

The European Research Council

Horizon 2020 & Horizon Europe Audit Process

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European Research Council

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Disclaimer: information contained in this presentation is not legally binding.

Objective

Help You...

- Understand the Audit Process
- Effectively prepare for an on-site audit
- Avoid Common Errors by Providing Best Practice Advice



H2020 & HE Audits



Art. 22 GA



Art. 25 GA

Set Up:

- Common Audit Service (DG R&I) undertake all research family audits
- Indicative Audit Programme
 - [h2020-iap_en.pdf \(europa.eu\)](https://ec.europa.eu/horizon2020/iap_en.pdf)
 - HE: Corporate guidelines - under preparation
- Audits limited to 2 years after final payment

Audit vs CFS (H2020/HE)

- Audit = ex post control / CFS = ex ante control
- CFS only if requested contribution at payment of the balance \geq
EUR 325,000 (H2020)
EUR 430,000 (HE)
- Costs previously audited are NOT counted for the EUR 325,000/430,000 threshold and they do not need to be covered (again) by the CFS
 - ✓ Rule applies if audit is closed/Letter of Conclusion issued

CFS (H2020) can still be undertaken at regular intervals for assurance purposes (once threshold is met) and costs subsequently claimed at project end (costs should be economic/represent best value for money)



Audit Process (H2020/HE)

- Letter of Announcement (LoA) & Request for preliminary information
- Fieldwork & logistics
- Closing meeting
- Draft Audit Report
- Contradictory procedure
- Closure - Final Audit Report (FAR) and Letter of Conclusion (LoC)



Implementation of findings (Letter of Conclusion/LoC)

- **If negative adjustments** (in favour of Granting Authority's budget)

[... where the audit adjustments at cost level are in favour of the Granting Authority's budget, **you should not take any action in respect of the implementation of the adjustments in relation with the audited periods.** The Granting Authority will make the necessary adjustments ...]

- **If positive adjustments** (in favour of the Beneficiary)

[... where the audit adjustments at cost level are in your favour, **the supplementary costs may be declared as adjustment in the next reporting period.** For closed grant agreements, costs may be included in a separate financial statement sent within 60 days from the receipt of the LoC ...]



Extension of Error (Letter of audit Conclusion/LoC)

- **FAR section 1.2** [...] *potential systemic or recurrent nature of the error(s)* [...]
- **> 2% negative systemic errors** => Committee intra service (Research family) agreement on systemic nature
- **LoC – Annex 3** – request info on participations* impacted by the error
*all ongoing and closed actions not older than 2 years from closure
- **90 days** for Beneficiary's analysis
- **Financial impact** and calculation following **three options** (ref. Annex 3):
 - Flat rate % on total of financial statement(s)
 - % on individual cost category
 - Own audit verification



How Best to Prepare for an Audit

- Preparation as of Letter of Announcement
 - General Ledger (GL) + Project cost accounting per period/cost category
 - Formulas behind cost calculation – pers. costs, depreciation, unit costs etc.
 - Point out any errors found in the preparation = errors in audit report
 - Provide supporting documents in logical folders, for example:
 - **General information** (GA, AMD, key correspondence, procedures, org. charts etc.)
 - **Action costs related information** (GL, Project cost acc., employment contracts, salary info, timesheets, PO, invoices, debit/credit notes, choice of supplier/subcontractor, etc.)
- Assist auditors with questions and set-up of meetings (PI/team/accounting etc.)



Closing Meeting → Contradictory → Closure

- Make sure you understand the preliminary findings & confirm outstanding issues/further information needed
- Use the Contradictory Procedure to present additional arguments/supporting documents
- If you believe you have been misunderstood/mistreated in the audit process – launch query with the CAS or/& inform us!
- Remember - an Audit is an opportunity for you to clarify any issues/concerns



Audit Process - Exercise

Other Direct Costs – Supporting Documents

What supporting documents, procedures
could an Auditor request to verify for
a purchase of equipment?

Audit Process - exercise

Other Direct Costs - Equipment - Supporting Documents

Solution (non-exhaustive):

- ✓ Breakdown of costs (project cost accounting + GL)
- ✓ Procurement Procedures (approval levels, thresholds + tender docs/notice, specifications, offers received, evaluation criteria, award committee)
- ✓ Depreciation Procedures including date of start of depreciation (delivery/put into use)
- ✓ Assets registration listing
- ✓ Purchase requisition/order, delivery/credit/debit notes & payment + invoices
- ✓ Contracts/agreements with Suppliers
- ✓ Logbooks – registration of usage of equipment partially used on the project



Audits H2020 vs HE

	H2020	HE
Audit Strategy	✓ Random & risk based sampling	✓ Focus on Risk & Balance b/n trust and control Reduced audit burden for Bf
Certificates based on audits	✓ Certificate on the methodology for unit cost (CoMUC)	System & Processes Audit (SPA) (Art. 24, MGA)
Audits up to 2 years after final payment	✓	✓
CFS only if requested contribution	≥ EUR 325.000€ (excl. flat rates & lump sums) at the payment of the balance	≥ EUR 430.000 (incl. flat rates & lump sums) at the payment of the balance For beneficiaries with SPA low-risk classification the threshold will increase to EUR 725.000
Published Audit Guidelines	Indicative Audit Program	✓ Corporate Guidelines (in draft)

HE - What is a System and Processes Audit (SPA)

Who can apply and how? ⇒ Funding Portal



A risk assessment & an audit opinion

2 steps:

*Test of the systems/Test of controls
Substantive testing/Test of transactions*

Audit work:

*Overall assessment
of control risk*

**One single report
in two parts:**

*Audit report results
& assessment of control risk
Low, Medium or High*



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New!

Unit Costs for personnel costs

Request possible through the EU Funding & Tenders Portal **as of 1 May 2024**

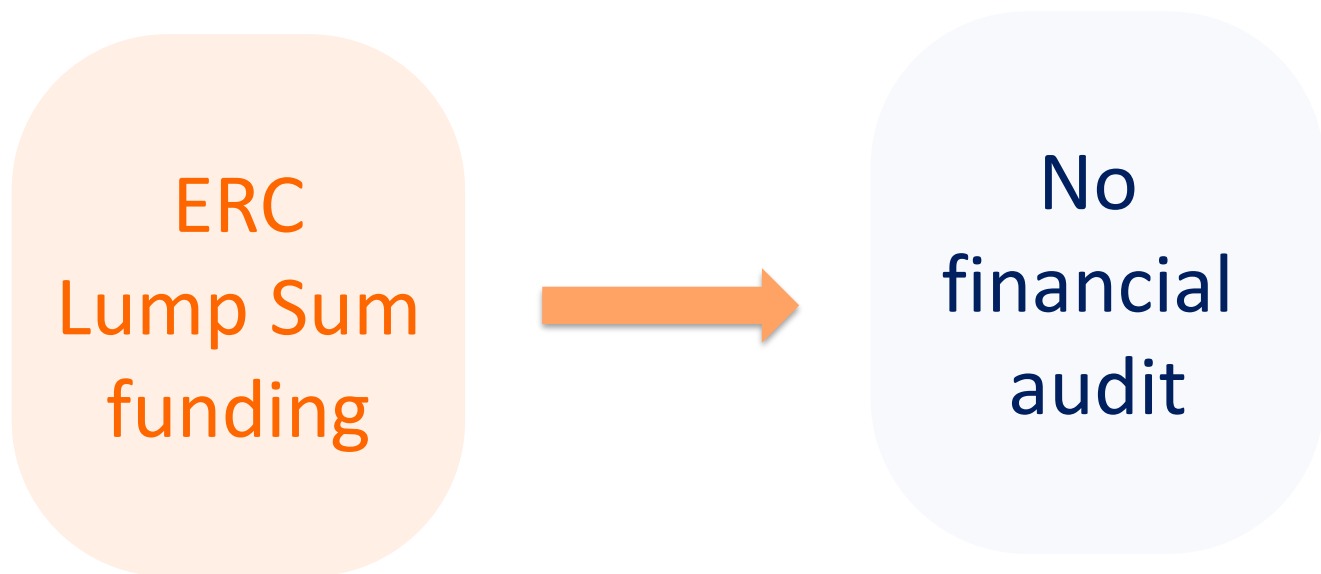
- How to apply?
- Method to determine and update the unit cost?

Decision on use of unit costs for personnel costs for actions under the Horizon Europe and Euratom Programmes:

https://ec.europa.eu/info/funding-tenders/opportunities/docs/2021-2027/common/guidance/unit-cost-decision-personnel-costs_horizon-euratom_en.pdf



Horizon Europe Ex Post Audits Process



Avoid!

H2020 common errors

- Typology of errors per organization type

2024 Q1 reports **Slovenia**



Microsoft Edge
PDF Document

- Communication to H2020 beneficiaries
How to avoid errors when claiming costs?



Microsoft Edge
PDF Document

Q&A

Internally Invoiced Goods & Services (H2020 & HE)

Must be:

- Provided by the HI directly for the Action
- Valued through HI's usual cost accounting practices (consistently applied)
- Declared as unit costs based on actual costs methodology
- Financial Reporting: cost category D5 (H2020) and D2 (HE)



Internally Invoiced Goods & Services (H2020 & HE)

- **H2020 D.5 Costs of internally invoiced goods and services**

The unit cost is calculated using the actual costs for the goods or services recorded in the beneficiary's accounts, excluding any ineligible cost or costs included in other budget categories

- **HE D.2 Internally invoiced goods and services**

Using the actual costs for the goods or services recorded in the beneficiary's accounts, attributed either by direct measurement or on the basis of cost drivers, and excluding any costs which are ineligible or already included in other budget categories.

Indirect cost flat-rate cannot be charged for this cost category



Key Messages



- ✓ Be well acquainted with the AMGA, IAP & internal rules and regulations
- ✓ While organising the supporting documents for inspection, inspect them yourself for skipped errors!
- ✓ Don't sit on a problem and wait for an audit to detect
Be proactive & seek NCP/ERCEA help/advice!
- ✓ Consider periodic CFS for assurance (one final invoice)



Useful Links

- **Annotated Model Grant Agreement H2020**
http://ec.europa.eu/research/participants/data/ref/h2020/grants_manual/amga/h2020-amga_en.pdf
- **Annotated Grant Agreement HE (01/05/2024)**
https://ec.europa.eu/info/funding-tenders/opportunities/docs/2021-2027/common/guidance/aga_en.pdf
- **Indicative Audit programme (IAP)**
http://ec.europa.eu/research/participants/data/ref/h2020/other/gm/audit/h2020-iap_en.pdf
- **CFS Horizon Europe**
https://ec.europa.eu/info/funding-tenders/opportunities/docs/2021-2027/common/temp-form/report/cfs_en.docx