Audit strategy in H2020

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NCP Academy - CZELO
Table of Contents

1. Audits: why? (the error rate)
2. Audits: what?
3. Audit Strategy: legal basis and principles
4. Audits: how?
5. Why do errors still occur?
6. How to avoid them
I, the undersigned Director-General, declare that the information contained in this report gives a true and fair view [1].

I state that I have reasonable assurance [...] which is based on my own judgement and on the information at my disposal [...]

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 March 2014
"Signed"
The Director-General

[1]—True and fair in this context means a reliable, complete and correct view on the state of affairs in the service.
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
From representative to residual

- Non-systematic error
- Systematic error

All errors removed from the audited portion of the budget

Corrective measures, step 2: The effect of extrapolation

The importance of the residual error rate
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

- Non-systematic error
- Systematic error

Systematic errors removed from the non-audited portion of the budget received by audited beneficiaries

Audited participations

Non-audited participations of audited beneficiaries
Audit cycle

- Implementation of Audit Results
- Audit Strategy & Selection
- Audit Planning & Preparation
- Examination on site
- Reporting & Audit Closure
What does the Audit Strategy cover?

Overview

H2020 Audit Strategy

- Preventive controls
  - Certification (COMUC, CFS)
  - Ex-ante assessments (LRI)

- Detection controls
  - Representative audits
  - Extrapolation

- Corrective controls
  - Corrective audits
  - Representative error rate
  - Residual error rate
What does the Audit Strategy cover?

**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

**DGs**

**EAs**
- REA
- ERCEA
- EASME
- INEA

**CleanSky**
- IMI
- ECSEL
- BBI
- FCH
- Sesar
- Shift2Rail

**JUs**

**Other**

**Out:**
- EIT - Budapest
- ESA
- P2Ps (Article 185)
- EIB

(GSA - Prague
(Regulatory Agency)
What does the Audit Strategy cover?

<table>
<thead>
<tr>
<th>Group</th>
<th>€ million</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RDGs</strong></td>
<td>18.940</td>
<td>30%</td>
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<tr>
<td>RTD</td>
<td>9.414</td>
<td>14.6%</td>
</tr>
<tr>
<td>CNECT</td>
<td>8.328</td>
<td>13.1%</td>
</tr>
<tr>
<td>GROW</td>
<td>651</td>
<td>1.0%</td>
</tr>
<tr>
<td>HOME</td>
<td>160</td>
<td>0.3%</td>
</tr>
<tr>
<td>ENER</td>
<td>261</td>
<td>0.4%</td>
</tr>
<tr>
<td>AGRI</td>
<td>85</td>
<td>0.1%</td>
</tr>
<tr>
<td>MOVE</td>
<td>39</td>
<td>0.1%</td>
</tr>
<tr>
<td>EAC</td>
<td>1</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Agencies</strong></td>
<td>37.512</td>
<td>59%</td>
</tr>
<tr>
<td>REA</td>
<td>12.825</td>
<td>20.2%</td>
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<tr>
<td>ERCEA</td>
<td>12.629</td>
<td>19.5%</td>
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<tr>
<td>EASME</td>
<td>6.374</td>
<td>10.0%</td>
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<tr>
<td>INEA</td>
<td>5.603</td>
<td>8.8%</td>
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<tr>
<td>GSA*</td>
<td>80</td>
<td>0.1%</td>
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<tr>
<td><strong>Joint Undertakings</strong></td>
<td>7.132</td>
<td>11%</td>
</tr>
<tr>
<td>Clean Sky2</td>
<td>1.704</td>
<td>2.56%</td>
</tr>
<tr>
<td>IMI2</td>
<td>1.638</td>
<td>2.5%</td>
</tr>
<tr>
<td>ECSEL</td>
<td>1.167</td>
<td>1.8%</td>
</tr>
<tr>
<td>BBI</td>
<td>975</td>
<td>1.5%</td>
</tr>
<tr>
<td>FCH2</td>
<td>665</td>
<td>1.0%</td>
</tr>
<tr>
<td>SESAR2</td>
<td>585</td>
<td>0.9%</td>
</tr>
<tr>
<td>SHIFT2RAIL</td>
<td>398</td>
<td>0.6%</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td>63.584</td>
<td>100%</td>
</tr>
</tbody>
</table>

* Budget is part of DG GROW budget
What does the Audit Strategy cover?

Forecasted requests for contribution (€ million)

H2020 Audit Strategy coverage

Research and Innovation
What are the elements of the Audit Strategy?

Legal Basis

Article 29 of the H2020 Regulation of 11 December 2013 defines the principles of control and audit of the H2020 expenditure:

• §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. That representative sample shall be complemented by a selection based on (...) the risks related to expenditure. [every two years]

• Audits of expenditure on indirect actions under Horizon 2020 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-annual period)
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.
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.
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
What are the elements of the Audit Strategy?

Segregation of duties
Responsibility of the auditors (eligibility of declared costs)
≠
Responsibility of the Authorising officers (implementation of the audit findings)

Specific CAS Audits
• Joint audits: Technical and with the European Court of Auditors (ECA)
Implementation of Audit Results

• Managed by the operational services in charge of project management

• Adjustment of any ineligible costs

• Possibility of extension of audit findings to other grants in case of systemic and recurrent errors

• Administrative and financial penalties

• Further financial and legal consequences: reduction of grant, suspension of payments, termination of grant, OLAF investigations, etc.
Possible consequences of errors

- **Identified errors may lead to**
  - Recovery of the undue amount.
  - Penalties.
  - Suspension of payments or termination of the contract.
  - Reputational damage.
  - Financial losses.
  - ....

- **For sure**, it will lead to bad weekends, bad mood and horrible headaches.
Who is who in this picture?
No «the ones vs the others» !!!

• 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!!!
• Delays – EAF vs auditee
  o Take contact soon after the LoA
  o Request the documents in writing at least two times
  o Offer dates within max 3-4 weeks
  o Timely inform the CAS when field work is delayed beyond reasonableness and after you have done every possible effort
  o Document the lack of collaboration in writing
How do we audit (cont.)

Timely delivery is a must

- **Delays – EAF vs CAS**
  - Early appointment of a CAS auditor after the LoA
  - Always contact the FMB with HoS in copy
  - CAS will send the comments in one go
  - Timely react to all comments in one go
  - Allow access to working papers
  - Other potentially blocking factors
  - Technical issues – importance of the MASR
How do we audit (cont.)

Other important issues

• Length of the contradictory procedure:
  -> no delays after agreement is given by the CAS, initial time granted, number of reminders

• Listen to the beneficiary concerning:
  -> claims, requests, demands and feedback

• If needed, explain properly the distinction between audit and audit implementation
How do we audit (cont.)

High quality is a must

- *The Audit Program and consequences of findings*
- *The audit report must be self-standing*
- *There should be always a reference to the article(s) of the MGA or AGA*
- **Attention to:**
  - STUDY previous audit reports on the same beneficiary (permanent files)
  - STUDY previous audit conclusions on the same issue (building knowledge)
How do we audit (cont.)

High quality is a must

- Closing meeting and its outcome clearly mentioned in the report
- Detailed reply to every beneficiary's comment presented in the contradictory procedure – cannot just say "we don't agree"
- Avoid corrections of minor amounts (e.g. eurocents)
How do we audit (cont.)

- **Reclassification from other direct costs to subcontracting;**
  
  -> document the compliance with best value for money

- **How to handle in current assignments' issues which will be subject of future amendments of the MGA/AGA:**

  
<table>
<thead>
<tr>
<th>Additional remunerat.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal invoicing</td>
</tr>
<tr>
<td>Direct Contracts</td>
</tr>
<tr>
<td>Operating grants</td>
</tr>
<tr>
<td>Full capacity</td>
</tr>
</tbody>
</table>
Why do errors still occur?

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

- **We all want simplification but it comes at a price**
  - Flat rate for indirect costs
  - Usual and unusual accounting principles
  - Legal certainty (both ways)

- **We are all human beings, and human beings make mistakes**
  - Because of lack of attention;
  - Because of lack of interest;
  - Because subject to temptations (or specific situations)
Can errors be avoided?

Advices on How To Avoid Errors

few, clear, simple words (three)

• **Discipline** (keep your files in order).

• **Prudence** (use the budget, do research, but avoid driving 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).

• **AND** in case of doubt, consult the NCP, the PO/FO, the EC enquiry service.
Indicate nothing else but The Reality
**H2020 most common errors expected**

1. Direct costs apportioned, not measured

2. Time sheets

3. Best value for money (subcontracting and purchase of goods)

4. Basic vs additional remuneration

5. In-house, near off-site, semi-permanent, teleworking consultants

5+. Same old friends: no papers, depreciation "in one shot", etc
• **Direct costs apportioned, not measured**

  • In FP7, energy and power supply was an indirect cost:  
  -> *can I charge it as direct in H2020?*  
  • **Yes, if** I can measure it...

  • Administrative staff members doing project accounting:  
  -> *can I charge them to the project?*  
  • **Yes, with** time sheets...

  • I have a big multi-purpose equipment and I use it for several activities and projects:  
  -> *can I charge its depreciation to an EC project as a % of total capacity or based on my experience?*  
  • **No.** I have to measure its **use**.
I work 100% on the action so I don't have to fill in TS, correct?

Correct, but pay attention:

• Did I spend a significant part of my time building up a network with other entities or other laboratories of my company, for future actions?

• Did I spend time in writing proposals for the next calls?

• Did I give lectures for the University?

• Did I travel for other unforeseen activities?

• What do I have to indicate in the box of the self-declaration requesting an indication of the activities carried out, per work package?
Declaration on a person working exclusively on a H2020 action

**Model available in the AGA**
(version 19/12/2014)

- [ ] the whole reporting period
- [ ] from ....../....../........ ³ until ....../....../........ ⁴
  (This period must cover at least one full natural month) ⁵

Only one declaration can be made per reporting period for each person

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1. Only one declaration can be made per reporting period for each person working in the action.
2. Insert name of the person.
3. Insert date.
4. Insert date.
5. The person must keep timesheets for any hours worked for the action outside the period indicated herein.
Time sheets

I don't keep TS, or they are so inaccurate that I am ashamed to show them. I can always go for the 'alternative evidence option', correct?

YES but NO

• First of all, why are your time sheets not in order? IT solutions exist.

• Secondly, why don't you fill them in?

• Thirdly: TS? I don't use them because in my specific case I use...
  What? How do you follow your projects?

Alternative evidence is not an option, but the thin border between problems and big problems
Best value for money (subcontracting AND purchase of goods)

• My subcontractor is a friend: is it a problem?
  • As such no. But you must be in a position to prove that his/her offer represents the best price-quality ratio.
  • The conflict of interests rule requires you to adopt every measure to avoid it (including family and emotional ties).

• I have named my subcontractor in the Annexes to the G.A.: is it enough?
  • No because you are still deemed to have respected the best value for money principle.

• I use the same IT provider since 20 years, with a written framework contract: is it ok?
  • If you use it for you and for us, then ok. However, maybe it is time to look for better prices...
### Basic vs additional remuneration

- I pay a bonus to my staff when a baby is born: is this eligible as basic remuneration?
  - **Yes,** it is.

- I pay a part of the remuneration only if my company makes 1M€ profit and distributes dividends: is this eligible as basic remuneration?
  - **Yes,** **provided that** the bonus does not represent any distribution of the profit earned.

- I am the boss and I decide who gets the bonus and who doesn't: is this considered as ineligible?
  - A bonus scheme can be discretionary, yet based on objective conditions (merit, performance, potential – no matter how these are assessed by the boss - but as part of the usual remuneration policies, and documented). The scheme cannot be arbitrary or discriminatory, i.e. a bonus paid only if and when a researcher works on a H2020 action.
In-house, near off-site, semi-permanent, teleworking consultants

- I have a contract with Morel&Elli Interim for some personnel: can I charge the invoices issued by Morel&Elli Interim as personnel costs?
  - No, the person must have a contract directly with the beneficiary.

- I take advantage of a national law for temporary soft-recruitment tax-free, but I cannot impose TS or direct supervision: can I charge the costs as personnel?
  - YES, but they have to respect all the criteria, in particular subordination, supervision and similar remuneration.

- During the project it appeared that some personnel of the University, partner in the same project, were familiar with the issue and did the work, partly in my premises: is it ok?
  - I don't know. But the advice is: inform and consult the PO/FO in advance.
Additional info

Participant Portal
At: http://ec.europa.eu/research/participants/portal/desktop/en/home.html

- Horizon 2020 Annotated Grant Agreement

- 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
Thank you for your attention!

Find out more: http://ec.europa.eu/programmes/horizon2020/