

FINANCIAL AND REPORTING ISSUES AND AUDITS IN RESEARCH PROJECTS IN THE CZECH-NORWEGIAN RESEARCH PROGRAMME CZ09

Date: 23 September 2016

Introduction:

Some of the Norwegian project partners have experienced difficulties in their cooperation with the Programme Operator due to different views regarding the financial reporting requirements in the periodic reporting.

In order to clarify the requirements, the following points have been agreed among the Programme Operator, the National Focal Point and the Financial Mechanism Office representatives:

A. Main points on financial issues in research projects:

1. **Reporting indirect costs:** In cases where a flat rate for the indirect cost (overheads) has been set in the project contract (annex no. 2), the approved flat rate shall be applied through all the financial statements. No supporting documents shall be required for the indirect costs calculated through a flat rate.
2. **Transfer of funds between years:** The Programme Operator allows for flexibility with regard to the transfer of funds between the yearly budgets. It is allowed to transfer leftovers in the items between years.
3. **Modification of approved eligible costs:** Project contracts can be financially modified – annex 2 of the Project contracts.

Conclusion:

The Programme Operator will apply the requirements described here above from the next reporting period (2016/2017) on until the end of projects implementation period.

The Programme Operator will revert financial reporting requirements to be submitted by the project promoters at project level as it was in 2015 (for the first reporting period of 2014).

B. Main points on audits at project level (EUR 375,000 threshold):

1. A distinction shall be made when the total grant from the Programme approved to the respective project promoter or project partner is less than the EUR 375,000 threshold as per Article 5.3 of the Annex 12. In case the total grant to a project promoter or project partner is below the threshold, the Financial Statement (form "C") signed by an authorized person is the only legal document that shall be requested for financial reporting. No internal transcripts from the institutions' internal accounting systems shall be requested for donor project partners except Czech entities.
2. In case the grant to a project promoter or project partner is above the EUR 375,000 per entity, they have several options for providing proof of expenditure in addition to the Financial Statement. The entities which are state institutions or agencies can choose to submit (see also table 1 below):
 - A certificate by an independent and certified auditor, certifying that the claimed costs are incurred in accordance with the Regulation, the national law and accounting practices of the entity's country, or

- A certificate on financial statements by a competent public officer, provided that the relevant national authorities have established the legal capacity of that competent public officer to audit that entity and that the independence of that officer, in particular regarding the preparation of the financial statements, can be ensured, or
- Alternatively, the entity may opt to follow the procedures established by the Programme Operator for providing “proof of expenditure” that applies to all other entities involved in the Financial Mechanisms.

Table 1 - CZ09 - Proof of expenditures⁴ – audits required from Annex 12¹ (point 5.3)

Project promoter / project partner (CZE)	Donor project partner (NOR)
Less than 375 000 EUR²	Less than 375 000 EUR²
<i>Financial statement (form „C“)³</i> + accounting record including appropriate check of the accounting documents by Programme Operator through administrative check or on the spot monitoring visit ⁴	<i>Financial statement (form „C“)³</i>
Equal or more than 375 000 EUR²	Equal or more than 375 000 EUR²
<i>Financial statement (form „C“)³</i> + <i>One of three options:</i> <ul style="list-style-type: none"> • Certificate by an independent or certified auditor • Certificate on financial statements by a competent public officer (e.g. an internal auditor) • Receipted invoices or alternatively accounting documents of equivalent probative value 	<i>Financial statement (form „C“)³</i> + <i>One of three options:</i> <ul style="list-style-type: none"> • Certificate by an independent or certified auditor • Certificate on financial statements by a competent public officer (e.g. an internal auditor) • Receipted invoices or alternatively accounting documents of equivalent probative value

Note: The proof of expenditures shall be applied by Programme Operator starting from the annual project reports submitted for the reporting period 2015 (January – December 2015).

¹ Based on the Minutes from the technical meeting between PO and FMO on 22 April 2016.

² The EUR 375,000 threshold should be interpreted on the basis of grant awarded (grant awarded at the beginning of the research project and any supplementary grants given during the project lifecycle).

³ Signed by an authorized person.

⁴ In line with Art. 7.2.3 of Regulation and based on the Minutes from Regular meeting between NFP and PO on 4 April 2016.

Details in FAQ (Frequent asked questions) relating to audits at project level

Who is obliged to perform audits at project level?

Only organizations having grants of EUR 375,000 (an equivalent in Czech crowns is CZK 9,633,750) and more approved in project contracts are obliged to have an audit performed (please consult the Checklist of entities meeting an audit obligation).

What are auditors` reports for?

Auditors` reports certifying actual expenditures incurred in the project per entity are a proof of expenditure according the financial mechanisms, national rules and internal practice.

When audits may begin?

Audits may begin during a project implementation (due to eligibility of costs). It may be before or after the amount of EUR 375,000 has been consumed by the entity. No further specifications from the Financial Mechanism Office (*hereinafter „FMO”*).

What is a frequency of audits?

The audit can be performed only once during a project implementation.

What an amount must be audited as a proof of expenditure?

Auditors do not have to verify 100% of expenditure according to FMO (see the Guidance). However, a minimum amount to audited is 25%⁵ of the total grant per entity approved in the Project contract (please see annex 2 of the Project contract) is required by the Programme Operator.

What period of project implementation must be covered by audits?

A minimum period for auditing expenditure actually incurred by entity is one year⁵ (meant successive 365 days) from the official start date of the project.

Who is an eligible auditor?

An auditor who is external or internal, independent, certified and competent.

Are there any common Norway Grants templates and auditors`s procedures?

There is no common template in Financial Mechanisms (*hereinafter “FM”*). There is also no *Agreed-up procedures to be performed and standard factual findings to be confirmed by the Auditor* provided by FMO as it is in Horizon2020 programme.

What is a Declaration on audit at project level for?

Since there is no template provided by FMO, the Programme Operator developed a *Declaration on audit at project level (hereinafter “Declaration”)* which must be filled in in English for international use.

Auditors will use their professional judgements upon results/findings to indicate True/False and grades of the project implementation in a scale from 1 to 4 (1 means the best/4 means the worst) in the Declaration. So the Declaration is used as a short summary of audits results

⁵Note: Both conditions – at least one year and the minimum 25% of the total grant per entity approved in the Project contract – must be fulfilled in the audit at the same time.

for EU, Czech and Norwegian institutions to understand an outcome. If the auditor refuses to fill in and sign the Declaration, in this case there will be a summary on audit results in English claiming conditions of the project implementation that will be provided by the entity, or the auditor.

Are there any mandatory annexes enclosed to the auditor's report?

The filled in *Declaration* in English provided by Programme Operator shall be enclosed to the auditor's report. No accounting documents, contracts etc. are requested by the Programme Operator to be attached to the report.

What is a deadline for realizations of audits?

Audits should be completed by the official end date of a particular project (such as 30 April 2017) *at the latest* to claim costs regarding audits as eligible. Beyond this date, costs related to audits must be paid from other sources.

Are costs related to audits eligible?

Yes. Costs regarding audit activities completed by the official end date of the project are eligible. It can be paid from Subcontracting or Other items for instance if budgeted, otherwise changes in the budget must be approved by the Programme Operator upon an entity's official request.

Are requirements on audits for Czech and Norwegian entities identical?

Requirements on audits are identical for Czech and Norwegian entities.

What is a format of the auditor's report and the Declaration?

The report and the Declaration will be submitted in a readable electronic (scanned) version. It may be delivered in a CD/USB to the address of the Programme Operator, or via an e-mail to contact person(s) at the Programme Operator.

Accounting documents such as receipted invoices or alternatively accounting documents of equivalent probative value may be delivered in CD/USB, or in paper, via registered mail services, or personally at the mail room at the Programme Operator (Karmelitska 5, 118 Praha 1).

Who submits auditors' reports?

Affected entities will submit auditors' reports directly to the Programme Operator. However, Norwegian entities must provide information on audit results to their project promoters (for instance a copy of the *Declaration*) in a timely manner.

What is a frequency of auditors' reports and Declarations?

One auditors' report with the Declaration will be delivered to the Programme Operator only once. There are two moments for submissions to the Programme Operator available:

- A. by 31 January 2017,
- B. by 31 July 2017 *at the latest*.

Accounting documents (such as receipted invoices or alternatively accounting documents of equivalent probative value) in a tidy way will be delivered to the Programme Operator only once by 31 January 2017.

Should be findings in audits indicated in final project reports/final "Form Cs"?

Yes. For instance, if auditors find any ineligible expenditure incurred by the entity in the research project, it will be taken into account in an up-coming financial periodic report/in the final financial report, and in a project financial settlement.