



Horizon Europe/ H2020 Master
of Finance and EC Audits

EC Audits in Horizon 2020

Horizon 2020/ Horizon Europe

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Chapter One

Definitions

Audit or Review?

A **Review** is typically done at project level – all aspects and Beneficiaries involved; normally takes place in Brussels

- ***Project Review***

An **Audit** is always and only performed on a selected Beneficiary, concerning its involvement into one or more of its H2020 projects; and takes place at the Beneficiary's premises

- ***Financial Audit***
- *(Technical Audit)*

Timing

FP7

„The Commission may, at any time during the implementation of the project and **up to five years** after the end of the project, arrange for financial audits to be carried out, by external auditors, or by the Commission services themselves including OLAF”

Article 11.22

Timing

H2020&HE

The Commission [or the Agency] may – during the implementation of the action or afterwards – carry out reviews/audits on the proper implementation of the action (including assessment of deliverables and reports), compliance with the obligations under the Agreement and continued scientific or technological relevance of the action.

Reviews/Audits may be started **up to two years** after the payment of the balance. They will be formally notified to the coordinator or beneficiary concerned and will be considered to have started on the date of the formal notification.

Article 22.1.2 and 22.1.3

System and Process Audit – Horizon Europe

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

Good to know....

Interesting facts:

- the European Anti-Fraud Office (**OLAF**) may — at any moment during implementation of the action **or afterwards** — carry out investigations, including on-the-spot checks and inspections, to establish whether there has been fraud, corruption or any other illegal activity affecting the financial interests of the EU (*see Article 22.1.4*)
- the European Court of Auditors (**ECA**) may — at any moment during implementation of the action **or afterwards** — carry out audits. The ECA has the right of access for the purpose of checks and audits. (*see Article 22.1.5*)
- **Objections** based on data protection or confidentiality will **NOT be accepted**.
- The Beneficiary must allow access to its premises, this includes granting access to research facilities and **interviewing the researchers** that worked on the action.
- The Commission may carry out interim and final **evaluations of the impact** of the action measured against the objective of the programme. Evaluations may be started during implementation of the action and **up to five (three) years** after the payment of the balance (*Article 23*)

Chapter Two

Scope&Selection

- Done at the Beneficiary's level, to control, (cross-)check and evaluate its financial reports (Form Cs) submitted to one or more H2020 Grant Agreements
- Can be done directly by the European Commission (e.g. DG RTD M1) or by a subcontracted body (e.g. Deloitte, KPMG, etc.) representing the EC; or jointly by the ECA/OLAF and the DG RTD (...)
- Auditors are generally from the Beneficiary's country, even if they work for the EC in Brussels, or...
- Preferably done after the project closure, or any time during the project's lifetime, but after the acceptance of the first periodic report.

In a nutshell: to control whether the reported costs are real, actual and were needed for the project

(i.e.: not a value-for-money audit normally)

The EC's perspective on Financial Audits

- To **remove** any systematic (!) and non-systematic **errors** from the reported (thus reimbursed from the taxpayer's money) expenditures
- To **help the Beneficiary** in the correct calculation and classification of the project's costs
- To analyse and **evaluate the relation** between the cost(s) and the project
- To **overview** the Beneficiary's general accounting systems
- To **validate** the Beneficiary's project specific accounting and the relevant internal policies (i.e. travel policies, time-recording, etc.)

Selection

- The Beneficiary is involved in many projects ('just like the lottery')
- The Beneficiary has very large budget(s) – what if any CFS/CoM is submitted and approved?
- The Beneficiary has noticeable administrative difficulties
- There are severe scientific/technical difficulties (Technical audit)
- The Beneficiary is selected 'out of the pot' (blind chance)

Fact: Due to less strict financial rules, more EC project audits will be performed!

e.g.: Beneficiaries having more than 3 projects...

Chapter Three

How it happens?

The 5 steps of audits – How it happens?

Audit Strategy & Selection
(EC internal procedure)



Step 1 – The letter

The audit will be conducted by Commission officials of the Directorate-General for Research and Innovation, unit M.1 (External Audit),
is the responsible official in charge of the
conduct of this audit.

The audit findings are based on the information provided by you and your staff. We draw your specific attention to the fact that any financial audit finding in the audit report, once finalised, may lead, if appropriate, to the extrapolation of such finding to any other research grant agreement in which you are or have been participating. It would be helpful if arrangements could be made for the appropriate finance and other officers who deal with costing, accounting, internal control and recording systems, in particular in relation to the Commission research grant agreements, to be available for the duration of the audit.

Step 2: Preparatory works

- Once receiving the formal letter with the documentation to be provided, contact (normally by phone) the appointed auditor to define/refine exact dates and logistics
- Collection of audit information – replacing missing ones...
- Some of the requested docs have to be sent prior to the audit!
- Prepare yourself and your team!

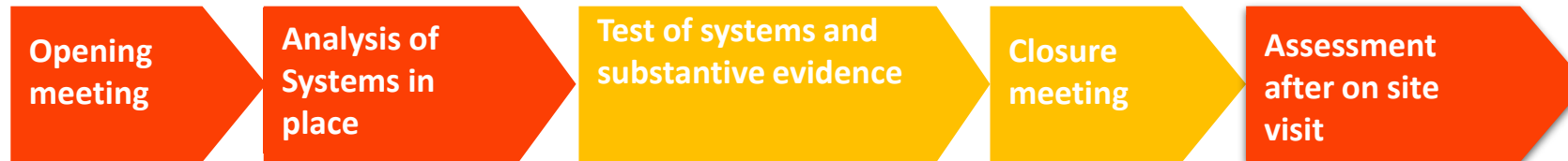
 **DO NOT PANIC!**

Requested documents

- Internal Questionnaire
- Excel sheets – a lot...
- Representation letter
- Supporting documentation

–	Audit templates		
–	List of supporting documents for the audit	>	
–	List of supporting documents for the audit for MSCA	>	
–	Internal control questionnaire	>	
–	Internal control questionnaire for MSCA	>	
–	Detailed cost breakdown	>	
–	Detailed cost breakdown for MSCA	>	
–	SME Instrument declaration	>	
–	Letter of representation	>	
–	Statement on audit implementation	>	
–	Certificate on alternative correction rate	>	
–	Audit extension file	>	

Step 3: On-site financial audits



Usually within 4-5 working days (one week)

General info on:

- organisation
- Projects
- Financial administration
- Internal control system

Clarification on audit agenda for further days

Analysis of documents and explanation received and collection of audit evidence

Discussion of preliminary findings and observations
Indication of further audit procedure

3-12 months (!!)

Step 4:

Internal approval of the DAR – sending it to the Beneficiary for comments – Final approval of the Audit Report

Results and possible consequences

Draft/Final Audit Reports

2. SUMMARY OF AUDIT ADJUSTMENTS AND RECOMMENDATIONS FOR SYSTEMS IMPROVEMENT

2.1. Summary of audit adjustments

No adjustments.

2.2. Systematic errors

No systematic errors identified.

2.3. Recommendations for systems improvement

No recommendations.

Draft/Final Audit Reports

1.4. Summary of adjustments

The adjustments required to the costs accepted by the EC are summarised below:

4.1030/Z/02-045/2002 Geothermal Power						
Period examined: 1/9/2003 to 28/2/2005		Costs claimed by Contractor	Costs accepted by EC	Eligible costs identified by Deloitte	Adjustments to costs accepted by EC	Ref
Cost category		EURO	EURO	EURO	EURO	
1	Personnel	64.223,21	62.000,00	64.161,30	2.161,30	(A)
2	Durable Equipment	-	-	-	-	
3	Subcontracting	-	-	-	-	
4	Travel and Subsistence	4.296,19	4.296,19	4.296,19	-	(B)
5	Consumables	470,46	-	-	-	(C)
6	Computing	-	-	-	-	
7	Other specific costs	-	-	-	-	
8	Overheads	51.378,57	49.600,00	51.329,04	1.729,04	(D)
	Total	120.368,44	115.896,19	119.786,53	3.890,34	

Step 5: Closure and Possible Consequences:

- Closed without financial consequences, with or w/o recommendation
- Recovery of the amount paid
 - + Liquidities damages
 - + Interest/penalty
- Compensation on the next payment (if any)
 - Offsetting
- Sanctions
 - Limitation of participation in H2020/HE
 - Exclusion from all running projects

Thank
you

for your attention

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