Agenda

1. Types of Controls according to Article 22 MGA

2. Types and Levels of Audits in Horizon 2020

3. The Audit Cycle in Horizon 2020
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Types of controls: Article 22 MGA

- **a) Checks** (any aspect)
- **b) Reviews** (technical + scientific aspects)
- **c) Audits** (financial aspects)
- **d) Investigations** (illegal aspects)

(Special cases)

- Any form of control can apply to third parties and subcontractors (Article 10-16 MGA)
  → As beneficiary you are also responsible for these controls
Checks

• Control implementation of the action
• Verify compliance with legal obligations
• Assess deliverables and reports

• By Commission itself or external persons / bodies
• Can relate to any aspect of the grant
• At any moment and no time restrictions
Reviews

- Mainly concern **technical** and **scientific** implementation of the action
- Can include financial and budgetary aspects
- By Commission itself or external experts
- May include on-the-spot visits or review meetings
- Review report and 30 days “contradictory review procedure”
- Up to 2 years after payment of the balance
Audits

- Mainly concern **financial** implementation of the action
- Can include technical and other aspects
- By Commission itself or external auditors
- Usually includes on-the-spot visit and desk review
- Audit report and 30 days “contradictory audit procedure”
- Up to 2 years after payment of the balance
Investigations

- By European Anti-Fraud Office (OLAF)

- Discover fraud, corruption or illegal activities

- Usually includes on-the-spot checks and inspections

- At any moment during and after the action
Special case: ECA

- Checks and audits by the European Court of Auditors (ECA)

- ECA is external auditing body for all European institutions

- Usually includes on-the-spot visit and desk review
Special case: International Organisations

• Checks, reviews, audits and investigations also apply to international organisations

• By European Commission, European Anti-Fraud Office (OLAF) and European Court of Auditors (ECA)

• Special agreements between the European Union and the international organisation may apply
Consequences of findings (Article xx MGA)

- Rejection of ineligible costs (42)
- Reduction of the grant (43)
- Recovery of undue amounts (44)
- Administrative and financial penalties (45)
- Suspension of payments (48)
- Suspension of the action implementation (49)
- Termination of the agreement or participation (50)
- “Extension of findings to other grants”
- OLAF findings may lead to criminal prosecution
Extension of findings

• Systemic or recurrent errors detected
• Extension of findings to non-audited/reviewed reporting periods of this grant
• Extension to any other H2020 grant of this beneficiary
• Concerns on-going and closed grants
• Up to 2 years after payment of the balance
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Level of controls and audits

- **Ex-ante controls:** Certificate on the Methodology, Large Research Infrastructure (LRI)

- **Ex-post controls:**
  - *First level audit:* Certificate on the Financial Statements (CFS) → auditor to be selected by beneficiary
  - *Second level audit:* Financial audits, investigations → by European Commission (Common Audit Service), ECA, OLAF
Certificate on the Methodology (CoM)

- 2 types: CoM / CoMAv

- Optional: Ex-ante certification of methodology for average personnel costs (CoMAv) and indirect costs (CoM)

- 2 types: CoM / LRI

- Optional: Ex-ante certification of the methodology (CoM) for unit costs (average personnel costs)

- Obligatory: Large Research Infrastructure (LRI)
Certificate on the Financial Statements (CFS)

- Threshold: € 375,000 EU contribution
- Certificate necessary every time threshold is exceeded and "counter" set back to zero
- Costs for CFS eligible under category "Subcontracting costs"

- Threshold: € 325,000 actual + unit costs (direct)
- 1 certificate at the end of the action (together with payment request)
- Costs for CFS eligible under category "Costs for goods or services"
Financial audits: Second level audits

- Up to 5 years after the end of the project = activities foreseen by Annex I

- "Extrapolation procedure" for systematic errors → No contradictory process

- Up to 2 years after payment of the balance

- "Extension of audit findings" for systematic errors → 90 days contradictory process
Common Support Center which will ensure:

- That all beneficiaries receive the same experience throughout the FP
- A consistent application of a single set of rules for participation and dissemination in Horizon 2020 across all components of the FP.
- A consistent interpretation of the rules for all instruments and implementing bodies
- Efficiency gains from cost reduction, job savings and rationalisation of processes and procedures
Common Support Center will consist of:

- Common Legal Support Service
- Common Audit Service
- Common Business Processes Service
- Common IT Service
- Common Service for Information and Data
Common Audit Service

• *Certification on Methodology (unit costs for average personnel costs)*

• *Ex-ante assessment for Large Research Infrastructure (LRI) costs*

• *Financial audits (second level audits by Commission or external auditors) for all H2020 actions of:*
  - All Research related Directorate-Generals of the European Commission
  - Executive Agencies
  - Joint Undertakings
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Audit cycle

Audit Strategy & Selection

Implementation of Audit Results

Audit Planning & Preparation

Reporting & Audit Closure

Examination on site
Why auditing is so important

**DG Declaration of Assurance**

I, the undersigned Director-General, declare that the information contained in this report gives a true and fair view.

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:

Brussels, 31 March 2015

"Signed"

The Director-General
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
Audit Planning & Preparation

- Concrete selection of actions to be audited
- Initial contact with responsible auditors to agree on dates and logistics for audit visit
- Formal “Letter of announcement” of audit including detailed annex with information and documents to be provided prior and during the on site examination
Examination on site

Opening meeting → Analysis of Systems in place → Test of systems and substantive evidence → Closure meeting → Assessment after on site visit

Usually within 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

(...)

Research and Innovation
Reporting & Audit Closure

- Draft audit report
- Internal quality check
- Contradictory audit procedure: 30 days for beneficiary to send comments and “Letter of representation”
- Final audit report
- Internal committees and final quality check
- Audit closure with formal “Letter of Closure” of audit and indication of further procedures for the implementation of audit results
Implementation of Audit Results

- Managed by the operational services in charge of project management
- Normally adjustment of 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.
Obligations of beneficiaries

• Obligation to keep records and other supporting documentation for 5 years (3 years for low value grants ≤ EUR 60,000) – Article 18 MGA
• Obligation to make available all records and documents during checks, reviews, audits or investigations and to keep them until the end of these procedures
• Original documents or authorised digital copies
• All evidence must be verifiable, auditable and available (no objection of data protection or confidentiality)