



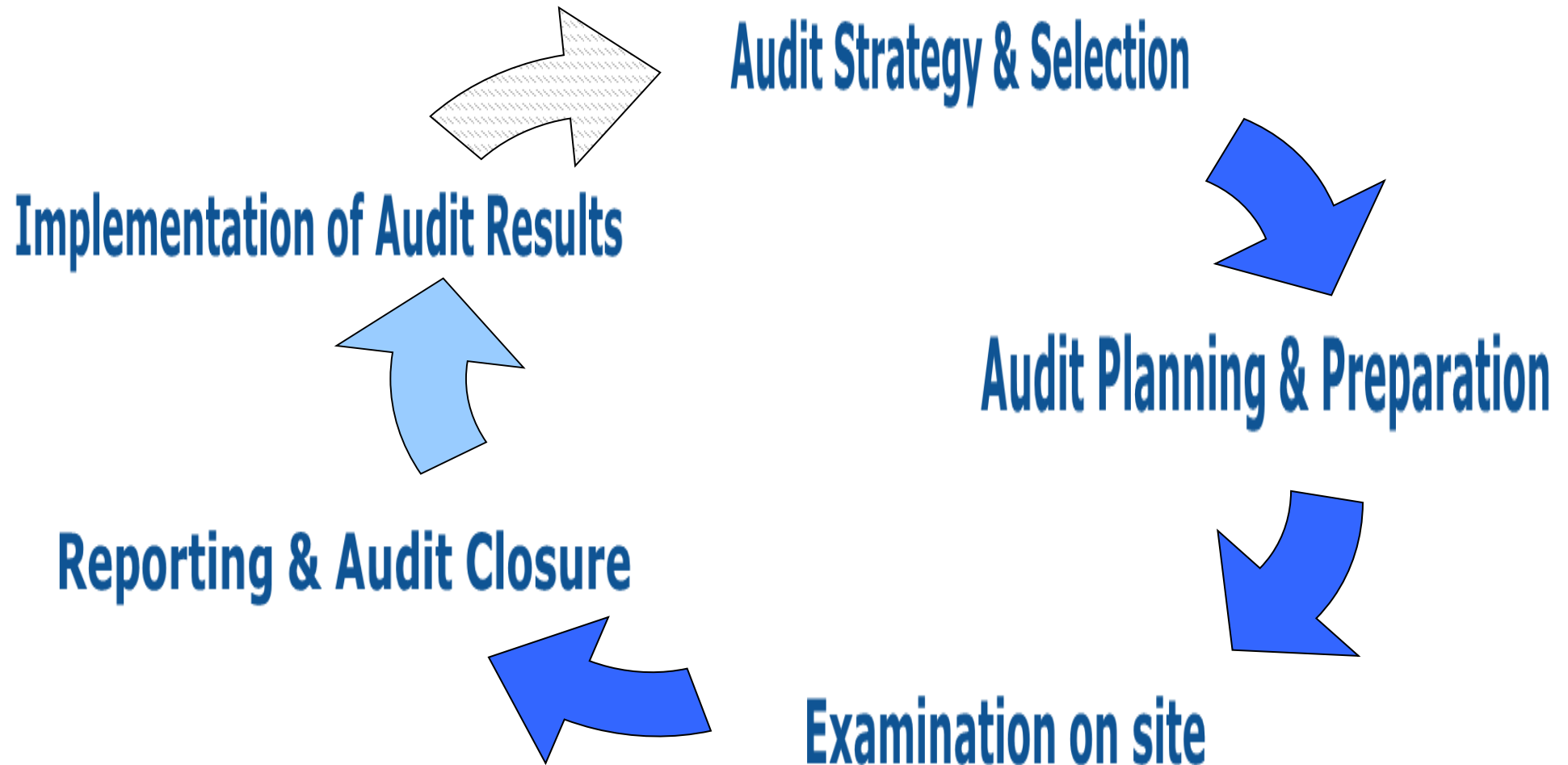
# HORIZON 2020

## Ex-post audit Horizon 2020

Zagreb, 25 April 2018

**Mr Ekke Van Vliet**  
**Common Audit Service (CAS)**

*Research and  
Innovation*



# 1.1. Why audits?

I, the undersigned Director-General, in my capacity as authorising officer by delegation,

Declare that the information contained in this report gives **a true and fair view**[1]...

State that I have a reasonable assurance [...] based on my own judgement and on the information at my disposal such as ex-post controls...

However the following reservation should be noted:

***Reservation concerning the rate of residual errors with regard to the accuracy of financial statements in the Seventh Framework Programme (FP7) grants.***

Brussels, 31 April 2016

"Signed"

The Director-General Robert-Jan Smits

*[1]→True and fair in this context means a reliable, complete and correct view on the state of affairs in the service.*

# 1.2. Who in control?



## H2020 Audit Strategy: 20 'clients'

### *In:*

**DGs**

- DG RTD**
  - DG CNECT**
  - DG GROW**
  - DG HOME**
  - DG ENER/MOVE\***
  - DG AGRI\***
  - DG EAC\***
- \* Implement budget via EAs*

**EAs**

- REA**
- ERCEA**
- EASME**
- INEA**

**JUs**

- CleanSky**
- IMI**
- ECSEL**
- BBI**
- FCH**
- Sesar**
- Shift2Rail**

**Other**

- GSA - Prague  
(Regulatory Agency)**
- Out:**
- EIT - Budapest**
- ESA**
- P2Ps (Article 185)**
- EIB**

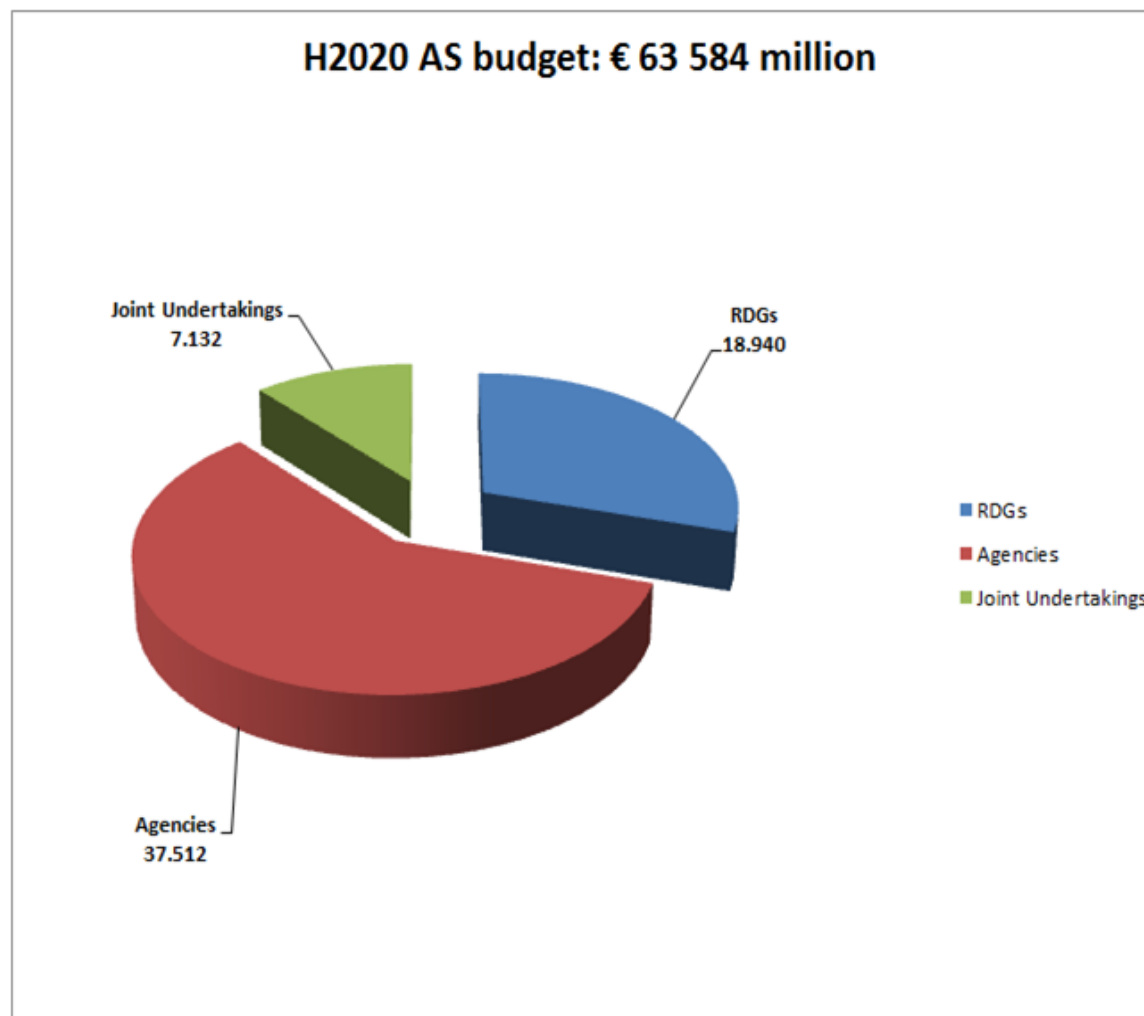
## 1.3. Who audits?



- *Common Audit Service (CAS)*  
*3/4 external, 1/4 internal*

# 1.4. What audited? FP7 → H2020

Group	€ million	%
<b>RDGs</b>	<b>18.940</b>	<b>30%</b>
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%
<b>Agencies</b>	<b>37.512</b>	<b>59%</b>
REA	12.825	20,2%
ERCEA	12.629	19,9%
EASME	6.374	10,0%
INEA	5.603	8,8%
GSA*	80	0,1%
<b>Joint Undertakings</b>	<b>7.132</b>	<b>11%</b>
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%
<b>Grand Total</b>	<b>63.584</b>	<b>100%</b>



\* Budget is part of DG GROW budget

### Main changes (1)

- ***Single reimbursement rate***
- ***More flexible rules for third parties and subcontracting costs***
- ***Differentiation between contracts and subcontracts***
- ***Single 25% flat rate for indirect costs***
- ***3 options for productive hours***

### Main changes (2)

- *Clearer and simpler obligations on time records*
- *More flexibility for average personnel costs*
- *Eligibility of non-deductible VAT*
- **Less audit burdens (2 years auditability)**
- **Common Support Centre (CSC)**



- ***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***

## 1.6. How often?



- ✓ 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.
- ✓ "Extrapolation" (now 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.

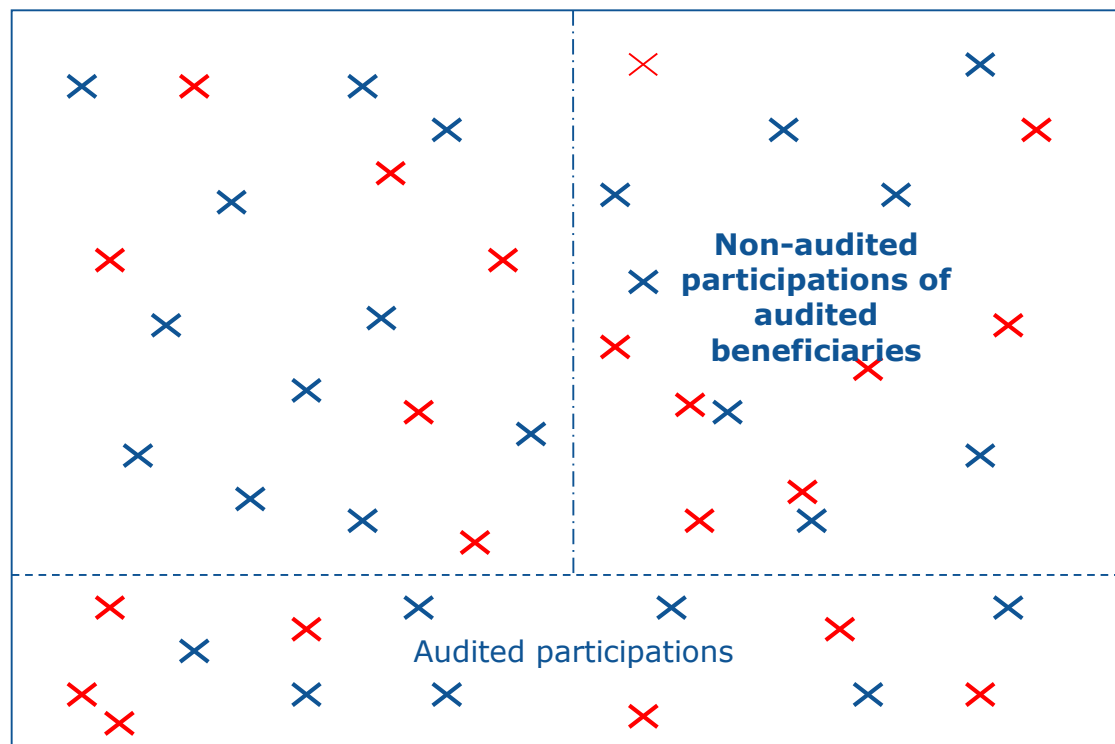
**The creation of the CSC - and the CAS in particular – should allow a better coordination of Horizon 2020 audits and avoid over-auditing the beneficiaries.**

# 1.7. How measured?

## From representative to residual

*Representative error rate (RepER%)*

*Measures the amount of error present in the population*

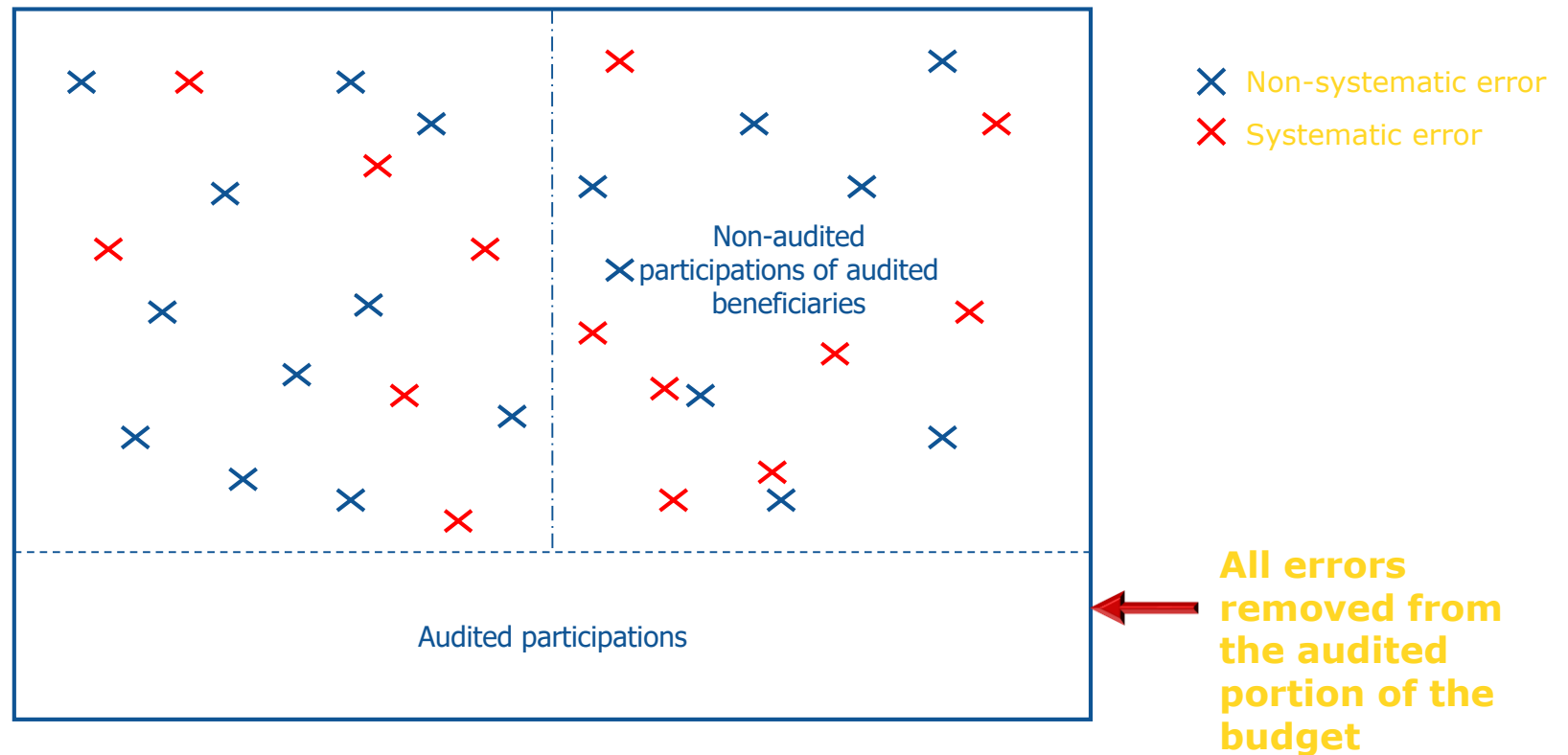


**Corrective measures, step 1: The effect of auditing**



# 1.7. How measured?

## From representative to residual



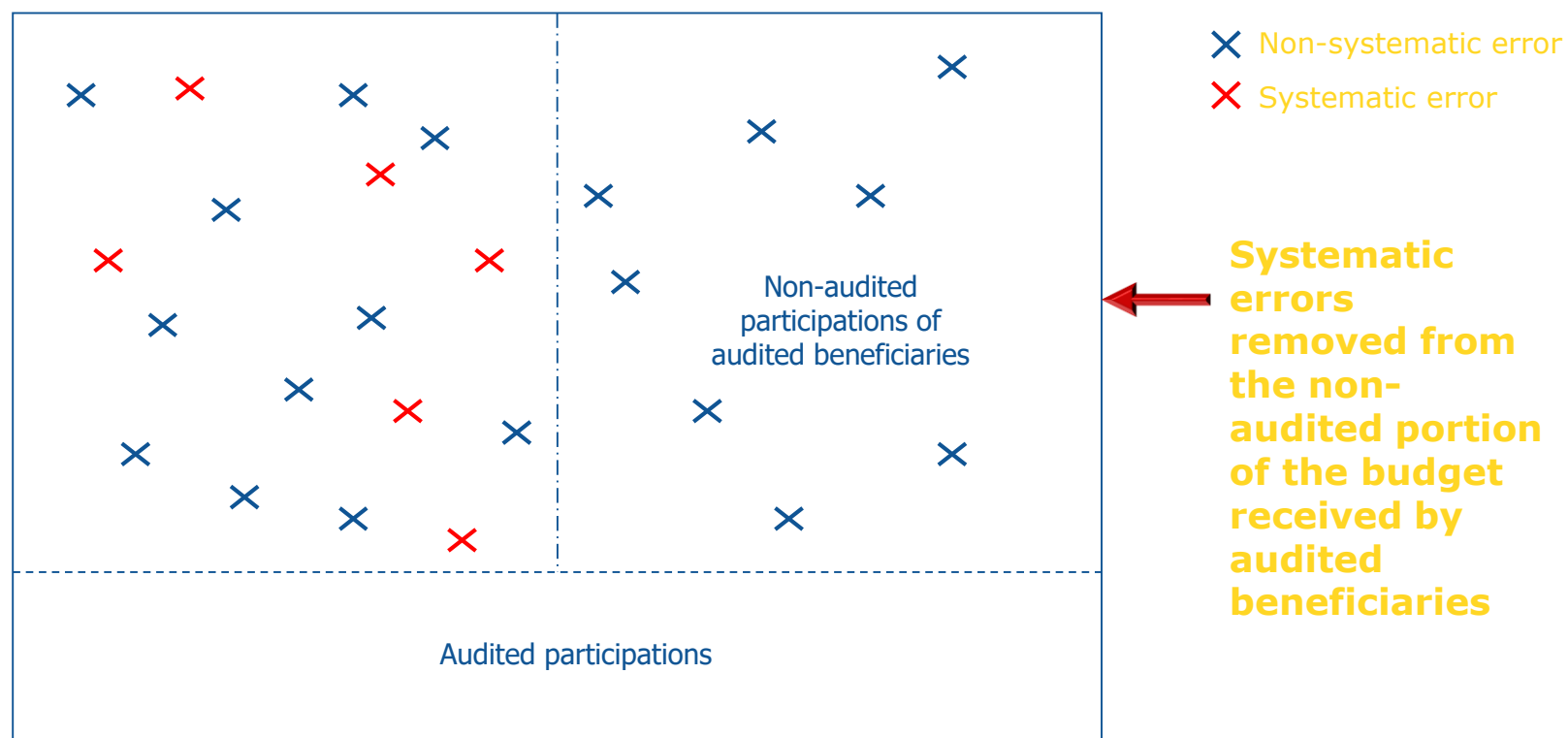
Corrective measures, step 2: The effect of extrapolation



## From representative to residual

*Residual error rate (ResER%)*

*Measures the amount of error left in the population after corrections*



## Advice on How To Avoid Errors few, clear, simple words



- Discipline (keep your files in order).



- Prudence (use the budget, do research, but do not drive at a speed of 131,9 km/h all the time).



- Perseverance (keep fighting for your rights, but choose the forum – rules must be adopted by way of legislation, not by way of audit approach).



- Reality (only if impossible, always stick to the reality)

- AND in case of doubt, consult the NCP, the PO/FO, the EC enquiry service.

# 1.9. Why still errors if simplification?



- ✓ **4 languages spoken**
  - Researchers
  - Accounting and financial people, including auditors
  - Lawyers
  - Policy makers
  
- ✓ **We all want simplification but do not want to pay for it**
  - Flat rate for indirect costs
  - Usual and unusual accounting principles
  - Legal certainty (both ways)
  
- ✓ **We are all human beings, and human beings do mistakes**
  - Because of lack of attention;
  - Because of lack of interest;
  - Because subject to temptations (or specific situations)

# II THE FINANCIAL STATEMENT





## 2.1. Unit Costs



***Unit costs under H2020 – applicable for:***

- ❑ Personnel costs of SME owners/natural persons not receiving a salary***
- ❑ Average personnel costs in accordance with Beneficiaries usual cost accounting practices***
- ❑ Other direct costs: Internally invoiced goods and services in accordance with Beneficiaries usual cost accounting practices***
- ❑ Specific cost categories: energy efficiency measures in buildings, access costs for trans-national access to research infrastructure, clinical studies***

***Methodology for unit costs calculation – following the Beneficiaries usual cost accounting practices, ensuring compliance with H2020 eligibility rules (e.g. no budgeted or estimated figures, exclusion of ineligible items such as provisions for future losses or debts, currency exchange losses, etc or costs already included in other cost categories, identifiable and verifiable)***

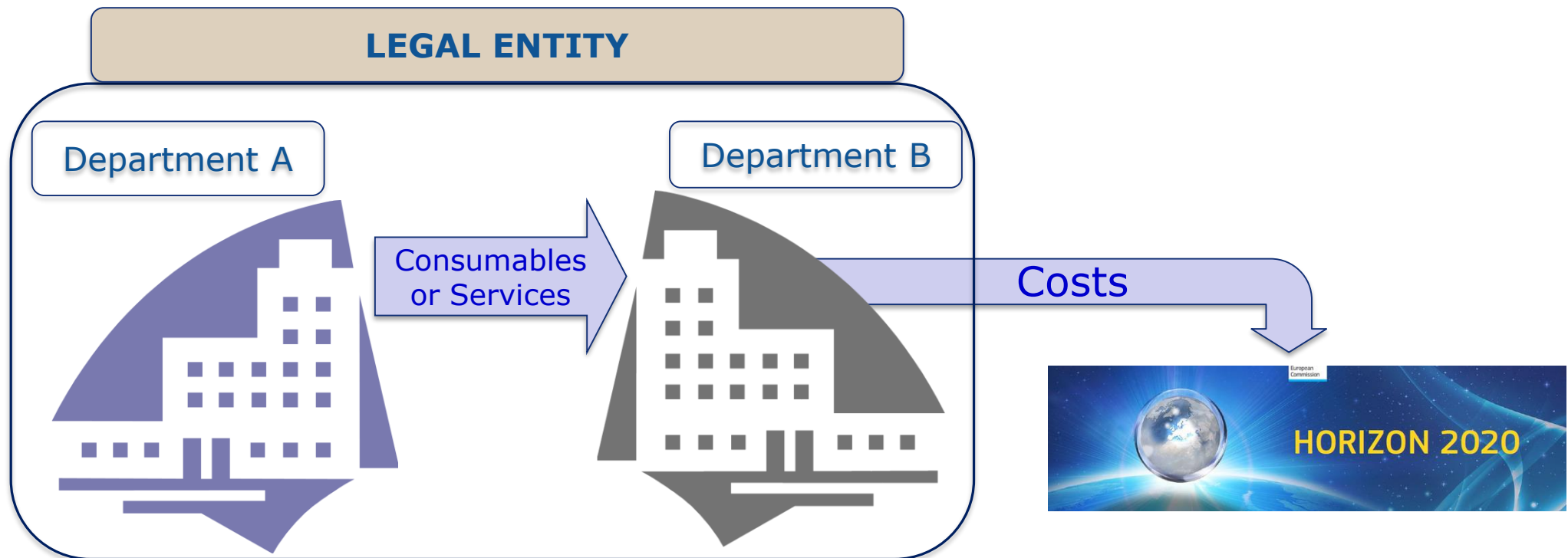
### 2: if you use average personnel costs

You calculate the hourly rate according to your **usual cost accounting practices** provided that:

- ↪ *You applied it in a consistent manner, based on objective criteria, and regardless of the source of funding;*
- ↪ *You calculate the hourly rate using the actual personnel costs recorded in your accounts, excluding ineligible cost or costs included in other budget categories;*
- ↪ *You use one of the options of the Grant Agreement to determine the annual productive hours:*
  - ↪ *A. 1720 productive hours per year for a person working full-time (corresponding pro-rata for persons not working full time).*
  - ↪ *B. the total number of hours worked in the year by a person for the Beneficiary*
  - ↪ *C. the standard number of annual hours generally applied by the beneficiary for its personnel in accordance with its usual cost accounting practices. This number must be at least 90% of the standard annual workable hours.*

## 2.3. Unit Costs – Internal Invoices

**Internal invoices** refer to costs of goods or services produced by the same beneficiary who use them directly for the H2020 action and calculated in accordance with its usual cost accounting practices



## 2.3. Unit Costs – Internal Invoices

**Internal invoices** must be calculated in accordance with the usual cost accounting practice of the beneficiary, but adjusted if needed to comply with the cost eligibility conditions



## 2.4. Personnel - Types



- I have a contract with Morel&Elli Interim for some personnel:  
can I charge the invoices issued by Morel&Elli Interim as personnel costs?
  - **No**, the person must have a contract directly with the beneficiary.
- During the project it appeared that some personnel of the University, partner in the same project, were familiar with the issue and did the work, partly in my premises:  
is it ok?
  - **The advice is:** inform and consult the PO/FO in advance.

### What you **CANNOT** declare under personnel costs?

- ❌ Contracts with companies (e.g. temporary work agencies) to provide staff.
- ❌ Natural persons (e.g. consultants) not fulfilling the conditions (hierarchical dependence, premises, similar cost for similar tasks, ownership of results).  
e.g. working autonomously on the tasks assigned to them
- ❌ Natural persons (e.g. consultants) paid *for deliverables* rather than for *working time*



**In the cases above the costs may be eligible under 'Other goods and services' or under 'Subcontracting' but never as personnel costs**



### **You cannot declare:**

- **Budgeted time (what you indicated for the budget)**
- **Estimated time (e.g. person 'guessing' at the end of the year)**
- **Time allocation (e.g. x % of the contractual time of the person)**



**Hours declared to the action must be supported by reliable records and documentation !**

*I don't keep TS, or they are so inaccurate that I am ashamed to show them.*

*I can always go for the 'alternative evidence option', correct?*

**YES but NO**

- First of all, why are your time sheets not in order ? IT solutions exist.
- Secondly, why don't you fill them in?
- Thirdly: TS? I don't use them because in my specific case I use...

**What? How do you follow your projects?**

**Alternative evidence is not an option, but the thin border between**

**problems and big problems**



## 2.6. Subcontracting etc.



You must demonstrate 'best value for money' and take measures to avoid 'conflict of interests' in sub-contracting **and in Purchase of Goods**

### Regular errors

- *'Best value' not demonstrated – no tender, no counter-offers, no market survey.*
- *Participants' own normal practices not applied.*
- *No documentation kept.*
- *Conflict of interests overriding any competition.*

# III AUDITS HORIZON 2020



### **Personnel costs – actual costs (65% of all adjustments) due to:**

- Incorrect productive hours calculation (31%) > ***partly systematic***
- Incorrect remuneration costs - e.g. estimated (14%) > ***partly systematic***
- Incorrect time working on action claimed (8%) > ***partly systematic***
- Other - e.g. missing timesheets, incorrect additional remuneration (12%)

### **Personnel costs – unit costs (3% of all adjustments) due to:**

- Incorrect remuneration costs - e.g. budgeted, estimated (3%) > ***systematic***

### **Subcontracting (5% of all adjustments) due to:**

- Lack of adequate supporting documents (2%)
- No compliance with best value for money principle (2%)
- Not foreseen in Annex I nor agreed by EU services (1%)

# 3.1. First results

**Travel (4%** of all adjustments) due to:

- Lack of adequate supporting documents (1%)
- Cost not related to the action (1%)
- Other errors (2%)

**Equipment (12%** of all adjustments) due to:

- No direct measurement of the cost (10%) > ***systematic***
- Cost not related to the action (1%)
- Other errors (1%)

**Other goods and services (11%** of all adjustments) due to:

- Cost not related to the action (3%)
- Lack of adequate supporting documents (2%)
- Indirect costs claimed as direct costs (2%)
- Other – e.g. no direct measurement, no value for money (4%)

- ❑ *Need to improve information on specific risks (on Beneficiary's compliance with H2020 eligibility rules) to financial and project officers to assist ex-ante control*
- ❑ *Improvement of audit procedures to decrease time to report – revision of audit process and procedures to reduce administrative burden and speed up reporting*
- ❑ *Continuous awareness raising and guidance to Beneficiaries through Communication campaigns*

## 3.2. Lessons Learned



- **Additional guidance required on hourly rates and productive hours (e.g. new IT tool which is under production).**
- **Additional guidance required on “Declaration on exclusive work” and minimum requirements of time records.**
- **Different regional perspectives:**
  - Self-employed employees working with a management company and temporary employment agency (e.g. Belgium)
  - Work-agreement and work-performance agreements (Equivalent Appointing acts) arranged for specific hours and/or amounts in Czech Republic.
  - SME-owner / Marie-Curie-rates especially with beneficiaries funded under the SME-Phase II instrument in Germany.
  - Regulations regarding natural person with a direct contract (co.co.co and co.co.pro) cause issues in Italy and Greece.

## Participant Portal

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](http://ec.europa.eu/research/participants/data/ref/h2020/grants_manual/amga/h2020-amga_en.pdf)



### Horizon 2020 On-line Manual

<http://ec.europa.eu/research/participants/portal/desktop/en/funding/guide.html#>



### Questions? *Research Enquiry Service*

<http://ec.europa.eu/research/enquiries>



# HORIZON 2020

**Thank you  
for your attention!**

**Find out more:**

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

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Innovation*