



**Regional Stakeholder Event on Horizon Europe
Implementation**

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

**Romania and Bulgaria,
Ruse, 22 January 2020**

#HorizonEU

Common Audit Service
Sorin Serban



Agenda

1. Introduction on Controls

2. Experience from Horizon2020

**3. Horizon Europe: Systems and Processes
Audit and Cross reliance**

4. Horizon Europe: Public Consultation

5. Way Forward – Audits in Horizon Europe

1. Ex-ante controls



- 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.

1. Ex-ante controls



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

1. 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)



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 Framework Programme

Brussels, 31 March 20XX

"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.

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

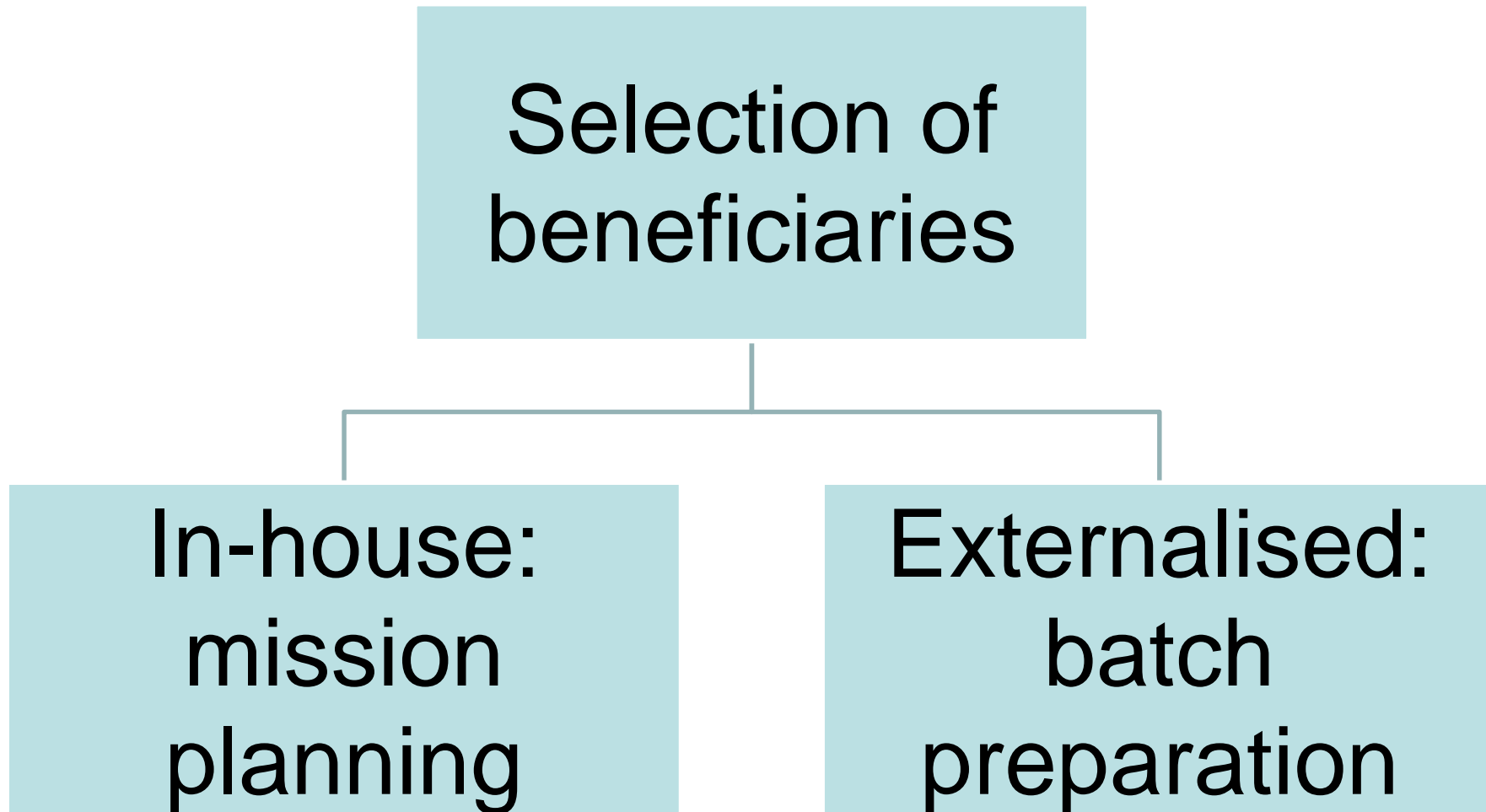
- *Scrutiny of the Budgetary Authority and ECA*
- *Increased error rate*
- *Increased ex post audit efforts*
- *Corrective measures*



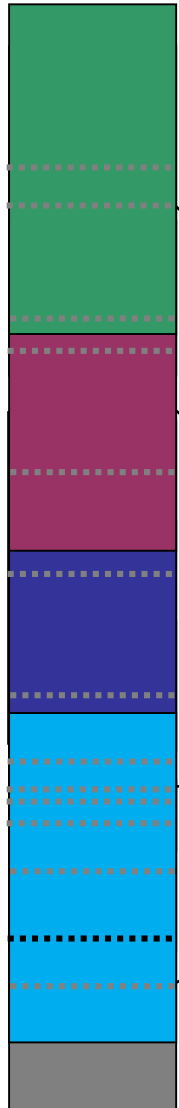
Audit Cycle



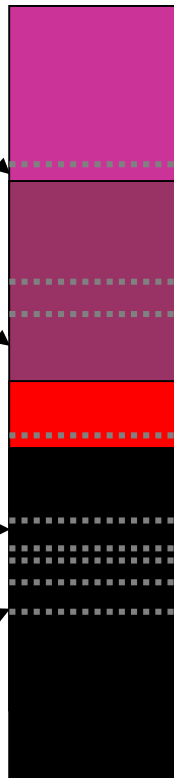
Audit Planning



Population €

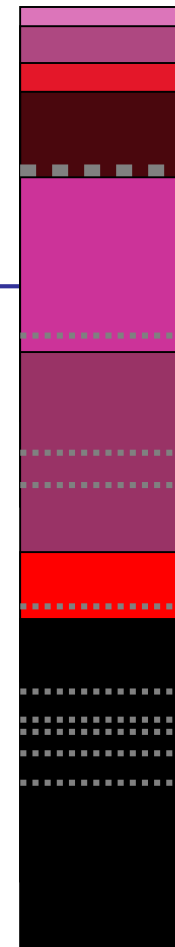


Sample €



Error Rate

$$\text{Error Rate \%} = \frac{\text{€ } \sum \text{neg_adj}}{\text{€ } \sum \text{aud_amount}}$$



$$\text{€ } \sum \text{neg_adj}$$

$$\text{€ } \sum \text{aud_amount}$$

2. 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

2. Audit in H2020 – Main detected errors (2/2)

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

2. Ex-post controls in H2020 – The Feedback

Main feedback from Audited Beneficiaries

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

3. Horizon Europe: the novelties in audit

Systems and Processes Audit (SPA)

Wider cross-reliance on audits and assessments

3. System and Process Audit (1/2)

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

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

3. System and Process audit (2/2)

Objectives

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

Consequences

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

3. Cross reliance(1/2)

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

NEW

3. Cross reliance(2/2)

Factors of success

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

Enhancement of *corporate IT tools*:

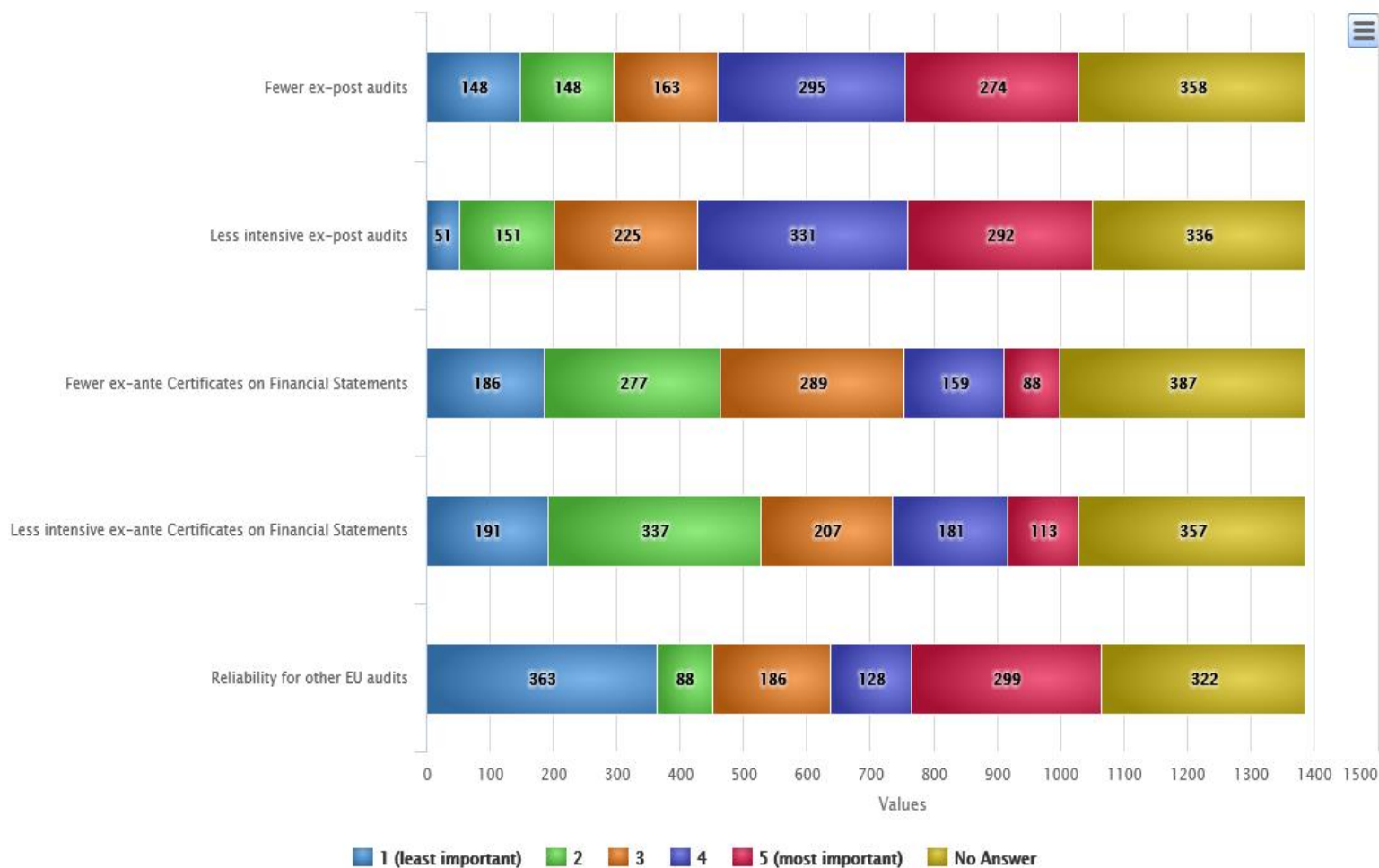
Taking into account international benchmarks:

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

4. Results of consultation – Control Strategy (3/3)

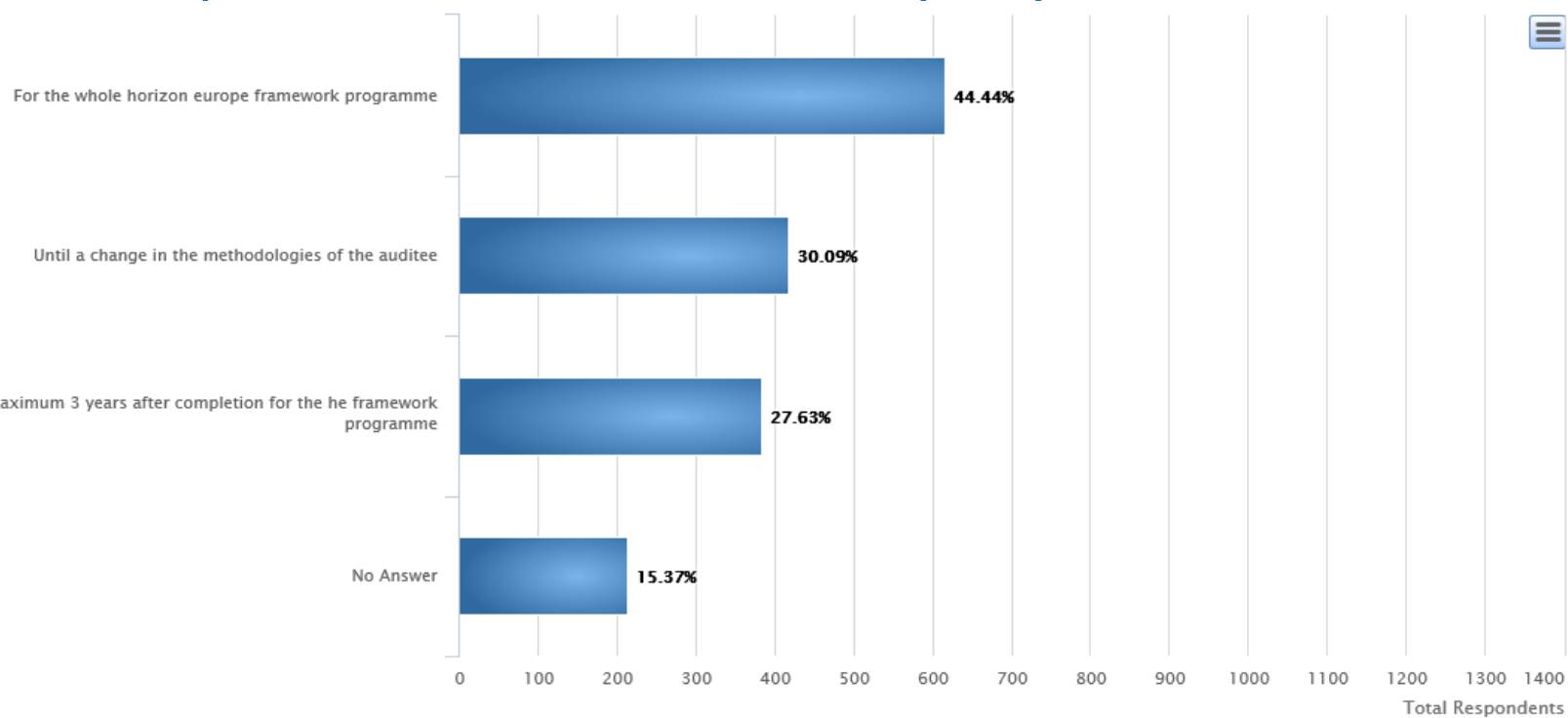
What type of benefits would you expect from a Systems and Processes Audit (SPA)? (rank by order of preference)

The replies are mitigated among the five types of impacts of a SPA and what is predominant is that a SPA should bring fewer ex-post audits and less intensive audits. For Romania and Bulgaria the situation is very similar.



4. Results of consultation – Control Strategy (2/3)

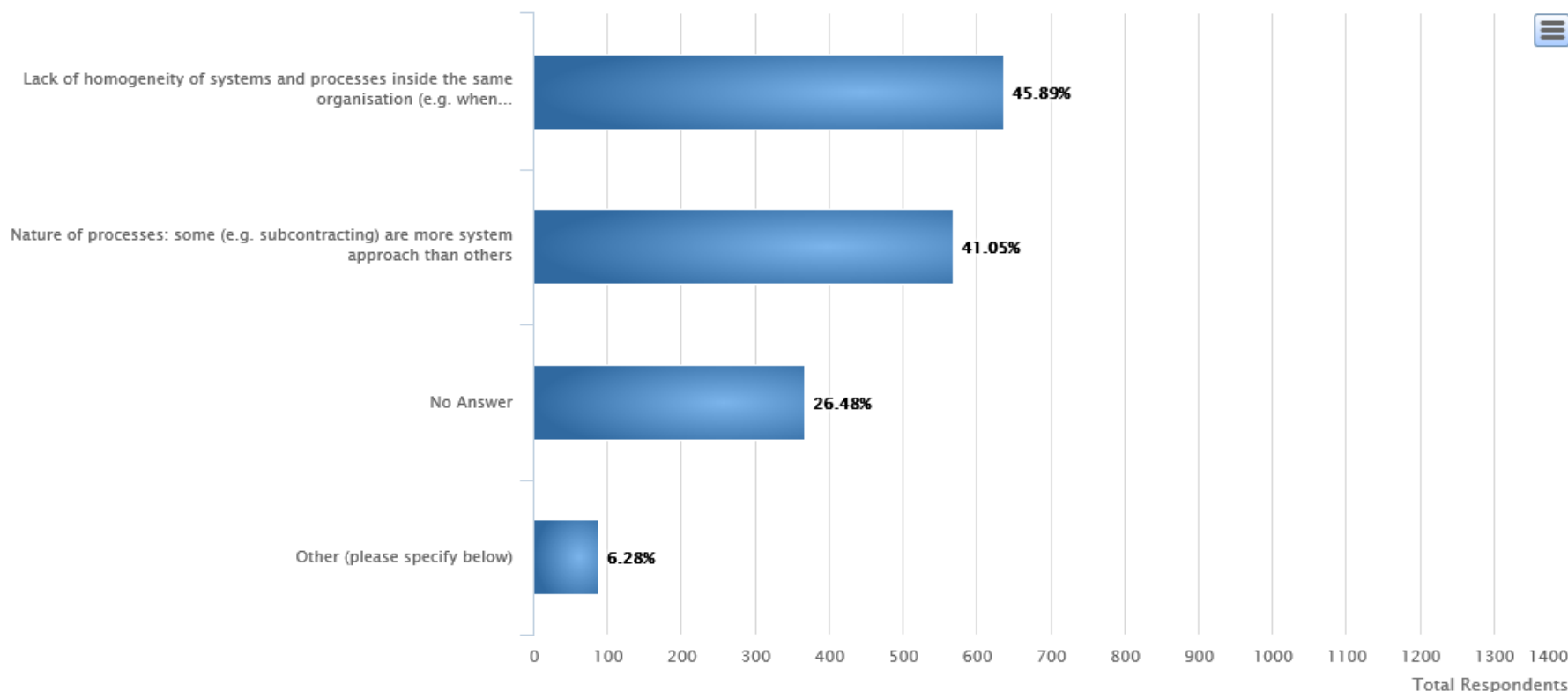
The Systems and Process Audits (SPA) should be valid...



The validity of the SPA's should be for the whole framework programme and for maximum 3 years or until a change in the methodologies for 1/4 of the other replies. For Bulgaria and Romania the majority of respondents prefer also for maximum three years.

• 4. Results of the public consultation – Control Strategy (3/3)

What are the limitations to a SPA?



Main respondents pointed out the lack of homogeneity of systems and processes and their nature as being a limitation for a SPA for around 86% of the replies. For Bulgaria and Romania the main limitation seem to be the nature of processes.

5. 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
for your
attention & participation !**