



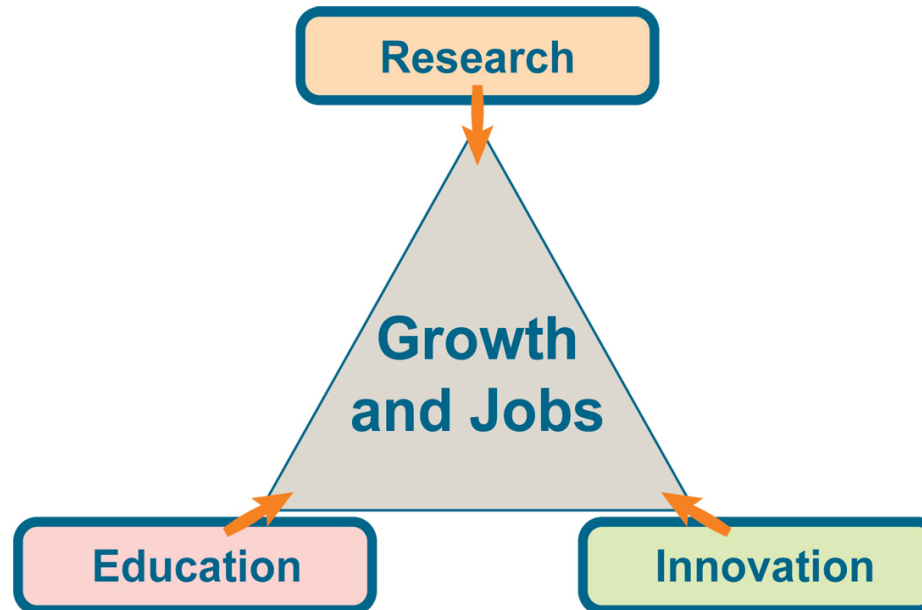
The ex-post audits: the example of FP6

- Research Policy: the context
- Framework Programme FP6: a new audit strategy: the way to increased assurance

19/06/2008



Research policy: part of the Lisbon strategy



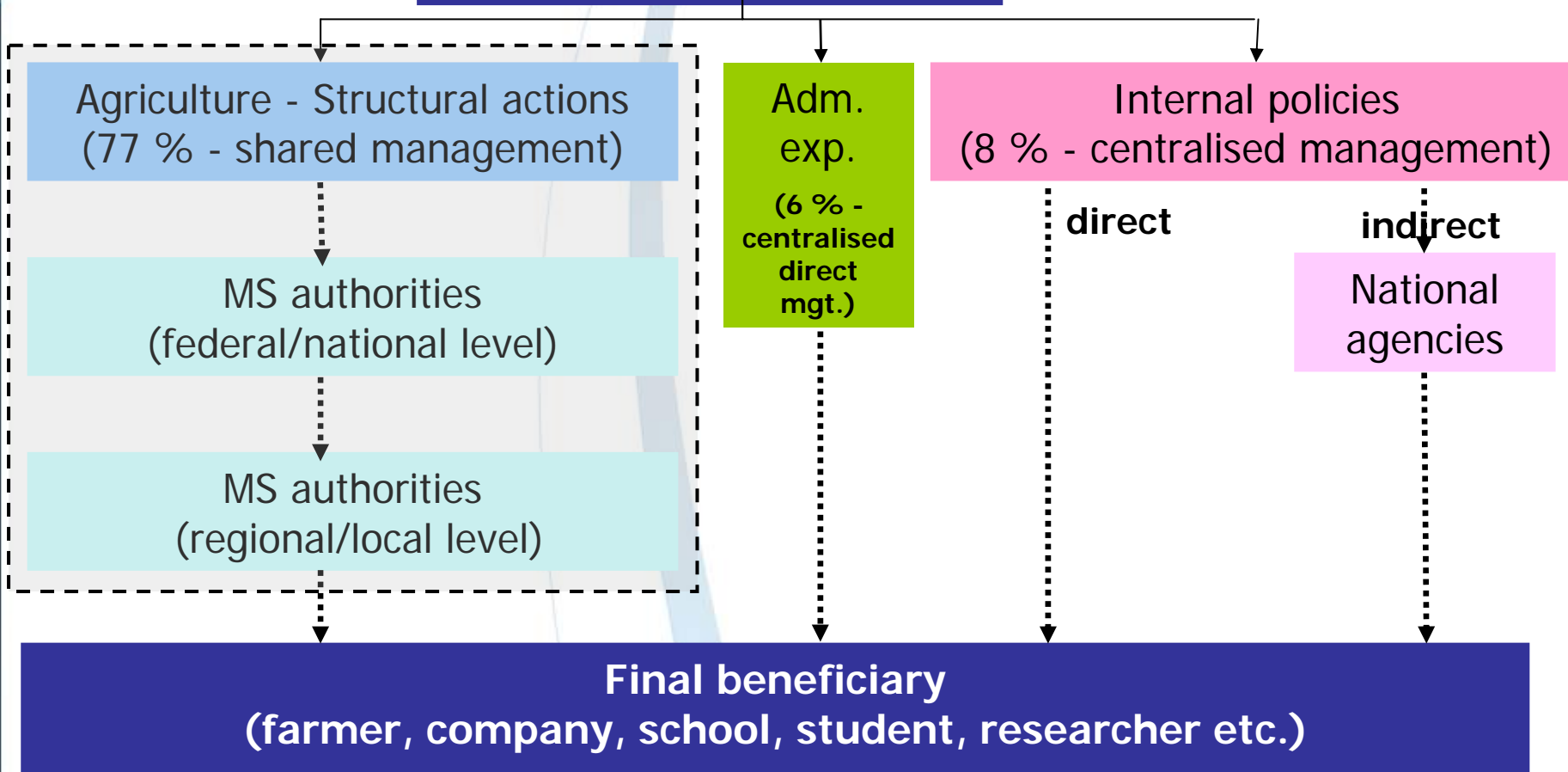
“Science and Technology” contributes to the **Lisbon** objectives: economic **growth**, **employment** creation, **environmental** protection, **social** challenges: fight **poverty**, improve human **health** and **quality** of life



Research policy: a specific payment structure

Commission services

Percentages show share of total payments made in 2005





Research policy: the DG RTD General context

- Research funds by using multi annual frameworks (Framework Programmes : FP) with **complex** legal principles
- Variety of topics covered (health, energy,...) implies a large number and **variety of participants (15,000+)**, operating within their own internal control and accounting systems
- The basis for reimbursement are the “**actual eligible costs**” which can be problematic for some items (personnel and overheads, VAT,...)



Source of errors



Sources of inherent risk

- The Commission on average pays for up to 50% of the scientific work.
- To be eligible, the costs must be:
 - **actual, economic and necessary** for the project;
 - determined in accordance with the **usual accounting principles** of the contractor;
 - incurred **during the duration of the project**
 - **recorded in the accounts** of the contractor and must exclude indirect taxes, duties, interests, etc.
 - without any **profit**.
- The Commission's cost reimbursement model does not capture all national accounting rules.



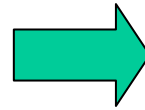
Effects of inherent risk



Errors



Why is the inherent risk important?



DG declaration of assurance (Example of the Annual Activity Report of 2006)

Declaration of assurance

I, the undersigned, Mr José Manuel Silva Rodríguez

Director-General of DG Research in my capacity as authorising officer by delegation

*Declare that the information contained in this report **gives a true and fair view** (*).*

*State that I have **reasonable assurance** that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the **legality and regularity** of the underlying transactions.*

*This reasonable assurance is based on **my own judgement** and on the information at my disposal, such as the results of the self-assessment, **ex post controls**, the work of the internal audit capability, the observations of the Internal Audit Service and the lessons learnt from the reports of the Court of Auditors for years prior to the year of this declaration.*

Confirm that I am not aware of anything not reported here which could harm the interests of the institution.

*However the following **reservations** should be noted:*

1. Reservation concerning errors relating to the accuracy of the cost claims and their conformity with the provisions of the Fifth Research Framework Programme (FP5).

2. Reservation concerning the absence of sufficient evidence to determine the residual level of persisting errors with regard to the accuracy of cost claims in Framework Programme 6 (FP6) contracts.

Brussels, 2 April 2007

« Signed »

José Manuel Silva Rodríguez

- (*) True and fair in this context means a reliable, complete and correct view on the state of affairs in the service.



Assurance in the past

A FP-6-novelty

- The introduction of « audit certificates » (cost statements certified by external auditors) bringing assurance at earlier stages

However:

- Controls made at early stages of the process proved to be insufficient to deliver the necessary level of **assurance** that transactions are in compliance with the rules
- The error rate as detected by Court of Auditors was perceived as high
- Limited audit coverage and lack of representativity

Solution: need for a new soundly based audit strategy



The new audit strategy for FP6

Selection Methods (“in house” or “outsourced”)

- **Individually significant contractors (“The Top”)** Maximise the impact of the audits and the audit coverage, with the use of both extrapolation and follow-up procedures
- **Representative** The use of a representative selection method (e.g. 'Monetary Unit Sampling' –MUS-) will allow the extrapolation of the audit results to this sub-population with a preset level of confidence, materiality and precision
- **Risk-Based** Provide additional audit information supporting assurance to management based on the analysis of the risk profile of both the population as a whole and also for the individual contractors



The new audit strategy for FP6

Selection Method (1): “The Top”

Audit a number of individually **significant beneficiaries** (in the sense of ‘EC contribution’) in order to increase the audit **coverage**:

- **considerable part** of the total FP6 budget of DG RTD (+/- 40%)
- **extrapolation** procedures of the **systematic** errors
- **follow-up audit** and possibility for the Commission to claim **liquidated damages**



The new audit strategy for FP6

Selection method (2): A representative sample

Audit a **representative sample** of the remainder of the population (excluding “The Top”) by using monetary unit sampling (MUS) in order to evaluate the error rate for this population.

- 50% of beneficiaries receive **less than EUR 150,000** from the FP6 budget
- **MUS is a widely-used** method in audit profession



The new audit strategy for FP6

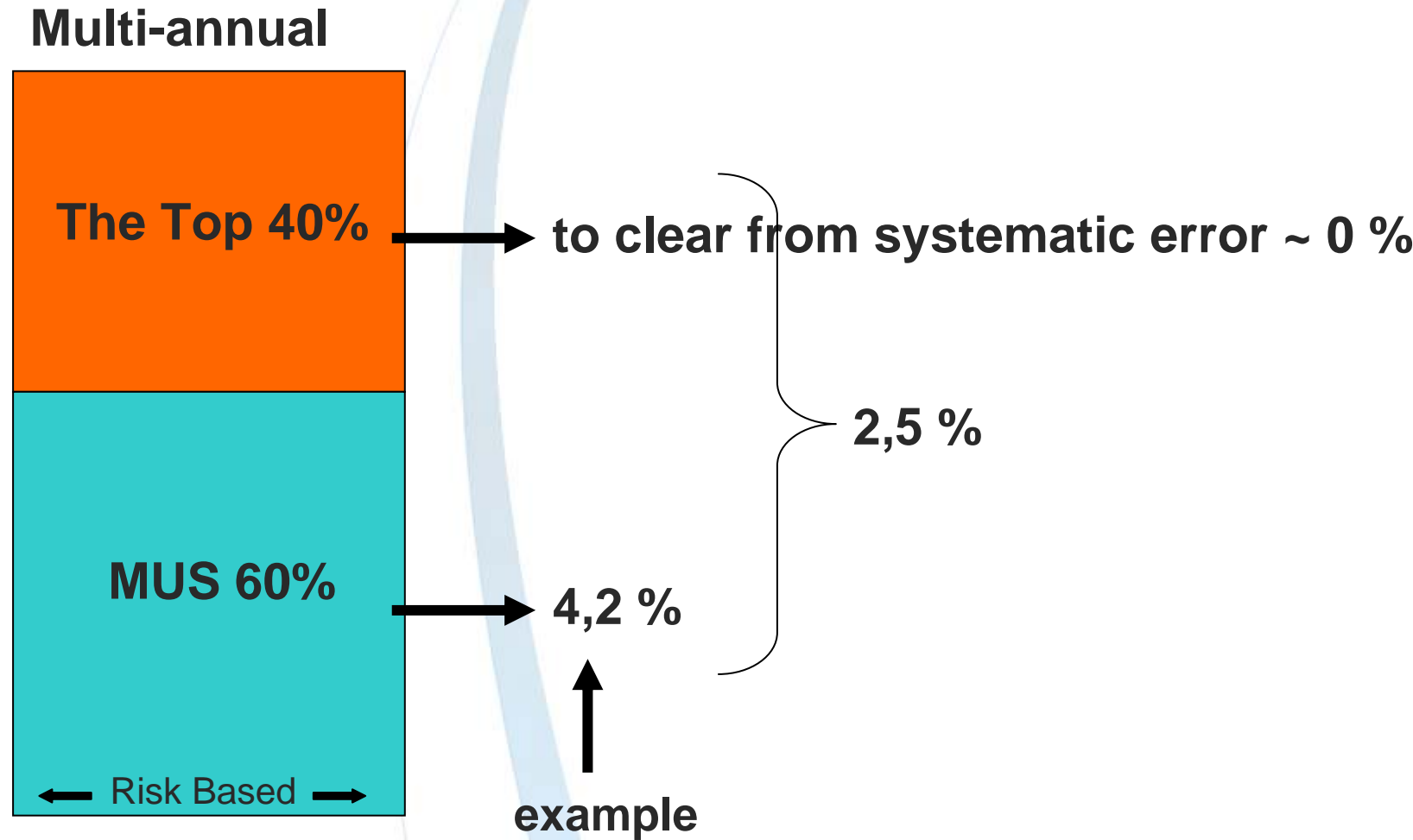
Selection Method (3): An additional series of risk based audits

Auditing, on the basis of **risk-based sampling**, an appropriate number of contractors in order to contribute to the safeguarding of the financial interests of the Community

- Risk analysis
- Audits on request
- Factors to be taken into account, examples: country, instrument, cost, category, legal form, past experience, size of the project.



The interpretation of the audit results





The interpretation of the audit results: How will they contribute to the DG declaration of assurance?

Sources of audit results

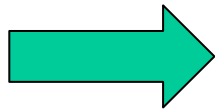
- « The Top » → 40% population free of **systematic** error
- MUS → example: 4.2% the error rate of the remaining 60% of the population
- Risk based → additional assurance



Input to the annual declaration



The new audit strategy for FP6



An unprecedented change in the control strategy

With following key success factors:

- HR investment : more coverage = more audits = more staff (new structures, training,...)
- Communication effort with stakeholders (support to beneficiaries, certifying auditors,...)
- Rebalance the internal control structure between not only ex-ante controls but also extensive ex-post controls



A basis for the FP7 audit strategy



The End

Thank you for your attention!

