



HORIZON 2020

H2020 Audits and Results

Budapest, 26th of November, 2019

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Common Audit Service (CAS)

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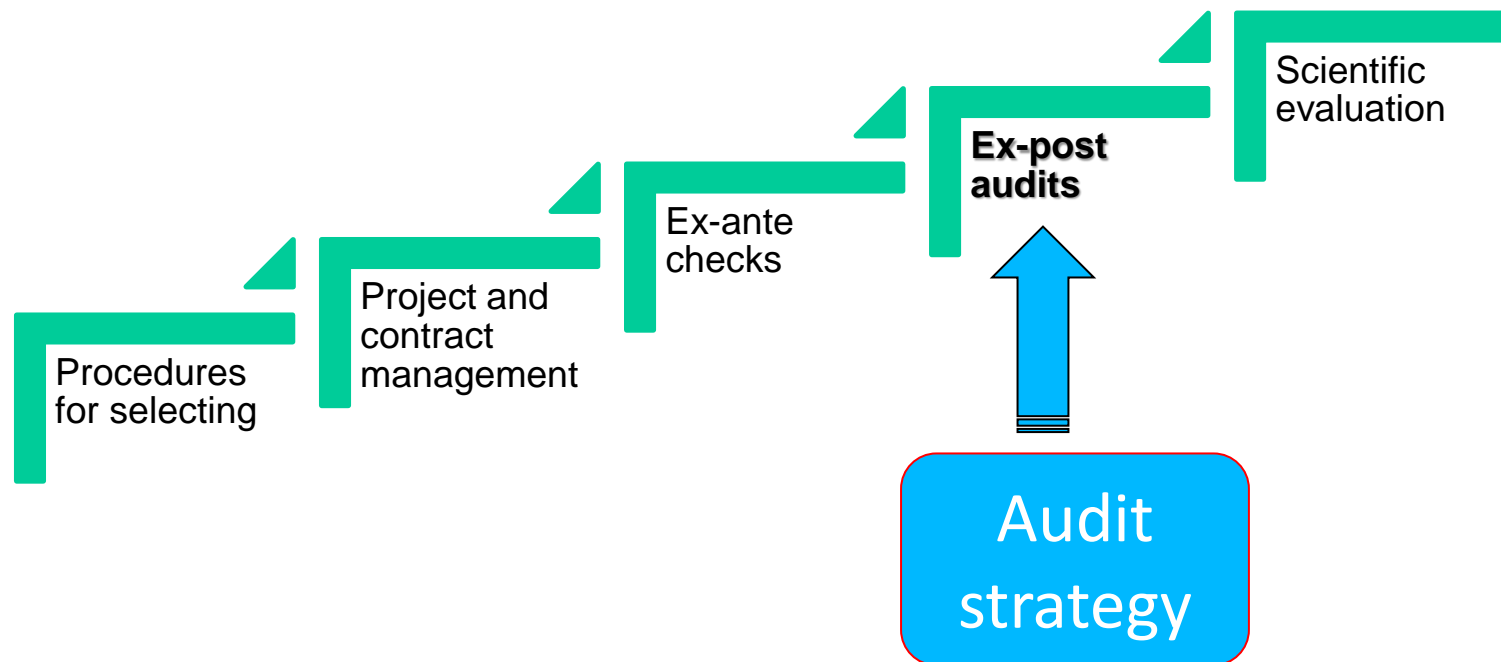
objectives, scope, principles

3. Audit Process

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1. H2020 Internal Control Framework

Building blocks of the ICS for H2020



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.

- ➔ **Ex-post controls**
- **in-house (CAS)** +/-25%
 - **outsourced (EAFs)** +/- 75%

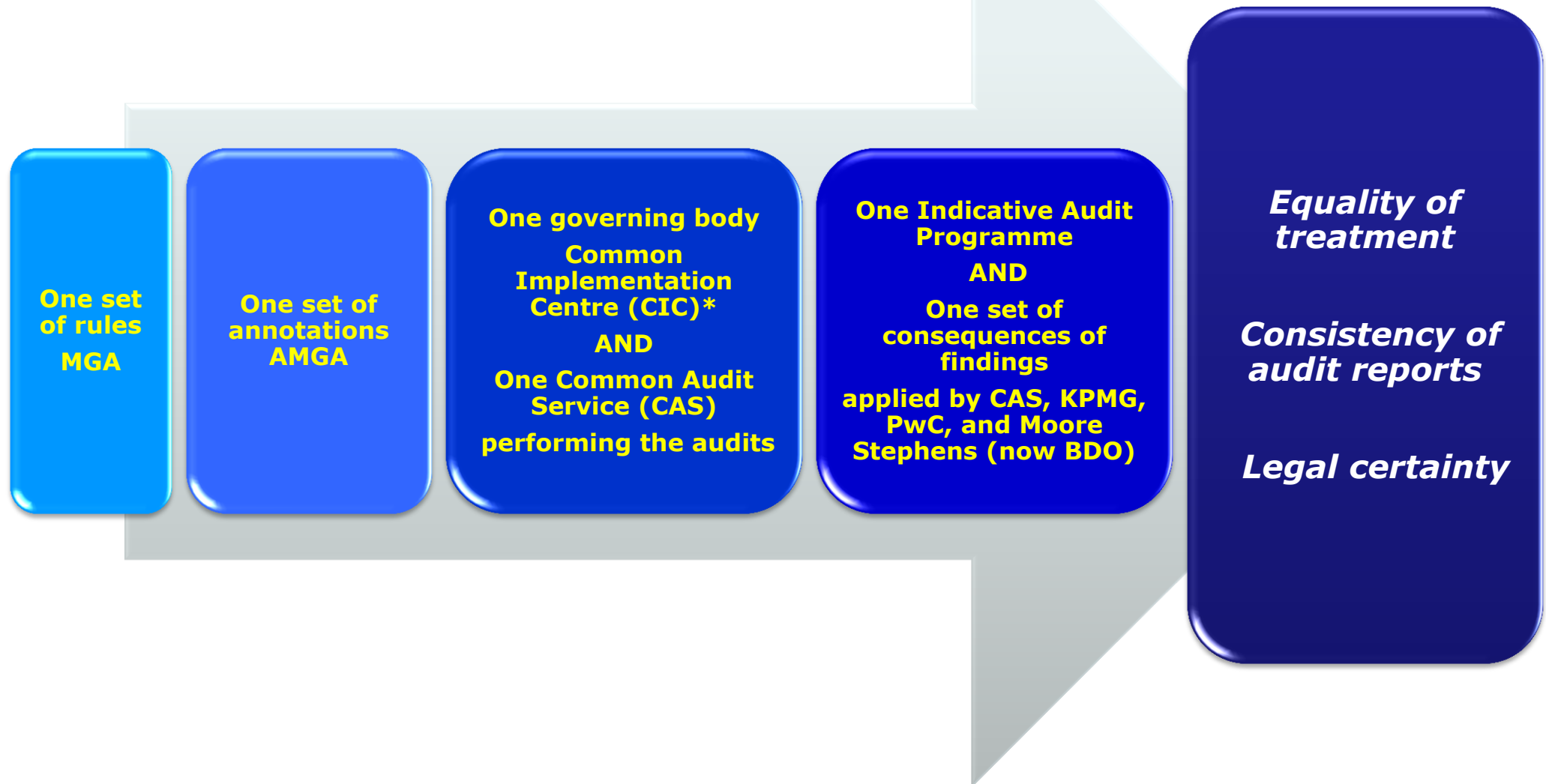
- ✓ External audits **ARE NOT** :

- 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

1. H2020 Internal Control Framework

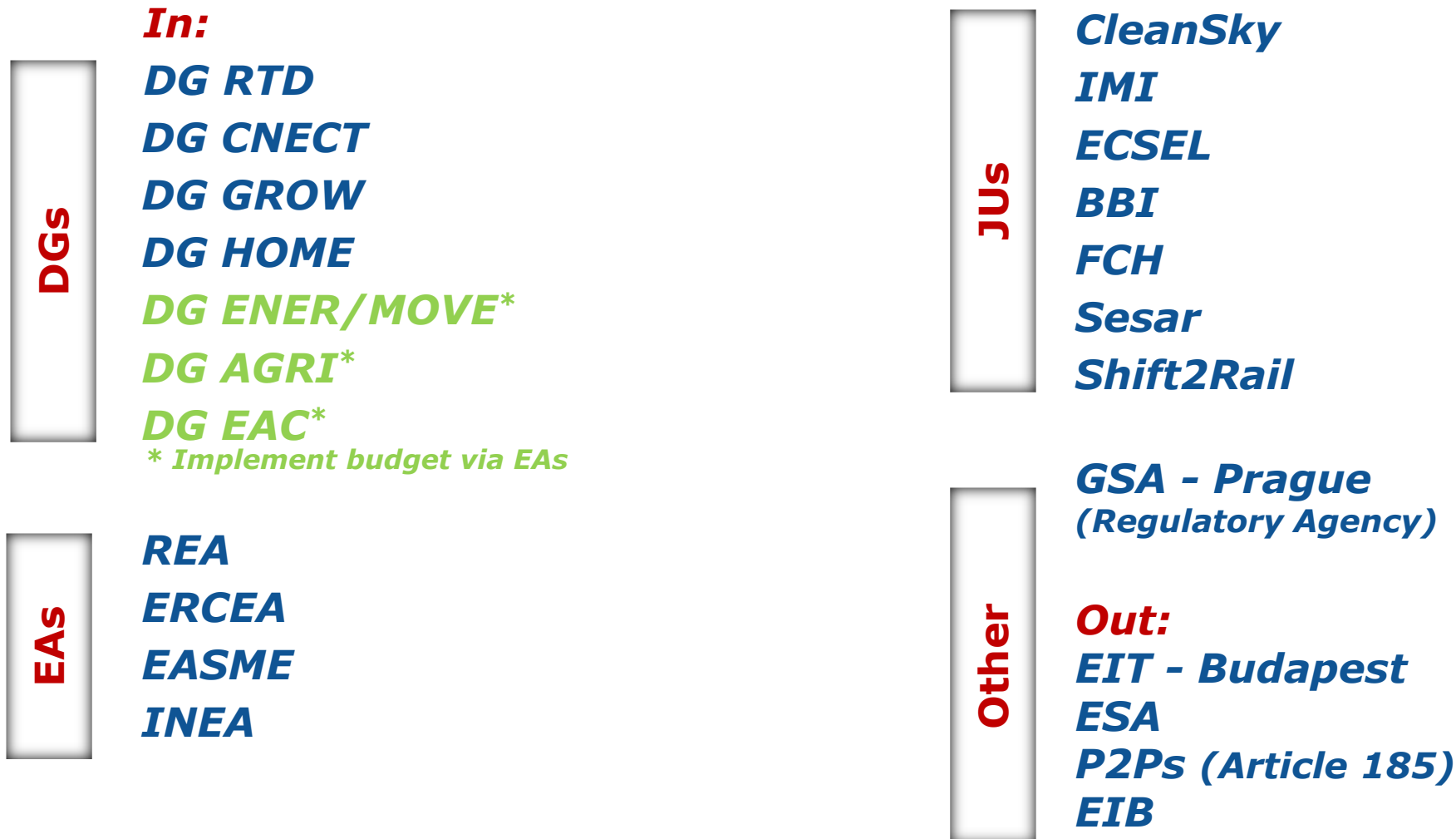
Framework for H2020 ex-post audits



1. H2020 Internal Control Framework



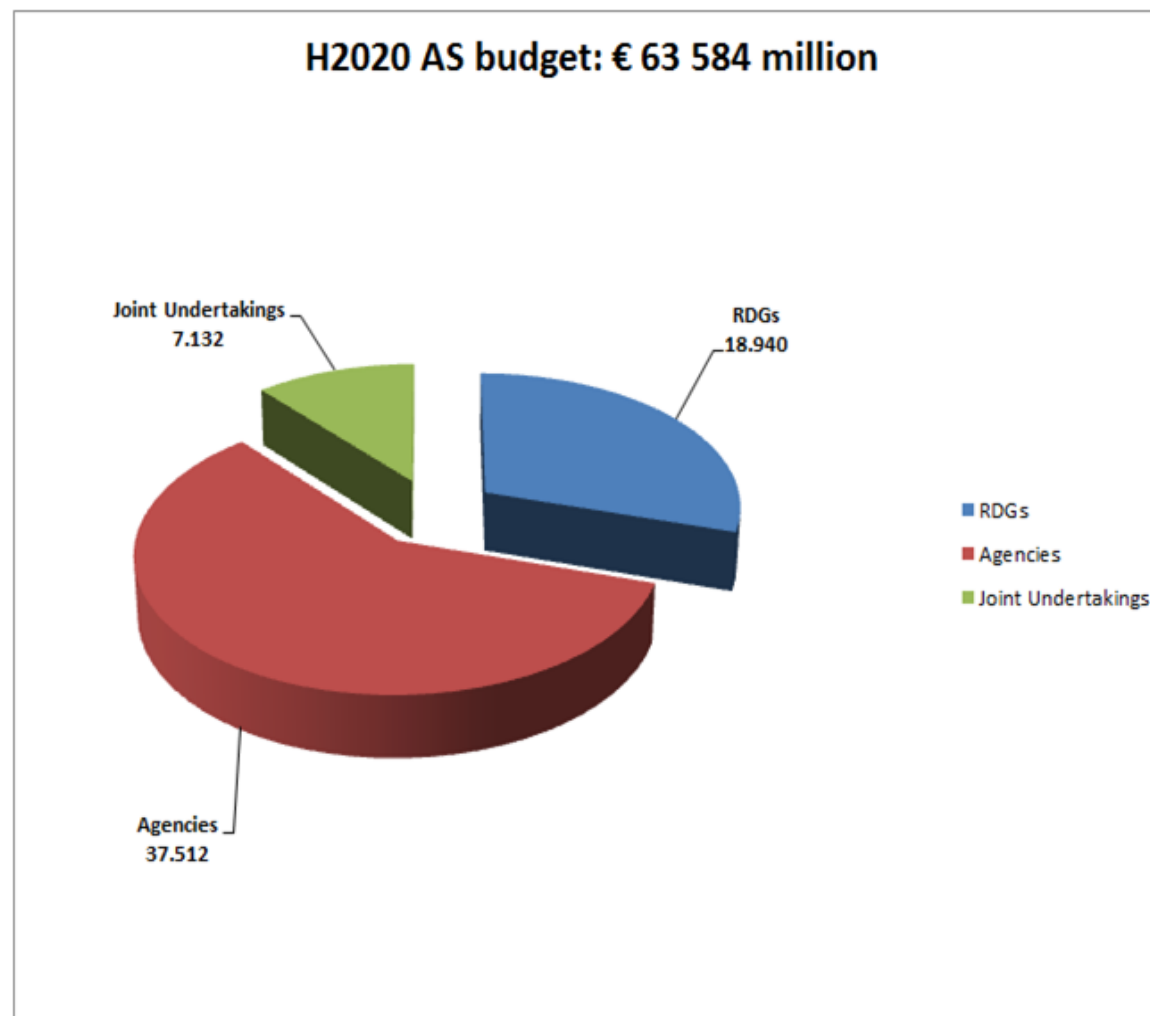
Research and Innovation Family – 20 entities



1. H2020 Internal Control Framework

H2020 Budget Share

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

Why an Audit Strategy?

DECLARATION OF ASSURANCE

I, the undersigned,

Acting Director-General of Research and Innovation

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view⁷⁷.

State that I have reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

*This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, **ex-post controls**, the limited conclusion of the Internal Auditor on the state of control, the observations of the Internal Audit Service and the lessons learnt from the reports of the Court of Auditors for years prior to the year of this declaration.*

Confirm that I am not aware of anything not reported here which could harm the interests of the institution.

However the following reservations should be noted:

- Payments in reimbursement of cost claims under the Seventh Framework Programme;*
- Payments in reimbursement of cost claims under the Research Fund for Coal and Steel.*

Brussels, the 28 March 2019

[Signed in ARES]

Jean-Eric Paquet

Director-General DG RTD

2. H2020 Audit Strategy



Assurance elements

- Assessing L&R of H2020 project payments
- Residual error rate – acceptable level

General control objective: To get a residual error rate as close as possible to 2%, without necessarily expecting it to get under 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.

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

2. H2020 Audit Strategy

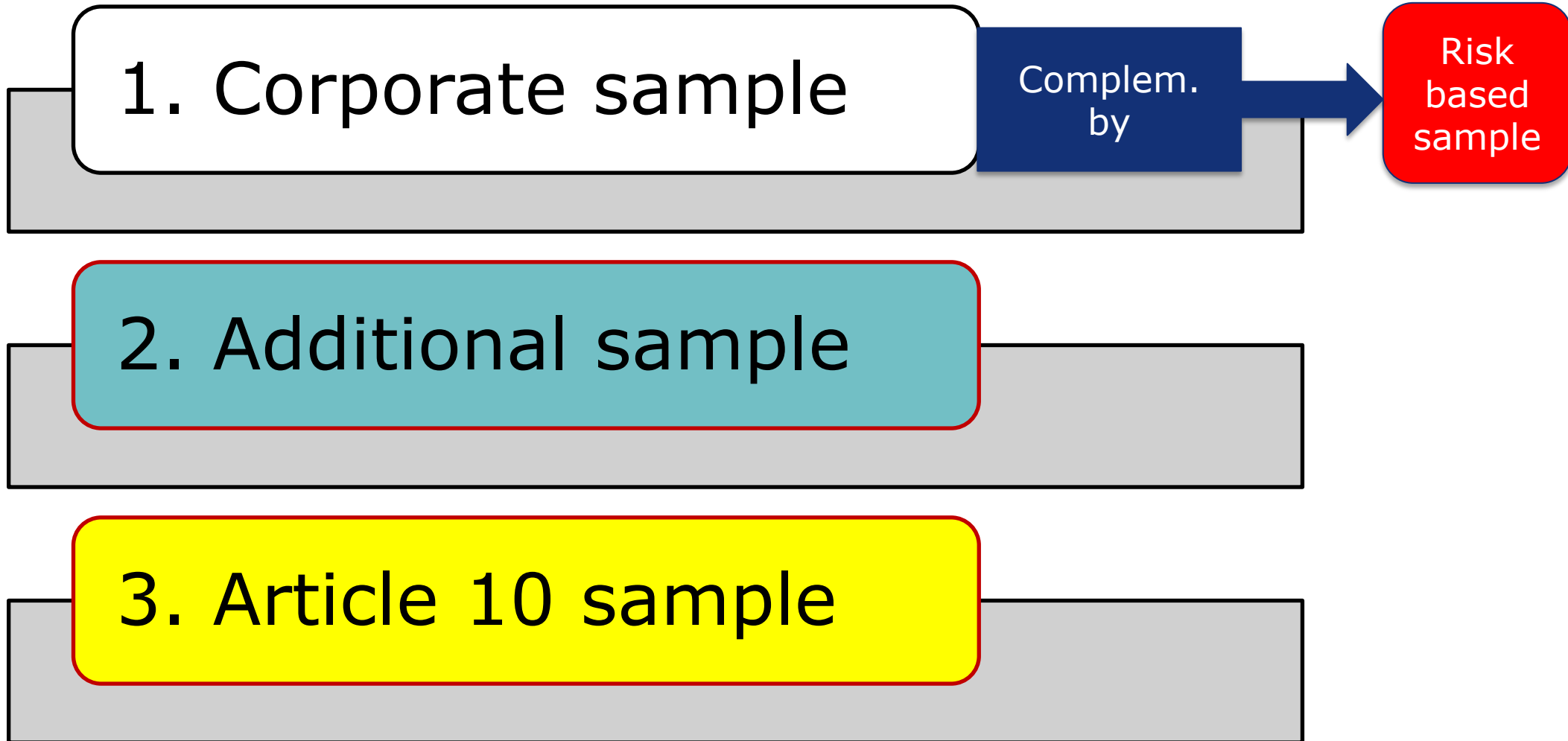


Corporate approach (single programme)

- *Common Audit Service (CAS)*
3/4 external, 1/4 internal
- *Common Representative Audit Sample (CRS)*
Estimate the overall level of error

- *Common Representative Error Rate*
- *Common Anti-Fraud strategy*

2. H2020 Audit Strategy

Methodology – 3 sampling layers



2. H2020 Audit Strategy




Methodology – (1) Corporate sample

- Common Representative Audit Sample (CRS)
Monetary Unit Sampling (MUS)
- Risk based audits / 'Corrective audits'
 - *Audits of biggest ('top') beneficiaries*
 - *Cross-cutting specific risks: preceding audit findings, high amounts, large proportion of subcontracting, new beneficiaries, SMEs, entities with a high dependency on EU-funds, etc.*
 - *Audits on request*
 - *Fraud-risk audits*

2. H2020 Audit Strategy



Methodology – (2) Additional sample

- Depends on the requirements of specific implementing entities to obtain a certain level of direct audit coverage
- Coverage:
 - ❑ **Specific grant agreements: MSCA and ERC grants**
 - ❑ **Separate discharge procedure: JUs and GSA** 
- The selection is done by CAS based on the specific requirements of the stakeholders
 - ✓ **H2020 Working Arrangements**

2. H2020 Audit Strategy

Methodology – (3) Article 10 sample

- **Condition**: if the audits under the 2 first layers are not sufficient for the JUs

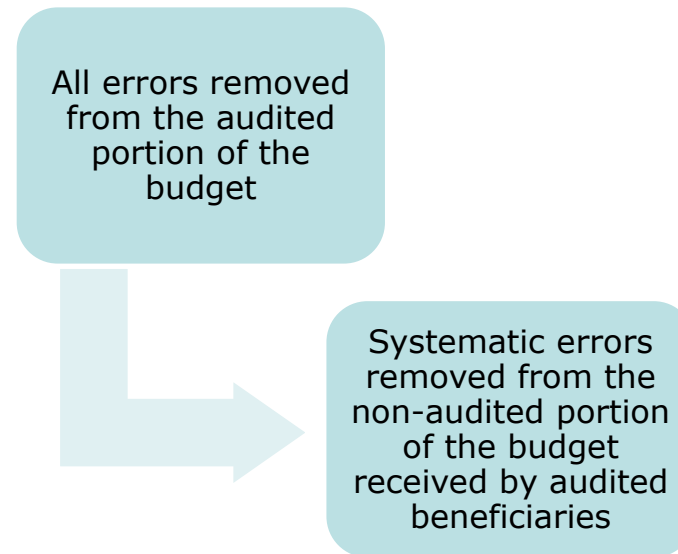


**Additional ex-
post audits**

2. H2020 Audit Strategy

Indicators on L&R for H2020

- **Overall Detected Error Rate**
- **Representative Error Rate for the Framework Programme (*RepER%*)**

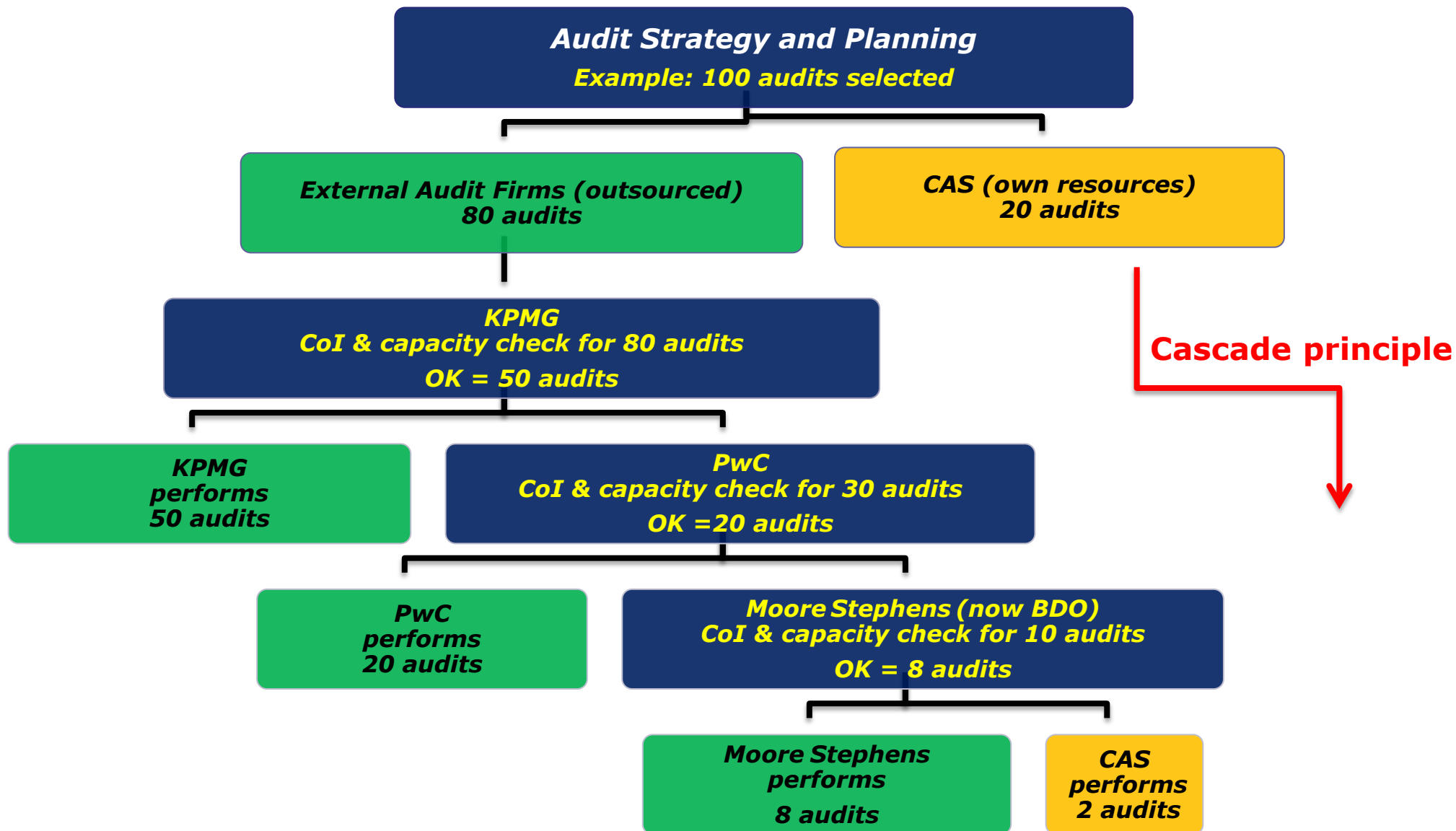


- **Residual Error Rate = Non-systematic error rate**

3. Audit Process

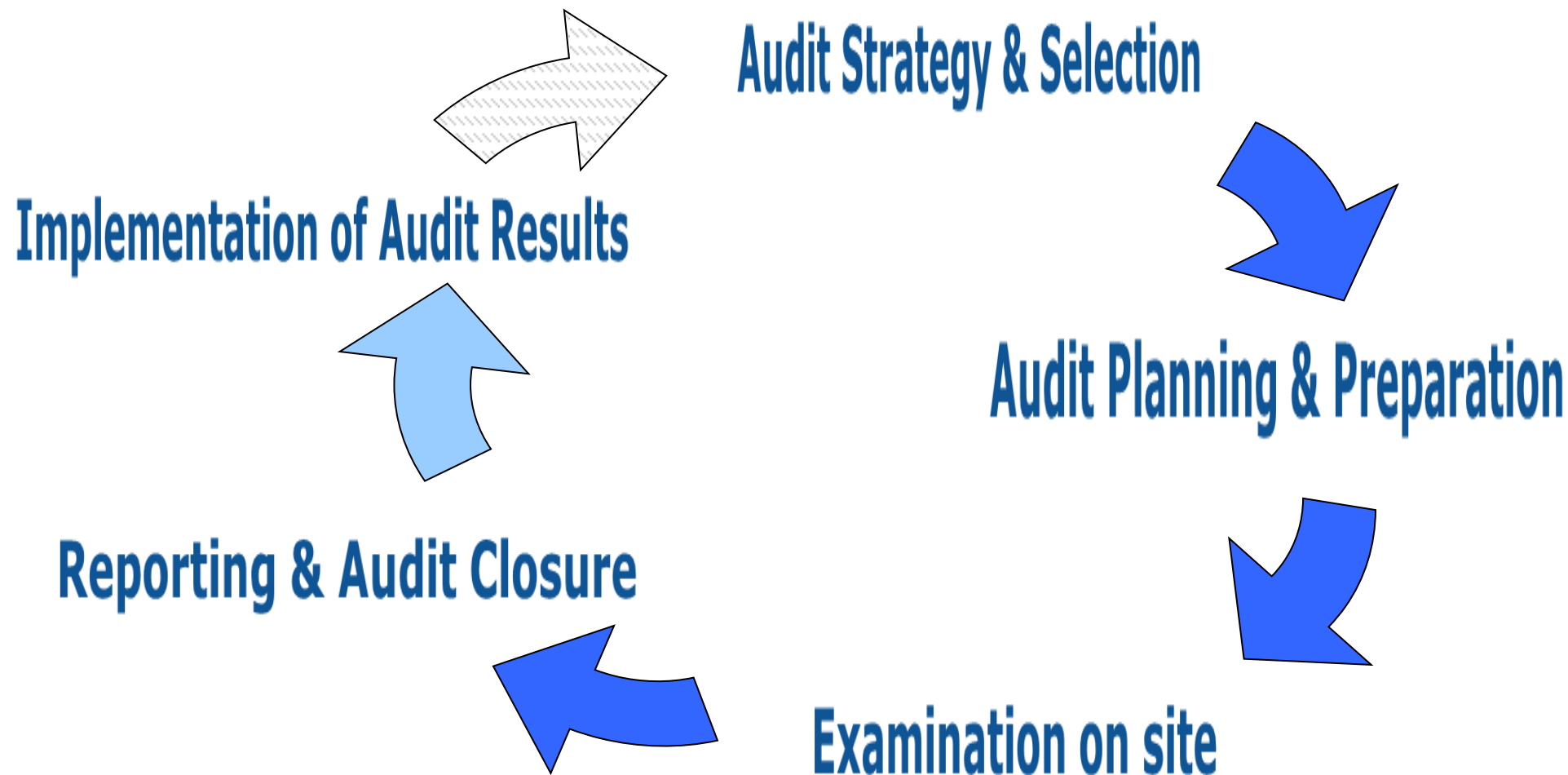


Audit Strategy and Planning



3. Audit Process

Audit Process



3. Audit Process

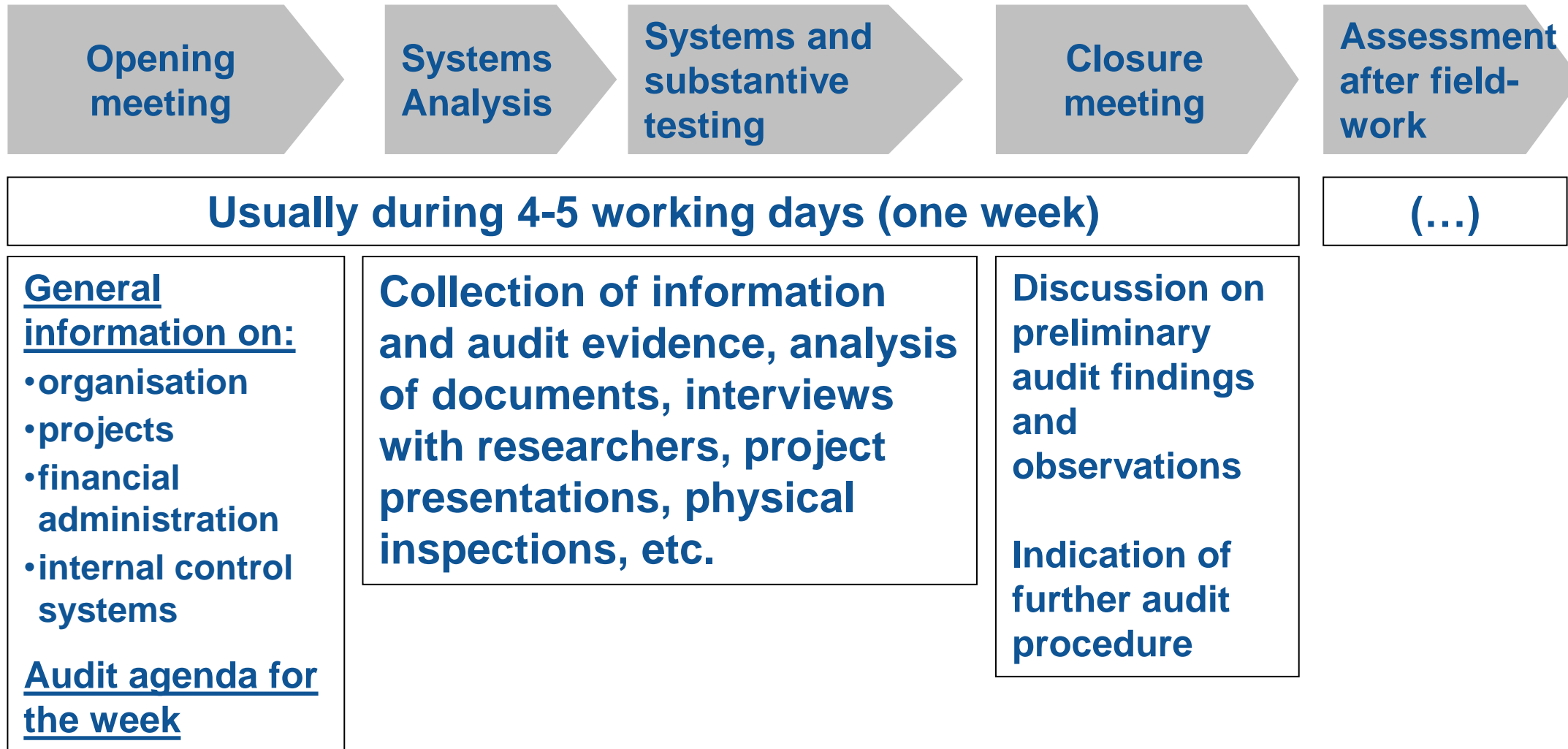
Audit Process – planning and preparation



- Set fieldwork dates
 - Prepare Audit Planning Memorandum (APM)
 - Prepare and send Letter of Announcement (LoA)
 - ❑ Request information (Annexes to LoA)
 - Collect audit evidence (Internal Control Questionnaire – Annex II LoA, Breakdown of costs – Annex III LoA, other evidence – Annex I LoA)
 - Sampling
-
- A light blue arrow originates from the underlined text "Breakdown of costs" in the previous bullet point and points horizontally to the left, then turns vertically down and then horizontally left again to point at the "Sampling" bullet point.

3. Audit Process

Audit process – Examination on site



3. Audit Process

Examination – Personnel Costs

Hours Worked
(15,6% of errors) **X**

Total Personnel Costs
(13,4% of errors)

Total Productive Hours
(13,0% of errors)

3. Audit Process

Examination – Travel & ODC

Other goods and services

- *Actually incurred (documentation)*
- *Ensure best value for money and avoid conflict of interests*
- *Directly related to the action*

Equipment

- *Ensure best value for money and avoid conflict of interests*
- *Directly related to the action*

Travel

- *Actually incurred (documentation)*
- *Directly related to the action*

3. Audit Process

Audit process – reporting & 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)***

4. Audit results



State of Play as of 22rd November 2019

- Overall the CAS closed **862** H2020 audits, related to **1905** participations
- In Hungary
 - **8** audits closed, related to **16** participations
 - **3** open audits, related to **6** participations
- Figures represent:
 - Value % against all negative adjustment
 - Indirect costs excluded
 - No reclassification

Please consider them with prudence ! They are only 21,16% of the multiannual goal of 9000 audited participations of the H2020 Audit Strategy.

4. Audit results – Overall 1/3



Personnel costs – actual costs (52,3% of all adjustments) due to:

- Incorrect time claimed (12,5%)
- Incorrect remuneration costs (11,7%)
- Incorrect productive hours calculation (8,7%)
- Double Charging, double funding (4,6%)
- Other- No valid supporting documents, unreliable/missing timesheets (14,8%)

Personnel costs – unit costs (13,1% of all adjustments) due to:

- Incorrect productive hours calculation (4,3%)
- Incorrect time claimed (3,1%)
- Incorrect remuneration costs - e.g. budgeted, estimated (1,7%)
- Other – No valid supporting documents, indirect costs claimed as direct costs, unreliable/missing timesheets (4,0%)

4. Audit results – Overall 2/3



Subcontracting (11,0% of all adjustments) due to:

- Lack of adequate supporting documents (5,3%)
- Not foreseen in Annex I nor agreed by EU services (1,7%)
- Other – including e.g. no value for money (4,0%)

Other goods and services (13,4% of all adjustments) due to:

- Lack of adequate supporting documents (7,1%)
- Cost not related to the action (2,4%)
- No direct measurement of the cost (1,0%)
- Other - indirect costs claimed as direct costs, no value for money (2,9%)

4. Audit results – Overall 3/3



Equipment (5,7% of all adjustments) due to:

- No direct measurement of the cost (2,2%)
- Other – e.g. indirect costs claimed as direct costs (3,5%)

Travel (2,2% of all adjustments) due to:

- Lack of adequate supporting documents (0,7%)
- Cost not related to the action (0,6%)
- Other – e.g. lack of adequate supporting documents (0,9%)

Large research infrastructure (2,3% of all adjustments) due to:

- Lack of adequate supporting documents (2,2%)
- Other – e.g. indirect costs claimed as direct costs (0,1%)

4. Audit results – Hungary

Personnel costs – actual costs (1,9% of all adjustments) due to:

- Double Charging (1,9%)

Subcontracting (95,0% of all adjustments) due to:

- Other errors (95,0%)

Other goods and services (2,1% of all adjustments) due to:

- Not related to the action (2,0%)
- Other errors (0,1%)

Travel (0,9% of all adjustments) due to:

- Not related to the action (0,6%)
- Other errors (0,3%)

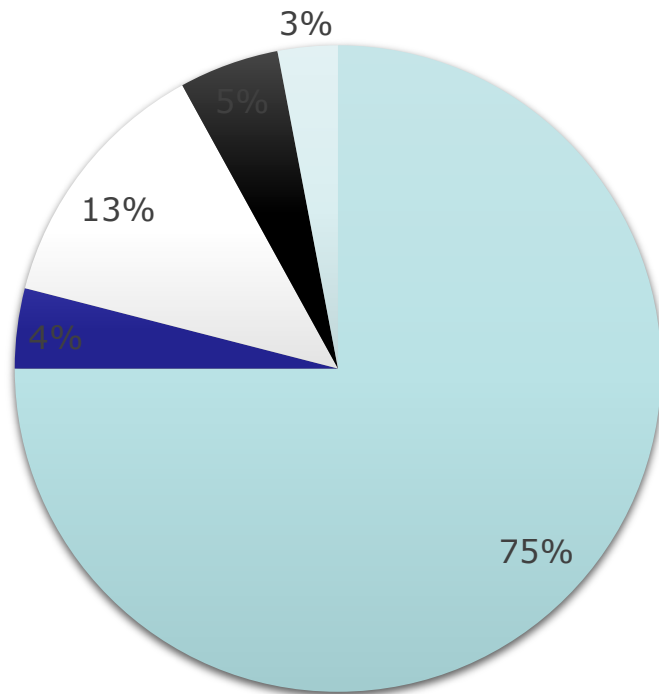
Equipment (0,1% of all adjustments) due to:

- No direct measurement (0,1%)

4. Audit results

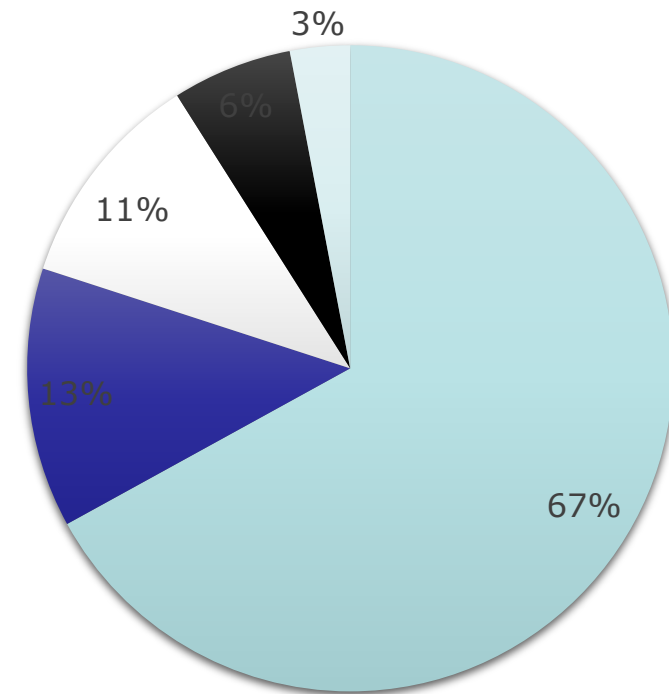
Declared costs vs Errors (January 2019)

Declared costs



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

Errors



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

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

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



Indicative Audit programme (IAP) :

http://ec.europa.eu/research/participants/data/ref/h2020/other/gm/audit/h2020-iap_en.pdf



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HORIZON 2020

Thank you !

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<http://ec.europa.eu/programmes/horizon2020/>

*Research and
Innovation*