



EUROPEAN
COMMISSION

Community research

19 June 2008

International Workshop on Accountability Challenges: Choosing the Right Direction

Ex ante certification & outsourced audits

DG RTD



Overview of presentation

Certification of methodology

- Assurance background (Key controls, Inherent risks)
- Situational changes
- Mitigating action

Outsourced audits

- Audit factory
- Setting & risks
- Mitigating action



EUROPEAN
COMMISSION

Community research

Certification of methodology



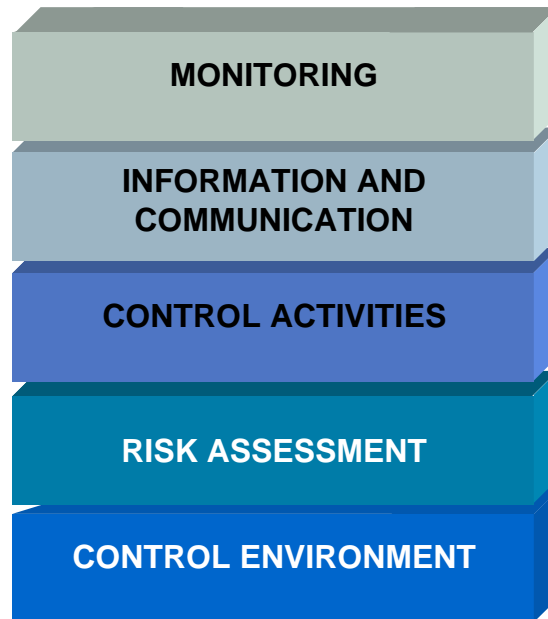
Internal Control System: COSO model

Control Activities:

- Purchasing limits
- Approvals
- Security
- Reconciliations
- Specific policies

Control Environment:

- Tone from the top
- Corporate Policies
- Organizational authority



Monitoring:

- Monthly reviews of performance reports
- Internal audit function

Information & Communication:

- Vision and values survey
- Issue resolution calls
- Reporting
- Corporate communications (e-mail, meetings)

Risk Assessment:

- Monthly Risk Control meetings
- Internal audit risk assessment



Internal Control System / Key controls

PHASE	KEY CONTROL
PROJECT SELECTION	ELIGIBILITY SCREEN
	EVALUATION
	PANEL REVIEW
	REGISTRATION
PROJECT IMPLEMENTATION	DESK CHECKS
	CERTIFICATION ON FINANCIAL STATEMENT
	CERTIFICATION OF METHODOLOGY
	REPORTING
	EX POST AUDITS



Inherent risks for errors

- Large number of participants (15,000+) with different organisational structures
- Diverse national accounting rules
- Principle of “actual eligible costs” comes along with an extensive set of implementation rules



Impact of revised cost statement in FP6

- Implementing rules for FP6 changed Financial Statement layout
- No separate cost categories in FP6' Financial Statements: "desk check" of **aggregated data**
- Impact: Increased importance of certification



Shortcomings

- Criticism: "...the certifying auditor had issued an unqualified opinion, whereas the Court found serious errors in the cost statements..."
- Court's criticism corresponds to Commission's findings
- Mitigating action for FP7:
 - Certification on the Financial Statements **AND**
 - **Certification of methodology**



Mitigating action: Certification of Methodology

- **Main sources of error:** Personnel costs and overheads (CoM respectively CoMAv)
- Agreed Terms of Reference
- Independent report on factual findings
(no opinion !)



Characteristics

- « **Fix the future** »
- Standardized certification procedures
- Commission upholds the right to carry out an audit



Achievements

- Reduced audit scope: **Compliance check**
- Reduced administrative burden: less certificates (if below threshold)
- Reduced costs for the whole certification system



Process

- Submission of request to EC at any time during FP7
- Acceptance / Rejection of the request: within 60 calendar days
- Reimbursement of costs for CoM



Preconditions

- Reliable system of time recording
 - Breakdown by project
 - Support of indirect costs allocation
- Sufficient number of **staff categories**
- Analytical accounting system with full-fledged method to assess indirect costs



EUROPEAN
COMMISSION

Community research

Outsourced Audits



Outsourced audits & audit factory

- DG RTD has 2 separate External Audit units:
 - Own resources, and
 - Outsourced audits
- « **audit factory** »
 - Rigid workflow and timeframe
 - Reduced changeover-time
 - Quality control of internal and external processes



Setting & Risks

- Approx. 75% of audits performed by external audit firms
- Experience with firms severely underperforming
 - Crucial role: Co-ordinator
 - Bottleneck: High season
- RTD's main risk: delayed reporting
 - Insufficient coverage
 - Reservation in Declaration of Assurance



Mitigating action

- Contractual terms – liquidated damages
- Concept of “batch audits”
- Leverage effect

The relevant “worst case” matters

Delay * daily rate * invoicing amount for the whole Batch



EUROPEAN
COMMISSION

Community research

Thank you very much for your
attention!