Background information on auditing

and checks to be performed

# Guaranteeing compliance of costs: current way of working

The picture below describes the current way of working that is used to make sure a sufficient fraction (>98%) of the costs (i.e. the public funding) have been spent in a compliant way. This control and management system consists of several parties, each filling a specific role.

1. The management authority (MA) is responsible for the daily operations. When a beneficiary submits a request for the repayment of a cost (“a cost-item”), the management authority will perform checks to make sure it is a valid expense (see the next section for some examples of these checks).
2. Subsequently, the MA will pass on the approved declarations to the certification authority (CA). The CA compiles and certifies the accounts and requests the European Commission to repay the approved costs.
3. The Flemish auditing authority (VAA) checks the MA and CA via three types of audits: system audits, audits on specific actions, and audits of the output. In system audits, the VAA verifies whether the MA and CA have followed the operational processes as defined in European rules. Subsequently, the VAA itself conducts operational audits on the beneficiary of a supported project by going through the same process as the MA and re-verifying whether the same conclusions as those of the MA are reached. Finally, the VAA also checks the output documents (accounts and reports) of the MA and the CA.

A screenshot of a computer flowchart

Description automatically generated

For the purpose of this hackathon, the most relevant type of checks performed by the Flemish auditing authority (VAA) are the audits on specific actions. Here, the VAA investigates whether the declaration of a certain cost was fully compliant. To a large extent, these checks are similar to what the MA checks. However, here the goal is less about removing errors and more about inferring the rate at which MA has accepted invalid declarations. The fraction of euros that were accepted as a valid cost while they shouldn’t be is known as the “loss of materiality”. Based on extrapolating the sample, the VAA obtains a confidence interval of the loss of materiality rate which either gives assurance to Europe that the funds have been spent well enough or, in the other case, determines the fine that Flanders will incur.

This current way of working may (or may not) change if automated assessment of cost-item compliance is deployed. However, some notion of validation to provide a guarantee towards the European commission regarding the fraction of the budget that has been spent in a compliant way, remains important.

# Checks to be performed

As described in the section above, the checks done in the first line and second line aim to verify whether a cost is compliant with the program rules. These range from “boring checks” to detecting outright fraud. The non-compliance can be a property of the declared cost-item alone or it can be a property of the project as a whole (e.g., the same project is being funded twice).

For detection of the errors at the cost-item level, we have provided dummy data in which the following types of errorsoccur**:**

* Mismatch with evidence: beneficiaries have to submit documents providing proof of the cost (e.g., invoices, payslips, …). On the other hand, they have to describe several properties of the cost-item in a web portal such as the incurred cost excluding VAT, the date of receiving the invoice, the name of the supplier. Mismatches between the supporting document and the declared property have to be caught here, such as the following:
  + Mismatch in supplier name
  + Mismatch in cost size
  + Mismatch in invoice date

Note that today, auditors manually go through all supporting documents. One obvious measure is to automatically extract information from these documents to simplify the comparison steps. For the dummy data, this extraction has already been done for you.

* Wrong cost-category: beneficiaries have to indicate in which category a cost belongs (which is coupled with their cost plan). If the invoice description does not fit the category, the cost is rejected. The categories that exist are:
  + Preparation costs: costs incurred to prepare the project proposal (detailing project goals, work packages, writing and submitting project requests, …)
  + Staffing costs: salaries of personnel that is directly involved in project execution (note: interim staff does not belong here, but is part of “external expertise and services”). These costs are declared using payslips as supporting documents instead of invoices and therefore do not occur in the synthetic dataset.
  + Overhead: indirect costs related to the functioning of project personnel (office rent, insurance of building electricity, heating, water, office supplies, security, IT systems, phone costs, …). These costs are reimbursed based on a flat rate (e.g. 20% of the budget). This means that beneficiaries shouldn’t declare overhead costs.
  + Travel costs: plane/train tickets, parking fees, meal costs, hotel costs, …
  + External expertise and services: costs for external expertise and services provided by third parties (can include design, development, production, distribution of communication tool, studies, legal advice, expert travel costs, project event costs such as renting a conference room, …)
  + Equipment: all equipment, installations and machines that are directly linked to the project goals, as well as raw materials and consumables linked to project goals (except building materials).
  + Infrastructure and building: costs for constructing buildings, renovations, other works (including purchasing building materials) that are directly related to the project goals.
* The cost has been declared too late: the beneficiary has to declare a cost within 6 months after receiving the invoice, otherwise the cost is rejected.
* Double declaration: the cost was already submitted
* Cost not eligible for subsidy: some types of products cannot be subsidized (i.e. alcohol, art, non-promotional gifts)

In real life, many more checks at the level of individual cost items are done. Some additional examples include:

* The law of public purchases has not been followed correctly.
* Not a part of the cost plan: beneficiaries need to provide a cost plan at the start of their project, estimating the different costs over time. If purchases are made that were not foreseen in the cost plan, these costs are rejected.
* No more budget: if the beneficiary overruns his budget as indicated in the cost plan, the cost is rejected.
* Set of submitted documents is not sufficient evidence: the documents provided are incorrect or incomplete and do not allow to properly assess the cost.

Apart from cost-level checks, verifications are also done on project partner and project level: was the project already submitted for funding via another agency? Is the project partner financially stable?