

Annex 4 to the TRAC EC-FP7 Guidance Audit procedures for TRAC EC-FP7

The following audit procedures are in addition to those previously undertaken under QAV-Process (2009). It is recommended that both sets of audit procedures are undertaken for auditors to meet the requirements of Framework Programme 7 – Annex VII Form E (Certificate of Methodology) – as described in TRAC EC-FP7

TRAC EC-FP7 (additional to QAV-Process) Procedure to be carried out by the auditor & factual findings	FINDINGS
Personnel Costs	
<p>Requirement</p> <p>1. Time recording exists, with authorisation, which enables all personnel hours for staff working on FP7 projects to be allocated to project work, management and administrative time, holidays, etc. The time recording enables the time of employees working on multiple projects to be allocated to those projects, and includes a check to prevent double charging of time. '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 Beneficiary, based on the period(s) corresponding to the Financial Statement.</p>	
<p>Audit Procedure</p> <p>1.</p> <p>a) To audit the time recording system that is used to allocate academic time to specific FP7 projects and that is used to calculate total productive hours the auditor must sample 10 employees (as per FP7 Form E Guidance) who are working on one or more FP7 projects to confirm;</p> <p>i) That the employee has not recorded management and administrative tasks within the time recorded against a project;</p> <p>ii) That authorisation checks have been completed and ensure that there has been no double-charging of time (i.e. the timesheets are authorised).</p> <p>b) To report for the most recent full calendar year:</p> <p>i) the average productive hours for the 10 employees;</p> <p>ii) the average productive hours for the organization as a whole.</p> <p>c) To audit the time recording system that is used to calculate the indirect cost total (and thus the numerator in the indirect cost rate) the auditor should have ensured through the QAV-Process that there is an annual TRAC time recording system that meets the TRAC requirements i.e. that records all of the time of all academics, across a whole year, within a three year cycle, by activity.</p>	
<p>Requirement</p> <p>2. Personnel costs of the employees should only include standard salaries, employer's costs, etc. and no special conditions exist for employees on EC projects, unless they are explicitly foreseen in the Grant Agreement.</p>	

<p>Audit Procedure</p> <p>2.</p> <p>a) Confirm that personnel costs used in the personnel cost calculation are the same as those in the payroll system and accounting records.</p> <p>b) Confirm that the institution has used costs that consisted of standard salaries and statutory employers' costs and did not include bonuses.</p> <p>c) Obtain confirmation that no special conditions exist for employees on EC projects.</p>	
<p>Requirement</p> <p>3. Hourly rates are correctly calculated using one of the following possibilities:</p> <ul style="list-style-type: none"> • Actual personnel costs per person divided by actual productive hours per person; • Actual personnel costs per person divided by average/ standard productive hours; • Average personnel costs per person divided by average/ standard productive hours. <p>For the average costing approach, the Beneficiary should state:</p> <ul style="list-style-type: none"> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> How employees are grouped into categories (how many categories, under what criteria); <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> The pay range in each category from lowest to highest, average and median; <input type="checkbox"/> <input type="checkbox"/> The upper and lower percentage variation within each category from the average; <input type="checkbox"/> <input type="checkbox"/> The upper and lower percentage variation for productive hours from the average (if known); <input type="checkbox"/> <input type="checkbox"/> A list of average rates charged in each category for the prior years (an indication only, of the expected range of rates for the period of the agreement). 	
<p>Audit Procedure</p> <p>3.</p> <p>a) Establish which of the three hourly rate calculations that the institution has used for personnel costs.</p> <p>Note that by the end of a project the standard productive hours must be replaced by actual productive hours (for the individual or an average for individuals in the relevant pay band) for each year.</p> <p>b) Confirm that the hourly rates for personnel costs have been calculated as detailed by the institution.</p> <p>c) Where average rates are charged check that the following information can be reconciled with the accounting system:</p> <ul style="list-style-type: none"> • The number of personnel categories • The pay range, median and average of each category; • The upper and lower percentage variation from the average • The upper and lower percentage variation for the productive hours from the average (if known) • A list of the average rates charged in each category for the prior years (an indication only, of the expected range of rates for the period of the agreement). <p>d) Where average rates are charged, multiply the average rate for each category by the total productive hours for each category for the period of the Financial Statement(s) and reconcile the results to the accounting records. Where hours for an individual are charged, multiply the rate</p>	

<p>relevant to that individual by the total productive hours for that individual and reconcile the results to the accounting records.</p> <p>e) Confirm that the results of the above recomputation 'chargeable personnel costs' in all cases do not exceed the actual costs as recorded in the accounting records.</p>	
Overheads/Indirect Costs	
<p>Requirement</p> <p>4. and 5.</p> <p>Through the QAV process the auditor will have already confirmed that the indirect costs for research:</p> <ul style="list-style-type: none"> • only include those costs which cannot be allocated to specific projects; • support the functioning of research activities in the institution as a whole; • do not include costs which relate exclusively to non-research parts of the organisation; and • are reconciled to the accounts. <p>The accounting system should provide for fully traceable elimination of:</p> <ol 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 Community project, g) debt and debt service charges, excessive or reckless expenditure. <p>With regard to excessive or reckless expenditure, the institution confirms that purchases are made according to the principles of best value for money (best price-quality ratio), transparency and equal treatment between Community funded grant agreement and any other agreement or convention that the institution may have.</p> <p>Where the institution is allocating shared costs, they should provide a list of allocation methods used (usage records, floor space, activity-based-costing, headcount, etc.)</p>	
<p>Audit Procedure</p> <p>4. and 5.</p> <p>The auditor should inspect the institution's accounting records and:</p> <ol style="list-style-type: none"> a) Find that the breakdown provided by the institution did not explicitly relate to any of the items specified; b) Confirm that no implicit interest was included, and did not find costs which explicitly relate to any of the items specified; c) Confirm that the allocation method is based on TRAC methods, audited through QAV-Process. <p>Only the types of excessive and reckless expenditure listed in the Commission's guidance should be considered, the Auditor is not required to exercise professional judgement or provide assurance in this matter.</p>	

<p>Requirement</p> <p>6.</p> <p>If the organisation is using a simplified indirect cost calculation (either due to the lack of analytical accounting or use of a form of cash-based accounting) all estimates are clearly described and are based on factual criteria which can be objectively confirmed.</p> <p>The Beneficiary must provide a list of cost allocations which are not based on underlying management information. In general costs which cannot be identified and allocated using a traceable source of information should not be included in the indirect cost calculation.</p>	
<p>Audit Procedure</p> <p>6. As part of QAV-Process all cost allocations were traced to the underlying management information and were found to be in agreement.</p>	
<p>Requirement</p> <p>7.</p> <p>Allocation of indirect costs to the project is via personnel hours, either as [choose one]:</p> <ul style="list-style-type: none"> - A percentage of direct personnel costs; - A fixed hourly rate. 	
<p>Audit Procedure</p> <p>7.</p> <p>a) Check that the allocation of indirect costs to the project corresponds with the TRAC EC-FP7 calculation.</p> <p>b) Check that the productive hours figures used to distribute indirect costs and personnel costs are the same; or, Where percentages are used, confirm that the 'chargeable' personnel costs multiplied by the overhead percentage does not exceed the total indirect costs to be allocated</p>	

The results of this additional testing will be reported on the FP7 Annex VII Form E and detailed in the Independent Report of Factual Findings to be completed by the auditor.