

## The Financial Audit of FP6 & FP7 Projects

This short article briefly gives some hints how to prepare for the financial audits of EU funded research projects and how to avoid some of the more obvious pitfalls. It is based on the author's experience in dealing with Commission auditors over a number of years.

In 2007, the European Commission announced a new strategy with respect to the audits of FP6 & FP7 projects, stating that the number of audits would be significantly increased and greater use would be made of financial penalties, such as liquidated damages. In addition, any error of a systemic nature will give rise to an extrapolation of similar corrections in all cost claims related to all other projects of the organisation within the same Framework Programme. The Commission has also announced that there will also be better planning, coordination and sharing of information with respect to audits, between the Directorate-Generals involved in research (DG Research; DG Information Society & Media; DG Enterprise and Industry; DG Energy and Transport).

With the exception of audits carried out by the European Court of Auditors or OLAF (the EU's anti-fraud body), financial audits of research projects will normally be carried out by the Commission's own audit units or by external auditors acting under a framework contract with the Directorate-Generals involved in research. The Commission's own auditors normally concentrate on the larger or top beneficiaries and follow-up audits, accounting for some 25% of audits carried out for FP6, whilst the external auditors cover standard or representative audits. It is worth noting that as external auditors are working under contract with the Commission, in our experience, they will generally adhere more strictly to any deadlines and be less flexible when dealing with deviations from standard practices or rules.

The financial audits of research projects is therefore is something that we in the research community, will have to get used to and need not lead to significant problems provided that sufficient time and resources are devoted to the preparation for such audits. Here are some suggestions for helping you to prepare successfully:

1. Take care in agreeing a date for the audit visit – Don't just agree the first date suggested by the auditors. Make sure that key staff (project manager; accountant; technical staff ) will be available on the chosen date.
2. Appoint an Audit Coordinator from your staff who will handle all contacts with the auditors and ensure that all information being supplied to them has been properly recorded, checked and verified.
3. Devote the necessary time and resources necessary for the preparation work. Although you may have between 2-3 months to prepare for the audit, this may not be very long if the project finished some years ago and the key staff involved may have already left the organisation. Make sure that the staff involved in the preparation work are competent and understand the Framework rules.
4. Allow sufficient time to carry out a pre-audit check (dummy run) by staff that have not been involved in the project. This will enable you to identify problems or errors before the auditors arrive. It is a good idea to associate your external or internal auditor with this work.

5. If substantial errors and problems are discovered during the preparation phase, keep the senior management informed and calculate the risk of any penalties or extrapolation being imposed.
6. Take time and care when responding to requests for information from the auditors, especially any Internal Control Questionnaire which will often determine the extent of any sampling. Ensure that any request for information is reasonable and is not too onerous. As far as possible, suggest any alternatives to the auditors which might be more practical.
7. In fixing the agenda for the audit, allow time at the beginning of the visit for a short presentation to the auditors both on the project being audited and the management and control systems of your organisation. This ensures that the auditors have a general understanding of the project and its context and enables you to emphasize any positive points about your management structure, especially if these have been improved since the project took place.
8. As far as possible be cooperative, open and transparent with the auditors as this engenders trust and confidence. If obvious errors and problems are discovered during the preparation work, it is often in your advantage to disclose these fully to the auditors at the beginning of the audit.
9. Ensure that the auditors will give you a debrief at the end of the audit visit and check carefully what further documents and or proofs have to be supplied and within what time period.
10. Check carefully the draft audit report (findings and calculations) and especially the time limits for making responses. In particular, are the findings in compliance with the Grant Agreement/Model Contract or any special circumstances of your project? You should ensure that the internal or external auditor is involved in such work.

Prevention is better than cure and very often the preparation for an audit forces us to look at how we manage projects and any gaps there may be in our processes and procedures. A problem area is often how we store and archive project documents. Justifications, proofs and key documents, including explanations as to why or how certain costs were incurred or allocated to the project, should be collected together while the project is still running. In addition, once a project is finished and before archiving, the project files should be checked to ensure that all relevant documents and justifications are present or have been stored electronically in a specifically defined location. We normally suggest that a file closure list is prepared which should be signed off by the Project Manager and the Administration Department.

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