

# FP7 Audit Strategy

**RTD**  
**M.1 - External Audits**  
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**08/11/2011**

# What?

- **Context**
- **Audit types**
- **Extrapolation**
- **Audit results**
- **Simplification on the Horizon?**

# Context 1

- **Increasing**
  - **Spending**
  - **Actors: Beneficiaries, Member States, Commission RDGs, Agencies, JTIs, Art. 169**
- **Error-rate bandwidths of Budgetary Authority and European Court of Auditors**  
(**<2%; 2-5%; >5%**)

# Context 2

- **Higher profile, calling for:**
  - **More rules**
  - **Auditing resources**
  - **Cost-effectiveness**
  - **Audit coverage**
  - **Multi-annual strategy**
  - **Cumulative results**
  - **Enhanced co-ordination required**

	FP6		FP7	Impact
<b>% EU budget</b>	3.5% (2006)	→	5.1% (2009)	Higher profile
<b>Total allocation</b>	17.5 billion €	→	<b>53.2</b> billion €	Auditing resources Cost-effectiveness Audit coverage
<b>Years</b>	5	→	7	Multi-annual strategy Cumulative results
<b>Managing entities</b>	4 research DGs	→	4/5 research DGs + 2 EAs + JTIs + Art.169	Enhanced co-ordination required



# Context: Research expenditure vs other Commission expenditure

## Research peculiarities:

- Direct expenditure (RDGs),
- Cost-based claims,
- Consortia,
- Numerous population of beneficiaries
- ...

+

## Risks in Research:

- Complex regulatory framework,
- Fewer audit certificates,
- Accounting errors,
- Fraud
- ...

## ERRORS

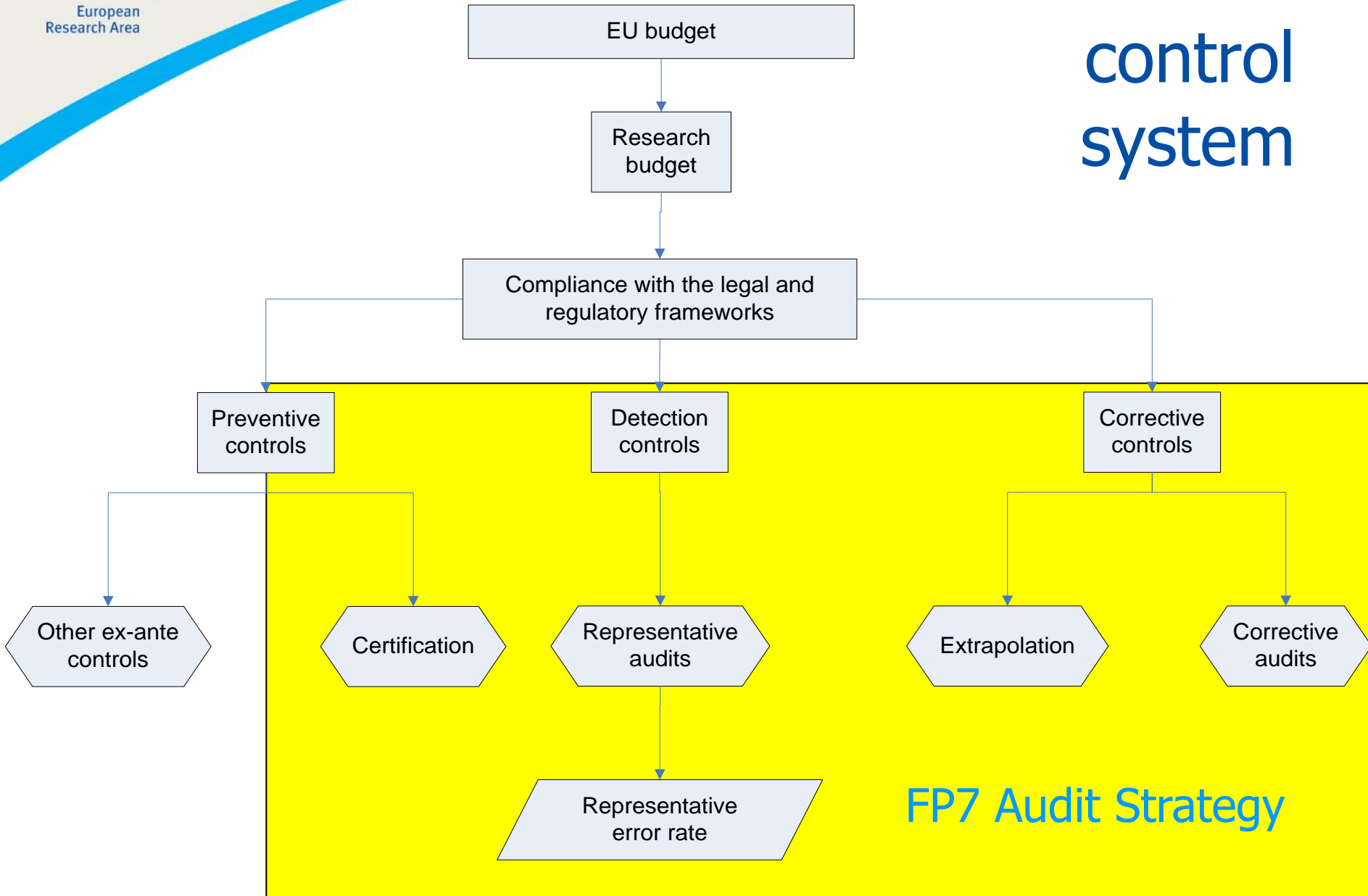
Scrutiny of the Budgetary  
Authority and ECA  
( < 2 %, 2-5 %, > 5 % )

**The need for assurance and corrective measures**

# Audit types 1

- **Preventive** Certification, certificates, other
- **Representative** MUS, Financial statements is basis, each RDG
- **Corrective** Specific risk, top 50%, flexible
- **Other** On request, fursion, system

# Internal control system



FP7 Audit Strategy



# Audit tools: certification

New in FP7!

→ **Certificate on the methodology for personnel and indirect costs (CoM)**

New in FP7!


→ **Certificate on the methodology for average personnel costs (CoMav)**

→ **Certificate on the Financial Statements**

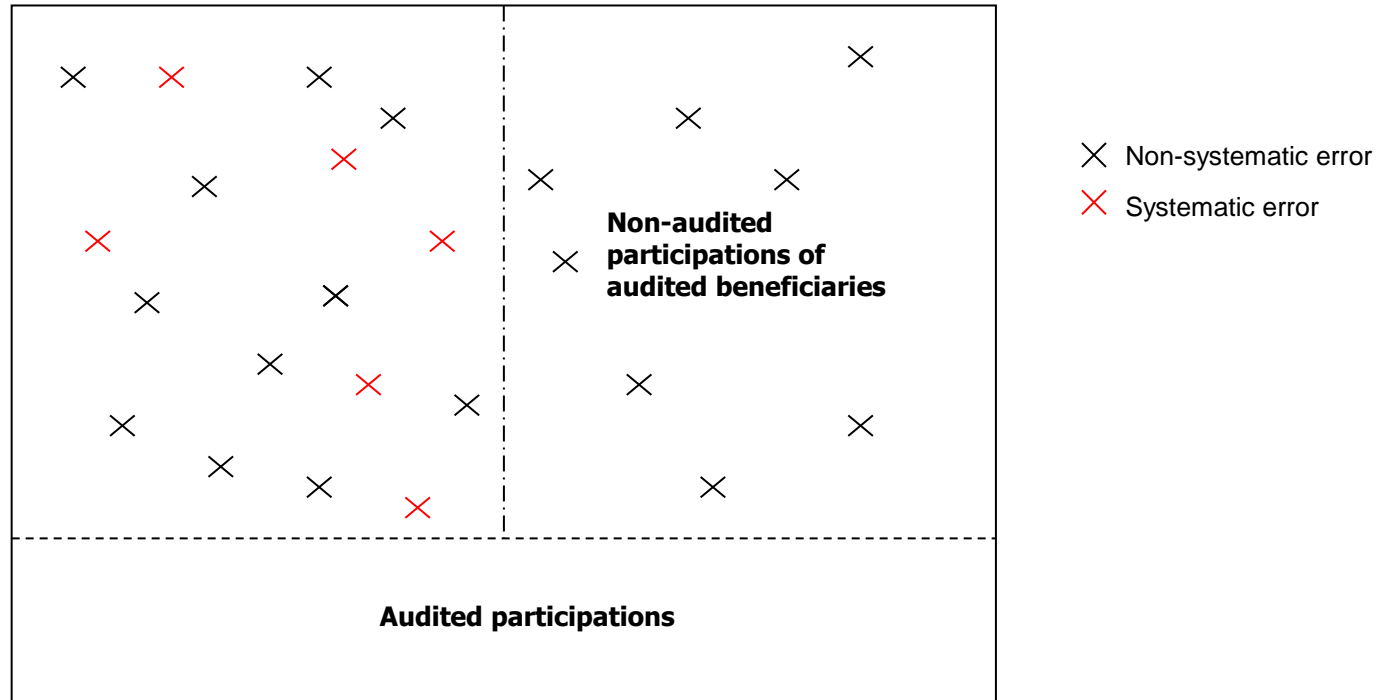
# Audit tools: audit types (1)

	Selection	Purpose
<b>Corrective audits</b>	<ul style="list-style-type: none"> <li>• Specific risk profiles;</li> <li>• Focus on top beneficiaries (50% of the budget);</li> <li>• Flexible in view of peculiarities present in the populations of different RDGs/EAs.</li> </ul>	<ul style="list-style-type: none"> <li>• Wide audit coverage;</li> <li>• Identify and correct errors in the most cost-effective way possible;</li> <li>• ‘Clean’ min. 50% of budget from systematic material errors;</li> <li>• Long-term prevention of issues found (‘fixing the future’);</li> <li>• Fraud detection and prevention.</li> </ul>
<b>Other types</b> (system, scientific/technical, FUSION...)	<ul style="list-style-type: none"> <li>• On request or pre-selected.</li> </ul>	<ul style="list-style-type: none"> <li>• Verify compliance with certified methodologies;</li> <li>• Identify and correct systemic problems;</li> <li>• Provide additional assurance on specific parts of the budget;</li> <li>• Complement scientific audits.</li> </ul>

# Audit tools: audit types (2)

	Selection	Purpose
<b>Representative audits</b>	<ul style="list-style-type: none"> <li>• Monetary Unit Sampling (MUS) methodology (95% confidence level, 2% expected error rate, 5% materiality threshold = sample size 161)</li> <li>• Cost statements as sampling unit (FP6: beneficiaries)</li> <li>• Samples from the whole population (no stratification) of each RDG/EA</li> <li>• Possibility of multiple samples</li> </ul>	<ul style="list-style-type: none"> <li>• Determine the amount of error present in the population</li> </ul> <p style="text-align: center;">   <b>Representative error rate</b> </p> <ul style="list-style-type: none"> <li>• Contribute to the Declaration of Assurance of the AOD</li> <li>• Corrective as well as representative</li> </ul>

# Errors in costs declared



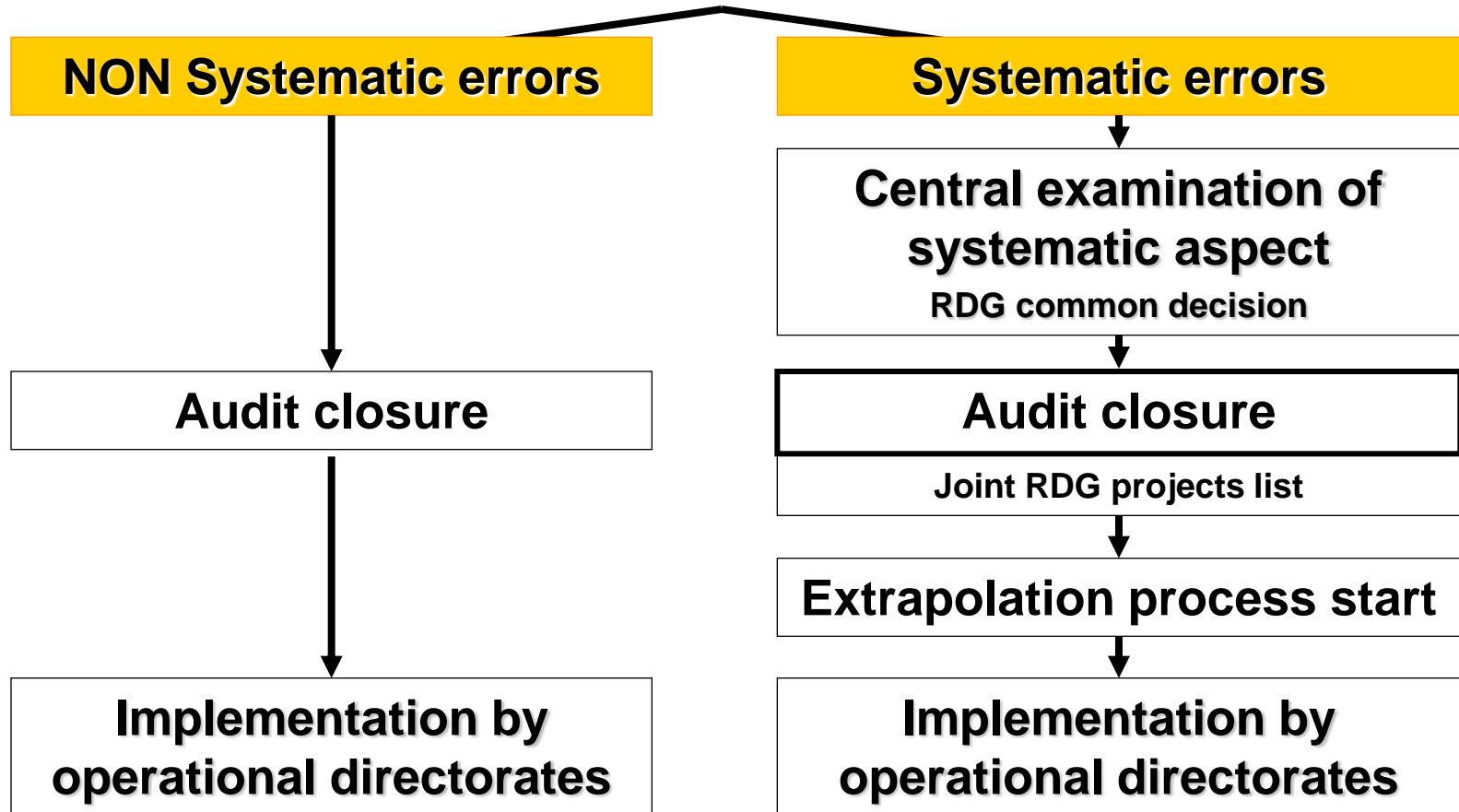
**Corrective measures, step 2: The effect of extrapolation**



# Extrapolation

- **Start middle 2007: « Clean » non-audited statements from systematic errors** Non systematic error in audit closure
- **Highlights:**
  - **Flat-rate since beginning 2010** Listing with initial/  $\Delta$  /revised + in electronic tool for running, improvement?
  - **Common all RDGs** One lead RDG, coordination between RDGs
  - **Operational directorates implement** Redistribute to others

# Audit tools: extrapolation



# Audit results

- **Aim: 400 audits annually**
- **None/small errors: 70 % (FP6), 80% (FP7)**
- **High errors: 8% (FP6), 3% (FP7)** Risk based, representative, delay

# Audits closed by country (2010, RTD only, all FPs)

	Country	No. Audits Closed	%	% no. of Participations in FP6 (DG RTD only, eCORDA 01/12/09)
DE	Germany	53	14.5	15.9
IT	Italy	47	12.9	13.1
FR	France	37	10.1	9.5
ES	Spain	34	9.3	9.0
UK	United Kingdom	31	8.5	9.0
BE	Belgium	23	6.3	7.5
NL	Netherlands	23	6.3	6.1
AT	Austria	21	5.8	5.8
SE	Sweden	17	4.7	4.3
DK	Denmark	12	3.3	2.6
CH	Switzerland	9	2.5	2.0
EL	Greece	9	2.5	1.7
	Others (EU & non-EU)	49	13.4	13.6
<b>Total</b>		<b>365</b>	<b>100,00</b>	<b>100,00</b>



# Proportion of adjustments by cost category (cumulative, FP6 & FP7)

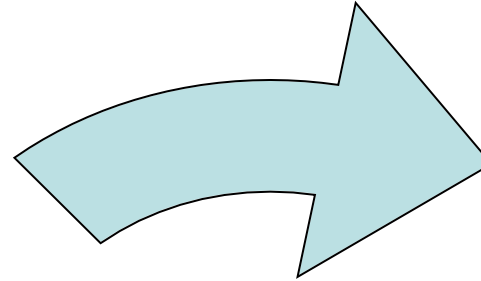
Cost categories	In favour of the EC (negative adjustments)				In favour of beneficiaries (positive adjustments)			
	% No. of negative adjustments		% of the total adjustment amount		% No. of positive adjustments		% of the total adjustment amount	
	FP6	FP7	FP6	FP7	FP6	FP7	FP6	FP7
Adjustments to costs previously reported	4.9	0.0	21.4	0.0	8.6	0.0	3.0	0.0
Consumables	6.0	2.4	1.8	5.7	3.3	0.0	0.7	0.0
Durable equipment	2.6	1.7	1.9	0.4	2.2	1.0	0.2	1.2
Other direct costs	21.4	28.1	13.5	23.8	10.6	12.8	32.9	5.1
Personnel	19.9	27.1	40.6	34.5	21.6	36.5	13.8	41.1
Protection of knowl.	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Subcontracting	4.3	3.7	5.6	7.1	19.9	6.4	4.9	1.8
Total indirect costs	28.0	32.8	14.1	28.0	28.0	42.4	43.6	49.7
Travel & subsistence	11.5	4.2	0.6	0.4	4.4	1.0	0.2	1.0
Various others	1.4	0.0	0.5	0.0	1.3	0.0	0.7	0.0
<b>Grand Total</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

# Types and incidence of errors found at participation level (cumulative, RTD only)

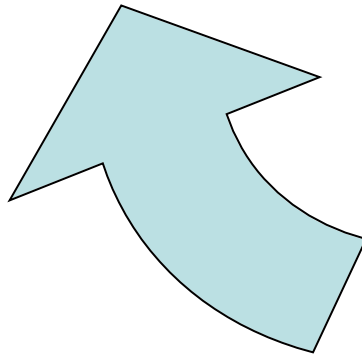
FP	Seriousness	Nature				Totals
		None	Qualitative	Error	Irregularities	
FP6	None	10.9%	0.1%	3.1%	0.0%	14.1%
	Small	0.6%	1.0%	53.4%	0.1%	55.1%
	Medium	0.1%	1.0%	21.4%	0.3%	22.8%
	High	0.0%	0.4%	6.2%	1.4%	8.0%
	<b>Totals</b>	<b>11.6%</b>	<b>2.5%</b>	<b>84.1%</b>	<b>1.8%</b>	<b>100.0%</b>
FP7	None	5.7%	0.0%	3.5%	0.0%	9.2%
	Small	1.5%	2.8%	66.9%	0.0%	71.2%
	Medium	1.2%	3.8%	11.9%	0.0%	16.9%
	High	0.4%	0.0%	2.3%	0.0%	2.7%
	<b>Totals</b>	<b>8.8%</b>	<b>6.6%</b>	<b>84.6%</b>	<b>0.0%</b>	<b>100.0%</b>

# Implementation

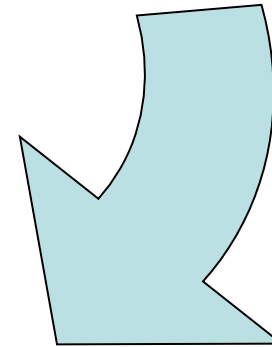
FP7 Audit Strategy



Audit results and  
findings  
+  
Potential changes in the  
context (extrapolation  
review, simplification...)



Revisions



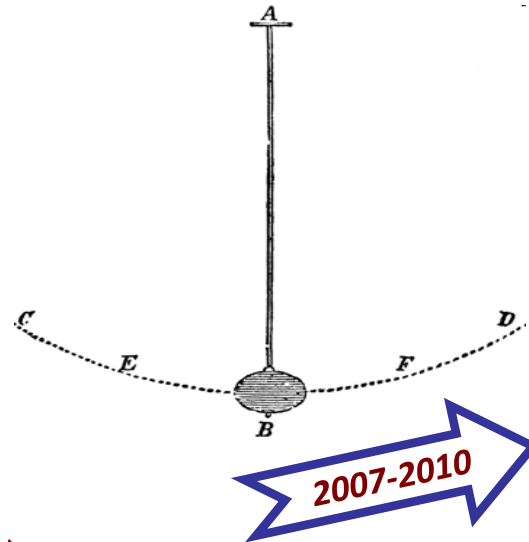
# Simplification on the Horizon?

- **Simplification decision: NO limitation of examination of accounting of staff costs**
- **Financial Regulation (FR): no extrapolation of insignificant errors**
- **Online enquiry**
- **No time sheets if 100%**
- **Reduced audit intensity** Single Audit

# Simplification: background

## Pre-2007

- Moderate audit coverage
- Insufficient assurance
- ECA - criticism



FP6 and FP7  
audit strategies

- More controls
- Better assurance
- High maintenance system (e.g. extrapolation)
- Complaints from beneficiaries

Simplification is  
needed!

# FP7 simplification: Commission Decision C(2011)174 of 24/1/2011

1. **Average personnel costs accepted** (no need for CoMAv).  
Four acceptability criteria:
  - a) beneficiary's **usual cost accounting practice**;
  - b) based on **actual personnel costs as registered in the statutory accounts**;
  - c) **exclusion of ineligible costs** and **double funding**;
  - d) **productive hours** based on usual practice, actual working standards and auditable data.
  
2. **SME owner-managers** not receiving salary can claim costs using « **Marie Curie** » **flat rates** (« People » work programme). CoMAv not to be submitted anymore.
  
3. **'Research Clearing Committee'** is set up between the DGs responsible for the implementation of indirect actions under FP7 to take final and uniform positions.

# H2020 simplification: stakeholders' consultation

## ***SIMPLIFICATION MEASURES WILL NOT PLEASE EVERYONE !***

In an on-line survey carried out by the Commission amongst FP beneficiaries, they were asked to provide comments on three hypothetical simplification scenarios:

	Result-based grants	Costs-based grants	
	Lump-sums for entire projects	More lump-sums and flat-rates	Simplified actual costs
In favour	49,73%	28,52%	<b>52,42%</b>
Against	25,40%	43,50%	18,78%
Dubitative	24,87%	27,98%	28,80%

Survey closed on 4 March 2011. Preliminary results based on 2000 comments from beneficiaries

**Simplification for some may be complication for others**

# OPEN QUESTIONS FOR 'Horizon 2020'

- ↪ **Can we reduce the number of instruments and funding schemes?**
- ↪ **Different funding rules; are they really necessary?**
- ↪ **Still long time-to-grant and time-to-pay. What can be done about it?**
- ↪ **Is there too much focus on inputs / too little on outputs?**
- ↪ **Can we simplify the cost eligibility rules? To what extent can we do them compatible with usual accounting practices?**
- ↪ **Are there too many audits and controls?**



**Next: Audit tactics**