



HORIZON 2020

Fit for Health 2.0

Brussels 13 September 2017

Audits in H2020

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Research and
Innovation

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1.1. What is this presentation about?

Advices on How To Avoid Errors few, clear, simple words



- Discipline (keep your files in order).



- Prudence (use the budget, do research, but do not drive at a speed of 131,9 km/h all the time).



- Perseverance (keep fighting for your rights, but choose the forum – rules must be adopted by way of legislation, not by way of audit approach).



- Reality (only if impossible, always stick to the reality)

- AND in case of doubt, consult the NCP, the PO/FO, the EC enquiry service.

1.2. Financial issues – consequences of errors

- **Identified errors might lead to**
 - Recovery of the undue amount and "extrapolation"
 - Penalties
 - Suspension of payments or termination of the contract
 - Reputational damage
 - Financial losses
 -
- **For sure,** all this leads to bad weekends with bad mood and horrible headaches



2.1. Why do we do audits →

DG Declaration of Assurance

I, the undersigned Director-General, in my capacity as authorising officer by delegation,

Declare that the information contained in this report gives **a true and fair view**[1]...

State that I have a reasonable assurance [...] based on my own judgement and on the information at my disposal such as ex-post controls...

However the following reservation should be noted:

Reservation concerning the rate of residual errors with regard to the accuracy of financial statements in the Seventh Framework Programme (FP7) grants.

Brussels, 31 April 2016

"Signed"

The Director-General Robert-Jan Smits

[1] → True and fair in this context means a reliable, complete and correct view on the state of affairs in the service.

2.2. Balance between ex-ante controls and ex-post audits

Overview



3.1. Background: H2020 vs FP7 – What changed?

Main changes (1)

- *Single reimbursement rate*
- *More flexible rules for third parties and subcontracting costs*
- *Differentiation between contracts and subcontracts*
- *Single 25% flat rate for indirect costs*
- *3 options for productive hours*

3.2. Background: H2020 vs FP7 – What changed?

Main changes (2)

- *Clearer and simpler obligations on time records*
- *More flexibility for average personnel costs*
- *Eligibility of non-deductible VAT*
- **Less audit burdens (2 years auditability)**
- **Common Support Centre (CSC)**

3.3. Framework for ex-post audits in H2020

Horizon 2020



4.1. What are the elements of the Audit Strategy?



Legal Basis

Article 29 of the H2020 Reg. defines the principles of control and audit:

- ***§2. The control system shall ensure an appropriate balance between trust and control, (...).***
- ***§3. (...) the audit strategy (...) under Horizon 2020 shall be based on the financial audit of a representative sample of expenditure across Horizon 2020 as a whole (...) complemented by a selection based on an assessment of the risks related to expenditure. [every two years]***
- ***Audits (...) shall be carried out in a coherent manner in accordance with the principles of economy, efficiency and effectiveness in order to minimise the audit burden on the participants". [one Common Audit Service; synchronised sampling cycles]***

Objective

To provide the relevant AODs with necessary elements of assurance

- ***assessing the legality and regularity of H2020 project payments;***
- ***attaining residual error rates at an acceptable level, multi-annually.***

4.2. What are the elements of the Audit Strategy?



Population

- Financial statements paid
- SYGMA = main data source

Constraints

- **Article 30§2 of the H2020 Regulation:**
 - *"audits may be carried out up to two years after the payment of the balance".*
- **Article 22.5.2 of the Model Grant Agreement:**
 - *the entities "may extend findings ... if ... those findings are formally notified to the beneficiary concerned ... no later than two years after the payment of the balance".*
- **The Commission proposal indicates a maximum of 7% of the number of beneficiaries to be audited.**

4.3. How often could I be audited ?

- ✓ The H2020 Audit Strategy takes into account the H2020 Regulation which considers that:

"a revised control strategy, shifting focus from minimisation of error rates towards risk-based control and fraud detection, should reduce the control burden for the participants".

- ✓ Audits may be started up to two years after the payment of the balance.
- ✓ "Extrapolation" (now extension of audit findings) cannot apply to grant agreements for which the payment of the balance occurred two years or more before the date of the letter of conclusion.
- ✓ As an indication: a maximum of 7% of the number of beneficiaries to be audited during H2020.

The creation of the CSC - and the CAS in particular – should allow a better coordination of Horizon 2020 audits and avoid over-auditing the beneficiaries.

4.4. What are the elements of the Audit Strategy?



The principles:

- **H2020 2013->2020=> H2020 Audit strategy 2016-2025**
- **Financial audits => compliance with the legal and regulatory framework ≠ performance audits**
- A corporate approach [H2020 expenditure as a whole]
- Three layers of sampling:
 - the '**corporate sample**' via the Common Representative Sample (CRS) complemented by a risk-based selection;
 - the '**additional sample**': for entities with specific grant agreements [Marie-Curie Grants; ERC Grants] or a proper discharge procedure;
 - the '**Article 10 sample**': explicit request of the JUs.

4.5. What does the Audit Strategy cover?



European
Commission

H2020 Audit Strategy: 20 'clients'

In:

DG RTD

DG CNECT

DG GROW

DG HOME

DG ENER/MOVE*

DG AGRI*

DG EAC*

** Implement budget via EAs*

REA

ERCEA

EASME

INEA

CleanSky

IMI

ECSEL

BBI

FCH

Sesar

Shift2Rail

GSA - Prague

(Regulatory Agency)

Out:

EIT - Budapest

ESA

P2Ps (Article 185)

EIB

DGs

EAS

JUS

Other

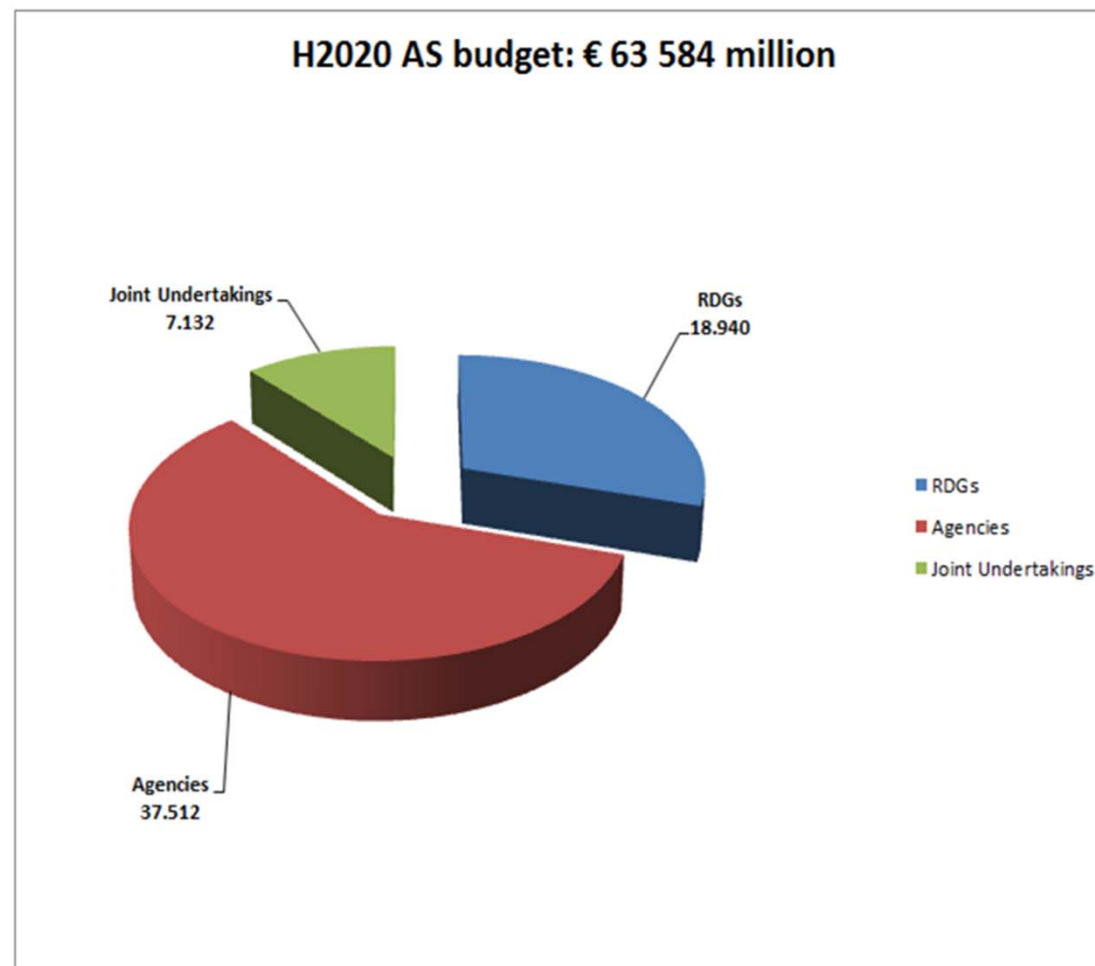
4.6. What does the Audit Strategy cover?



European
Commission

Group	€ million	%
RDGs	18.940	30%
RTD	9.414	14,8%
CNECT	8.328	13,1%
GROW	651	1,0%
HOME	160	0,3%
ENER	261	0,4%
AGRI	85	0,1%
MOVE	39	0,1%
EAC	1	0,0%
Agencies	37.512	59%
REA	12.825	20,2%
ERCEA	12.629	19,9%
EASME	6.374	10,0%
INEA	5.603	8,8%
GSA*	80	0,1%
Joint Undertakings	7.132	11%
Clean Sky2	1.704	2,68%
IMI2	1.638	2,6%
ECSEL	1.167	1,8%
BBI	975	1,5%
FCH2	665	1,0%
SESAR2	585	0,9%
SHIFT2RAIL	398	0,6%
Grand Total	63.584	100%

* Budget is part of DG GROW budget

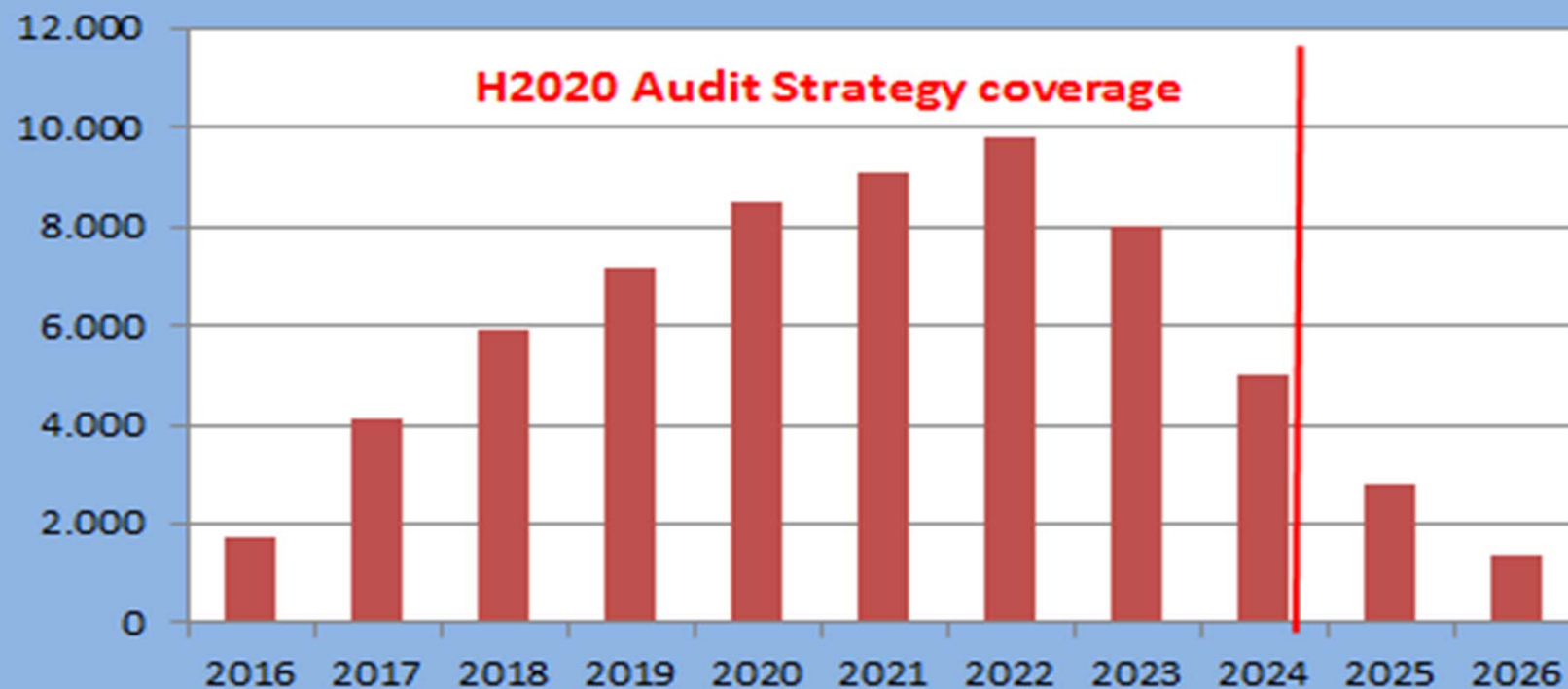


4.7. What does the Audit Strategy cover?



European
Commission

Forecasted requests for contribution (€ million)



4.8. In-house or outsourced audits

- ✓ External audits **ARE** ruled by Article 22.1 of the H2020 Model Grant Agreements: H2020 General MGA

ARTICLE 22 — CHECKS, REVIEWS, AUDITS AND INVESTIGATIONS — EXTENSION OF FINDINGS

22.1 Checks, reviews and audits by the *[Agency and the]* Commission

22.1.1 Right to carry out checks

The *[Agency or the]* Commission will — during the implementation of the action or afterwards — check the proper implementation of the action and compliance with the obligations under the Agreement, including assessing deliverables and reports.

For this purpose the *[Agency or the]* Commission may be assisted by external persons or bodies.

The *[Agency or the]* Commission may also request additional information in accordance with Article 17. The *[Agency or the]* Commission may request beneficiaries to provide such information to it directly.

Information provided must be accurate, precise and complete and in the format requested, including electronic format.



- Ex-post controls**
- **in-house (CAS) +/-20%**
 - **outsourced (EAFs) +/- 80%**

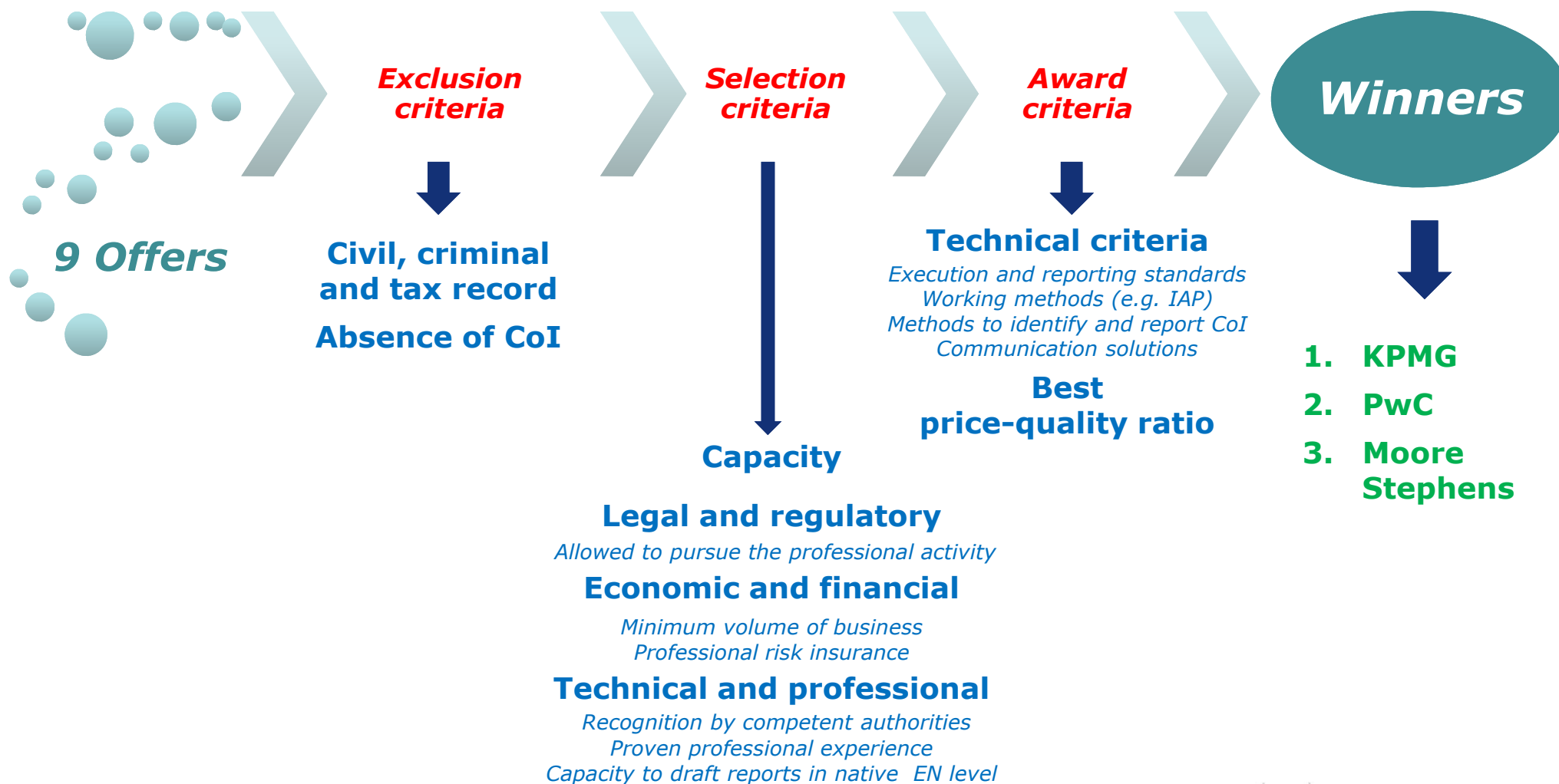
- ✓ External audits **ARE NOT** :

- Agreed Upon Procedures performed by CFS auditors
- Controls done by operational officers on deliverables
- Controls done by financial officers on Financial Statements (Forms C)

Ex-ante controls

4.9. How does the CAS select audit companies?

Selection of the External Audit Firms (e-Tendering)



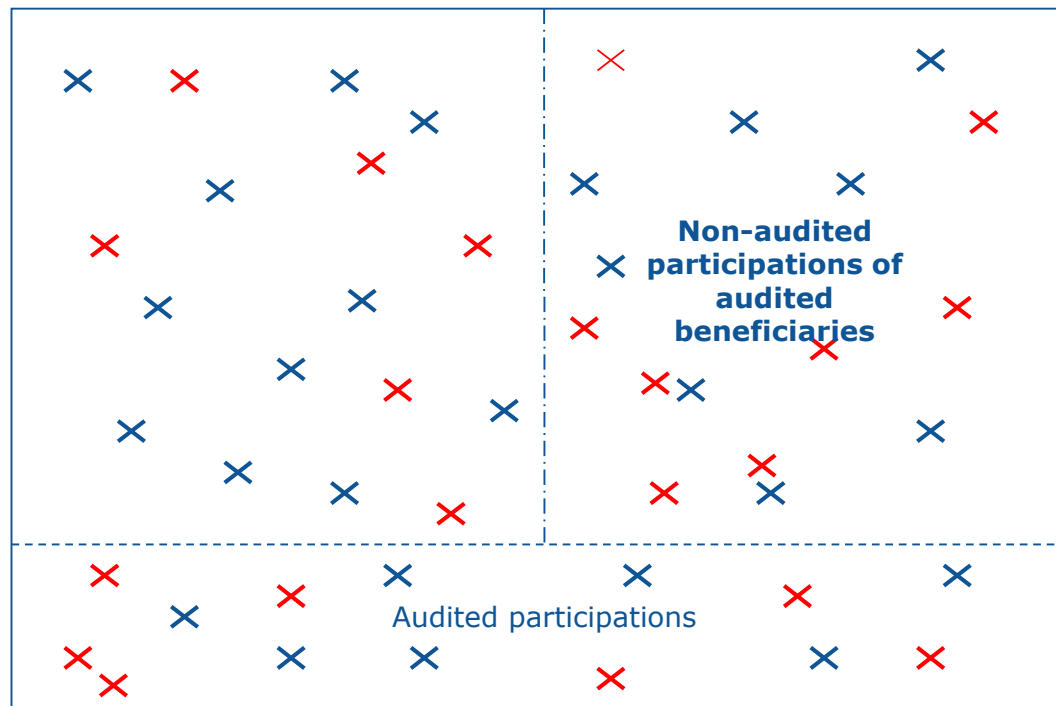
5.1. The importance of the residual error rate



From representative to residual

Representative error rate (RepER%)

Measures the amount of error present in the population



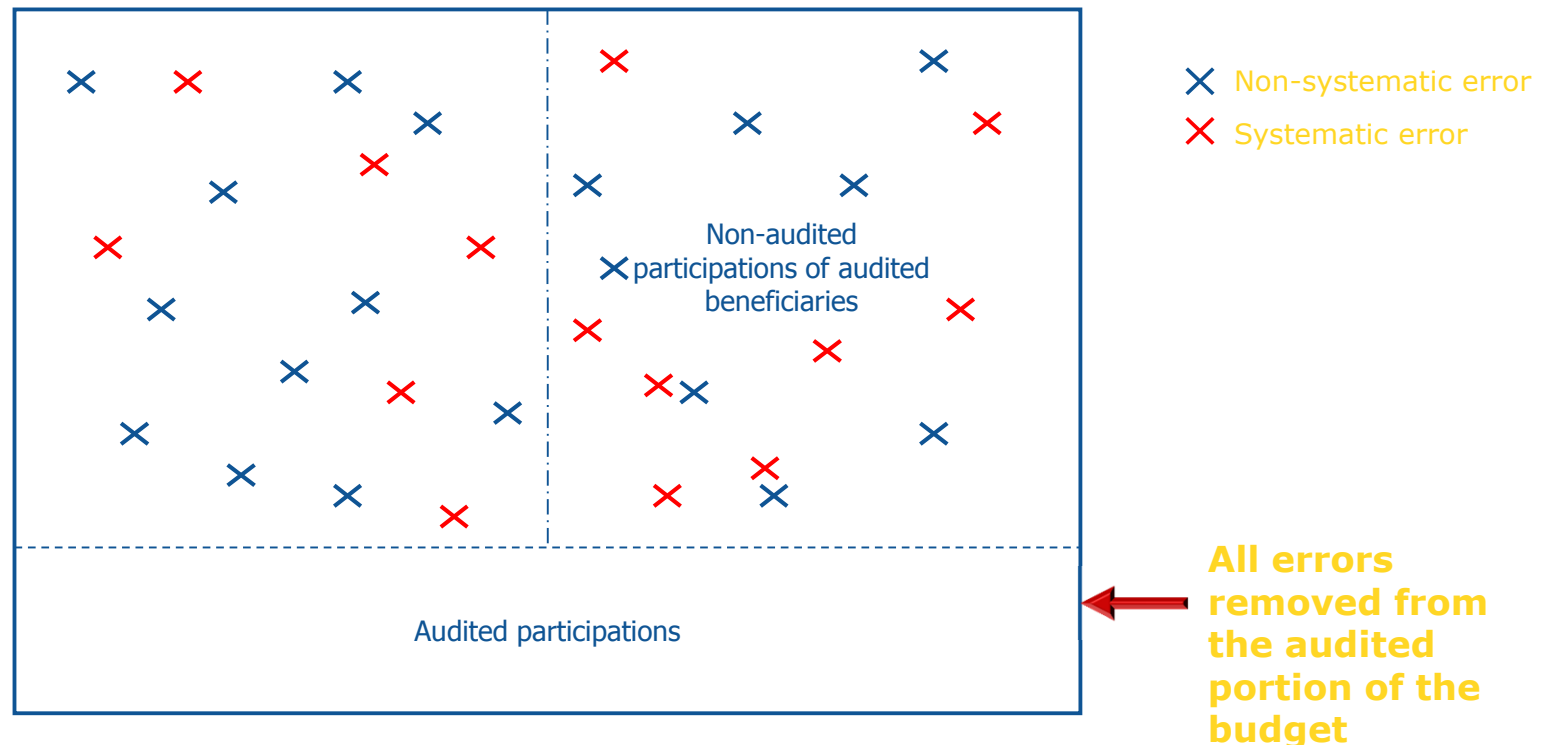
Corrective measures, step 1: The effect of auditing



5.2. The importance of the residual error rate



From representative to residual



Corrective measures, step 2: The effect of extrapolation



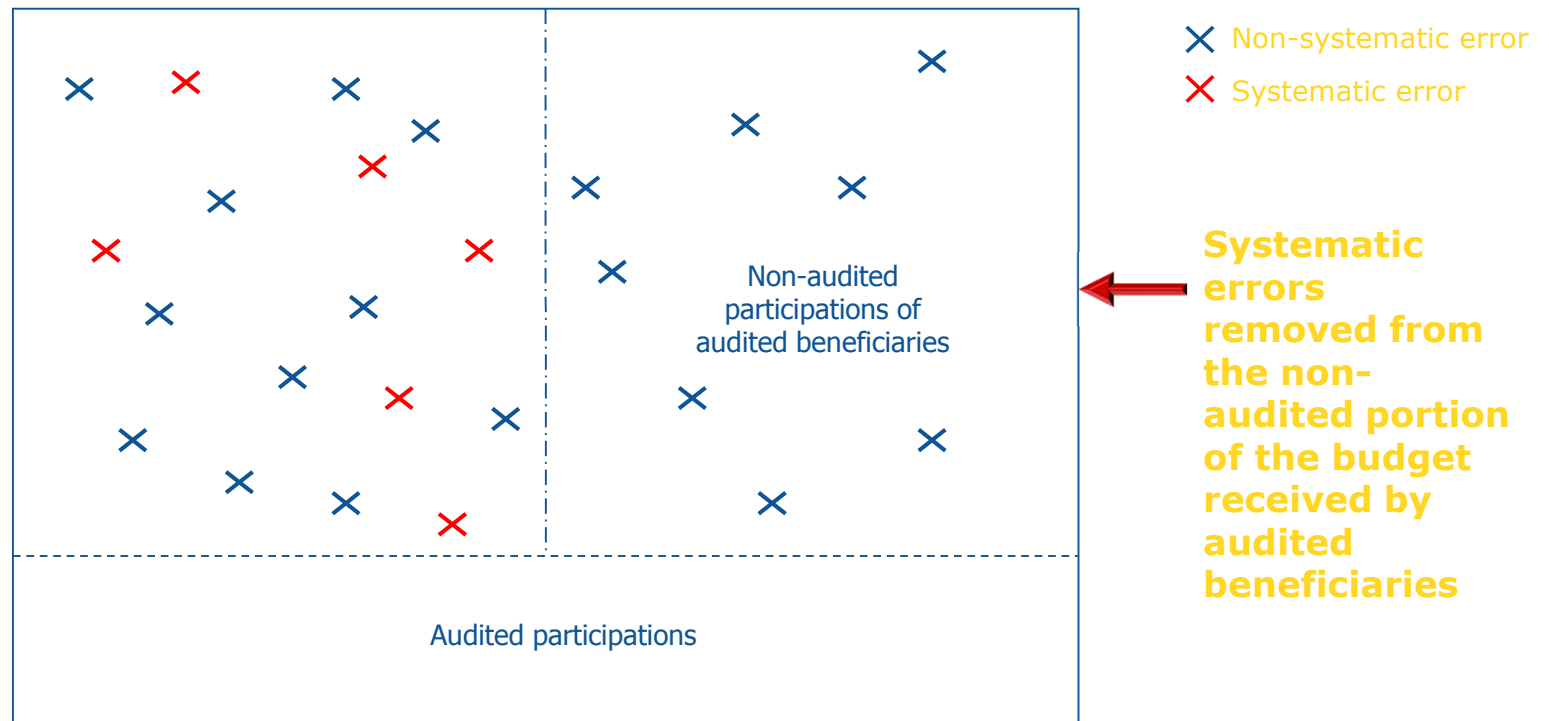
5.3. The importance of the residual error rate



From representative to residual

Residual error rate (ResER%)

Measures the amount of error left in the population after corrections



6.1. Audit cycle



6.2. Audit Strategy & Selection

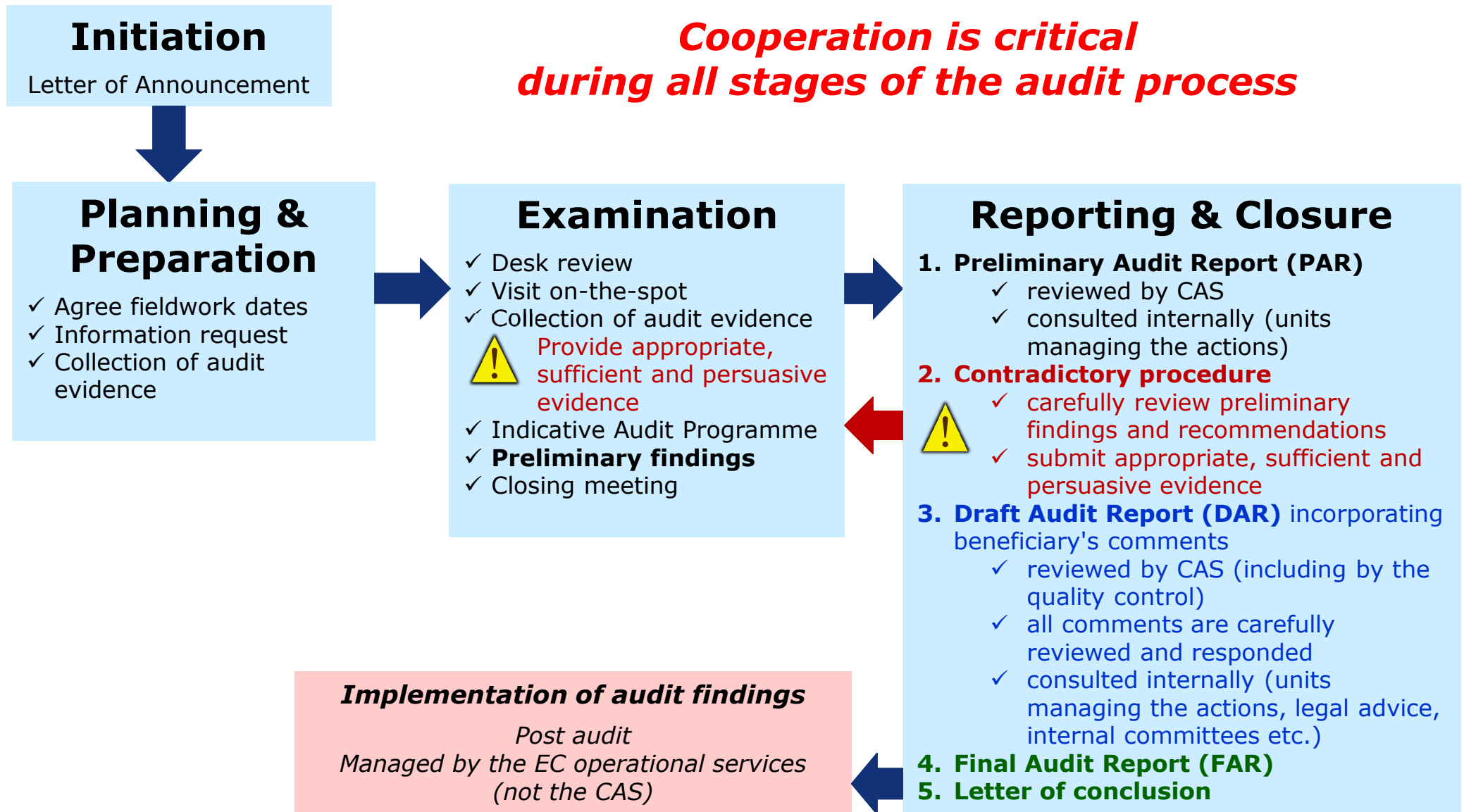
- ***Statistical method: Monetary Unit Sampling (MUS)***
- ***Audits of biggest beneficiaries***
- ***Risk based analysis: high amounts, large proportion of subcontracting, new beneficiaries, etc.***
- ***Audits on request***
- ***Fraud-risk audits***

6.3. Audit Planning & Preparation

- ***Concrete selection of actions to be audited***
- ***Initial contact with responsible auditors to agree on dates and logistics for audit visit***
- ***Formal “Letter of announcement” of audit including detailed annex with information and documents to be provided prior and during the on site examination***

6.4. Audit process – Main steps

Cooperation is critical during all stages of the audit process



7.1. Communication during the audit process (1)

➤ Examples and best practices:

- **Hypothetical example 1:** on-site visit does not signal **missing documents**, but the draft audit report proposes adjustments on that ground;

- **Best practice 1:** during contradictory phase the Beneficiary and the auditor should discuss:
 - every missing supporting documents
 - request mutual additional clarification;
 - if necessary agree for an extension of the contradictory procedure

7.2. Communication during the audit process (2)

➤ Examples and best practices:

- **Hypothetical example 2:** no preliminary findings highlighted during the closing meeting, but adjustment proposed in the final audit report and pre-information letter follows for recovering significant amounts
- **Best practice 2:** in a normal audit process 'no surprise' should occur - be attentive to **ALL** audit phases:

For the Beneficiary	For the CAS
<ul style="list-style-type: none">▪ Closing meeting summarises significant preliminary audit findings, as well as further steps▪ Upon receipt of the draft audit report, comment on ALL findings and recommendations raised by the draft audit report and accompany your comments by appropriate, sufficient and persuasive evidence	<ul style="list-style-type: none">▪ To ensure equal treatment, several steps of quality control on the draft audit report is performed prior to sending it to the beneficiary▪ The auditors are requested to carefully assess all your comments and issue the final audit report explaining their position and addressing all comments received▪ Findings are referenced to an Article of the H2020 MGA

7.3. Communication during the audit process (3)

➤ Examples and best practices:

- **Hypothetical example 3:** the beneficiary is given insufficient time to submit comments on the draft audit report and there are severe misunderstandings/mistakes in the final audit report;
- **Best practice 3:** in order to avoid this kind of situation:
 - ✓ provide the missing supporting documents
 - ✓ The contradictory procedure is one month; if insufficient please inform the Auditors/CAS
 - ✓ and ask, if necessary, for a (limited) extension of the time given for the contradictory procedure

7.4. Communication after the closure of the audit

Who does what?

- *The CAS (Common Audit Service) closes the audit by issuing:*
 - the **Final Audit Report** (after the contradictory procedure) with the **Letter of Conclusion**
 - The **Letter of Conclusion** summarises the audit findings and informs the beneficiary that the final audit report will be **distributed** to the **relevant Commission services** for the **implementation** of the **audit findings**

- *The "Operational" Services:*
 - **Calculate the amount of EU financial contribution (to recover or to offset)** and send a letter informing the beneficiary (and giving him another contradictory period)
 - In case of a **recovery**, the pre-information letter will contain the **detailed reasons**
 - Taking in due account **the comments** and **observations submitted** by the **beneficiary** the EC services may decide to:
 - revise the amount of the EU financial contribution
 - and/or to confirm the amount to be recovered;
 - offset (deduction from a next payment)

7.5. Communication after the closure of the audit

Who does what?

➤ *The "Operational" Services:*

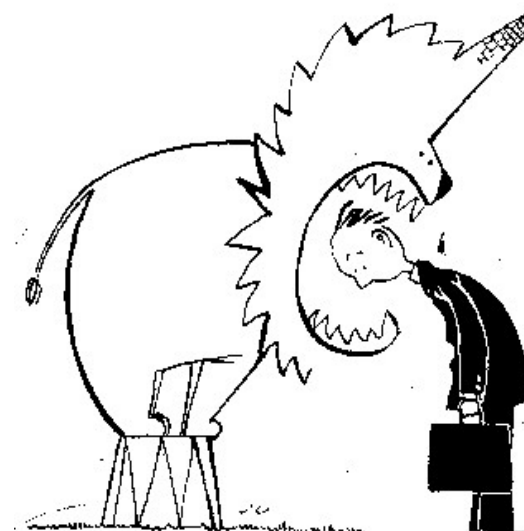
- In this case a **debit note** will be **sent to the beneficiary** which can be **challenged** before the **Court of Justice of the European Union** ;
- The **Court of Justice** is the **competent court** for any dispute regarding the **validity, application or interpretation** of the H2020 grant in accordance with the Art 57.2 of the H2020 MGA

➤ *The Beneficiary:*

- The beneficiary has the opportunity **to reply** to the pre-information letter and **submit comments** and **observations** within a **deadline** indicated in the letter

8.1. Auditors vs beneficiaries: who does what?

Who is who in this picture?



➤ The auditors:

- Don't invent evidence
- Don't invent rules
- Don't interpret rules

➤ The beneficiaries:

- The same! But don't wait for an audit!!!



8.2. Why do errors still occur?

- ✓ **4 languages spoken**
 - Researchers
 - Accounting and financial people, including auditors
 - Lawyers
 - Policy makers

- ✓ **We all want simplification but do not want to pay for it**
 - Flat rate for indirect costs
 - Usual and unusual accounting principles
 - Legal certainty (both ways)

- ✓ **We are all human beings, and human beings do mistakes**
 - Because of lack of attention;
 - Because of lack of interest;
 - Because subject to temptations (or specific situations)

8.3. Conclusions

Few, simple, clear words



Discipline



Prudence



Perseverance



Reality



Headache during the weekend



In case of doubt, consult: NCP, EC PO/FO, enquiry service

Participant Portal

At: <http://ec.europa.eu/research/participants/portal/desktop/en/home.html>



Horizon 2020 Annotated Grant Agreement

http://ec.europa.eu/research/participants/data/ref/h2020/grants_manual/amga/h2020-amga_en.pdf



Horizon 2020 On-line Manual

<http://ec.europa.eu/research/participants/portal/desktop/en/funding/guide.html#>



Questions? *Research Enquiry Service*

<http://ec.europa.eu/research/enquiries>



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