

## NCP EXPERIENCE REPORT

based on the Meet & Exchange workshop on **Audits/Audit Strategy in Horizon 2020** organized by the NCP Academy on March 20, 2017 in Brussels

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## **1 Introduction: Why this workshop**

“Simplification” has become a mantra of Horizon 2020. Alongside the simplification of financial rules, the revised control strategy was introduced in Horizon 2020, which will be implemented by a central body - Common Audit Service. The strategy aims to achieve a residual error rate close to 2 % of total expenditure and a maximum of 7 % participants subject to audit over the lifetime of Horizon 2020.

Since the first second level audits have been executed only recently, the results of these audits are not known to NCPs. The NCP Academy workshop offers NCPs a unique opportunity to learn from both auditors and beneficiaries, what is their first experience with H2020 audits and what have been the frequent errors identified so far. The participants will be invited to share their experience with audits (in FP7 and Horizon 2020) and discuss their concerns.

## **2 Presentations on Audits/Audit Strategy**

### **2.1 Vittorio Morelli, Common Audit Service – Audit strategy and audit process in H2020**

Presentation introduced main pillars and goals of the H2020 audit strategy and provided practical recommendations on how to avoid errors.

#### **Key points:**

- The H2020 Audit strategy covers 20 “clients” (DGs, EAs, JUs and other clients).
- Two main objectives are to assess the legality and regularity of H2020 project payments and to attain residual error rates at an acceptable level.
- The audited beneficiaries are selected based on several methods (statistical method, biggest beneficiaries, risk-based analysis, on request, fraud-risk, etc.).
- Audit results are implemented by operational services in charge of project management.
- Errors may lead to recovery of the undue amount, penalties, suspension of payments or termination of the contract, financial losses, etc.
- Explanation of the audit process (including the instructions for the auditors)
- Common errors and how to avoid them

## **2.2 Frank Zander, Martin Kavka, KPMG - First experience with H2020 audits from the perspective of auditors**

In H2020 80% of the second level audits will be performed by the external audit companies selected by the EC (KPMG, PwC, Moore Stephens). Representatives of German and Czech KPMG offices described in detail the procedure of H2020 second level audits and pointed out what mistakes should be avoided by audited beneficiaries.

### **Key points:**

- Differences between 1<sup>st</sup> and 2<sup>nd</sup> level audits
- Financial audit procedure step by step (from LoA to Final Report)
- Recommendations for audited beneficiaries concerning the documentation and evidence, appropriate communication, etc.
- Common mistakes (personnel costs, subcontracting, other goods and services)

## **2.3 Diana Castrillón, Universitat Politècnica de València – First experience with H2020 audits from the perspective of a beneficiary**

Universitat Politècnica de València was one of the first beneficiaries who experienced H2020 2<sup>nd</sup> level audit. The presentation summarises practical observations and experience of Diana Castrillon who assisted the auditors throughout the financial audit.

### **Key points:**

- Audit planning and preparation schedule (formal communication, deadlines, etc.)
- Auditors: spoke the language of beneficiary and had a good knowledge of national regulations, no unexpected requirements
- Examination on site (5 days, 5 GAs, estimated effort: 23-30 working days)
- Collection of information – what was NEW:
  - VAT status
  - Evidence of being contracting authority/entity
  - Internal procedures to avoid conflict of interest
  - Third Parties: supporting documents
  - Collective labour agreement
  - List of persons who claimed personnel costs also for other actions/projects

- More projects audited at the same time compared to previous audits + more documents required and more people involved (to increase efficiency)
- Recommendations:
  - Keep records and supporting documentation according to the EC requirements (i.e. by budget categories)
  - During the on-the-spot audit try to solve all findings identified
  - Try to implement all the recommendations from previous EC audit reports
  - Third parties: collect all the relevant documentation during the financial statement preparation

### 3 Round table discussion – Summary

- **Error rate:**
  - Participants marked “personnel costs” as a cost category they consider to be prone to errors.
  - Auditors reported that in practice the vast majority of audits end up with either zero or even positive adjustment.
- **Second level audits**
  - Letter of Announcement is sent to LEAR and Participant Contact via the Participant Portal.
  - Success of the audit largely depends on the good communication between the auditor and the audited beneficiary.
  - Auditors need to communicate clearly what information, document or evidence is actually needed/expected.
  - Beneficiary needs to provide the “right” contact persons to assist to auditors (=ideally a financial/project manager who understands auditor's language and a person with a technical background who is able to describe all project activities).
  - It is strongly recommended that all documents/missing information is provided by the beneficiary before the exit meeting.
- **First level audits (CFS)**
  - Auditors reported that in FP7 the quality of the first level audits was sometimes poor due to the lack of experience of the audit company chosen by the beneficiary. To avoid unpleasant surprises at the later stage, the beneficiaries are advised to choose the auditor carefully (i.e. based on his/her experience with EU framework programmes).

- **Timesheets**
  - Alternative evidence (other than timesheet) leads to problems and often also to ineligibility of costs.
  - Even if timesheets are in place, auditors always check their reliability (crosscheck with HR records, sick/annual leave, business travels, etc.)
  - Simplified timesheet (template provided in the AGA) will be accepted by the auditors. However more sophisticated time recording systems (if they are already in place), might help to facilitate auditor's job.
  
- **Calculation of the annual productive hours**
  - The chosen method (1720/ actual/standard) must be harmonised at the level of beneficiary.
  - If the different methods are used by the beneficiary (e.g. each faculty of the university uses a different method), the auditor reflects this in his recommendations.
  
- **SME owners without salary**
  - How to prove the salary of the SME owner paid before the implementation of the grant was dedicated exclusively to the management of the SME?
  - This must be explicitly mentioned in the employment contract of the SME and also the working hours fixed in the employment contract should correspond to it.
  
- **Linked third parties**
  - Cooperation with linked third parties must be foreseen in the GA. Sometimes auditor discovers on the spot an involvement of the third party not foreseen in the GA.
  
- **Internally invoiced costs**
  - In FP7 beneficiaries could claim lab consumables (e.g. gasses) based on the principle of fair apportionment. In H2020 the approach is less flexible since the lab consumables may only be charged to the project if they are quantifiable and measurable. The change of the EC's philosophy is likely to affect the internal purchasing policy of many beneficiaries and is against the principles of economy and efficiency. Could EC re-consider going back to FP7 approach?

## **4 Annex 1 - AGENDA**

- 1:00**            **Opening of the workshop**  
Milena Lojková | TC CAS, Czech Republic
- Audit Strategy and Audit Process in H2020**  
Vittorio Morelli | DG Research & Innovation, Common Audit Service
- Round table discussion*
- 2:15**            **Coffee Break**
- 2:45**            **First experience with H2020 audits from the perspective of an auditor**  
Frank Zander | KPMG, Germany  
Martin Kavka | KPMG, Czech Republic
- Round table discussion*
- 3:45**            **First experience with H2020 audits from the perspective of a beneficiary**  
Diana Castrillón Serna | Universitat Politècnica de València, Spain
- Round table discussion*
- 4:15-4:30**      **Concluding remarks and the end of the workshop**

## 5 Annex 2 - LIST OF PARTICIPANTS

First Name	Surname	Institution
Stephen	Alexandeer	Innovate UK
Gonzalo	Arevalo	ISCIII-SPAIN
Vangelis	Argoudelis	FORTH
Sofia	Azevedo	GPPQ (FCT/ANI)
Trammer	Barbara	IPPT PAN
Martin	Baumgartner	FFG
Peter	Beno	CVTISR
Monique	Bossi	APRE
Alexandra	Burgholz	DLR-PT
Melanie	Büscher	Danish Agency for Science and Higher Education
Benedetta	Cerbini	APRE
Firat	Gedikli	TUBITAK
Morten	Gylling	Danish Agency for Science and Higher Education
Zweitze	Hofma	RVO
Krisztina	Hollósi	National Research, Development and Innovation Office
Marie	Horniecka	Technology Centre of the Czech Academy of Science
Margit	Ilves	Estonian Research Council
Manda	Japunčić	Agency for Mobility and EU Programmes
Ayala	Karniol	ISERD
Jiří	Kotouček	TC CAS
Jana	Kratěnová	TC CAS
Milena	Lojtková	TC CAS
Bartosz	Majewski	IPPT PAN
Marques	Alexandre	FCT (GPPQ)
Andres	Martinez	CDTI Office in Brussels (SOST)
Van Dinter	Pascale	Belgian Science Policy Office
Poul	Petersen	University of Copenhagen
Claudia	Raimondi	Politecnico di Milano
Bastian	Raue	DLR-PT
Gwendolyn	Schaeken	Vinnova
Michael	Schijns	RVO
Regina	Schneider	Euresearch
Nicole	Schröder	DLR PT
Jessica	Umegård	Vinnova
Darija	Valančić	Ministry of Education, Science and Sport, Science Directorate
Hanna	Vuorinen	Tekes
Catriona	Ward	Enterprise Ireland
Muaz Mucahit	Yıldırım	The Scientific and Technological Research Council of Turkey

## 6 Annex 3 - PICTURES



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