

POLICY INPUT

Achieving high-quality audit in European research

Propositions on simplification and
alignment of funders' practices

By Enora Bennetot Pruvot
and Veronika Kupriyanova

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European University Association asbl

Avenue de l'Yser 24

Rue du Rhône 114

1040 Brussels

Case postale 3174

Belgium

1211 Geneva 3, Switzerland

+32 (0) 2 230 55 44

+41 22 552 02 96

www.eua.eu · info@eua.eu

1. Rationale

The European Union's next funding period negotiations are dominated by the objectives of performance, European added value, trust and efficiency. Simplification is a cornerstone in the debate to achieve these goals, lower entry barriers to the EU funding programmes and maximise the impact of EU funds. This topic, therefore, has strategic importance for EU investment in research and innovation.

Universities benefit from many EU funding programmes, particularly Horizon 2020, Erasmus+ and the European Structural and Investment Funds. They also manage nationally and globally funded projects. Therefore, they are highly interested in more efficient and effective funding rules at all levels. In its previous paper entitled "[Taking simplification of EU funding to the next level: The university perspective](#)", EUA outlined what the university sector expects from simplification: this process must be about "achieving a coherent set of rules that is **mindful of the diversity** of actions and beneficiaries accommodated in a programme, and that ensures both **high-quality processes** and an **effective use of resources**".

Horizon 2020 and its future successor Horizon Europe address a wide range of beneficiaries, including universities, other research performing organisations, SMEs and large companies. All of them are subject to diverse contexts and situations, which European policy makers should acknowledge and account for in rules for participation in the EU funding programmes.

EUA therefore argues that the key to simplification is to **improve the EU control environment based on the principles of efficiency, effectiveness and value for money. This means EU control must yield greater assurance for EU funders about beneficiaries' compliance with EU funding rules, while costing less money and effort to all parties.** For this purpose, the focus of EU control should be shifted from exercising multiple (project related) checks to ensuring that beneficiaries' reporting systems and processes generally comply with the EU funding principles and procedures set out in the Financial Regulation.

Doing so requires stronger collaboration with national funding organisations and greater reliance on their controlling practices. National bodies are the largest funders of higher education and research in Europe, so they are best placed to understand the diversity of their beneficiaries and ensure that they have adequate systems in place. While the simplification of EU funding processes has largely advanced in recent years, any further significant progress in this field can only be achieved by relying on national funders' practices and developing concrete mechanisms for that purpose at the EU level.

2. A platform for dialogue

As the largest umbrella association representing universities across Europe, EUA has a responsibility to promote a constructive dialogue between universities and funders, share best practices and provide benchmarking opportunities, with the aim to enhance efficiency and effectiveness on all sides.

EUA collaborates with its members to foster simplification that has a positive impact on universities. A dedicated group of university managers and administrators provides expertise on this topic and all member universities are invited to share their experience through EUA consultations and surveys.

EUA has been feeding this input to the European Commission and the European Court of Auditors in the framework of bilateral exchanges and expert groups, as well as to the European Parliament and the EU Council ahead of the adoption of the proposal establishing Horizon Europe.

EUA Stakeholders' meeting on Horizon Europe simplification and alignment of funders' practices

In May 2019, EUA convened a stakeholders' meeting to explore possibilities for an improved acceptance of university accounting practices in Horizon Europe. This meeting built on the previous discussions with the EU and national research funders at the [4th EUA Funding Forum](#) in Barcelona and a series of expert consultations in 2018. It was also informed by EUA's report "[Accepting university accounting practices under Horizon Europe: a compendium of national and institutional cases](#)", showcasing the experience of university practitioners from 12 European countries and supporting a better alignment of practices between the EU and the national level with [concrete strategic and practical recommendations](#).

Experts from European universities and national funders, as well as representatives of the European Court of Auditors and the Common Implementation Centre of the European Commission's Directorate-General for Research and Innovation examined several examples of nationally aligned funders' practices and cross-reliance on audits. They discussed several institutional cases on the calculation of personnel costs and internal invoicing under Horizon 2020. They also exchanged their views on ex-ante auditing procedures such as the Systems and Processes Audits (SPA).

This paper outlines EUA's proposals to national and EU funders on how to make **the EU reporting and control environment more efficient and effective**. While acknowledging the challenges connected to achieving greater alignment of funding practices, these proposals are aimed to generate management efficiencies for both funders and beneficiaries, build trust, reduce errors and thus release resources for research and innovation.

3. Increasing alignment of auditing and funding frameworks

As institutions operate in different funding frameworks across Europe, there are many simplification opportunities regarding further alignment of the rules and requirements, which could greatly decrease the burden and the cost of reporting for both funders and beneficiaries.

At the level of auditing frameworks, experts point to the untapped potential of structured greater acceptance of national practices with a view to reduce the burden for EU level audits.

This could be addressed via a “compatibility check” mechanism. It would identify **cost items** that are reported according to a nationally accepted accounting practice and thus **reported identically across a system**, assess the compatibility of this practice with the EU financial regulation, and allow the Commission to issue a statement declaring either:

- a. Incompatibility** of the practice with EU financial regulation and Horizon Europe regulation (in this case), therefore sending the signal to beneficiaries to pay attention to this cost item in EU project management and reporting;
- b. Partial compatibility** with EU financial regulation and Horizon Europe regulation, laying out the adaptations needed, thus enhancing legal certainty for beneficiaries;
- c. Full compatibility** with EU financial regulation and Horizon Europe regulation, thus accepting the methodology used for the cost items concerned for all beneficiaries in a given system, leading to lightened audit controls for these specific items.

This approach could generate significant efficiencies and benefits:

- Tapping into the expertise of national funding organisations that have the most extensive knowledge of beneficiaries’ practices;
- Enabling acceptance of accounting practices in a structured, controlled way by focusing on specific cost items;
- Supporting all participating research performing organisations of a given country (operating in the same auditing framework).

Sending a strong signal to other systems to encourage them to develop system-wide accounting practices that are compatible with the standards set by the EU Financial Regulation. Ultimately, this would foster greater alignment on a common model across Europe.

Pursuing this approach requires a more strategic and less restrictive interpretation and implementation of the Financial Regulation and the programme rules, which already contain specific provisions supporting greater acceptance of national rules and beneficiaries’ practices that need to be fully realised.

4. Achieving efficient and effective control over EU funding

In the context of both national and European funding programmes, three key features may be retained to define high-quality audits.

Audits should be:

- Simple and efficient – based on transparent, clear and fit-for-purpose procedures, seeking to reduce duplication, eliminate redundancy and seek synergies to ensure the most appropriate use of resources spent on control;
- Effective and reliable – gaining assurance of beneficiaries' compliance with EU funding rules and reducing risk of systemic error by identifying focal points of control and increasing trust between them;
- Empowering and meaningful – allowing beneficiaries and the wider sector to learn from and build their capacity to manage EU funds based on the auditing process results.

High-quality audits help build trust between funders and beneficiaries, enhance legal certainty and ultimately contribute to reducing the error rate.

4.1. MOVING TOWARDS EX-ANTE SYSTEMS AND PROCESS AUDITS

Making audits simpler and more efficient requires diminishing both their intensity and frequency while gaining equal or better assurance that public funds are spent efficiently.

According to the Commission's Common Audit Service, the largest share of errors made by beneficiaries comes from calculating personnel costs, which make for the main cost category in Horizon 2020 projects.

As beneficiaries account differently for time spent by their personnel on project activities, there is no single simplification measure that could significantly improve the situation for all – other than a greater reliance on verified, standardised accounting practices. As a result, the most efficient way to approach this issue is to ensure that each beneficiary fulfils these characteristics and displays sufficient robustness to provide the necessary level of assurance to the funder. This can be done by means of *ex-ante* systems and process audits (SPAs), particularly in case of large publicly funded institutions, managing various projects, such as universities.

Possible ways to approach time recording

In its report “[Full costing: progress and practice](#)” (2013), EUA found that:

“While there is often an assumption that time recording through daily or weekly timesheets is required for accurate time allocation, in reality there are many different methods, such as staff surveys, interviews, sampling or profiling, all of which can provide sufficiently robust data for activity-based costing models. Whatever the method chosen, there are three fundamental principles that must be borne in mind:

First, it is the “activity” that is being measured, not the “object” (for example, time spent preparing a lecture, not time spent on a specific Master’s course, since the former is a single activity while the latter may involve a number of activities; or time spent undertaking publicly-funded research, not time spent on a specific research project).

Secondly, the chosen model should be robust and applied consistently over time.

Thirdly, the methodology and the objectives of the exercise should be clearly communicated to the community involved.”

The system audit approach focuses on the evaluation of controls rather than on testing specific expenditures or transactions alone. The auditors must give an overall opinion on the assurance levels that can be provided on the adequacy of these controls and highlight any significant control weaknesses (Science Foundation Ireland). In other words, the principles of a system audit are:

- Systematic control of all reported costs;
- Control and documentation of existing processes;
- Evaluation of processes applied within at least one selected project;
- Check of multiple funding (cross-funding issues / allocation of shared costs).

Overall, systems and process audits are advantageous on several levels:

- By taking place early in the programming period, they offer greater **legal certainty** to beneficiaries and a **stronger assurance** to funders that beneficiaries have the adequate systems in place to manage and report on the expenditure.
- SPAs focus on the robustness of systems in place rather than a systematic examination of all managed projects, **enhancing capacity building and mutual trust**.
- Finally, they allow to significantly **reduce the administrative burden** on both sides in subsequent controls.

The experience of Irish and Austrian funders showed that ex-ante systems and process audits generate time and resource savings (audit time decreased by one third to half the time of regular audits), ensure a higher value for money and more efficient spending of public money. They also improve the control environment and enhance capacity building, performance and efficiency.

Comparison of workload incurred by an Austrian university under project and system audits

	Project-based audit FFG	System audit FFG
Scope	Selected single project	R&D relevant systems and processes + selected 1-2 projects
Number/frequency/duration	Number/frequency/ duration	1 audit per annum, 1 day
Preparation effort	On average 8 days	On average 2.5 days
Level of details	Unchanged	Unchanged

While offering greater added value, SPAs still require a significant amount of preparatory work from institutions, and therefore the added value and benefits should be proportional to the amount of work they have to put in.

In the context of Horizon Europe, the European Commission should communicate clearly on both negative and positive effects of SPAs for beneficiaries. The reduction of subsequent control must be palatable and last over the full programme duration.

➡ **EUA puts forward several considerations for European level SPAs to be successful:**

- **Timing:** SPAs must be carried out as early in the process as possible, preferably before the start of the new programme or in its first year. Suggestions to synchronise SPAs with the first wave of audits during Horizon Europe carry the risk of making the SPA process irrelevant for many universities.
- **Clarity of the rules and procedures:** Possible outcomes, incentives and effects of SPAs must be clearly explained and disseminated: what do beneficiaries gain if their applications are successful? How will this facilitate the work? To simplify participation and ensure a more efficient programme management, the Horizon Europe programme regulation should state explicitly that beneficiaries that comply with the conditions set out in the combined systems reviews should be exempted from ex-post controls.
- **Validity of the outcome:** EUA advocates that successful SPAs should be valid for the entire duration of the Horizon Europe programme, and that consideration should be given to extend the benefits of a positive SPA to other EU funding programmes such as Erasmus. Negative SPA results should include adequate feedback to enable capacity-building as well as an option for beneficiaries to repeat the review.
- **System-level SPAs:** Consideration should be given to carrying out SPAs in bundles, where universities apply identical or similar rules within their national auditing programme. This is consistent with the approach detailed in Section 3 ("compatibility check" proposal) and the idea that this would contribute to a more empowering and meaningful control environment.

4.2. INCREASING CROSS-RELIANCE WITH PREVIOUS AUDITS AND JOINT AUDITS

Systematic consideration of previous audit conclusions is a key element in view of the need to simplify audits and generate savings. This is even more relevant in a context of systems and process audits, whose results could be used by subsequent auditors, as well as audits carried out by/for the same funder. Nevertheless, there is scope to also enhance synergies in the auditing field across funders.

A starting point is to **systematically carry out a review of recent audit reports** (for the same or other funding organisations) ahead of each new audit, with the view to identify items that already give necessary assurance as well as potential weaknesses that have or have not been addressed between several audits.

Joint audit, defined as a process in which two or more funding organisations jointly carry out an audit of funding allocated by these bodies to a common beneficiary institution, offer several advantages:

- Efficiency of the joint audit process, covering the assurance requirements of multiple funding agencies and reducing the resourcing impact on the audited organisations;
- Increased learning from audits;
- Improved coordination and standardised approach / consistency between several funders;
- Potential policy alignment of research funders;
- Rigor of approach – several funding agencies agree a joint audit approach;
- Clarity for research performing organisations;
- Controls assessment – the move from a largely substantive approach (focused on transactions) to a controls-based assessment has resulted in the audits focussing on real control weaknesses;
- Addressing cross funding issues – such as potential double funding, or incorrect allocation of shared costs.

Ireland's experience in joint auditing

Joint auditing is the approach taken up in view of multiple auditing cycles conducive of important inefficiencies. Irish research performing organisations (RPOs) are audited several times a year:

- The Comptroller & Auditor General – state annual financial audit
- RPOs internal audit departments
- Science Foundation Ireland / Health Research Board / other state funding agencies audits
- EU audits for European Regional Development Fund audits
- EU audits for Horizon 2020/ other EU grants

This significant audit burden puts pressure on the same group of financial staff at the RPOs. The Irish Universities Association and the Research Accountants group explored various ways to reduce this workload.

Science Foundation Ireland (SFI) and the Health Research Board (HRB) started performing joint audits of RPOs in 2014, as they have significant overlap in their beneficiaries.

The common audit approach works as follows:

- SFI and HRB jointly appoint professional firms to carry out audits of RPOs based on an agreed methodology that covers the key processes around award management in respect of awards issued by both bodies.
- Both SFI and HRB have appointed key liaison officers to manage this process.
- Both the process and reporting are overseen by each body's executive management and Board (through the Audit Committees).
- This process is subject to annual review.

Scope:

- The joint audits completed by SFI and HRB only cover audits of financial controls in respect of awards to RPOs by both organisations.
- The joint approach does not currently include any EU reporting or auditing requirements.
- SFI and HRB are currently in discussion on an approach to carry out scientific risk audits jointly.

Extrapolating from these practices, it is recommended to consider greater interaction between national research funders and the European Commission's Directorate-General for Research and Innovation (DG RTD), in order to map opportunities for collaboration and joint action in the field of audit. Examples already exist, including the agreement between DG RTD and Science Foundation Ireland signed in 2015. The agreement sets out the following areas for cooperation:

- Regular contacts to discuss risk audit and control issues, best practices, research integrity and scientific misconduct;
- Exchange of information on awards made by SFI, which could be cross checked against awards made by European Research Council awards etc.;
- Mutual access to databases on grants (E-Corda);
- Participation in joint training events;
- Points of contact nominated.

Challenges remain as to the actual operationalisation of the agreement, but this approach provides a basis to further build upon. There is a need for **a platform for dialogue between national funders and EU funders on audit practices**, which can start with mutual access to grant databases (particularly to address the issue of double/cross funding) and that could in some cases expand to joint audit campaigns.

4.3. IMPROVING AUDIT SEQUENCING

Another way to make audits more efficient is to increase coherence of audits to the same beneficiary, allowing to reduce both intensity and frequency in the audit cycle. For example, the Austrian Research Promotion Agency – the FFG (one of the main national research funding organisations in Austria) - carried out a major simplification of its auditing practices by improving the sequencing of audits, so that following audits become simpler.

FFG audit sequencing simplification

First audit: all processes that affect a project (time recording, purchasing, hourly rates, travel management...) are checked. A sample of projects is used for a transaction audit. The first audit typically lasts two days.

Subsequent audits focus only on changed processes, require only one sample for transactions, and take into account the recommendations of the former audits. These audits are usually limited to a half day.

4.4. DEVELOPING EMPOWERING AUDITS

A high-quality audit contributes to a beneficiary's capacity to improve its financial processes and avoid future errors. Auditors not only report on compliance with funding rules, but also advise on how to address certain issues and eliminate inconsistencies or reporting gaps. In the context of the EU Framework Programmes for Research and Innovation, such advice is particularly needed for newcomers or less experienced institutions that risk to commit a systemic error. Personal meetings and exchange with the funding agency directly (rather than with commissioned external auditors) during audits is considered beneficial and enables discussions and individual solutions for specific problems, progress on the learning curve for both parties, and builds mutual trust. Such practice generates additional efficiencies in the next auditing cycles, reducing errors and thus saving time and resources on both sides.

The benefits of this approach expand to the sector if audits produce results that are consistent across cases and thus can be disseminated to other beneficiaries in a given sector. Concretely, audited beneficiaries become multipliers and inform their peers (in this case, universities and other research performing organisations operating in the same country) about audit results so that the latter can adapt their practices if needed.

5. Key recommendations for EU policy makers

➔ PRINCIPLES

- Integrate the principles of efficiency, effectiveness and value for money in all EU auditing processes.
- Prioritise the concrete implementation of simplification to ensure that broad principles are effective in practice.
- Shift focus to improving the control environment by working on systems and processes.
- Engage in a dialogue with national funders to exchange best practices, build trust, initiate joint audits in a transparent way and explore how to operationalise the proposed “compatibility” test.
- Develop the capacity-building dimension of EU audits.
- Support research on innovative practices in audits, with a view to map possible efficiencies and challenges, acknowledging the specificities of the research and innovation field.

➔ PRACTICAL RECOMMENDATIONS

Synergies with national funding bodies

- Operationalise the existing agreements between the European Commission and national funders (notably to solve issues connected to possible double funding).
- Explore opportunities for joint audit trainings and campaigns, as well as consider options for secondment schemes for auditing professionals at EU and national levels.
- Provide the option to beneficiaries to integrate a review of audit reports developed for national funding agencies within a period of three years – to improve focus of current EU audit cycle.
- Test systems and process audits in a pilot project with a university, national funder and EUA (as observer / multiplier) for maximum coherence and outreach.
- Launch a compatibility test of national auditing practices with the view to make EU audits more efficient by involving interested funding organisations in order to provide evidence of gained efficiencies and encountered challenges.

Programme implementation

- Involve all relevant Directorates-General and services in the development of the Horizon Europe Model Grant Agreement to foster greater alignment and coherence across programmes.
- The Model Grant Agreement should provide guidance to beneficiaries and enable them to implement the principles of the Financial Regulation – clarifications should not generate additional restrictions.
- Allow for different models of time allocation.
- Remove obligation to provide proof of payment for salaries of staff of public organisations.
- Make lumpsums (for personnel costs) an option for beneficiaries, who can assess the related advantages and downsides of this scheme.
- Share good practices at system level and across beneficiaries of the same type (beyond the role of National Contact Points).
- Consider issuing a call for projects/tenders to collect practical evidence on innovative auditing practices, pilot novel approaches and foster the exchange of good practice across beneficiaries at European level.

References

Read more from EUA on the topic:

Accepting University Accounting Practices under Horizon Europe

- [Strategic and practical recommendations](#), September 2018.
- [A compendium of national and institutional cases](#), September 2018.

[Taking simplification of EU funding to the next level - The university perspective, Brussels](#), February 2018.

[Financially Sustainable Universities. Full Costing: Progress and Practice, Brussels](#), January 2013.

The European University Association (EUA) is the representative organisation of universities and national rectors' conferences in 48 European countries. EUA plays a crucial role in the Bologna Process and in influencing EU policies on higher education, research and innovation. Thanks to its interaction with a range of other European and international organisations, EUA ensures that the voice of European universities is heard wherever decisions are being taken that will impact their activities.

The Association provides a unique expertise in higher education and research as well as a forum for exchange of ideas and good practice among universities. The results of EUA's work are made available to members and stakeholders through conferences, seminars, websites and publications.