H2020 Ex-post audits
ECSEL Coordinators Day

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Table of content

1. H2020 Internal Control Framework
3. Audit Process
4. Audit Results
5. Conclusions
6. Additional information
1. H2020 Internal Control Framework

Internal Control Framework for H2020
Building Blocks of the Internal Control System for H2020 Expenditure

- Ex-ante checks
- Ex-post audits
- Financial Audit
- Scientific evaluation
- Project and contract management
- Procedures for selecting
1. H2020 Internal Control Framework

Framework for H2020 ex-post audits

- One set of rules MGA
- One set of annotations AMGA
- One governing body Common Implementation Centre (CIC)*
  - AND
  - One Common Audit Service (CAS) performing the audits
- One Indicative Audit Programme
  - AND
  - One set of consequences of findings applied by CAS, KPMG, PwC, and Moore Stephens (now BDO)

Equality of treatment
Consistency of audit reports
Legal certainty
1. H2020 Internal Control Framework

Legal basis for ex-post audits

- **Article 29** of the H2020 Regulation of 11 December 2013
- **Article 22.1** of the H2020 Model Grant Agreements

**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.

- **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)
1. H2020 Internal Control Framework

**Ex-post audits**

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>When?</strong></td>
<td>Anytime after you receive first interim payment until 2 years after last payment</td>
</tr>
<tr>
<td><strong>By whom?</strong></td>
<td>Independent audit firm or European Commission auditors</td>
</tr>
<tr>
<td><strong>Scope?</strong></td>
<td>Full in-depth audit, including interviews</td>
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<tr>
<td><strong>Procedures?</strong></td>
<td>Indicative Model Audit Program (<a href="https://ec.europa.eu/research/participants/data/ref/h2020/other/gm/audit/h2020-iap_en.pdf">https://ec.europa.eu/research/participants/data/ref/h2020/other/gm/audit/h2020-iap_en.pdf</a>)</td>
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2. H2020 Audit Strategy

Why an Audit strategy: Assurance Elements

- Assessing Legality & Regularity of H2020 project payments

- Residual error rate – acceptable level

General control objective: To get a residual error rate below 2%
2. H2020 Audit Strategy

Trust Based approach

✔ 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.

✔ 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.
3. Audit Process

Audit Cycle

- Audit Strategy & Selection
- Audit Planning & Preparation
- Examination on site
- Reporting & Audit Closure
- Implementation of Audit Results
3. Audit Process

Sample selection

Randomly
The JU provides parameters to CAS which randomly selects an agreed number of participations

Top Ups
Indicated by the JU among those beneficiaries already selected randomly, named local risk.

Article 10
Risk-based audits, requested by the JU in specific cases
3. Audit Process

Population for sample selection

- Costs declared and paid by the beneficiaries through financial statements
- Audits may be carried out:
  - Anytime after you receive first interim payment
  - up to 2 years after payment of the balance
- Timeframe:
  - First audits: start in 2016
  - Last audits to be initiated in 2024 and closed in 2025
3. Audit Process

Financial Audit Flow

1. Letter of Announcement
2. Audit Fieldwork
3. Draft Audit Report
4. Final Audit Report
5. Letter of Conclusion

Disclaimer: Information not legally binding
3. Audit Process

Audit Fieldwork

- **Opening meeting**
- **Systems Analysis**
- **Systems and substantive testing**
- **Closure meeting**
- **Assessment after fieldwork**

Usually during 4-5 working days (one week)

**General information on:**
- organisation
- projects
- financial administration
- internal control systems

**Audit agenda for the week:**

- Collection of information and audit evidence, analysis of documents, interviews with researchers, project presentations, physical inspections, etc.

- Discussion on preliminary audit findings and observations
- Indication of further audit procedure

Disclaimer: Information not legally binding
3. Audit Process

Reporting and closure

1. Preliminary Audit Report (PAR)
   ✓ review by CAS (incl. quality control)
   ✓ consult internally (operational units)
2. Contradictory procedure
   ✓ scrutinise preliminary findings and recommendations
   ✓ submit appropriate, sufficient and persuasive evidence
3. Draft Audit Report (DAR) incorporates beneficiary's comments
   ✓ review by CAS (incl. quality control)
   ✓ scrutinise and address all comments
   ✓ consult internally (units managing the actions, legal advice, internal committees etc.)
4. Final Audit Report (FAR)
5. Letter of conclusion

Implementation of audit findings
Managed by the EC operational services (not the CAS)
3. Audit Process

Implementation of audit results

Triggered by the closure of the Audit: LOC & FAR

at closure of extension of audit findings
4. Audit Results

Most common errors:
- Personnel costs
- Subcontracting
- Other direct costs

Data: audits until May 2020
Errors. Why do they occur?

- Misunderstandings of the rules;
- Lack of attention to the detail of the provisions of the grant agreements.
4. Audit Results

The consequences of errors:

**Beneficiaries**
- Non-optimal use of funding available
- Recoveries

**JU/European Commission**
- Scrutiny of the Budgetary Authority and ECA
- Increased error rate
- Increased ex post audit efforts
- Corrective measures
4. Audit results

Declared costs vs errors (Jan.2019)

Declared costs

Errors

- Personnel costs
- Subcontracting
- Other Goods and Services
- Equipment
- Travel

ECSEL JU
Personnel

You **cannot** declare:

→ Budgeted time (what you indicated for the budget)
→ Estimated time (e.g. person 'guessing' at the end of the year)
→ Time allocation (e.g. x % of the contractual time of the person)

Personnel costs cannot be based on the rules applied for national funding schemes.
4. Audit results

Personnel - Timesheets

Time records should include, as a minimum:

- title and number of the action
- beneficiary’s full name
- full name, date and signature of the person working for the action
- number of hours worked for the action
- supervisor’s full name and signature
- reference to the action tasks or work packages of Annex 1

Hours declared to the action must be supported by reliable records and documentation!

Do keep time records

Disclaimer: Information not legally binding
4. Audit results

Personnel - Double Ceiling

**Beneficiaries must ensure that:**

- the **total number of hours declared** in EU and Euratom grants for a person for a year is **NOT higher** than the number of **annual productive hours** used for the calculation of the hourly rate.

\[ \sum \text{hours declared} \leq \text{total annual productive hours} \]

- the **total amount of personnel costs declared** (for reimbursement as actual costs) in EU and Euratom grants for a person for a year is **NOT higher** than the total personnel costs recorded in the **beneficiary’s accounts** (for that person for that year).

\[ \sum \text{cost declared} \leq \text{total personnel costs for the person} \]
4. Audit results

Personnel- Advice

- Avoid Inconsistencies
- Consistent with HR records
- Comply with the formal criteria
- Apply and prepare for the double ceiling rule
- Sufficient in terms of information
4. Audit results

Subcontracting

You must demonstrate 'best value for money' both, in sub-contracting and in purchases of goods

• Some level of tendering to demonstrate 'best value' – e.g. tender, three offers, market survey, etc.

• Naming the supplier in the grant does not mean that you do not have to demonstrate best value

• Auditors will normally accept your standard practices, when properly used

• Keep documentation
4. Audit results

Subcontracting-advice

✓ Include in Annex 1 all subcontractors and (linked) third parties
✓ Avoid Conflict of interest
✓ Ensure (and document) Best Value for Money
✓ Communicate in Writing
4. Audit results

Other Direct costs

Direct costs are costs that are directly linked to the action's implementation and can be attributed to it directly. They must not include any indirect costs.

- Must be justified by sufficient persuasive evidence showing the direct link to the action.
- Must be properly recorded in order to allow direct measurement of the use for the action and to ensure auditability.
- The measurement system used by the beneficiary must accurately quantify the cost.
4. Audit results

Other Direct costs- advice

- Consider useful life
- Record Usage / Consumption/ Direct Measurement
- Avoid Conflict of interest
- Ensure (and document) Best Value for Money
- Communicate in Writing
5. Conclusions

Do not wait for an audit!

- **At grant signature:**
  Foresee and justify all subcontracts in Annexes 1 & 2

- **During the grant execution:**
  Ask for amendment to include subcontracts
  Justify subcontracts in the technical reports
  Communicate clearly and in writing with the programme officers

Please note that you need to report as per H2020 rules NOT national rules
6. Additional information

**Webinars**

https://ec.europa.eu/research/participants/docs/h2020-funding-guide/other/event210224.htm

**How to avoid errors when claiming costs**

6. Additional information

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

- **Horizon 2020 Annotated Grant Agreement**

- **Horizon 2020 On-line Manual**
  https://ec.europa.eu/research/participants/docs/h2020-funding-guide/index_en.htm

- **Indicative Audit programme (IAP):**

- **Questions?**  
  **Research Enquiry Service**  
  http://ec.europa.eu/research/enquiries
Thank You!