

# Risk-Based Audits

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# Quick overview

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- ✂ Introduction
- ✂ Control environment
- ✂ Relevant ISA standards
- ✂ Risk - based auditing
- ✂ Results

# DG INFSO

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- ✂ European Commission department
- ✂ Regulation regarding information society - “digital agenda”
- ✂ Co-funding of cost of research projects: 1,5 bn € per year
- ✂ > 7000 beneficiaries, >2000 projects
- ✂ Financial audits - 200 per year (80% outsourced)

# OLAF

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- ✂ European Commission anti-fraud Office
- ✂ Performs administrative investigations into facts affecting the financial interests of the European Institutions and contributes to their protection.
- ✂ Part of the European Institutions from a statutory point of view but operationally independent.
- ✂ Obligation to report to the judicial authorities facts of a criminal nature identified in the course of its investigations.
- ✂ Support to judicial authorities as well as to DGs' anti-fraud policy is on the rise.

# Control environment

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- ✂ Materiality: 2% residual error rate
- ✂ “Zero” tolerance for fraud
- ✂ Reliance on ex-post controls
- ✂ Trust-based, cut red tape

# Audit strategy

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- ✂ Assurance audits (50%)
  - ✂ Representative error rate via statistical sample (MUS)
  - ✂ Corrective action via the main beneficiaries (TOP200)
- ✂ Risk-based audits (50%)
  - ✂ Detecting irregularities

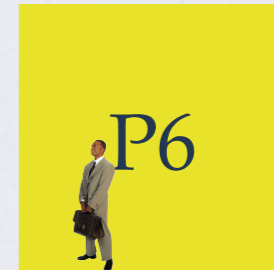
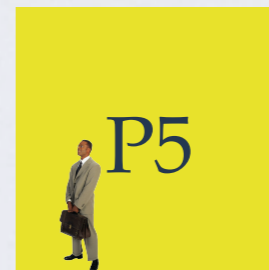
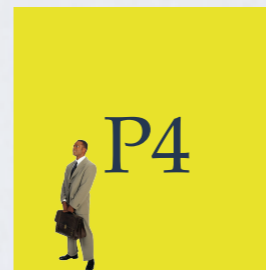
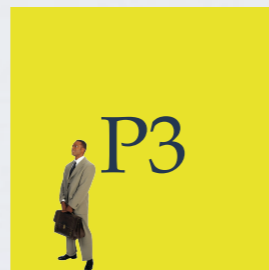
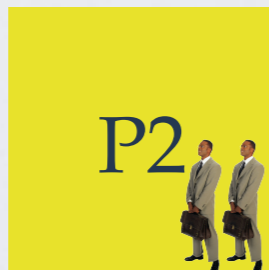


Grant  
agreement

Project  
proposal



Project coordinator





Audit

Project coordinator

€  
P1

A small icon of a person in a suit carrying a briefcase, positioned next to the text 'P1'.

P2

P3

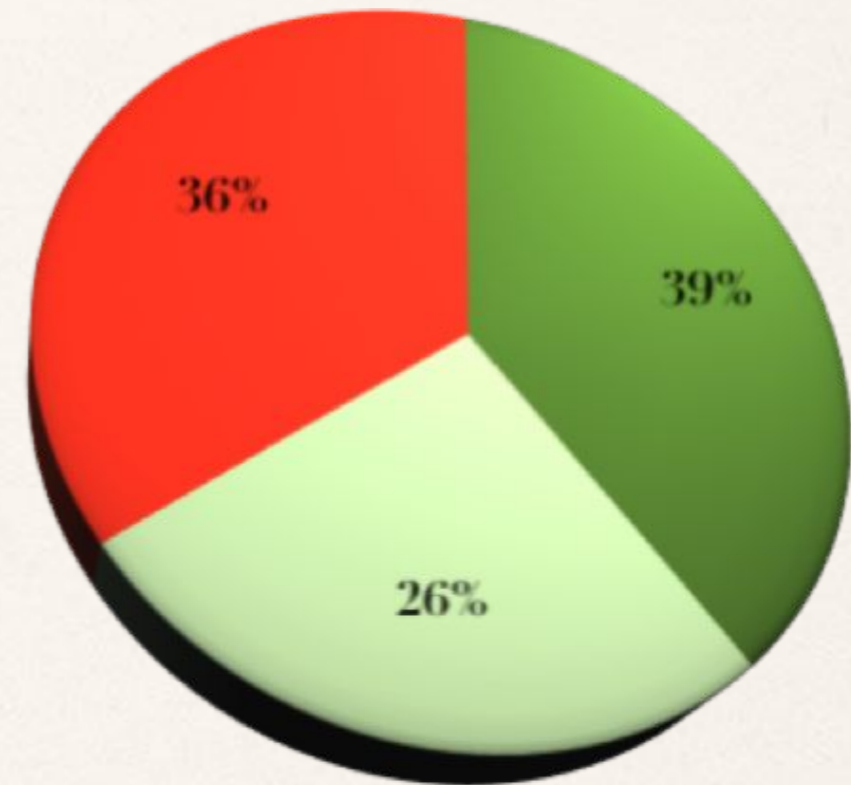
P4

P5

P6

# Assurance audits -> error 4%

- ✂ 36% results in recoveries
- ✂ Detected error rate 4%
- ✂ Residual error rate 2%



● Positive

● <2%

● >2%

# Risk-based audits

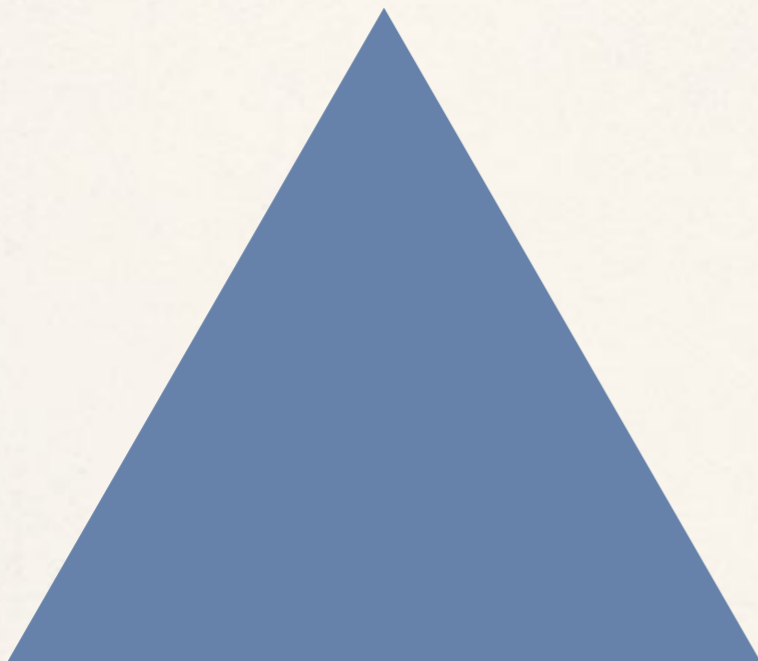
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- ✂ Detection and correction of intentional overclaims
- ✂ Aims to be highly selective and effective
- ✂ Special procedures for data-gathering, risk-assessment and auditing
- ✂ Strong cooperation with OLAF

# Cooperation with OLAF

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Cooperation



Methods

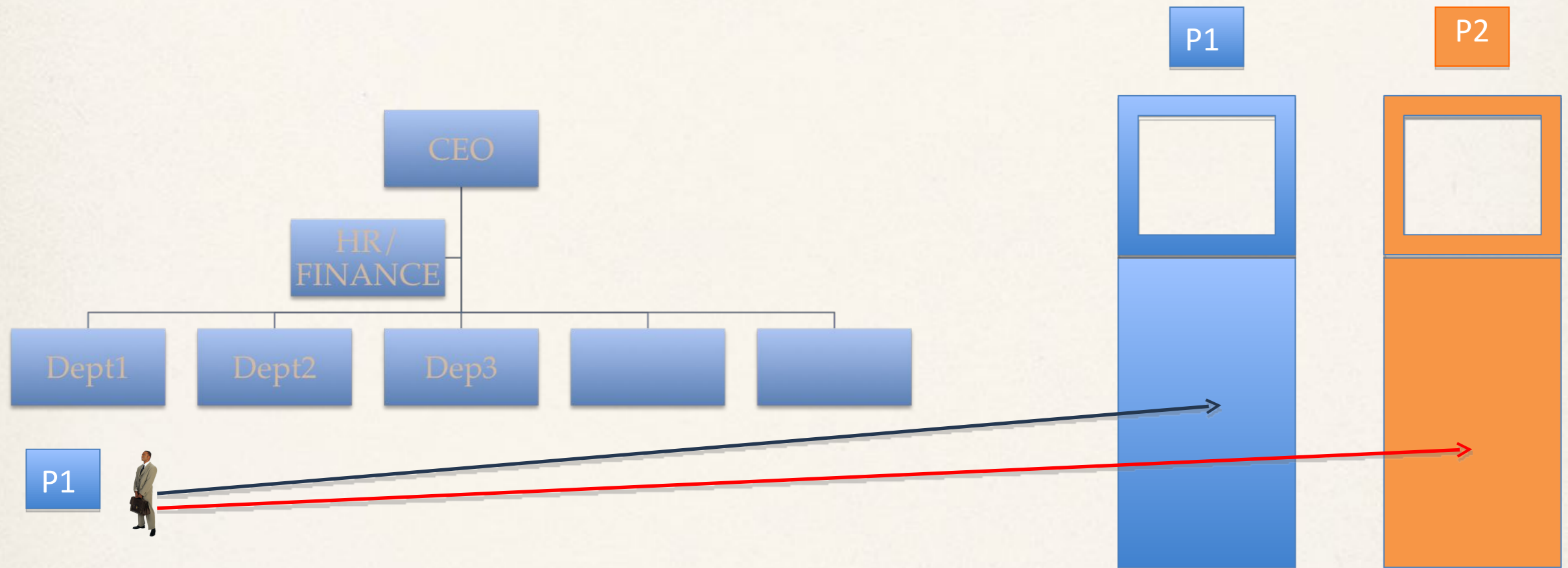
Tools

Earlier detection - correction

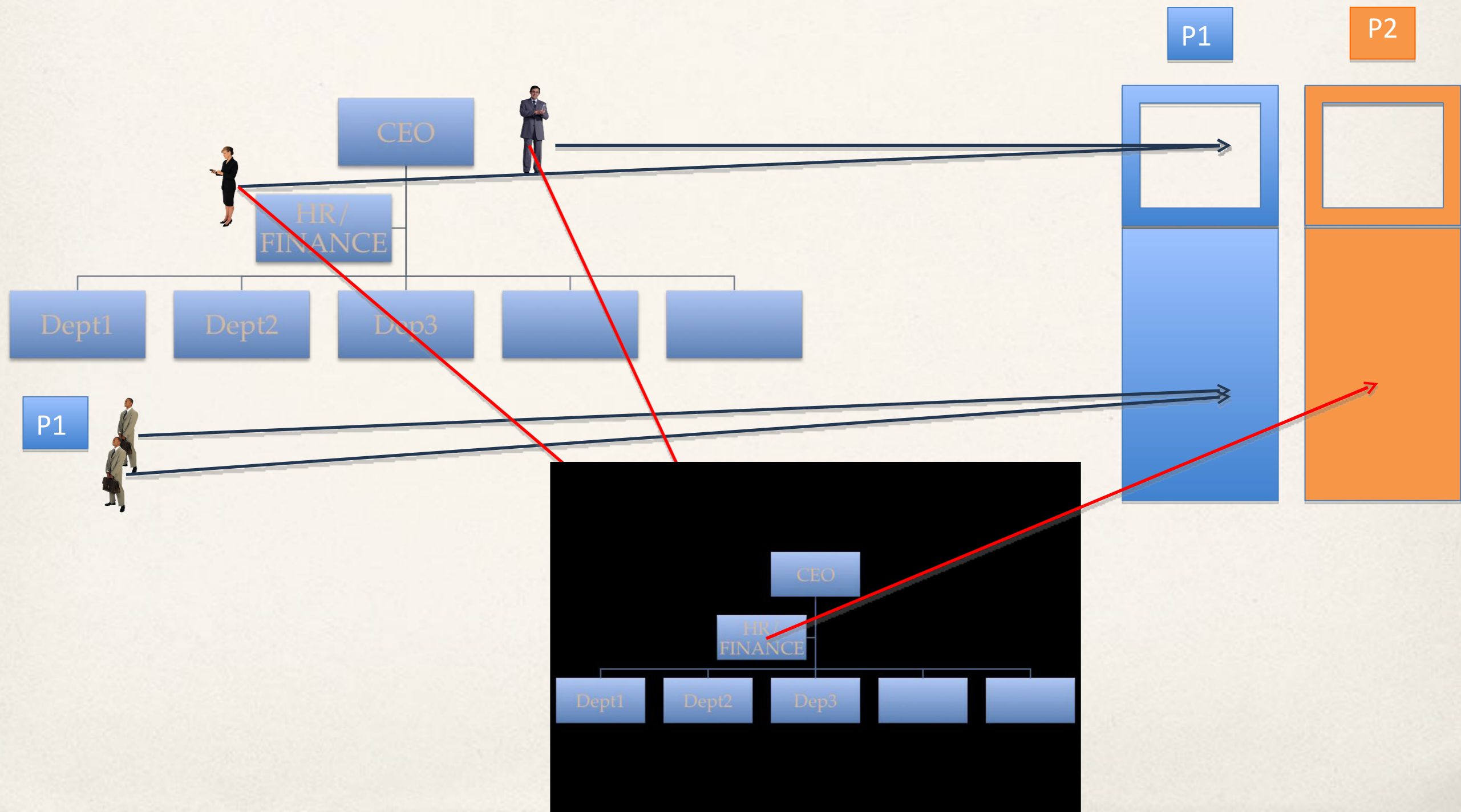
Better investigations

Prevention - dissuasion

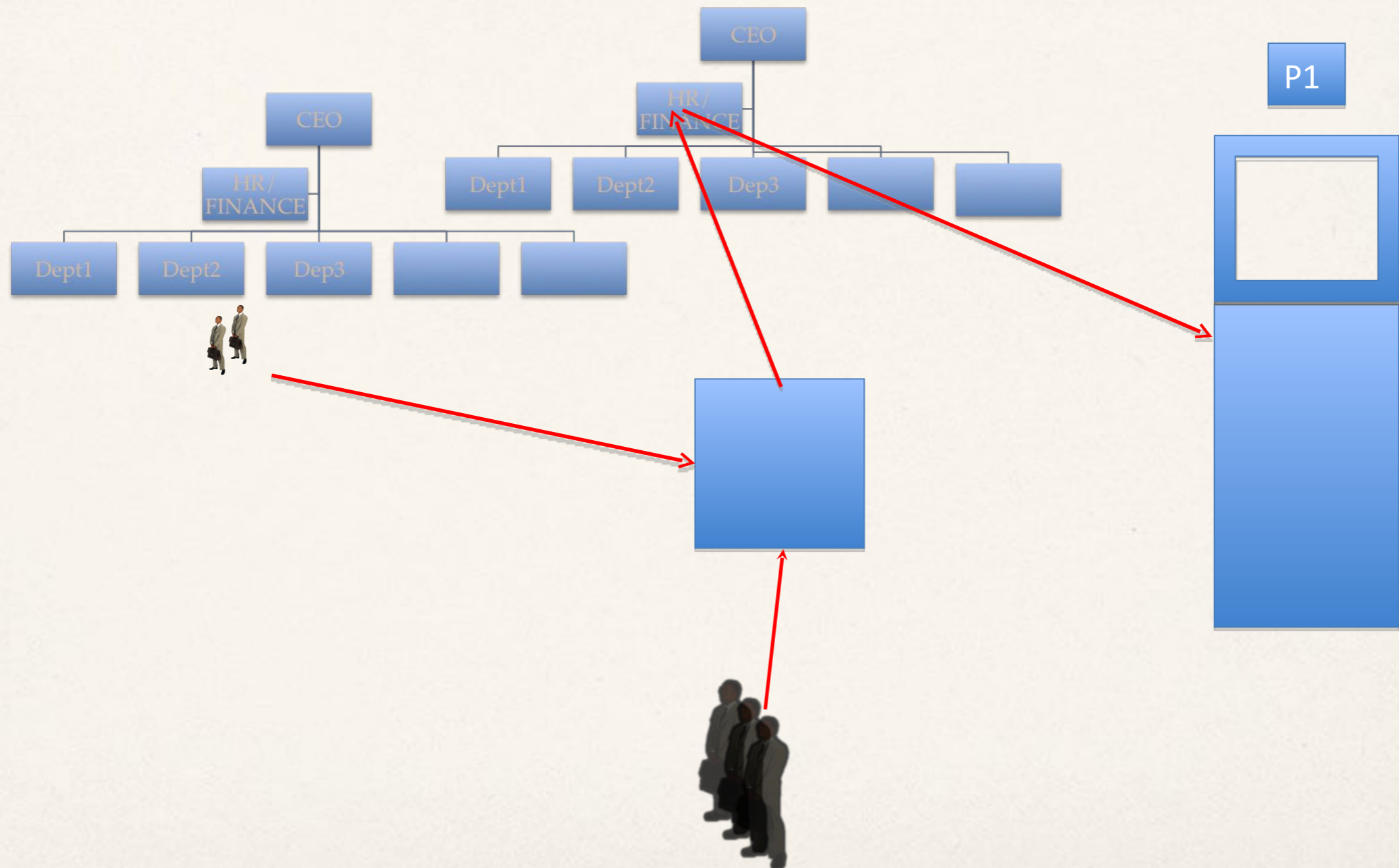
# Multiple claims



# Multiple claims



# Charge as subcontracting



# ISA 240

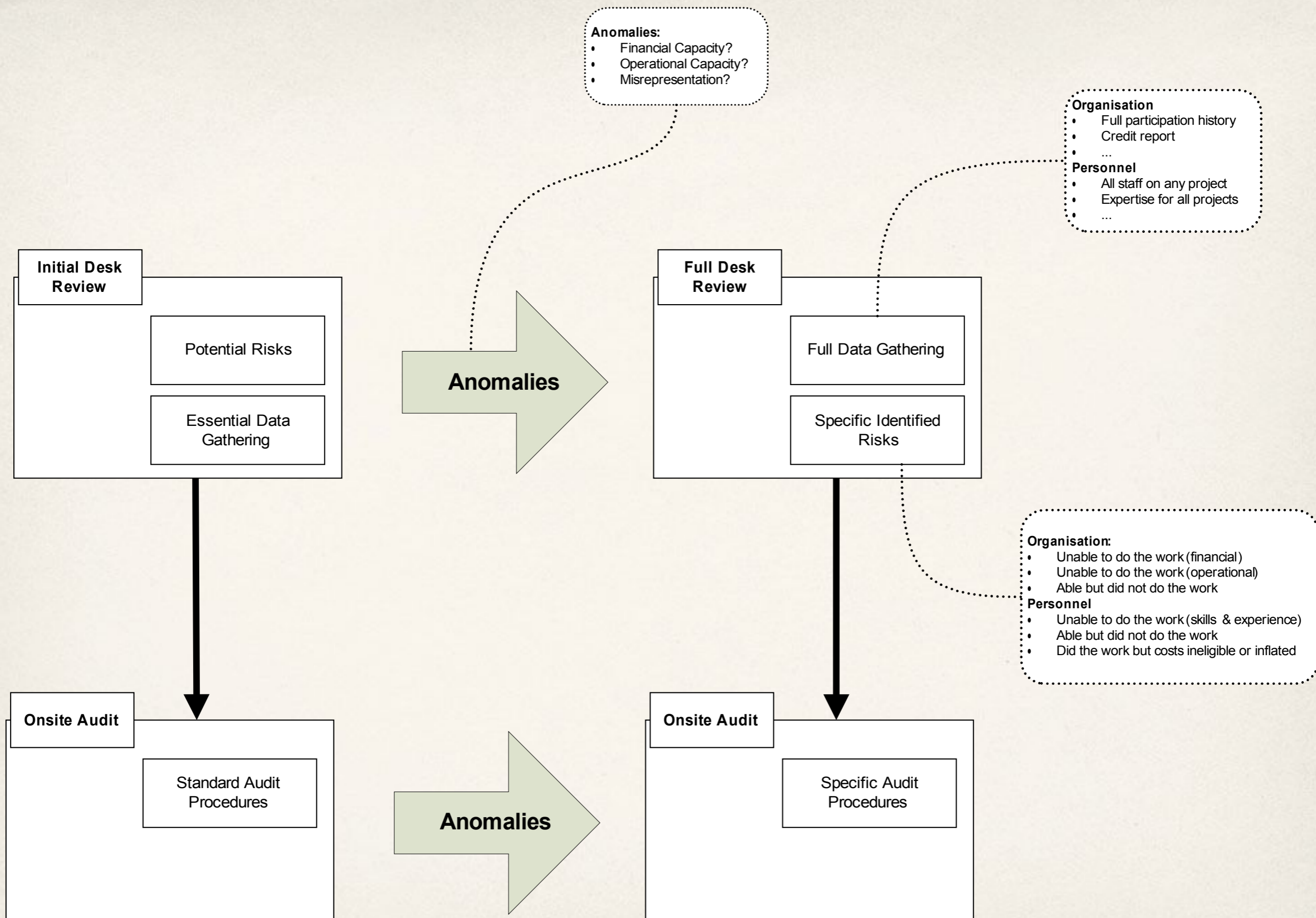
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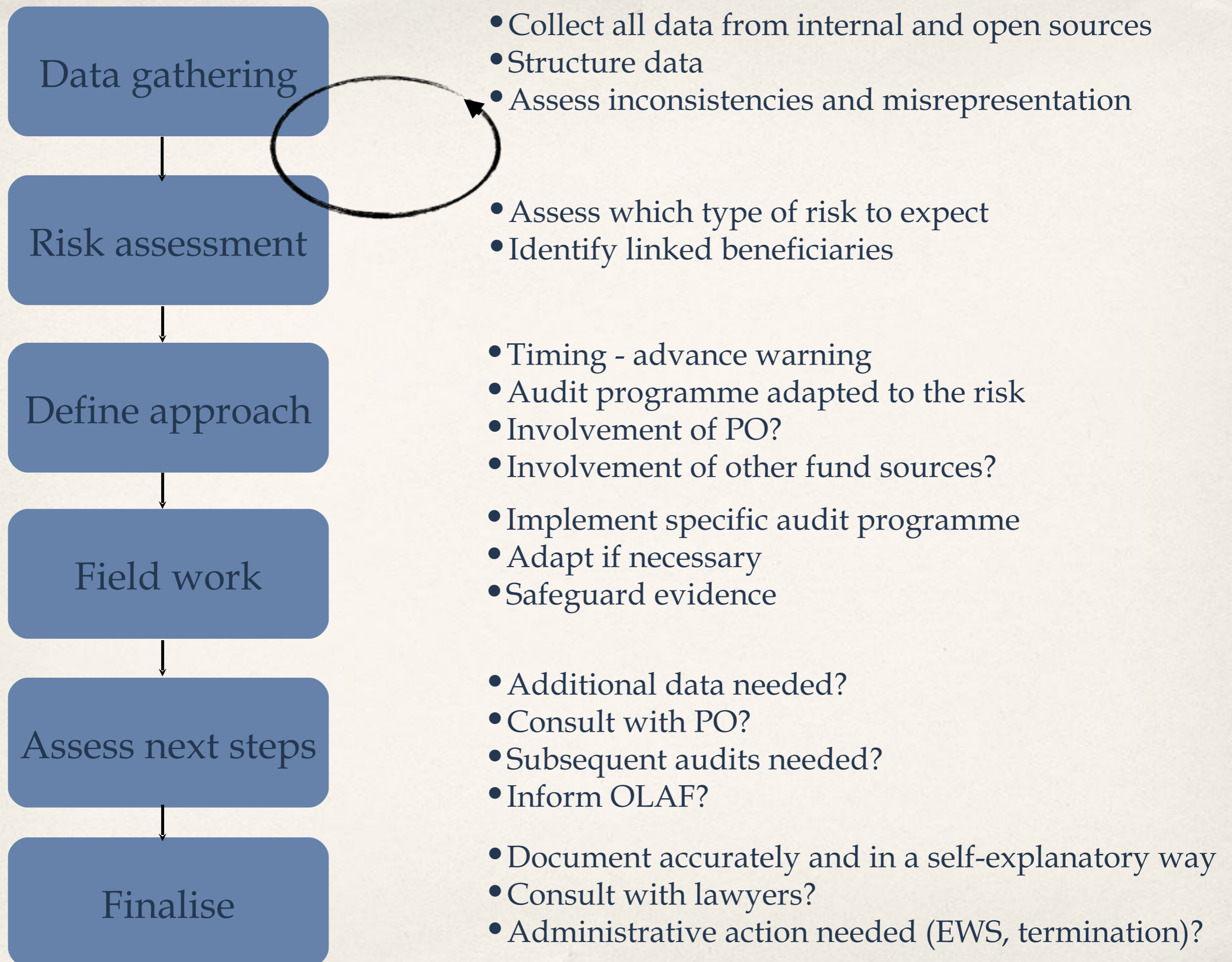
- ✂ Auditor's responsibility to consider fraud in financial statements
- ✂ Distinguishes fraud from error
- ✂ Professional skepticism – fraud may exist
- ✂ Assess the risk before the field work – brainstorming is *required*
- ✂ Audit procedures linked to identified fraud risks
- ✂ Obtain written representations from management

# ISA 315 - 330

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- ✂ Understanding the entity and its environment
- ✂ Assessing the risks of material misstatement
- ✂ Assessing the controls
- ✂ Design audit programme in line with the risk
- ✂ Detect contradictions or misrepresentation





# Internal data sources

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## Project-related

- Contracts, cost statements, reports
- Fund streams
- Emails, letters
- Deliverables

## Coordinates

- Address, company information, contact, telecommunication

## Other

- Involvement of experts as evaluator or reviewer
- Fund streams from other DGs

# Make internal data searchable

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- ✂ Mainframe -> indexed hard disk (unstructured)
  - ✓ All letters and emails
  - ✓ All deliverables
- ✂ Dataware house -> Pluto



# Risks at beneficiary level

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## Traditional risks :

- Elegibility of costs
- Multiple claims
- Plagiarism

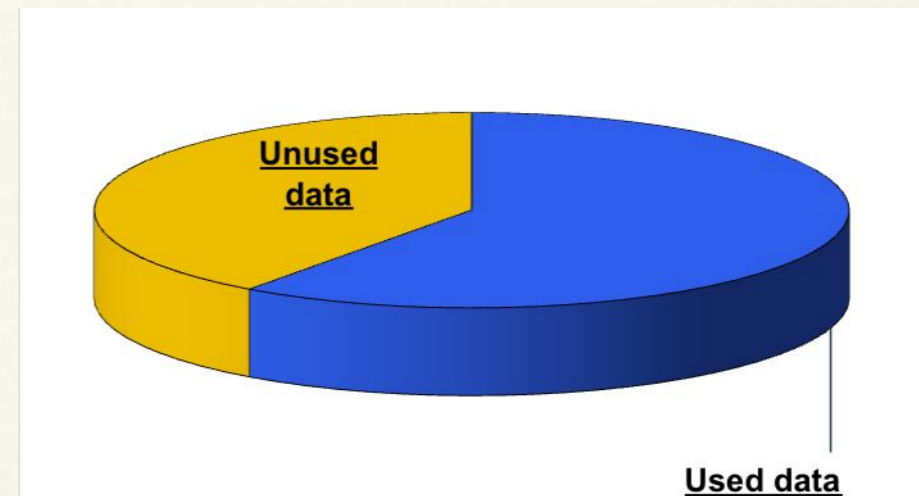
## Additional, inherent, risks may exist at beneficiary level:

- Conflicts of interest
- Related entities
- « Side » agreements

# Use all data available

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More data is available in the Commission's systems, but not used.



This data concerns the beneficiaries themselves:

- Means of contact (phone, fax, email address, website address,...)
- Locations (contractor's address)
- Persons (contact persons, staff assigned to project, managers,...)

# Use of all available data

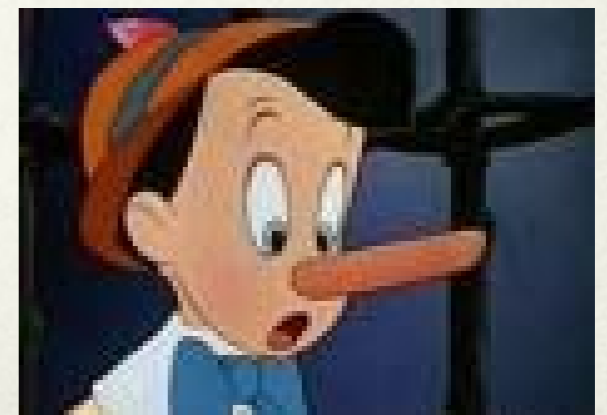
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## Enrichment of data may reveal:

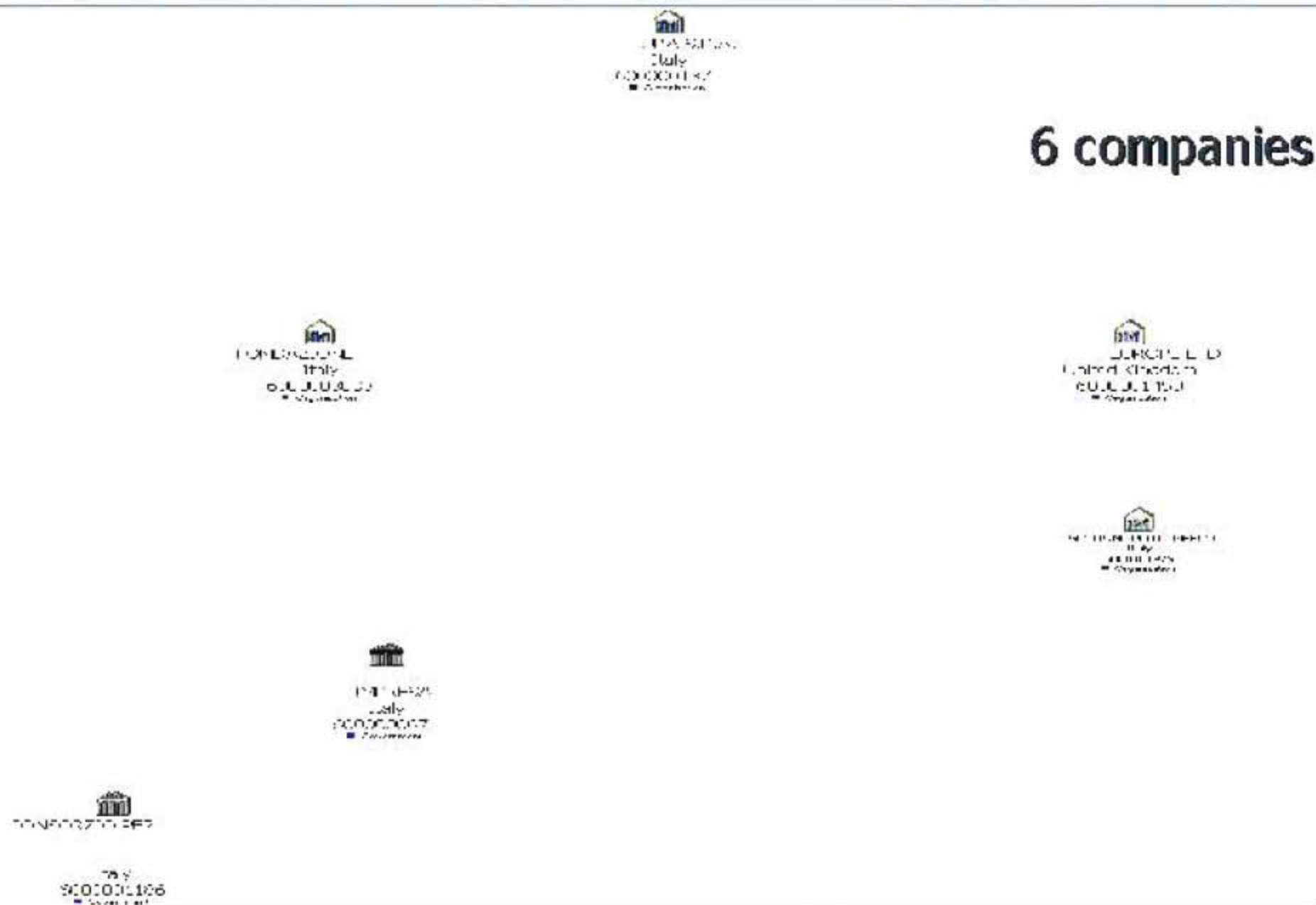
- Previously unidentified links between persons and/or organisations.

## Check of data may reveal:

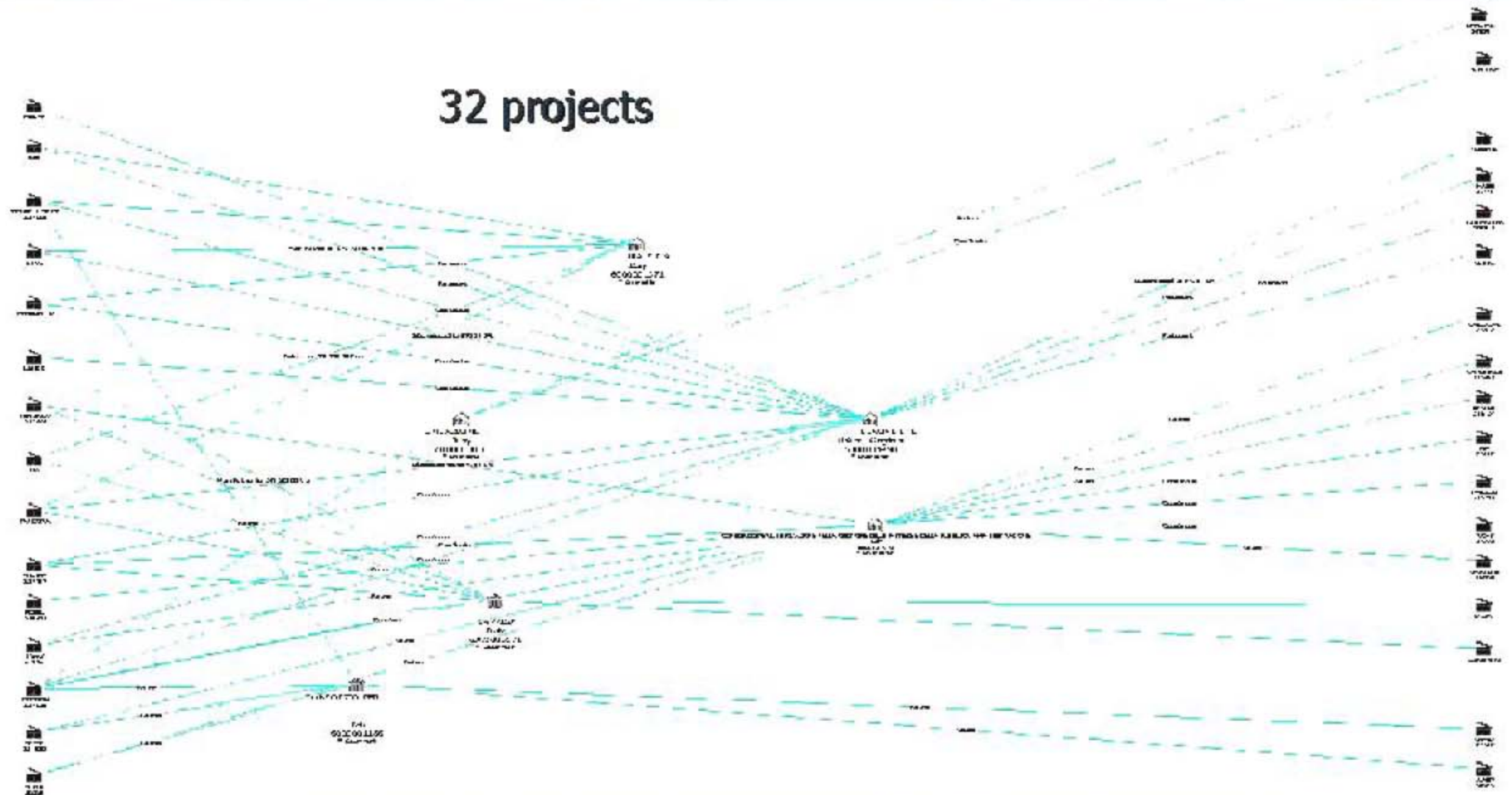
- Lack of operational or financial capacity of the beneficiary
- Misrepresentation of the staff declared to the project,
- Misrepresentation of the nature of the participant (lawyer's practice instead of a research institute,...)



# Pluto example (1)

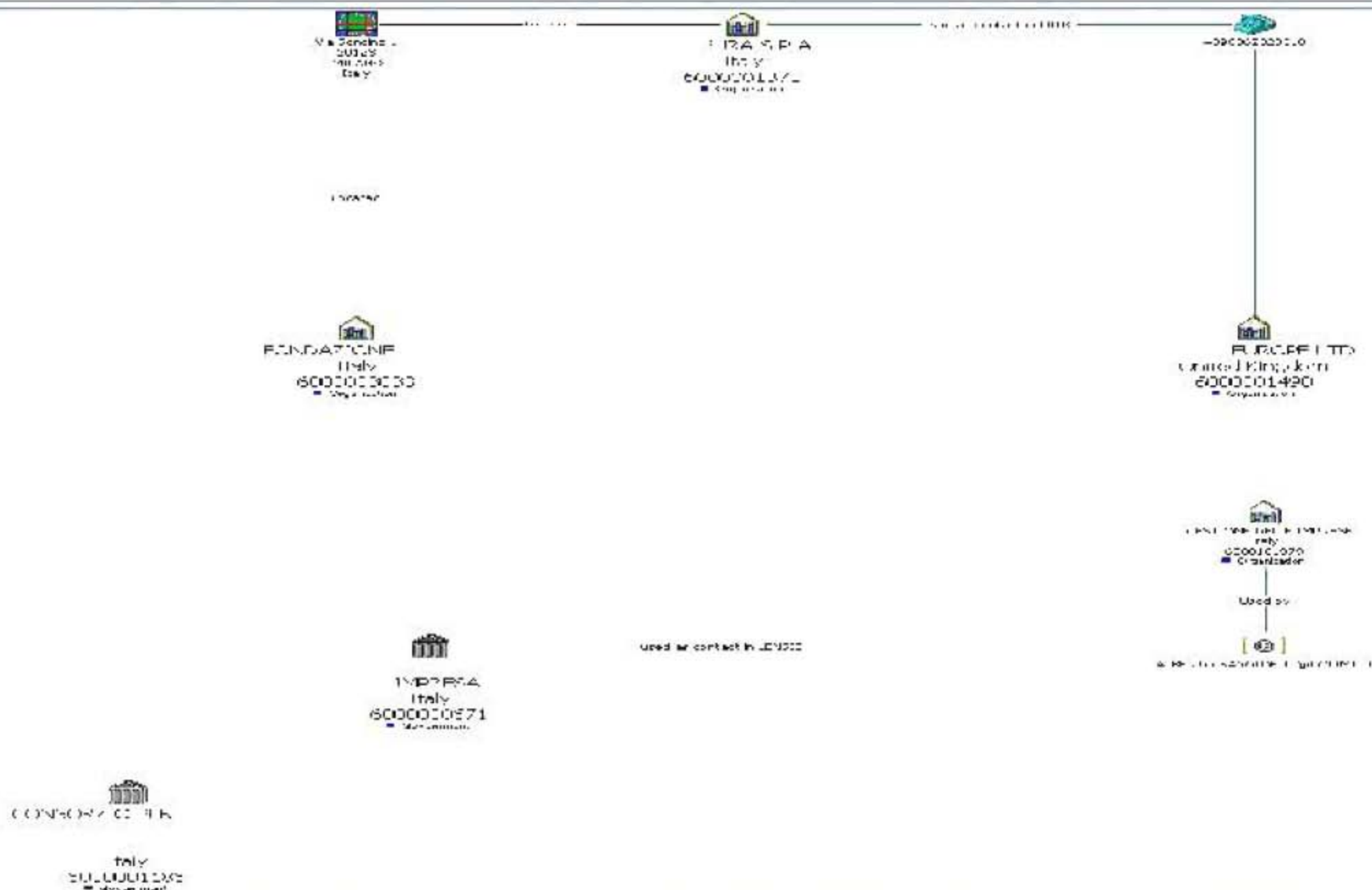


# Pluto example (2)



Individual and joint participation in research projects

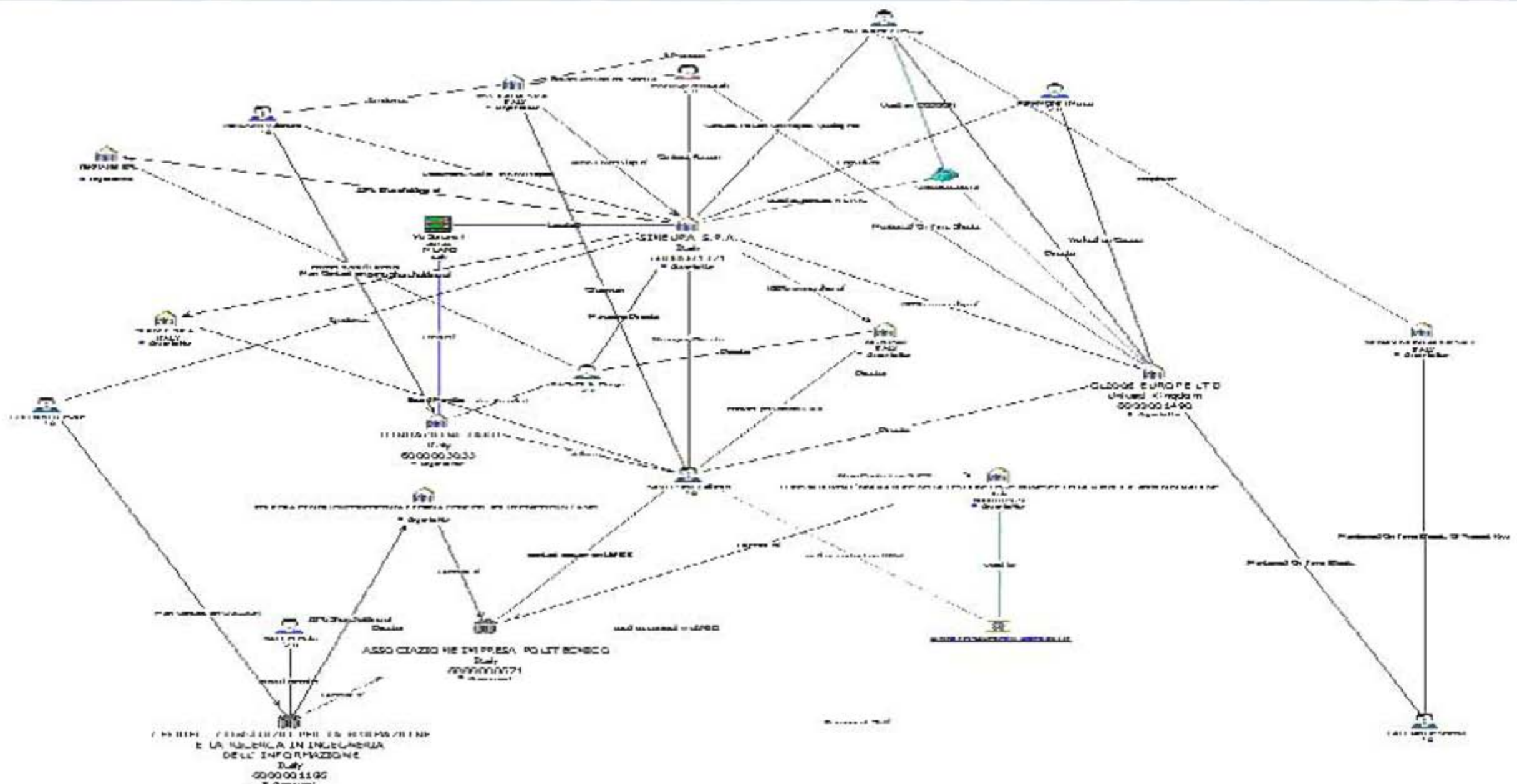
# Pluto example (3)



Additional data on means of communication



# Pluto example (5)



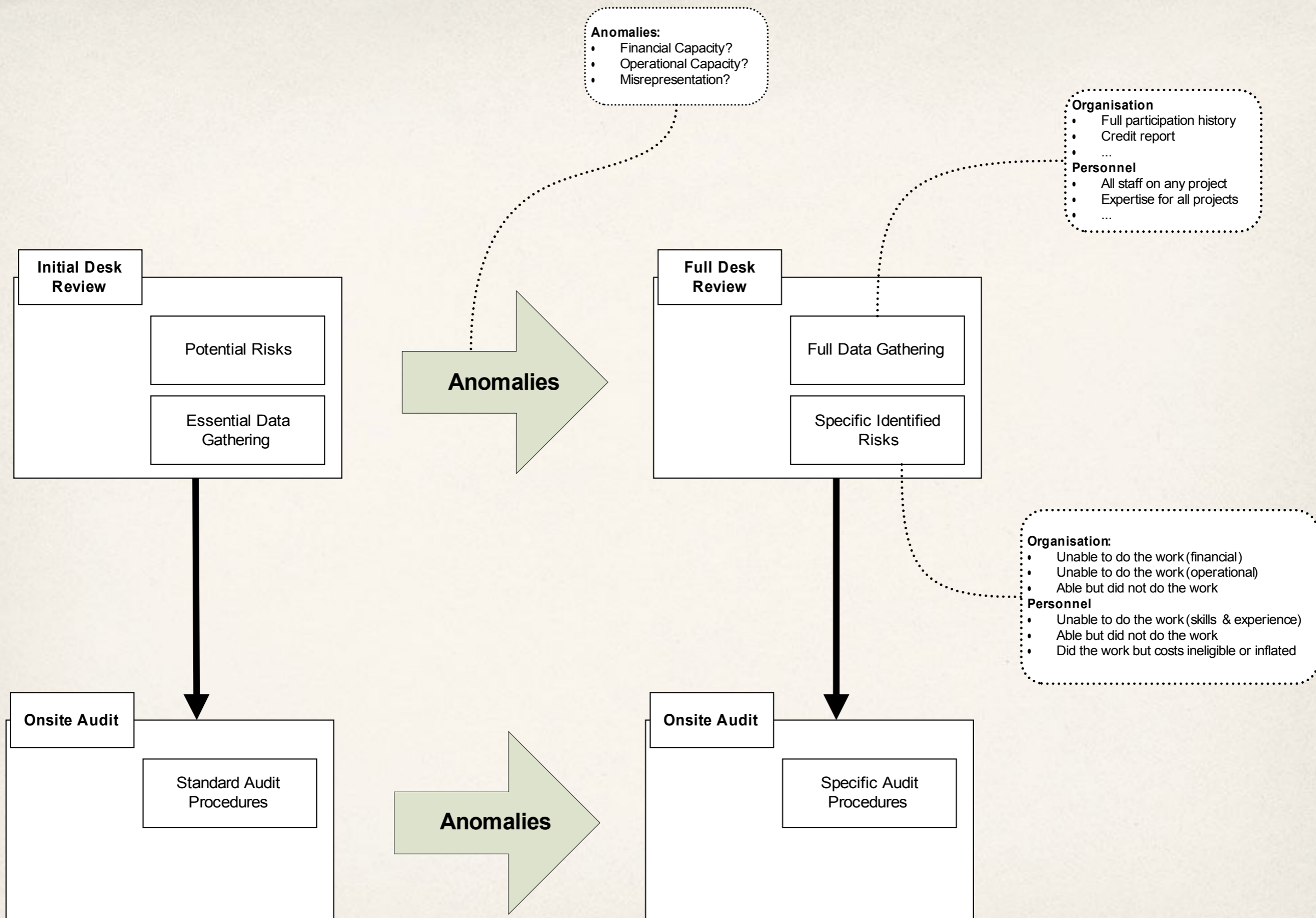
Enrichment with more companies linked to Contact persons

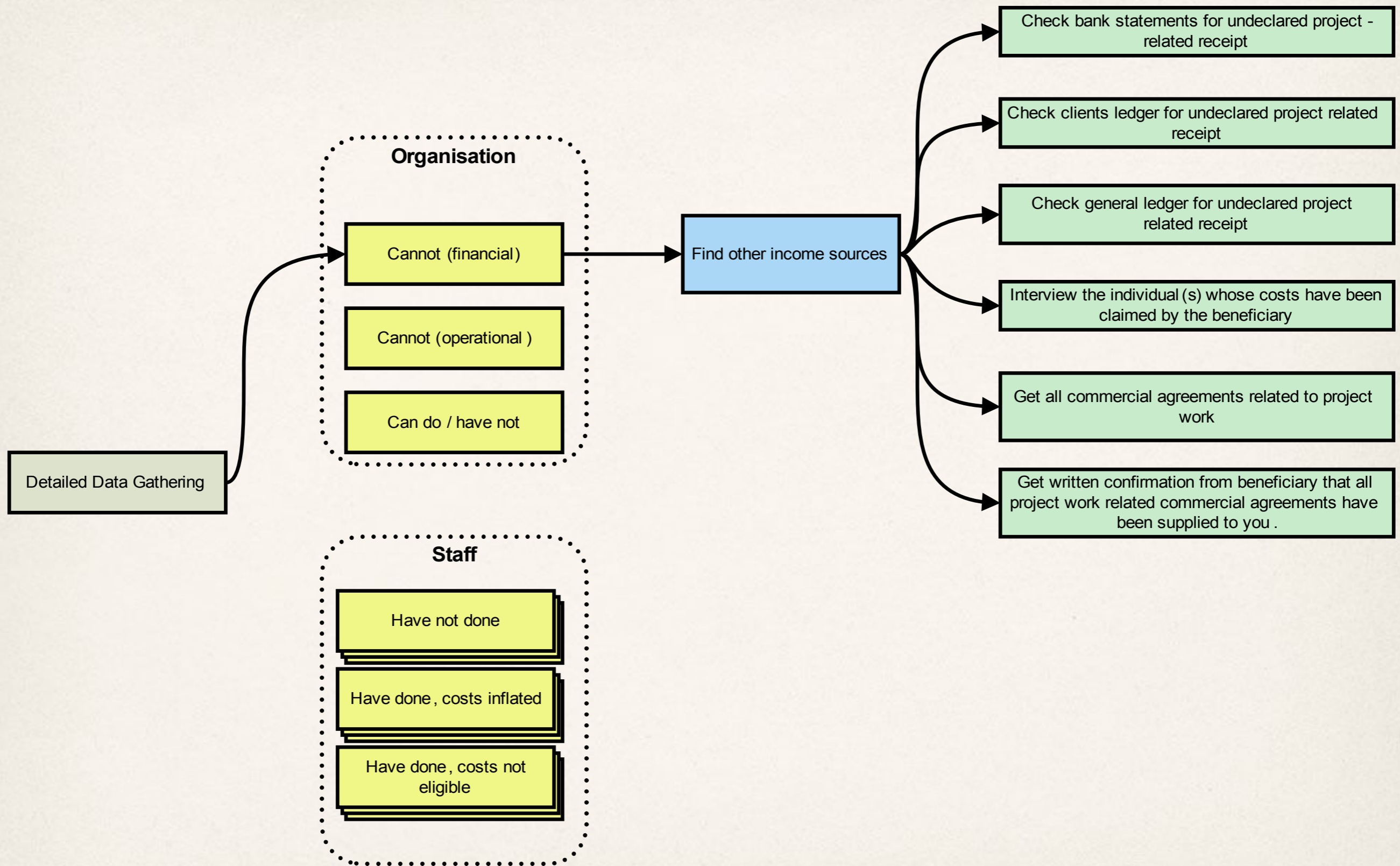
## 36 projects and 12 companies organised in a network

## Real Situation

# Data Gathering: Open Sources

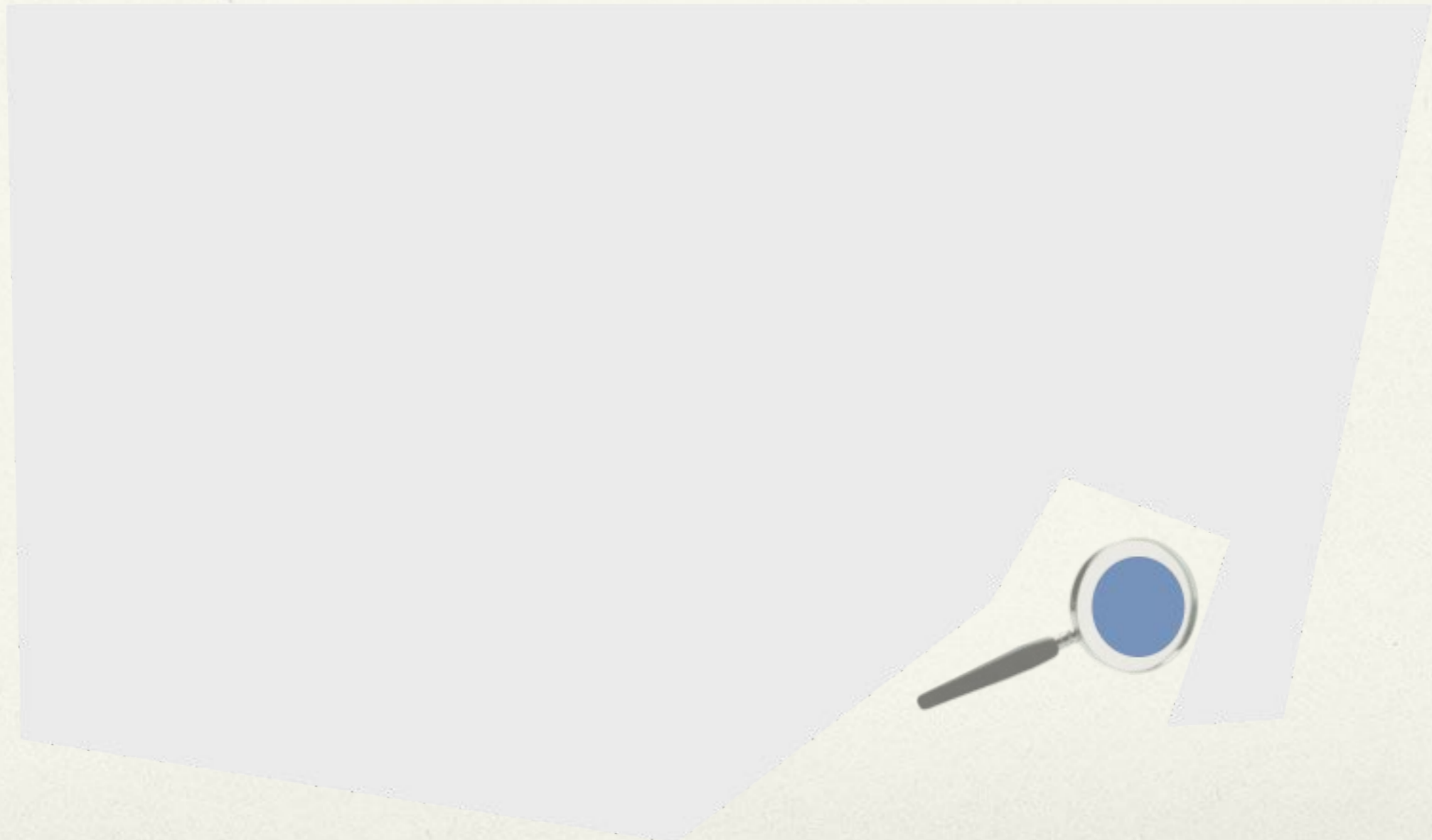
People	Companies	Communications Da
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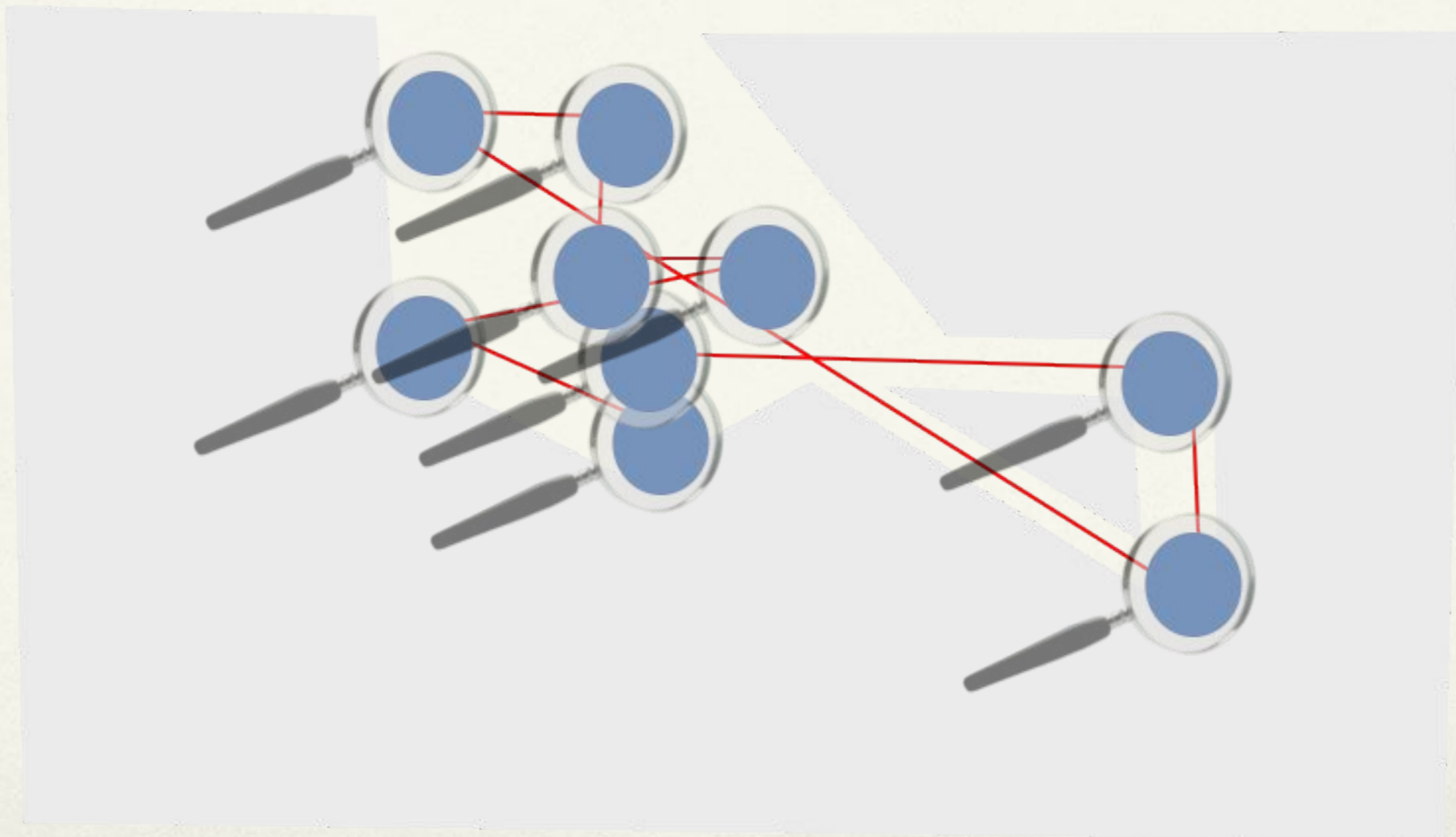
# Traditional approach

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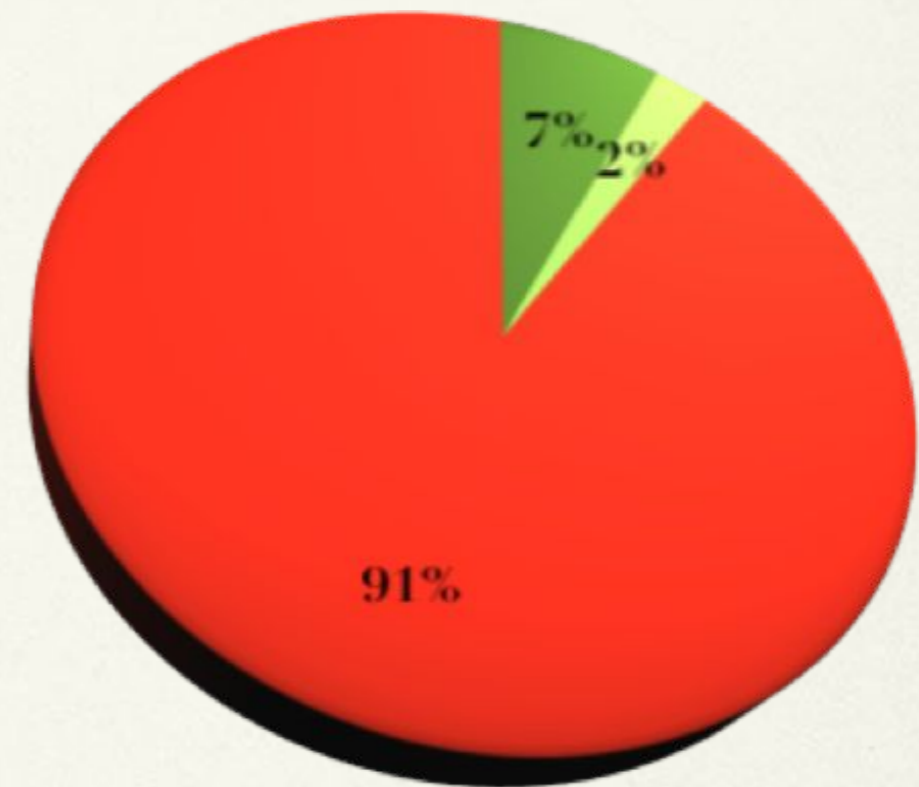
# Adaptive approach

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# Risk-based audits -> error 50%

- ✂ 91% Result in recoveries
- ✂ Very high error rate
- ✂ Detection of fraud



Positive



<2%



>2%

# Challenges

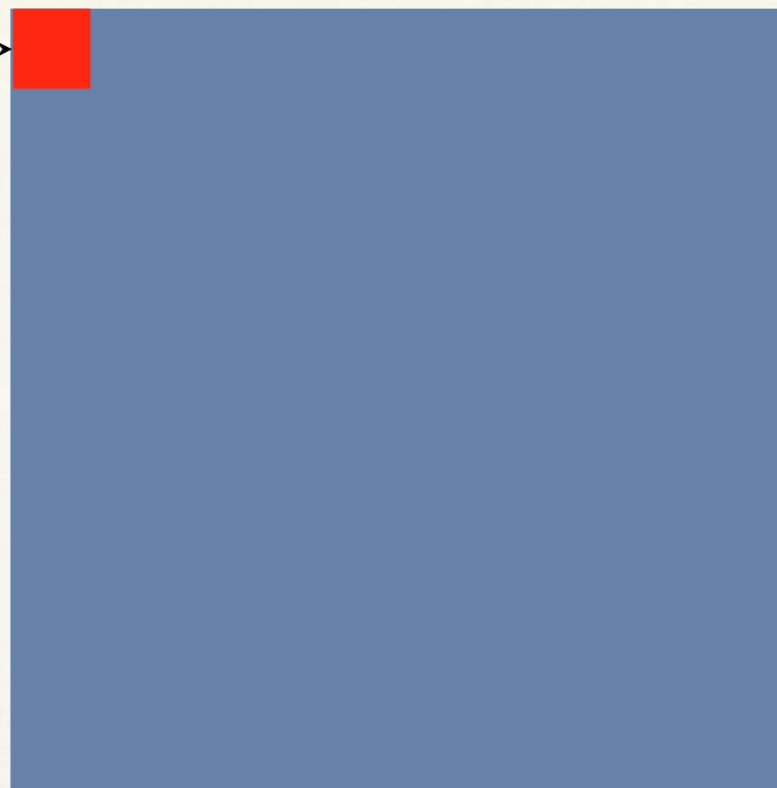
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- ✂ Selective controls
- ✂ Manage exceptions well
- ✂ Trust and control are not mutually exclusive

# Selectiveness

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Detect/Correct/Prevent



Facilitate  
Simplify  
Trust

<http://www.intosaijournal.org/technicalarticles/technicaljuly2010a.html>