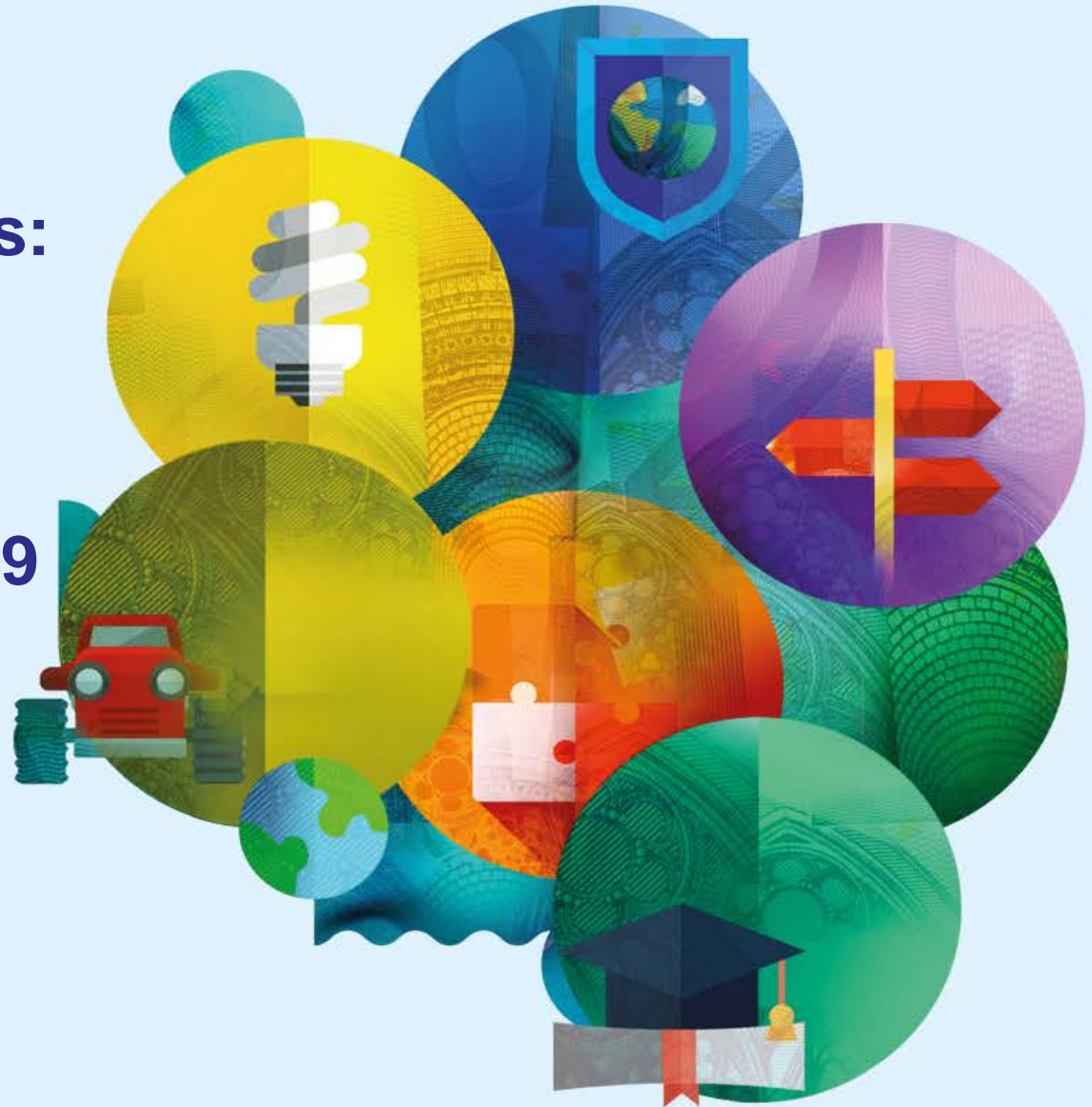




**Regional Stakeholder Event on Horizon Europe  
Implementation**

# **Ex-ante and ex-post controls: From H2020 to Horizon Europe**

**Budapest, 27 November 2019**



***#HorizonEU***

Common Audit Service  
Gheorghe Bancos, Auditor

# Agenda



1. Introduction on Controls
2. Experience from Horizon2020
3. Horizon Europe: Systems and Processes Audit
4. Horizon Europe: Cross Reliance on Audits
5. Horizon Europe: Public Consultation
6. Way Forward – Audits in Horizon Europe



- Authorising Officers (AODs) must put in place **internal control systems suited to the performance of their functions**;
- AODs must ensure **equal treatment for all Beneficiaries**;
- The control system shall ensure an **appropriate balance between trust and control** and must be **cost effective**;
- Controls must be developed with due consideration to the **programme objectives** and taking into account the **associated costs** for all stakeholders.



## Principles

- ✓ Balance between **trust** and **control**
- ✓ **Minimize burden on beneficiaries**
- ✓ **Equal treatment**

## Methodology

- ✓ **Limited information requested ex-ante (Financial statements, use of resources)**
- ✓ **Risk considerations may justify asking the beneficiary for further information and/or evidence.**

# Ex-ante controls



Ex-ante controls are **trust-based**, focusing on whether:

- the work has been done (as described in the periodic reports);
- the reported effort and use of resources is reasonable and in accordance with the plan;
- sufficient explanation and justification are provided for any substantial deviations.

**A risk analysis is part of the standard checks.  
Deeper ex-ante control is carried out for identified risk cases.**

# Ex-post controls (1/2)

*Ex-post controls aim at verifying whether the costs declared in the financial statements have been properly incurred and are eligible costs.*

*They confirm the legality and regularity of the underlying transactions.*

*In depth analysis of the costs claimed by beneficiaries supported by appropriate reliable and relevant evidence.*

*Independent from ex-ante controls*

# Ex-post Controls (2/2)

## FP6/FP7/H2020/...

*At Beneficiary level*

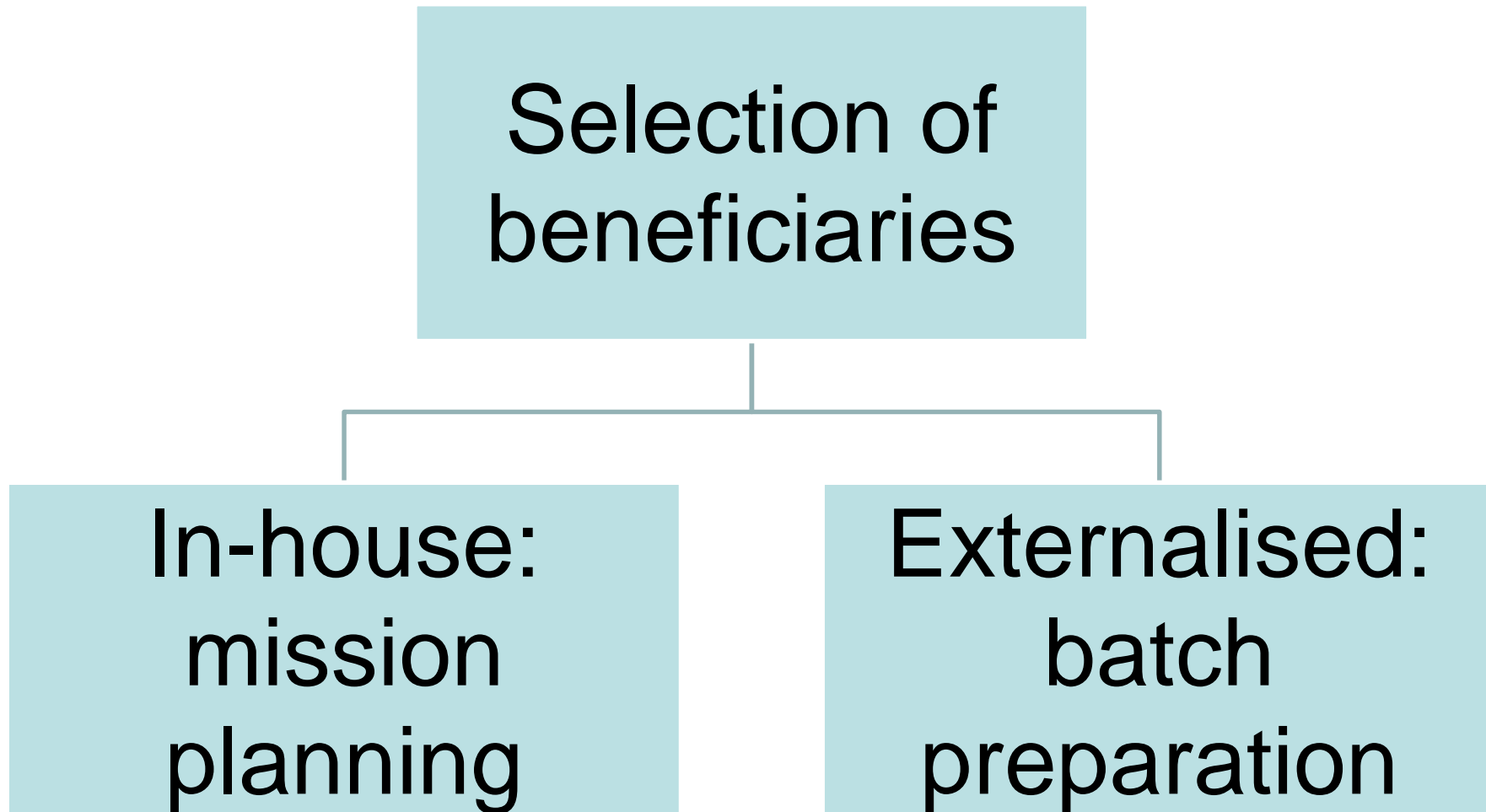
*Statistical Sample*

*Risk Based sample*

*Additional Sample (e.g. Joint Undertakings/ERCEA/...)*

*Quality of audits*

## Audit Planning





# Ex-post controls in H2020 – The design

## 1. *More Simplification*

- 25% flat rate for indirect costs
- One set of documents : MGA and annotated
- A governance to increase synergies
  - ✓ The creation of the Common Audit Service for all H2020 ex-post audits
  - ✓ One Horizon 2020 (Corporate) Audit Strategy

## 2. *More Transparency*

- Annotated Model Grant Agreement containing Examples, best practices, Lists and procedures , Specific cases and exceptions
- Research Enquiry Service & FAQ
- Online Indicative Audit Programme (regularly updated)

# Errors.

## Why do they occur?

- *Misunderstandings of the rules;*
- *Lack of attention to the detail of the provisions of the grant agreements.*

## The consequences of errors:

### Beneficiaries

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

### European Commission

- *Scrutiny of the Budgetary Authority and ECA*
- *Increased error rate*
- *Increased ex post audit efforts*
- *Corrective measures*



# Audit in H2020 – Main detected errors (1/2)

## ***Personnel costs – due to:***

- Incorrect productive hours calculation
- Incorrect remuneration costs - e.g. estimated
- Incorrect time working on action claimed
- Other - e.g. unreliable/missing timesheets

## ***Subcontracting - due to:***

- Lack of adequate supporting documents
- Not foreseen in Annex I nor agreed by EU services
- Other errors – including e.g. no value for money,

## *Other goods and services - due to:*

- Lack of adequate supporting documents
- Cost not related to the action
- No direct measurement of the cost
- Other errors – e.g. indirect costs claimed as direct costs , no value for money

## *Travel - due to:*

- Cost not related to the action
- Other errors – e.g. lack of adequate supporting documents

# Ex-post controls in H2020 – The Feedback

## *Main feedback from Audited Beneficiaries*

- a) Beneficiaries welcome audits conducted centrally by the **Common Audit Service**.
- b) Preparatory files in H2020 ex-post audits can be **time consuming**.
- c) Certificate on Financial Statements (CFS): external auditors may not have the **specialized knowledge** needed for H2020 projects.
- d) The calculation of personnel costs can be **complex and time consuming**.
- e) Disproportionate audit effort on costs categories with low participation in the overall budget (e.g. travel costs and subsistence).
- f) LRI & CoMUC: **too long** procedures.

# *Horizon Europe: the novelties in audit*

## *Systems and Processes Audit (SPA)*

*Wider cross-reliance on  
audits and assessments*

# Horizon Europe Legal Basis

## Recital 52 of HE RfP

*A wider cross-reliance on audits and assessments – including with other Union programmes – should be envisaged, in order to reduce administrative burden for beneficiaries of Union funds. Cross reliance should be explicitly provided for by considering also other elements of assurance such as systems and processes audits.*



# System and Process Audit

## □ What is a SPA ?

### *A risk assessment & an audit opinion*

*in 2 steps:*

- Test of the systems / Tests of controls
- Substantive testings / Tests of Transactions

HE Rfp Article 48

*assessing 3 types of risks:*

- Inherent Risk at the level of the entity
- Control Risk at the entity level
- Budget Category Specific Control Risk and their project based accounting

*providing 1 Output:*

- One single report in two parts
  - Combined review result ► flag as Low, Medium or High

# System and Process audit

## Objectives

- *Reduced administrative burden;*
- *Less but more focused audits;*
- *Reliance on the internal control system of the beneficiary (prevent and detect error)*

## Consequences

- *Timing of the SPA (with first audit)*
- *Future audits (less audits, less CFS?)*

# Cross-reliance



## Simplified audit and control system:

### Key features

- Combined reviews
- Single audit principle for joint funding
- Possibility for enhanced cross-reliance

#### Combined review

Combines systems and process audit with an audit of transactions  
Optional for certain types of beneficiaries  
May lead to less Certificates on Financial Statements

#### Single audit principle for joint funding

A single audit for actions that receive joint funding from different Union programmes

#### Possibility for enhanced cross-reliance

Possibility for the Commission to rely on audits on the use of Union contributions carried out by other persons or entities



reduced audit burden for beneficiaries

# Cross-Reliance

## Factors of success

Having "*conditions equivalent*" between EU programmes irrespectively of the management mode,

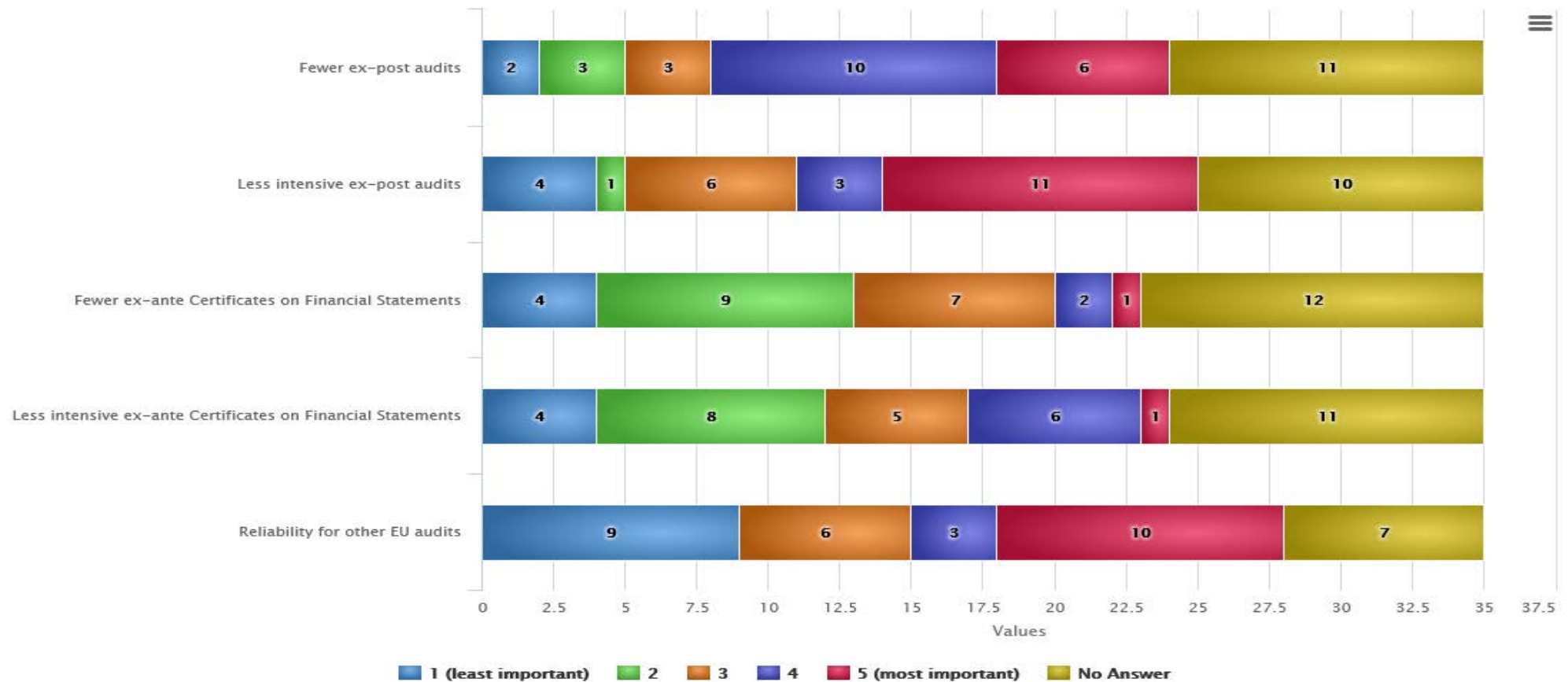
Enhancement of *corporate IT tools*:

Taking into account international benchmarks:

- **International Standard on Auditing (ISA)**
- **INTOSAI**
- **COSO**

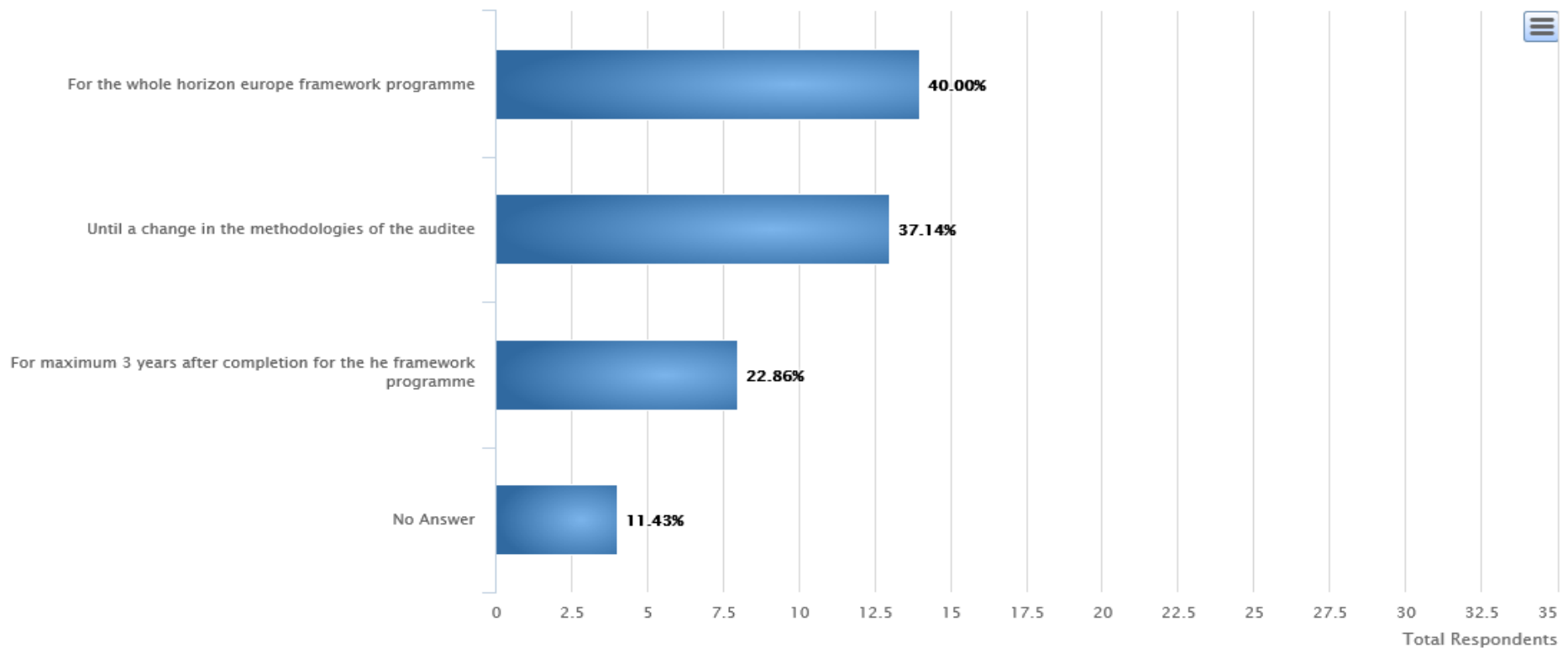
# Results of the public consultation – Control Strategy (1/3)

What type of benefits would you expect from a Systems and Processes Audit (SPA)? (rank by order of preference)



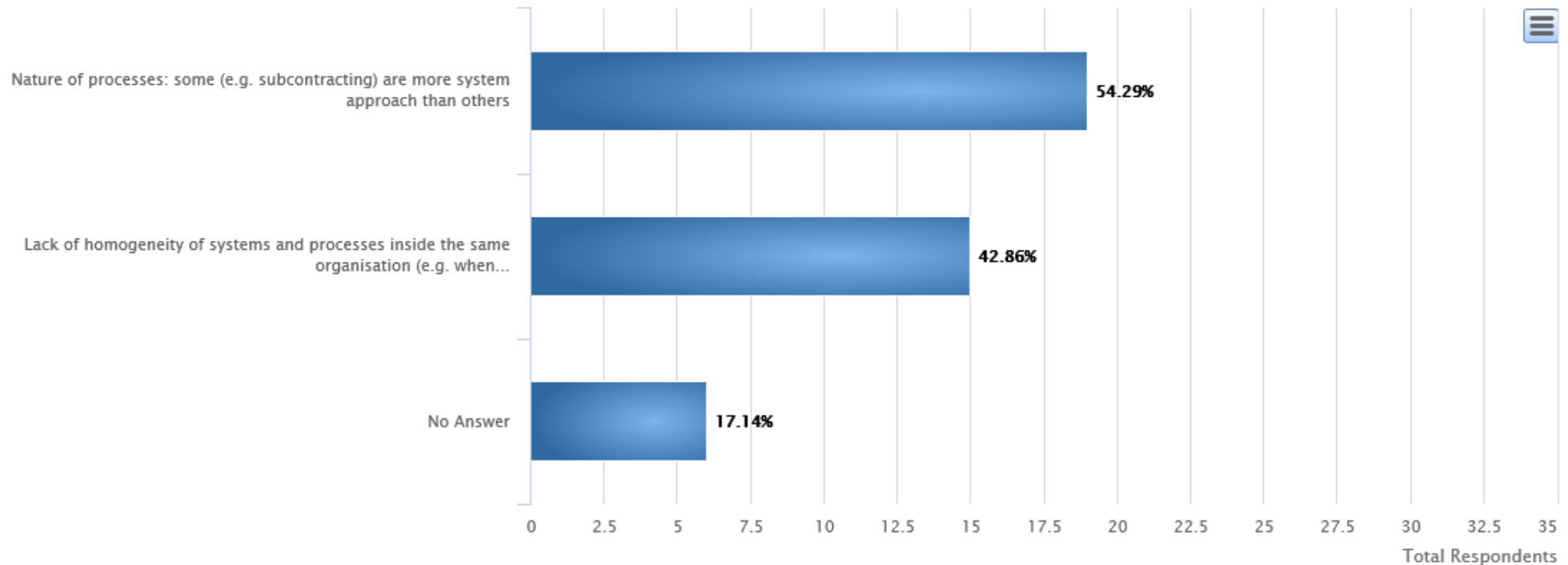
# Results of the public consultation – Control Strategy (2/3)

*The Systems and Process Audits (SPA) should be valid...*



# Results of the public consultation – Control Strategy (3/3)

*What are the limitations to a SPA?*



# Way Forward – Audits in Horizon Europe

- **Pilot** System and Process Audit on a number of beneficiaries
- Further **consultation with beneficiaries and member states**
- Discussion with the **Central Services of the Commission** regarding further simplification
- Discussion with Services of the Commission responsible for **shared management**
- Launch of the Horizon Europe audit campaign (creation of an **audit strategy**)



# Thank you!