



# HORIZON 2020

## Audit Process in H2020

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# 1. Framework for ex-post audits

- ✓ External audits **ARE** ruled by Article 22.1 of the H2020 Model Grant Agreements: H2020 General MGA

ARTICLE 22 — CHECKS, REVIEWS, AUDITS AND INVESTIGATIONS — EXTENSION OF FINDINGS

22.1 Checks, reviews and audits by the *[Agency and the]* Commission

22.1.1 Right to carry out checks

The *[Agency or the]* Commission will — during the implementation of the action or afterwards — check the proper implementation of the action and compliance with the obligations under the Agreement, including assessing deliverables and reports.

For this purpose the *[Agency or the]* Commission may be assisted by external persons or bodies.

The *[Agency or the]* Commission may also request additional information in accordance with Article 17. The *[Agency or the]* Commission may request beneficiaries to provide such information to it directly.

Information provided must be accurate, precise and complete and in the format requested, including electronic format.

- ➔ Ex-post controls
- in-house (CAS) +/-20%
  - outsourced (EAFs) +/-80%

- ✓ External audits **ARE NOT** :

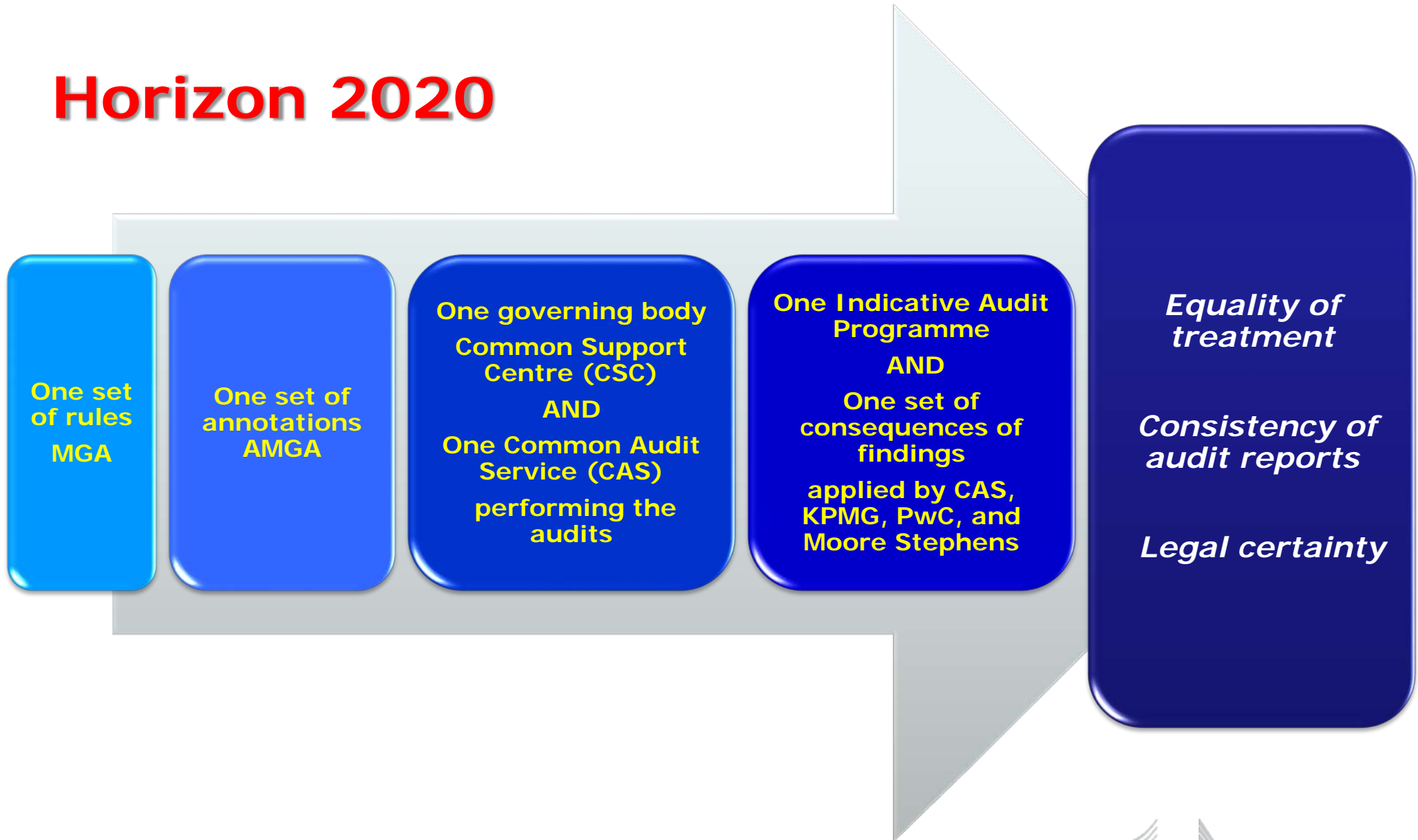
- Agreed Upon Procedures performed by CFS auditors
- Controls by operational officers on deliverables
- Controls by financial officers on Financial Statements

Ex-ante controls

The information is not legally binding.

# 1. Framework for ex-post audits

## Horizon 2020



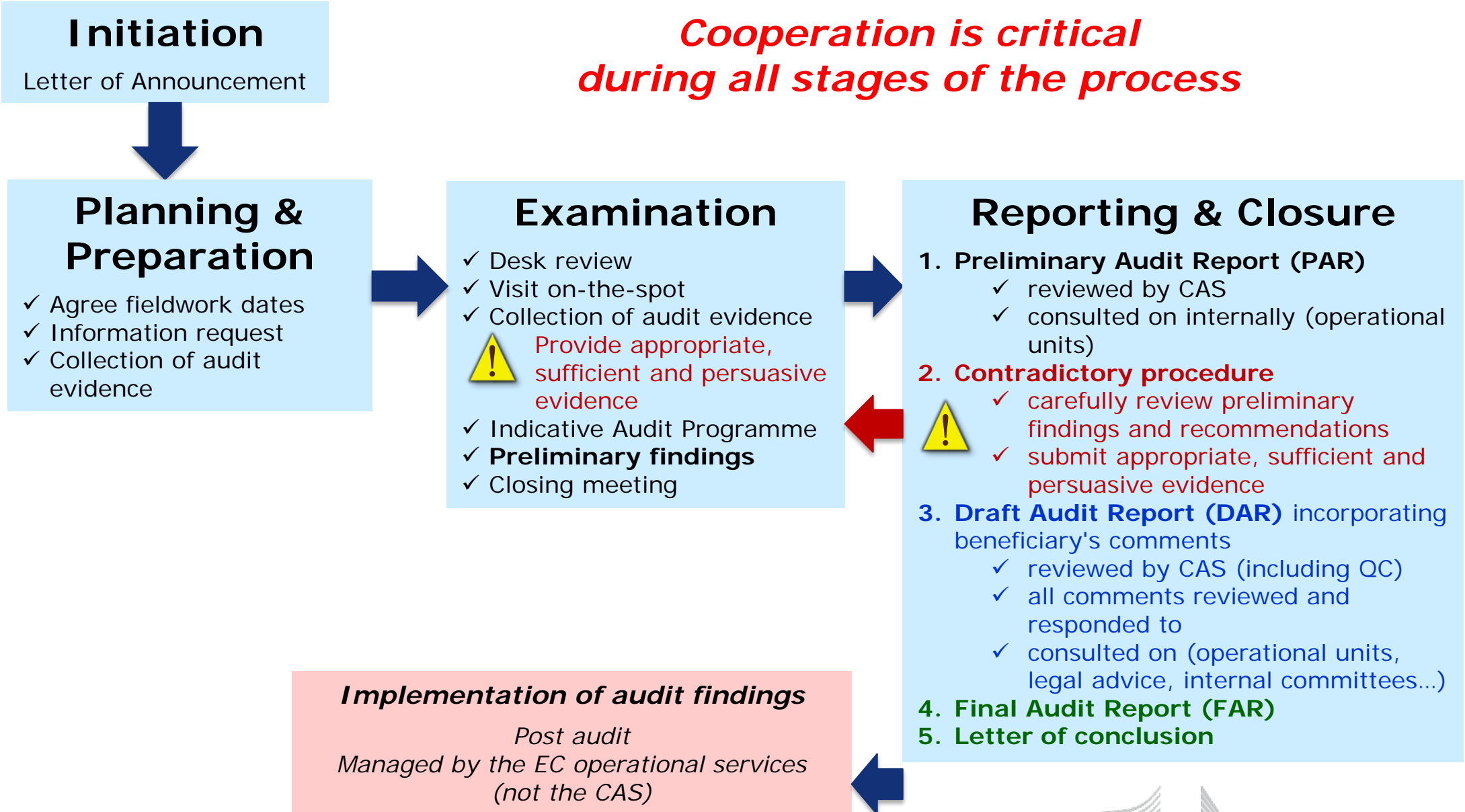
The information is not legally binding

# 2. Audit process – Audit Strategy and Planning



# 2. Audit process – Main steps

*Cooperation is critical during all stages of the process*



The information is not legally binding



# 3. Communication flow

3.1 How to avoid "bad-surprise" in an audit

3.2 Communication during the audit process

3.3 Communication after the closure of the audit

## 3.1. How to avoid "bad-surprise" in an audit



Discipline



Prudence



Perseverance



Reality



Headache during the weekend



**When in doubt, consult:  
EC PO/FO, enquiry service**



## 3.2 Communication during the audit process (1)

**Example 1:** *Missing documents are not reported during the closing meeting, but the draft audit report proposes adjustments on that ground;*

- ✓ Advice 1: during contradictory phase the Beneficiary and the auditor should:
- discuss every missing supporting documents
  - request mutual additional clarification;
  - As required, agree for an extension of the contradictory procedure

**Example 2:** *there were no preliminary findings identified in the closing meeting, but based on the final report, the pre-information letter proposes significant recovery amounts*

- ✓ Advice 2: in a normal audit process 'no surprise' should occur – previous phases should have prevented this.

## 3.2 Communication during the audit process (2)

- *Use the contradictory process at every step:*

### For the Beneficiary

- Closing meeting summarises significant preliminary audit findings, as well as further steps.
- Upon receipt of the draft audit report, comment ALL findings and recommendations raised and back your comments with sufficient and persuasive evidence.

### For CAS

- To ensure equal treatment, the draft report is subjected to a number of quality controls before it is communicated.
- The auditors are requested to assess all your comments and document their conclusions in the final report.
- Findings are referenced to an Article of the H2020 MGA

## 3.2 Communication during the audit process (3)

**Example 3:** *Due to substantial misunderstandings in the final audit report, the beneficiary needs more time to finalise their comments.*

- ✓ Advice 3: Choose prevention at every stage:
  - during the physical audit, provide missing supporting documents asap
  - the contradictory procedure is one month; if insufficient please inform the Auditors/CAS
  - if necessary, ask for an extension (limited) to the time granted for comments.

### Who does what?

- **CAS closes the audit:**
- **Final Audit Report + Letter of Conclusion**
  - The Letter of Conclusion summarises the audit findings and informs the beneficiary of the next steps
- **Operational Services implement the audit:**
- **EU financial contribution amount** (recover or offset)
  - For a recovery, the pre-information letter details the reasons
  - Take due account of the comments and observations received in return and may decide to:
    - revise the amount of the EU financial contribution
    - and/or to confirm the amount to be recovered;
    - offset (deduction from a next payment)

### *Who does what? - Recovery*

- ***Operational Services:***
  - Issue a debit note to the beneficiary
- ***The Beneficiary:***
  - Replies to the pre-information letter and submits comments and observations within a deadline indicated in the letter
  - Can challenge the outcome in Court

*The **Court of Justice** is the **competent** court for any dispute regarding the **validity, application or interpretation** of the H2020 grant in accordance with the Art 57.2 of the H2020 MGA*

# 4. Coherence FP7 vs H2020

- Comparable eligibility criteria
- Significant steps to simplify Personnel and Indirect costs:
  - *Personnel costs:*
    - *>73 % of direct costs declared in FP7 Forms C*
    - *AND, ca. 60% of adjustments on direct costs in favour of the EU budget*

Budget category	FP7	H2020
▪ Personnel costs	▪ Reliable Time Recording System	<ul style="list-style-type: none"><li>▪ minimum requirements including monthly granularity</li><li>▪ Timesheets for the H2020 actions</li><li>▪ Declaration for exclusive involvement</li></ul>
▪ Indirect costs	▪ Several ICM	▪ 1 single flat rate

## 5. How often could I be audited ?

- The H2020 Audit Strategy stems from H2020 Regulation:

"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.
- Audit findings can only be extended to grants for which the final payment was less than two years before the letter of conclusion.
- A maximum of 7% of the number of the H2020 beneficiaries are to be audited.
- The new CSC (incl. CAS) aims to coordinate all H2020 audits and prevent over-auditing the beneficiaries.

## *6. Latest developments*

- MGA v. 5.0 (published on 18 October 2018)
- AGA v. 5.1 (published on 6 December 2018)

### **1. Basic/Additional remuneration**

### **2. Internal invoices (unit cost)**

### **3. Clarification of art. 6.2.D./Prototypes**



# CASE 1B (project-based): hourly rate

$$1B. \text{ Hourly rate} = \frac{\text{Basic remuneration for the H2020 action}}{\text{Hours worked for the H2020 action}}$$

## ➤ Includes:

- ✓ Salaries,
- ✓ Social security contributions (employers' and employees')
- ✓ Taxes and other costs included in the remuneration if they arise from national law or the employment contract

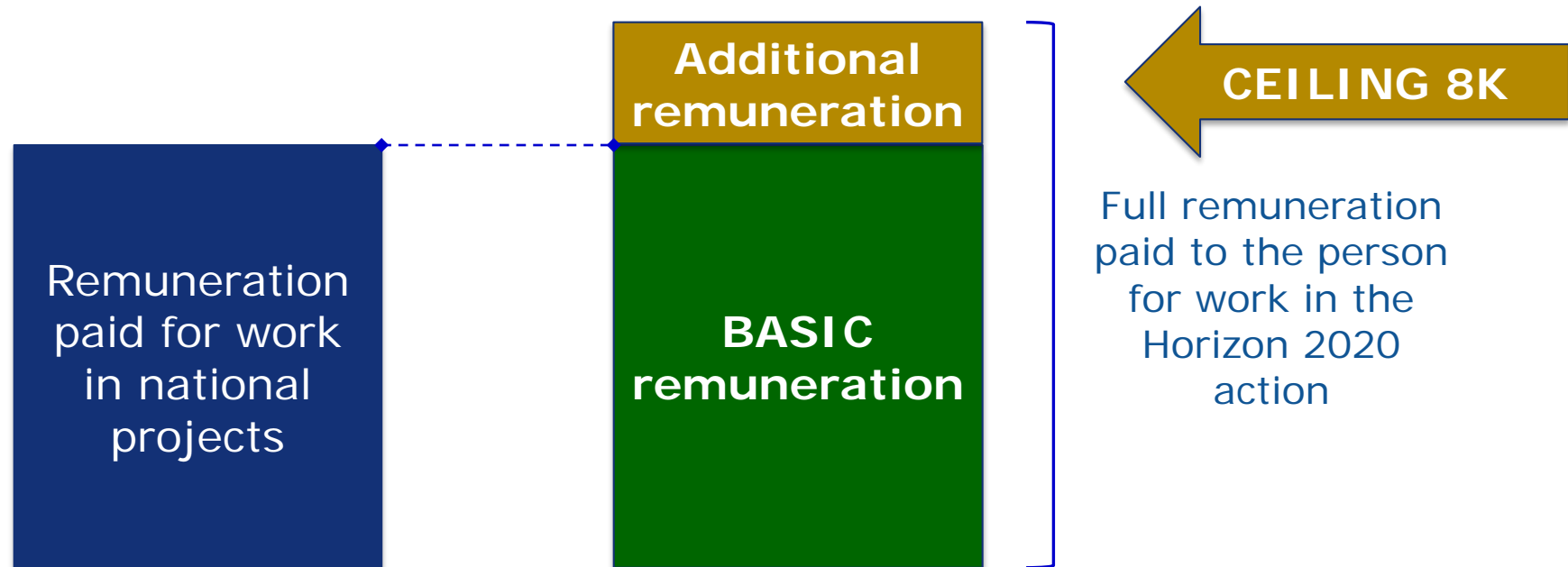
## ➤ Excludes:

- ✗ Ineligible items (article 6.5) and costs included in other budget categories (e.g. indirect costs)
- ✗ **Additional Remuneration**

# Case 1B: additional remuneration

## What is additional remuneration?

Article 6.2.A.1: 'Additional remuneration' means any part of the remuneration which exceeds what the person would be paid for time worked in projects funded by national schemes.



Additional remuneration may only be eligible for non-profit legal entities


# Personnel costs: bonuses

## BONUSES

### Ineligible

- Arbitrary bonus
- Bonus based on commercial or funding targets (e.g. sales target) or representing profit distribution (dividends)
- Bonus applied only to EU actions

### Additional Remuneration

- Tied to specific projects, resulting in remuneration in addition to that of national projects
- Justified by additional work or expertise
- Usual remuneration practices
- Based on objective criteria established in the internal rules
-  **Eligible only for non-profit legal entities**

### (also) Basic Remuneration

- Not tied to specific projects OR without remuneration in addition to that of national projects
- Scheme authorised by law, collective agreement or contract
- Based on objective criteria established in the internal rules

# Internal invoices unit cost

## Internal invoices:

- Calculated according to usual cost accounting practices
- BUT, adjusted to comply with eligibility criteria.



## **WHY:**

*Chore principle, GAs cover, by default, operational costs (ie not fixed assets)*

## **HOW:**

*For projects, with a primary purpose to create a prototype*

*(ie creation of fixed assets in the absence of operational costs until the end of the GA)*

# 7. Additional info

## 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/>

*Research and  
Innovation*