated or budgeted elements;
- The methodology shall exclude from the average personnel rates any ineligible cost item and any costs claimed under other costs categories in order to avoid double funding of the same costs;
- The number of productive hours used to calculate the average hourly rates shall correspond to the usual management practice of the JRP-Partner provided that it reflects the actual working standards of the JRP-Partner, in compliance with applicable national legislation, collective labour agreements and contracts and that it is based on auditable data.

In case that the methodology fails to respect one or several criteria, the Auditor will correct, when possible, the average rates applied by the JRP-Partner and propose the corresponding financial adjustments on such basis. This can occur, for instance, if the Auditor notices ineligible costs included in the calculation of the personnel rates and the precise amount can be identified and removed in order to re-calculate the rates.

What is the objective of this procedure?

The procedure to be performed by the Auditor in the left-hand column should be as described below.

The Auditor is requested to perform a limited check that the methodology is being implemented correctly. Thus rather than tracing the costs of the individual researchers back to the payroll records of each individual employee, the Auditor simply verifies that the researcher was charged using a rate corresponding to the rate for that employee's category. For example, the Auditor checks that for a researcher belonging to category III according to the JRP-Partner's classification system, the rate for the category III was used to charge their time.

Which documents should the JRP-Partner prepare for the Auditor?

The JRP-Partner should prepare the most up-to-date classification grid, together with the criteria for classification of employees (based on experience, qualifications, salary, department, etc.). The information should be sufficient to unambiguously categorise each of the researchers in the sample, and to verify that the rates used were those applicable for the period to which the claim refers. Thus, it may be necessary to consult the payroll/human resources system in detail, and the JRP-Partner should be able to extract this information.

How should the Auditor check the reconciliation?

The JRP-Partner should be able to show via the calculation of average rates, where the data in the calculation was extracted from the accounts, and in doing so demonstrate that the correct relevant period and accounting information has been used.

3.4.2 Travel and Subsistence (T&S)

Procedures	Standard factual findings and basis for exception reporting
Travel and Subsistence (T&S)	
<p>5. Travel costs correctly identified and allocated to the project (and in line with JRP-Partner's normal policy for non-EU work regarding business/first-class travel, etc.) Full coverage if less than 20 items, otherwise a sample of minimum 20, or 20% of the items, whichever is the greater.</p> <p>The JRP-Partner should provide written evidence of its normal policy for travel costs (e.g. use of business/first class tickets) to enable the Auditor to compare the travel charged with this policy.</p>	<p>The Auditor inspected the sample and found that the JRP-Partner had allocated travel costs to the project by marking of invoices and purchase orders with the project reference, resulting in traceable allocation in the project accounts.</p> <p>The costs charged were compared to the invoices and found to be the same. No VAT or other identifiable indirect taxes were charged.</p> <p>The use of business/first class travel was in line with the written policy provided by the JRP-Partner.</p> <p>Costs which are not allocated to project accounts and do not have a clear attribution (normally by writing the project number on the original invoice) should be listed (together with the amounts) as exceptions in the main report.</p>

The wording "project accounts" in the above procedure is defined in the Glossary of the present guidance notes.

What is the objective of this procedure?

To ensure that travel and subsistence costs are accurately charged to the project without any identifiable indirect taxes¹² (including VAT) and that only those costs relevant to the project are charged.

Which documents should the JRP-Partner prepare for the Auditor?

Extracts from the accounting records together with the relevant **original** invoices are the basis for performing this procedure. The company policy on travel costs should be made available where first class or business class travel has been used. Only when a policy is in place in general terms and not being used exclusively for JRPs, the costs can be considered. Otherwise, an exception should be noted. The Auditor is not expected to make an assessment of project relevance in the absence of information provided by the JRP-Partner. Invoices should have a clear designation as relating to the project, and the burden of sufficient documentation is on the JRP-Partner. The Auditor is expected to report their findings based on the documentary evidence, and should not take into account supplementary explanations by the JRP-Partner when these are not supported by the relevant documentation.

Please note that the last sentence of the left-hand column "full coverage if less than 20 items, otherwise (...) is the greater" refers to the size of the sample.

The size of the sample proposed in this procedure has to respect the following:

- if the population is less than 20 items, full coverage
- if the population is equal or greater than 20 items
 - a minimum of 20 items

¹² Refer to the Glossary for definition of indirect taxes.

– or 20 % of the items (whichever is the greater)

What is the most frequent error in this context?

For travel, the most frequent error is failing to deduct ineligible VAT (for example from hotel and transport costs incurred in other countries). VAT should be deducted in all cases, whether it is recoverable by the JRP-Partner or not, and whether it relates to the VAT regime applying to the JRP-Partner or not.

3.4.3 Equipment

Procedures	Standard factual findings and basis for exception reporting
Equipment	
6. Allocation of equipment subject to depreciation is correctly identified and allocated to the project. Full coverage if less than 20 items, otherwise a sample of minimum 20, or 20% of the items, whichever is the greater.	The Auditor traced the equipment charged to the project to the accounting records and the underlying invoices. The JRP-Partner has documented the link with the project on the invoice and purchase documentation, and, where relevant, the project accounting. The asset value was agreed to the invoice and no VAT or other identifiable indirect taxes were charged. The depreciation method used to charge the equipment to the project was compared to the JRP-Partner's normal accounting policy and found to be the same. If assets have been charged which do not comply with the above, they should be listed (together with the amounts) as exceptions in the main report.
7. Obtain a written description from the JRP-Partner regarding equipment subject to depreciation. Ensure EURAMET approval of all items is evident (normally by identification in Annex Ib).	The Auditor compared the description of the equipment subject to depreciation provided by the JRP-Partner to the specification in Annexes Ia and Ib to the JRP-Contract, and found them to be the same. If the descriptions do not clearly match, this should be reported as an exception in the main report.

What is the objective of this procedure?

JRP-Partners are permitted to charge assets to JRP-Contracts in line with their normal accounting policy, provided they are identified in the JRP-Contract. The objective of this procedure is to ensure that the individual fixed assets have been charged according to the normal accounting policy using amounts which can be traced from the accounting records and using the related depreciation rate.

Which documents should the JRP-Partner prepare for the Auditor?

The documents relate to the invoices of the assets concerned and to the extracts from the accounting records showing the relevant entries, as well as the relevant policies for depreciation of the assets (period, straight line or reducing balance, etc.).

Please note that the last sentence of the left-hand column "full coverage if less than 20 items, otherwise (...) is the greater" refers to the size of the sample.

The size of the sample proposed in this procedure has to respect the following:

- if the number of items is less than 20 items, full coverage
- if the number of items is equal or greater than 20 items

- a minimum of 20 items
- or 20 % of the items (whichever is the greater)

What is the most frequent error in this context?

JRP-Partners, having incurred the cash outflow to acquire the asset, try to charge the entire amount in the first period, despite the fact that the asset may be depreciated in their accounts through a number of years. In this case, only the depreciation relevant to the period in question (the period of the Financial Statement under consideration) can be charged. Another common error is the charging of VAT.

3.4.4 Consumables

Procedures	Standard factual findings and basis for exception reporting
Consumables	
8. Consumables correctly identified and allocated to the project. Full coverage if less than 20 items, otherwise a sample of minimum 20, or 20% of the items, whichever is the greater.	<p>The Auditor inspected the sample and found that the JRP-Partner had allocated consumable costs to the project by marking of invoices and purchase orders with the project reference, resulting in traceable allocation in the project accounts.</p> <p>The costs charged were compared to the invoices and found to be the same. No VAT or other identifiable indirect taxes were charged.</p> <p>Costs which are not allocated to project accounts and do not have a clear attribution (normally by writing the project number on the original invoice) should be listed (together with the amounts) as exceptions in the main report.</p>

The wording "project accounts" in the above procedure is defined in the Glossary of the present guidance notes.

What is the objective of this procedure?

To ensure that consumable¹³ costs are accurately charged to the project without any identifiable indirect taxes¹⁴ (including VAT) and that only those costs relevant to the project are charged.

Which documents should the JRP-Partner prepare for the Auditor?

Extracts from the accounting records together with the relevant **original** invoices are the basis for performing this procedure. The Auditor is not expected to make an assessment of project relevance in the absence of information provided by the JRP-Partner. Invoices should have a clear designation as relating to the project, and the burden of sufficient documentation is on the JRP-Partner. The Auditor is expected to report their findings based on the documentary evidence, and should not take into account supplementary explanations by the JRP-Partner when these are not supported by the relevant documentation.

Please note that the last sentence of the left-hand column "full coverage if less than 20 items, otherwise (...) is the greater" refers to the size of the sample.

The size of the sample proposed in this procedure has to respect the following:

¹³ Refer to Financial Guidelines for details on consumables.

¹⁴ Refer to the Glossary for definition of indirect taxes.

- if the population is less than 20 items, full coverage
- if the population is equal or greater than 20 items
 - a minimum of 20 items
 - or 20 % of the items (whichever is the greater)

What is the most frequent error in this context?

For consumables, failing to make a clear link to the project is a common error, and assuming VAT has been deducted. EURAMET requires a sufficient audit trail which unambiguously ties an invoice to the project, and is thus not able to accept costs which were not linked to the project at the time of processing.

3.4.5 Subcontracting

Procedures	Standard factual findings and basis for exception reporting
Subcontracting	
9. Obtain a written description from the JRP-Partner regarding 3 rd party resources used. Ensure EURAMET approval of all items is evident (normally by identification in Annex Ib). (subcontracting of minor tasks does not require EURAMET approval ¹⁵)	The Auditor compared the description of the 3 rd party resources provided by the JRP-Partner to the specification in Annexes Ia and Ib to the JRP-Contract, and found them to be the same The Auditor obtained confirmation from the JRP-Partner that any costs related to a Linked Third Party are excluded from the Financial Statement(s). If the descriptions do not clearly match, this should be reported as an exception in the main report.

What is the objective of this procedure?

EURAMET seeks to ensure that the JRP-Partners have honoured the structure of the JRP-Contract as originally agreed. In particular, EURAMET normally carefully negotiates to which extent 3rd party resources can be used by the JRP-Partner to ensure that the JRP-Contract supports its policy objectives. Any discrepancy from the JRP-Contract is therefore of interest to EURAMET, and having the Auditor report on this information adds value in identifying possible breaches of the JRP-Contract. EURAMET will take the final decision on actions, depending on how significant the variations from the original JRP-Contract commitments might be.

Which documents should the JRP-Partner prepare for the Auditor?

The check includes a documented comparison between the 3rd party resources foreseen in the JRP-Contract (Annex Ia & Ib) and the resources actually contracted between the JRP-Partner and the 3rd party. The JRP-Partner should therefore provide the contracts signed with the 3rd party and is expected to show how these fulfil their commitments under the JRP-Contract. In essence the 3rd party contracting should match these commitments in terms of the type and quantity of the products and services, as well as the supplier, where this is specified in the JRP-Contract. In these cases the Auditor is not expected to provide an analysis of the services, but to note differences, which can be subsequently analysed by EURAMET.

¹⁵ Refer to Financial Guidelines

Procedures	Standard factual findings and basis for exception reporting
Subcontracting	
<p>10. Inspect documents and obtain confirmation that subcontracts are awarded according to a procedure including an analysis of best value for money (best price/quality ratio), transparency and equal treatment.</p> <p>Full coverage if less than 20 items, otherwise a sample of minimum 20, or 20% of the items, whichever is the greater.</p>	<p>The Auditor obtained tendering documents for each subcontract entered into and found that the tendering process was followed and that a written analysis of value-for-money had been prepared by the JRP-Partner in support of the final choice of subcontractor, or that the contract had been awarded as part of an existing framework contract entered into prior to the beginning of the project.</p> <p>If the Auditor is not provided with evidence of either of the above situations, the amount of the subcontract should be listed as an exception in the main report.</p>

What is the objective of this procedure?

In order to ensure that research funds are efficiently spent, EURAMET expects subcontracts to be awarded according to the principle of best value for money, transparency and equal treatment. The objective of this procedure is to verify that such a procedure was undertaken (in particular it may be the case that the JRP-Partner is unable to provide evidence of fair tendering). The JRP-Contract also permits contracts to be awarded under existing framework contracts in the interests of efficiency, if in accordance with the JRP-Partner's usual management principles. In this case the objective is simply to confirm the existence of such a framework contract prior to the beginning of the project.

Where Special Clause 7.3 of the JRP-Contract applies, the JRP-Partner and the Linked Third Party are audited separately. Both provide a Financial Statement showing only their own costs and this is the basis of the Financial Audit. Only in the Funded JRP-Partner's Financial Workbook are the costs of the Linked Third Party combined with those of the JRP-Partner for reporting to the JRP-Coordinator and EURAMET.

Which documents should the JRP-Partner prepare for the Auditor?

The Auditor should be provided with a report which describes how the offers from subcontractors were obtained and assessed, including an explanation on the criteria used, and showing that the tender was awarded to the contractor who best fulfilled these criteria. The Auditor is not expected to analyse the judgemental decisions taken by the JRP-Partner, but rather to report on the existence of documentation fitting this description for the subcontracts in question.

Please note that the last sentence of the left-hand column "full coverage if less than 20 items, otherwise (...) is the greater" refers to the size of the sample.

The size of the sample proposed in this procedure has to respect the following:

- if the population is less than 20 items, full coverage
- if the population is equal or greater than 20 items
 - a minimum of 20 items
 - or 20 % of the items (whichever is the greater)

What is the most frequent error in this context?

Insufficient documentation to prove the existence of fair procurement procedures (e.g. no offers from other parties) or the existence of a framework contract with the supplier in addition to the specific contract connected with the project.

3.4.6 Other direct costs

Procedures	Standard factual findings and basis for exception reporting
Other Direct Costs	
<p>11. <u>T&S costs</u> of non-employees correctly identified and allocated to the project. Ensure EURAMET approval of all items is evident (normally by identification in Annex Ib).</p>	<p>The Auditor inspected and found that the JRP-Partner had allocated T&S costs of non-employees to the project by marking of invoices and purchase orders with the project reference, resulting in traceable allocation in the project accounts.</p> <p>The costs charged were compared to the invoices and found to be the same. No VAT or other identifiable indirect taxes were charged.</p> <p>The Auditor compared the description of the T&S costs of non-employees to the specification in Annexes Ia and Ib to the JRP-Contract, and found them to be the same</p> <p>Costs which are not allocated to project accounts and do not have a clear attribution (normally by writing the project number on the original invoice) should be listed (together with the amounts) as exceptions in the main report.</p>
<p>12. <u>Conference and Workshop fees</u> costs correctly identified and allocated to the project. Ensure EURAMET approval of all items is evident (normally by identification in Annex Ib).</p>	<p>The Auditor inspected and found that the JRP-Partner had allocated Conference and Workshop fees to the project by marking of invoices and purchase orders with the project reference, resulting in traceable allocation in the project accounts.</p> <p>The costs charged were compared to the invoices and found to be the same. No VAT or other identifiable indirect taxes were charged.</p> <p>The Auditor compared the description of the Conference and Workshop fees to the specification in Annexes Ia and Ib to the JRP-Contract, and found them to be the same</p> <p>Costs which are not allocated to project accounts and do not have a clear attribution (normally by writing the project number on the original invoice) should be listed (together with the amounts) as exceptions in the main report.</p>

<p>13. Internally invoiced and any 'other' costs correctly identified and allocated to the project.</p>	<p>The Auditor inspected the sample and found that the JRP-Partner had allocated internally invoiced and any other costs to the project by marking of invoices and purchase orders with the project reference, resulting in traceable allocation in the project accounts.</p> <p>The costs charged were compared to the invoices and found to be the same. No VAT or other identifiable indirect taxes were charged.</p> <p>Costs which are not allocated to project accounts and do not have a clear attribution (normally by writing the project number on the original invoice) should be listed (together with the amounts) as exceptions in the main report.</p>
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The wording "project accounts" in the above procedure is defined in the Glossary of the present guidance notes.

What is the objective of this procedure?

To ensure that other costs are accurately charged to the project without any identifiable indirect taxes¹⁶ (including VAT) and that only those costs relevant to the project are charged.

Which documents should the JRP-Partner prepare for the Auditor?

Extracts from the accounting records together with the relevant **original** invoices are the basis for performing this procedure. The Auditor is not expected to make an assessment of project relevance in the absence of information provided by the JRP-Partner. Invoices should have a clear designation as relating to the project, and the burden of sufficient documentation is on the JRP-Partner. The Auditor is expected to report their findings based on the documentary evidence, and should not take into account supplementary explanations by the JRP-Partner when these are not supported by the relevant documentation.

What is the most frequent error in this context?

For other costs, the most frequent error is failing to make a clear link to the project is a common error and assuming VAT has been deducted. EURAMET requires a sufficient audit trail which unambiguously ties an invoice to the project, and is thus not able to accept costs which were not linked to the project at the time of processing.

¹⁶ Refer to the Glossary for definition of indirect taxes.

3.4.7 Indirect costs

Procedures	Standard factual findings and basis for exception reporting
Indirect Costs	
<p>14. Obtain and review a detailed breakdown of Indirect costs (reconciled to the accounting records) and confirm that the following costs are not present:</p> <ul style="list-style-type: none"> a) identifiable indirect taxes including value added tax, b) duties, c) interest owed, d) provisions for possible future losses or charges, e) exchange losses, cost related to return on capital, f) costs declared or incurred, or reimbursed in respect of another EMRP or European Union project, g) debt and debt service charges, excessive or reckless expenditure¹⁷. 	<p>The Auditor obtained the total overhead amount which was allocated and reconciled this to the accounting records for the period in question.</p> <p>The Auditor recalculated the ratio of indirect costs [as a percentage of personnel costs/ as an hourly personnel rate/ as another cost driver specified by the JRP-Partner] and agreed it to the rate used in the Financial Statement(s).</p> <p>The Auditor obtained a detailed breakdown from the accounting system of the indirect costs which have been charged to the contract, and reconciled the individual amounts to the general ledger of the JRP-Partner.</p> <p>The Auditor found that costs for the non-research activities of the JRP-Partner, such as manufacturing, education, marketing of products or services, etc., had not been included in the calculation.</p> <p>For each element of the breakdown, the Auditor obtained the JRP-Partner's confirmation that it contained none of the ineligible costs specified (typical examples are leasing costs, loan charges, provisions for doubtful debt (but not normal accruals), local business and property taxes, customs duties, exchange losses from billing in a foreign currency).</p> <p>Only the types of excessive and reckless expenditure listed in EURAMET's guidance should be considered, the Auditor is not required to exercise professional judgement or provide assurance in this matter.</p> <p>Amounts which do not meet the above criteria or where the Auditor is not provided with sufficient information in order to inspect and compare the types of cost should be listed (together with the amounts) as exceptions in the main report.</p>

What is the objective of this procedure?

This procedure does not apply if a flat-rate¹⁸ on eligible direct costs is used for the calculation of overheads/indirect costs. Nevertheless, when a flat-rate is used for the calculation of indirect costs, the Auditor should also check, in accordance with the Annex II of the JRP-Contract, that the flat-rate has been calculated on the basis of the direct eligible costs excluding the direct eligible costs for sub-contracting and the cost of resources made available by third parties which are not used on the premises of the JRP-Partner.

¹⁷ See definition Financial Guidelines.

¹⁸ As stipulated in the JRP-Contract.

In addition to the procedure 10 described in the left-hand column where the Auditor checks that all the specific types of costs defined as ineligible in the JRP-Contract have in fact been excluded from indirect costs, the Auditor will have to check that:

- a list of allocation methods was provided where the JRP-Partner is allocating shared costs.
- the costs supported under the JRP-Contract have been incurred by the JRP-Partner in its research activity. The concern is that by including non-research related costs in the indirect cost calculation, the JRP-Partner might include elements related to its non-research activity. This most frequently occurs with universities, which may have educational activities, or companies which have trading businesses where they supply goods and services other than research (e.g. a company that carries out applied research but also sells hardware and software to customers and therefore incurs costs supporting the manufacturing, sales and marketing of these products).

The Auditor is requested to recalculate the ratio of indirect costs [as a percentage of personnel costs/ as an hourly personnel rate/ as another cost driver specified by the JRP-Partner]. When the cost driver chosen for the indirect costs allocation is not based on personnel, the Auditor is invited to provide a description of the allocation method in the factual findings.

What if the JRP-Partner already has a Certificate under Form E approved by the European Commission?

EURAMET does not provide Certificates on the Methodology (Form E). However, when a JRP-Partner has a Certificate on the Methodology (Form E), which has been approved by the European Commission, EURAMET will accept its use during the audit of a JRP-Partner.

Where a Certificate on the Methodology (Form E) has been approved by the European Commission, the Auditor will not have to recalculate the ratio of indirect costs but will have to perform the other checks of this procedure to ensure that the certified methodology has been correctly applied.

Which documents should the JRP-Partner prepare for the Auditor?

The JRP-Partner needs to provide a detailed breakdown of the components of the overhead cost, together with a sufficient narrative description of the individually accounting elements (chart of accounts) to enable the Auditor to identify the nature of the cost, and to be able to distinguish costs that are wholly relevant to research, mixed, or not relevant to research. In order to ensure completeness of this breakdown, the reconciliation to the accounts should be provided in order to link the information provided to the annual accounts of the JRP-Partner.

For the allocation methods, the JRP-Partner should provide the appropriate management information. For example, for allocating library costs, the JRP-Partner is expected to have at its disposal internal management information with staff and student numbers, if this is the basis used. For a company, an analysis of the headcount in the research vs. the trading part of the business could be supplied to support the distribution of the costs of the personnel department.

What should the JRP-Partner consider when evaluating the existence of ineligible items in indirect costs?

Final responsibility for the correct calculation of indirect costs - especially the exclusion of ineligible costs - lies with the JRP-Partner. This means the JRP-Partner must examine each indirect cost component to identify whether it is wholly or partially ineligible.

How can the JRP-Partner distinguish indirect costs which are related to research from non-research items?

Some cases are clear cut, for example the rent and energy costs of a building devoted wholly to the research activity of a JRP-Partner (research laboratory) can be designated as a research cost that can be 100% allocated across the productive time of the researchers.

Similarly, the trading part of a business (e.g. the manufacturing plant, marketing and sales departments), should be 100% excluded from the indirect cost calculation.

The JRP-Partner should also describe "mixed-use" cases such as libraries in universities, accounting and personnel departments in trading companies, where the costs will have to be allocated to the different activities using a basis such as the staff to student ratio, or the ratio of research staff to staff working in the

business side of the organisation. JRP-Partners should use allocation methods that are easy to compute and understand, and take a conservative approach when allocating 'borderline' costs to research.

How is the Auditor expected to identify exceptions in the types of costs charged?

The Auditor will rely on the detailed breakdown provided by the JRP-Partner and the detailed description of each cost element. The Auditor should identify as exceptions, any items that should normally be charged as direct costs (e.g. direct time of researchers, consumables used on projects, etc.). Identification of "education" or "business" expenses is limited to an analysis of the accounting descriptions (e.g. and account clearly designated as relating to (say) sales, or support to teaching staff, should be identified as an exception.

What is meant by "reconciled to the accounts"?

The Auditor is not required to perform a sample check of the indirect costs but is required to perform a reconciliation of the data on the basis of the accounting records. The individual cost items should be traceable to the JRP-Partner's accounting records. If the source of the data is not linked to accounting records but for example to analytical accounting records or management information documents, the JRP-Partner should provide a reconciliation demonstrating how the figures can be linked to the accounting records.

What kind of costs do JRP-Partners often fail to exclude?

Many JRP-Partners fail to remove the irrecoverable VAT element of indirect costs where they can be identified (for example, making a percentage reduction to certain lines, such as travel or energy consumption, where a known VAT rate is included in the costs).

Servicing of loans, interest, and also the interest element of finance leases are also common examples of ineligible indirect costs which JRP-Partners fail to exclude.

What kinds of indirect taxes are concerned by this procedure?

In most cases, the key indirect tax is VAT. Other national duties should be raised as exceptions if they are identified as not being excluded.

What is meant by excessive or reckless expenditure?

The Auditor will have to rely on a written declaration by the JRP-Partner¹⁹ as to the absence of excessive or reckless expenditure.

Excessive expenditure should be understood as paying significantly more for products, services or personnel than the prevailing market rates, resulting in an avoidable financial loss to the project. Reckless expenditure means failing to exercise care in the selection of products, services or personnel resulting in an avoidable financial loss to the project.

Should the Auditor give an opinion whether the cost allocations are reasonable?

No. As this is an agreed upon procedures assignment, EURAMET is interested in the existence of the allocation method, but reserves the right to independently assess whether the method is a fair allocation of costs to JRP project work.

¹⁹ Included in the Letter of Representation (see Reporting Template 14).

Procedures	Standard factual findings and basis for exception reporting
Indirect Costs	
<p>15. Assess use of a simplified method of calculation of overheads at the level of the legal entity. The JRP-Partner may use a simplified method of calculation (either due to the lack of analytical accounting or legal requirement to use a form of cash-based accounting). This does not permit the use of a generalised estimate, or the use of a 'standard' rate that is not derived from the accounting records of the period in question. Thus the rate (but not the methodology) should be updated for each accounting period.</p>	<p>The JRP-Partner's accounting system does not permit indirect costs to be separately identified for the individual departments. [and/ or]</p> <p>The JRP-Partner's accounting system is cash-based and yearend adjustments are made using accounting estimates in order to charge certain accrued costs.</p> <p>The Auditor obtained the breakdown of overhead costs and the adjusting entries together with the source of the relevant accounting entries.</p> <p>The JRP-Partner provided the Auditor with underlying calculations showing the basis for additional accounting entries. The Auditor agreed these calculations to the relevant sources of management information.</p> <p>Any elements of a simplified calculation which represent percentage estimates and which cannot be compared to underlying data should be listed (together with the amounts) as exceptions in the main report.</p>

What is the objective of this procedure?

The procedure "to assess" should mean the following: when performing **simplified calculations of indirect costs**, the JRP-Partner may not benefit from an analytical accounting system which can separate costs of different types as described in the prior procedures. Effectively, it will not be possible to identify or separate certain research costs from those that are related to other activities such as education. EURAMET thus wishes to verify that the JRP-Partner has carried out some procedure to ensure indirect costs charged in the simplified method are not significantly larger than they would be if the true analytical data was known.

Which documents should the JRP-Partner prepare for the Auditor?

As above, the JRP-Partner should provide the appropriate management information. In the case of the simplified method, this can be expected to be based on information from a variety of sources²⁰.

What is meant by 'relevant sources of management information'?

JRP-Partners using the simplified method should be using the best information available, but which may not be very detailed. For example, the only data the JRP-Partner may have in order to allocate power consumption is the floor space of the relevant buildings, even though power consumption may in reality be concentrated in certain locations (e.g. the computer research centre). In the absence of real data on consumption, the JRP-Partner should choose a conservative but objective measure (floor space can be verified by reference to the relevant management information).

²⁰ The source of information will depend on the cost-driver used to distribute the shared costs among the different activities. The Auditor will be interested in any document supporting the correctness of the estimated allocation.

What kind of allocation method should give rise to an exception?

Taking the example of the computer centre above, if the JRP-Partner allocated (say) 30 % of its power consumption without having any factual basis, this should be raised as an exception by the Auditor. For EURAMET the concept of the simplified method does not extend to estimates which do not have a verifiable basis. Thus if the JRP-Partner cannot demonstrate to the Auditor how the 30 % was calculated, it should be raised as an exception.

Procedures	Standard factual findings and basis for exception reporting
Indirect Costs	
16. Inspect and compare exchange rates into Euros.	<p>The Auditor compared the exchange rates used for conversion with the applicable official exchange rates established by the European Union and the JRP-Partner used [choose one]:</p> <ul style="list-style-type: none"> • the conversion rate of the date where the actual costs were incurred • the rate applicable on the first day of the month following the end of reporting period <p>Where rates cannot be agreed, an exception should be noted, (together with the amount) in the main report.</p>

What is the objective of this procedure?

As a reminder, the JRP-Contract foresees that costs shall be reported in Euro. JRP-Partners with accounts in currencies other than Euro shall report in Euro on the basis of the exchange rate that have applied either on the date that the actual costs were incurred or on the basis of the rate applicable on the first day of the month following the end of the reporting period. JRP-Partners with accounts in Euro shall convert costs incurred in other currencies according to their usual accounting practices. For JRP-Partners with accounts in currencies other than Euro, the Auditor is expected to compare the rates used for foreign currency conversion to the official rates established by the European Central Bank so that EURAMET can confirm that they were accurately calculated.

It is imperative that costs be reported in Euro in the Financial Statements and that JRP-Partners with accounts in currencies other than Euro report in Euro on the basis of the **exchange rate published by the European Central Bank** that would have applied either:

- on the date that the actual costs were incurred or
- on the basis of the rate applicable on the first day of the month following the end of the reporting period.

The Auditor should therefore check that the exchange rate used in the Financial Statements conforms to one of the two above-proposed options, the European Central Bank website being the official source for the exchange rate to be applied: www.ecb.eu/stats/exchange/eurofxref/html/index.en.html.

If the exchange rate chosen by the JRP-Partner does not correspond to one of the two above options, the Auditor should report an exception on the exchange rate used as a reference. It is expected from the Auditor to quantify and report the differences between the exchange rate used by the JRP-Partner and one of the two options.

Does this procedure apply to JRP-Partners with accounts in Euro performing transactions incurred in other currencies?

As mentioned above, the JRP-Contract states that for JRP-Partners using the euro as its accounting currency, but who have incurred expenses in another currency, the rule is not to apply the European Central Bank rates, but their usual accounting practice. Therefore procedure 16 does not apply to JRP-Partners with accounts in EUR and costs incurred in other currencies. The Auditor should indicate the reason for not

performing this procedure (i.e. JRP-Partner with accounts in Euro and costs incurred in other currencies) and this should not be considered as an exception.

Procedures	Standard factual findings and basis for exception reporting
Indirect Costs	
17. Identification of receipts. The JRP-Partner is obliged to declare in its claim any receipts related to the project (income from events, rebates from suppliers, etc.)	The Auditor examined the relevant project accounts and obtained representations from the JRP-Partner that the amounts listed represent a complete record of the sources of income connected with the project. The amount included in the claim regarding receipts is the same as the amount recorded in the project accounting. Any discrepancies in the receipts noted in the accounts and those reported by the JRP-Partner should be noted (together with the amount) as exceptions in the main report.

What is the objective of this procedure?

The objective is to ensure that the receipts related to the project have been correctly declared.

The wording "Project accounting" in the procedure means the entire process to establish the project accounts²¹.

Which documents should the JRP-Partner prepare for the Auditor?

Extracts from the project accounting should be made available showing all income entries. In addition to this, a declaration from the JRP-Partner should be obtained that receipts reported to EURAMET are complete and the JRP-Partner has taken sufficient steps to ensure their completeness according to its normal accounting practices.

²¹ Refer to the Glossary for details on project accounts.

4 Glossary

4.1 Accounting records

Accounting records refer to the accounting entries and the documents supporting the statutory Financial Statements and/or reporting requirements, as well as, the internal procedures, reports or other documents necessary to understand the accounting system of the JRP-Partner.

The accounting records include, among others:

- Accounting entries:
 - Accounting journal
 - General ledger
 - Cash book
 - Inventory register / Fixed assets register
- Supporting documents
 - Sales and purchase invoices
 - Delivery notes, in particular for fixed assets
 - Credit notes
 - Salary slips
 - Bank statements
- Other documents
 - Rules applied for depreciation
 - Method of allocation of indirect costs
 - Internal rules for reimbursement of travel expenses

4.2 Average personnel rates

Average personnel rates correspond to the rates charged by the JRP-Partner for each category of personnel calculated from the weighted average of the salaries included under each category. The average rates should not lead to a systematic deviation in favour of the JRP-Partner or to a significant deviation from the actual costs. In addition, the result of multiplying the average rate for each category by the total productive hours for that category cannot be greater than the actual costs according to the accounting records:

Example - Personnel average rates:

Example of calculation of the average rate for category "Assistant 5":

	A	B	C	D	E	F
	Annual cost for the employer (accounting records)	Working time (Full time=100%)	Months worked in the year	% of year worked (C / 12)	Full time equivalent (B * D)	Equivalent annual cost for full year (A / E)
Ms. B.	27 990.70	100%	12	100%	1.00	27 990.70
Mr. C.C.	3 572.21	50%	3	25%	0.13	28 577.68
Mr. P.	29 222.00	100%	12	100%	1.00	29 222.00
Ms.V.	15 726.94	100%	6	50%	0.50	31 453.88
Mss. M	5 440.20	33%	6	50%	0.17	32 970.91
Ms. T.	34 105.29	100%	12	100%	1.00	34 105.29
Mr. Z	35 832.14	100%	12	100%	1.00	35 832.14
TOTAL	151 889.71				4.79	

Average annual cost: 31 709.75 (151 889.71 / 4.79)

Average rate = 31 709.75 / 1680 = 18.87

In this example, '1680' represents the productive hours. For further reference on productive hours please see the definition included in this glossary.

4.3 Excessive or reckless expenditure

The Auditor will have to rely on a written representation by the JRP-Partner²² as to the absence of reckless or excessive expenditure.

Excessive expenditure should be understood as paying significantly more for products, services or personnel than the prevailing market rates, resulting in an avoidable financial loss/charge to the project. Reckless expenditure means failing to exercise care in the selection of products, services or personnel resulting in an avoidable financial loss/charge to the project.

4.4 Exception

In the context of the Financial Audit Report, matters to be reported by the Auditor in their report under the caption "Exceptions" include the following:

- Error or exception: Any fact detected by the Auditor while performing a procedure which prevents her/him from using the standard text of the findings proposed in the model Financial Audit Report. Therefore, whenever the standard text of the findings needs to be modified by the Auditor following the application of the procedure, this should be reported as an *exception*.
- Scope limitation: Any fact or event which impedes the Auditor to perform any of the procedures. This includes any modification made by the JRP-Partner in the standard model statements of the model Financial Audit Report to reflect the real situation which would prevent the Auditor from carrying out the corresponding procedure.

For instance in procedure 1, the standard statement by the JRP-Partner reads:

"Time recording exists, with authorisations, which enables all personnel [...]"

If the JRP-Partner states that there is no time recording, the related procedure described in the right-hand column (verification of the time recorded) cannot be carried out. Therefore this scope limitation should be reported as an exception in the Auditor's report.

4.5 Financial statement

Refers solely to the Financial Statement whereby the JRP-Partner declares costs to EURAMET in the frame of the JRP-Contract. In this context, Financial Statements are not the JRP-Partner's statutory financial statements (or equivalent).

4.6 General ledger

The general ledger corresponds to the double-entry accounting in which the financial movements are recorded at the level of each individual account. It presents the chart of accounts of the JRP-Partner and provides the information on the debit and credit entries made in the individual accounts. The general ledger is the primary source from which the statutory financial statements (or equivalent) are prepared.

²² Included in the Letter of Representation (Reporting Template 14).

4.7 Indirect taxes

Identifiable²³ indirect taxes including value added tax (VAT) (either recoverable or not by the JRP-Partner) are not eligible according to the JRP-Contract provisions. An identifiable indirect tax is a tax charged on the cost of a good or service and paid by the purchaser in the form of an increase of the price.

Indirect taxes will however be allowed when not identifiable. This may be for example the case with foreign invoices where the price indicated is gross without identifying the value added tax. In any case, the JRP-Partner should be able to justify this in the event of an audit.

4.8 Normal accounting policy

The normal accounting policy refers to standards and criteria used by the JRP-Partner to prepare its statutory financial statements (or equivalent). The accounting policy applied by the JRP-Partner for JRP-Contracts should not differ from its normal accounting policy. Whenever adjusting entries are necessary to comply with the eligibility criteria of the JRP-Contract, these should be duly documented²⁴ and reconciled to the accounting records.

The normal accounting policy can never be adapted ad-hoc in order to overcharge the JRP-Contract compared with the normal practices of the JRP-Partner.

Example:

The term "normal accounting policy" is referred to in procedure 7 concerning the depreciation of the equipment. In this procedure it is explicitly required that the depreciation method applied for the assets charged to the JRP-Contract should be the same as the depreciation method normally applied by the JRP-Partner.

Situations such as the following are, therefore, not permitted:

JRP-Partner X applies an annual depreciation of 25 % for IT equipment.

Two new computers for a total of EUR 3 000 are purchased to be used exclusively for the EURAMET JRP-Contract "Y". The project covered by this JRP-Contract has duration 2 years.

The JRP-Partner decides to apply yearly depreciation of 50 % in order to charge the full cost of the equipments to the project.

Annual depreciation according to the "normal accounting policy" = 3 000 * 25 % = 750

Total depreciation charged to the JRP-Contract = 750 * 2 years = **1 500**

Annual depreciation according to the ad-hoc accounting policy = 3 000 * 50 % = 1 500

Total depreciation charged to the JRP-Contract = 1 500 * 2 years = **3 000**

The concept of "**normal policy**" can be extended to other areas of costs, for instance travel costs, meaning that no internal rule for allocation of expenses should be modified in order to overcharge the EURAMET JRP-Contract.

Example for travel costs:

The internal policy of JRP-Partner X concerning the air travel is that all its researchers should travel economy class.

However, JRP-Partner X realises that they have overestimated the budget necessary for travel for the EURAMET JRP-Contract in which it is participating.

²³ Identifiable means explicitly indicated on the purchase invoice.

²⁴ Adjusting entries refer to the corrections aimed at eliminating costs included in the indirect costs but which are ineligible under JRP-Contracts (e.g. provisions for future losses, exchange losses, interest owed, etc).

JRP-Partner X then decides to allow its researchers working on the JRP to travel business class because the costs will be charged to the JRP-Contract. In addition, they decide that the daily allowance generally paid to the researchers will be increased by 10 % for these trips since there will be sufficient budget.

This kind of derogation from the internal rules is not permitted.

4.9 Normal employment costs

Normal employment costs refers to all cost components related to personnel. These include the basic salary, sickness, pension and social contributions as well as any kind of allowances or benefits granted to the employees. The notion of "normal" implies that those are the standards commonly applied by the JRP-Partner.

4.10 Productive time

The productive time for an employee is the time actually available from the employee. Productive hours have to be clearly justified and should match the underlying time records.

The productive time should exclude annual leave, public holidays, training and sick leave but include all working activities. Productive hours must be calculated according to the JRP-Partner's normal practices and will vary depending on the personnel category, industry sector, unions, contracts and national legislation.

A figure of 210 working days per year could be considered representative in most cases.

Example:

Total days in a year	365
Weekends	- 104
Annual holidays	- 21
Statutory holidays	- 15
Illness/Others	- 15
<hr/>	
Workable days in a year	210

* 8 working hours/day = 1 680 *Productive hours*

If the productive hours actually worked (as supported by the time-records) are greater than the productive hours budgeted, the first shall be used for the calculation of the personnel costs, unless overtime is paid.

4.11 Project accounts

Normally project accounts for JRPs have management account codes allocated solely to individual JRPs which are integrated in the double entry accounting system of the JRP-Partner. This integration with the double entry system reduces the likelihood of double counting and makes it easier to reconcile the costs with the accounting records. Thus the invoices (for example for travel) which are allocated to the project are posted via double entry to the individual project accounts, so that the travel costs incurred for a particular project in a particular period can be correctly identified. Other forms of recording project expenditure (e.g. spreadsheets) are not considered as reliable as management accounting directly linked to the double-entry accounting system.

4.12 Letter of Representation

The Letter of Representation is a document clearly dated in which the JRP-Partner confirms in writing all representations made to the Auditor during the course of the procedures specified. The purpose of this letter is to document the responsibility of the JRP-Partner with regard to the information presented during the procedures. See Reporting Template 14 - Letter of Representation.

4.13 Simplified method

The simplified method is a methodology for declaring indirect costs applicable to organisations, which cannot provide an analysis of their indirect costs at a **detailed level** (i.e. by activity), but can aggregate their indirect costs **at least at the level of the legal entity**.

This requires that the JRP-Partner has an accounting system enabling it to determine the total indirect costs (overheads) of the entity as a whole. However, the same system would not permit the share of the indirect costs generated by the research activities to be fully identified separately from the other indirect costs. Therefore, the indirect costs of the JRP-Partner should be treated altogether and allocated using a cost driver which accounts for all the productive hours of the entity and not only for the research productive hours.

4.14 Table of equivalent terms

<u>FP7</u>	<u>EMRP</u>
European Union / European Commission	EURAMET
Grant Agreement	JRP-Contract
Beneficiary(ies)	JRP-Partner(s)
Authorising Officer of the European Commission	EURAMET
Financial Statement(s) (Form C) Annex VII - Form D: <ul style="list-style-type: none"> - Terms of Reference for an Independent Report of Factual Findings on costs claimed under a Grant Agreement financed under the Seventh Research Framework Programme (FP7) [<i>engagement letter</i>] - Independent Report of Factual Findings on costs claimed under a Grant Agreement financed under the Seventh Research Framework Programme (FP7) [<i>model Auditor's Report on Factual Findings</i>] - Procedures performed by the Auditor [<i>detailed description incl. procedures to be performed by Auditor and findings expected by Auditor</i>] written representation letter	Financial Audit Report: Part A - Financial Statement(s) Part B - Terms of Reference Part C - Independent Report of Factual Findings and Procedures Performed Part C - Independent Report of Factual Findings and Procedures Performed Part D - Letter of Representation
Art. II.4 ECGA	Clause 6 of the JRP-Contract
Art. 4 ECGA	Clauses 6.2, 6.3, 6.4, 6.6 of the JRP-Contract
Art. II.22 ECGA	Clause 10.6 of the JRP-Contract