



# HORIZON 2020

## Certificates on Financial Statements (CFS) Training Webinar

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**Common Audit Service (CAS)**

# • **STRUCTURE OF PRESENTATION**

- **Introduction to CFS**
  - **Audit Results**
- **Main Eligibility Criteria & Audit Procedures**



# Online Information



## Certifications - H2020 Online Manual

[https://ec.europa.eu/research/participants/docs/h2020-funding-guide/grants/applying-for-funding/register-an-organisation/certifications\\_en.htm#CFS](https://ec.europa.eu/research/participants/docs/h2020-funding-guide/grants/applying-for-funding/register-an-organisation/certifications_en.htm#CFS)

Includes:

CFS Template

LoR Template

FAQ

Link to Research Inquiry Service (RES)

Link to Horizon 2020 Grant Agreement

Link to Horizon 2020 Annotated Grant Agreement



## Indicative Audit programme (IAP) :

[http://ec.europa.eu/research/participants/data/ref/h2020/other/gm/audit/h2020-iap\\_en.pdf](http://ec.europa.eu/research/participants/data/ref/h2020/other/gm/audit/h2020-iap_en.pdf)

# Level of controls and audits

- **Ex-ante controls:**

- Certificate on the Methodology (CoMUC)
- Large Research Infrastructure (LRI)

- **Ex-post controls:**

- **First level audit:** CFS.

- = auditor to be selected by Beneficiary

- **Second level audit:** Financial audits, investigations.

- = by European Commission (CAS), ECA, OLAF.

# CFS Overview

- Legal basis **Art 20.4(b)(ii)** H2020 GA.
- Threshold: **€ 325,000**

Declared actual costs + unit costs calculated on the basis of usual cost accounting practices (average personnel costs & internal invoices).

- **1 certificate per beneficiary at the end of the action** - must be submitted by the coordinator 60 days after end of the last reporting period

Certificate may cover the whole action or each reporting period separately

- **Costs for CFS eligible** under category "Costs for goods or services".
- **Not an assurance** engagement, but Agreed Upon Procedures (AUP)

# CFS - The Auditors

- **Must be a qualified auditor**

Qualified in accordance with national legislation implementing Directive 2006/43/EC

- **Must be independent**

As defined by the "Code of Ethics for Professional Accountants" (published by IESBA)

- **Must be an external auditor**

- Exception for public bodies: May use an independent public officer with formal competence to audit

- Exception for international organisations: May appoint an internal/external auditor in accordance with its internal financial regulations and procedures

# CFS – Format & Content

## Annex 5 to the Grant Agreement - Model for the Certificate on the Financial Statements

[https://ec.europa.eu/research/participants/data/ref/h2020/gm/reporting/h2020-tpl-annex5-cfs\\_en.docx](https://ec.europa.eu/research/participants/data/ref/h2020/gm/reporting/h2020-tpl-annex5-cfs_en.docx)

### Consists of:

- **Terms of Reference** - Contract signed by authorised representatives of the beneficiary/linked 3rd party and the auditor
- **Independent Report of Factual Findings** - Report completed by the auditor, including a table of specific details to be verified as instructed by the EC

# CFS - Terms of reference

- Engagement of the Auditor by the Beneficiary
- Subject of the engagement
- Responsibilities of the Beneficiary and the Auditor
- Applicable standards – ISRS 4400, Code of Ethics for Professional accountants IESBA
- Reporting
- Timing
- Other terms (e.g. fees, liability, applicable law)
- Date and signature of Auditor and Beneficiary



# CFS - Auditor's Independent Report

- The Report – 66 procedures (AUP) covering all cost categories

➤ **Results:**

**(C)** Confirmed (eg: Compliance)

**(E)** Exception

**(N.A.)** Not Applicable findings

- Further Remarks
- Use of this Report – confidential use of Beneficiary and Commission/Agency
- Confirmation on no conflict of interest + fee
- Signature of the Auditor

# Key differences CFS and EC Audits

CFS	EC Audits
Not an assurance engagement - Agreed Upon Procedures	Assurance engagement – independent audit opinion
Procedures set up by Commission - Auditor not responsible for their suitability or pertinence	Indicative Audit Programme - overall ownership remains with the auditor
Independent report on factual findings	The audit also includes review of the system of internal controls - may lead to recommendations for system improvements
Performed by external independent auditors, selected by Beneficiary	Performed by CAS or external auditors appointed by the Commission
Auditee selected based on size of costs being reimbursed by EU	Auditee selected using statistical sampling (MUS) + risk-based audits
Findings do not lead to extrapolation	Potential extrapolation for systemic/recurrent findings

# Similarities

- Both are ex-post controls that provide assurance to the Authorising Officer on the eligibility of costs claimed in the financial statements
- Similar procedures between CFS and Indicative Audit Programme (IAP)
- Similar documentation required to be prepared by the Beneficiary
- Costs previously audited by the Commission are excluded from calculation of CFS submission threshold

# Audit results - Introduction

## State of Play as of 07th January 2021

- Overall the CAS closed **1288** H2020 audits, related to **2906** participations
- Figures represent:
  - Value % against all negative adjustment
  - Indirect costs excluded
  - No reclassification

***Please consider them with prudence ! They are only 32,28% of the multiannual goal of 9000 audited participations of the H2020 Audit Strategy.***

# Audit results – Overall 1/3

## **Personnel costs – actual costs (60,7% of all adjustments) due to:**

- Incorrect productive hours calculation (19,6%)
- Incorrect remuneration costs (9,8%)
- Incorrect time claimed (7,2%)
- Unreliable/missing timesheets (6,0%)
- No valid supporting documents (4,6%)
- Other- Double funding, etc (13,5%)

## **Personnel costs – unit costs (8,2% of all adjustments) due to:**

- Incorrect productive hours calculation (2,6%)
- Incorrect time claimed (1,6%)
- Incorrect remuneration costs - e.g. budgeted, estimated (1,3%)
- Other – No valid supporting documents, indirect costs claimed as direct costs, unreliable/missing timesheets (2,7%)

# Audit results – Overall 2/3

## **Subcontracting (8,2% of all adjustments) due to:**

- Lack of adequate supporting documents (5,3%)
- No value for money (0,9%)
- Not foreseen in Annex I nor agreed by EU services (0,8%)
- Other (1,2%)

## **Other goods and services (11,8% of all adjustments) due to:**

- Lack of adequate supporting documents (4,4%)
- Cost not related to the action (1,4%)
- No direct measurement of the cost (1,4%)
- Other - Double funding, indirect costs claimed as direct costs, no value for money (4,6%)

# Audit results – Overall 3/3

## Equipment (**4,9%** of all adjustments) due to:

- No direct measurement of the cost (1,3%)
- Cost not related to the action (0,6%)
- Other – e.g. Double funding, No value for money (3,0%)

## Travel (**2,2%** of all adjustments) due to:

- Lack of adequate supporting documents (0,8%)
- Cost not related to the action (0,6%)
- Other – e.g. lack of adequate supporting documents (0,8%)

## Large research infrastructure (**1,8%** of all adjustments) due to:

- Lack of adequate supporting documents (1,1%)
- Cost not related to the action (0,7%)

# • **MAIN ELIGIBLY CRITERIA** **AND** **AUDIT PROCEDURES**

## **General Procedures**



# • **FOCUS POINTS – GENERAL PROCEDURES**



- **Planning - Information Request**
  - **Sample Selection**
  - **General Eligibility Criteria**

## Planning -Information request

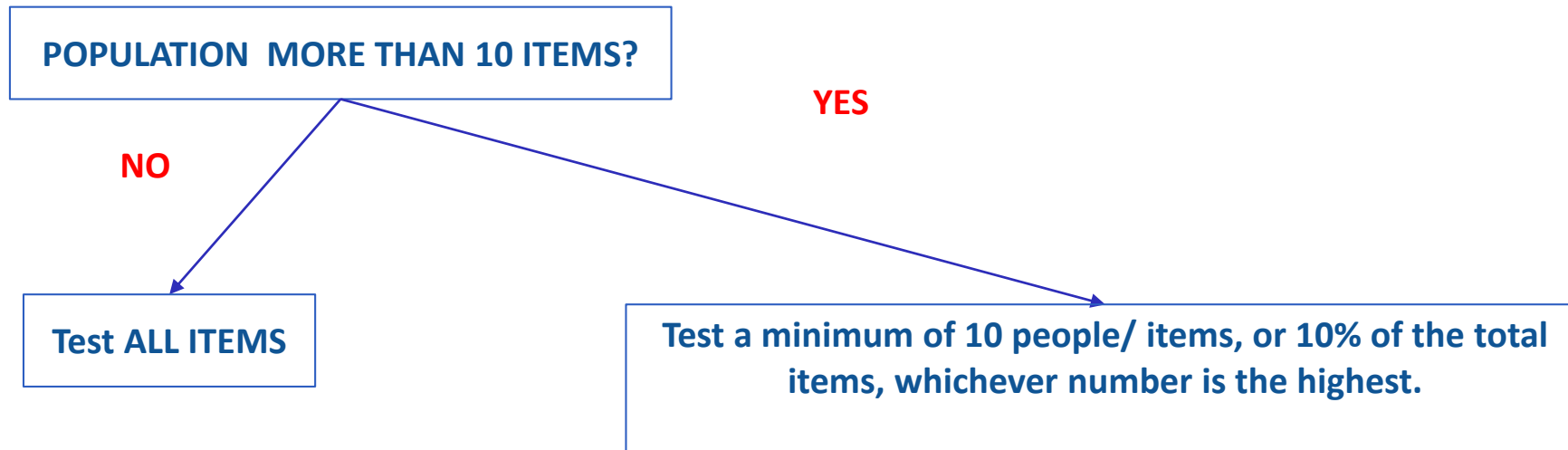
- Breakdown per reporting period, with reference to financial years, for each category of personnel costs;
- Details for basic, complements, additional remuneration, Hourly Rates calculation policy;
- Usual accounting & remuneration practices, Procurement and travel policies;
- Accounting records;

## Planning -Information request

- Time recording system documentation and examples;
- Example of Contracts;
- Schedule meetings with HR, Payroll, Accounting departments, Time recording;
- Send sampling results -> To prepare payslips, payroll, bank statements, contracts.

## Sample selection

- 1 sample per H2020 action for EACH Sub Category of costs, therefore include all audited periods for each action.
- (A, B, C, D1, D2, D3, etc)
- The sample should be selected randomly so that it is representative.



## Ineligible items



**Costs do not include any other ineligible items such as:**

- costs related to return on capital
- debt and debt service charges
- provisions for future losses or debts
- interest owed
- doubtful debts
- currency exchange losses
- bank charges for incoming EU funds

 **Non-Eligible**

## Ineligible items



**Costs do not include deductible VAT**



### **Verify:**

- costs claimed vis-a-vis National law
- tax declarations
- the accounting system of the Beneficiary, etc.

### **Consequences:**

**Adjustments when differences occur**

## General Eligibility conditions



**Costs were actually incurred**

**Verify:**

- 1. Claimed amounts vs documents (e.g. invoices)**
- 2. Documents are addressed to you (Beneficiary)**
- 3. Costs are recorded in the accounts (GL)**
- 4. Any discount or rebate is accounted for**
- 5. Costs are paid (or netted off)**

**Consequences:**

**Adjustments when differences occur**

## General Eligibility conditions



**Costs claimed fall within the project period**

### Verify:

- 1. Dates of Invoices, delivery notes, transport documents**
- 2. Cost before the project period relate to kick-off meeting**
- 3. Costs after the project period relate to final reporting**
- 4. Costs are recorded in the respective accounting period**

### Consequences:

**Adjustments when differences occur**



## General Eligibility conditions



The Beneficiary complies with national accounting Standards and any digital documents are allowed by national law

### Verify:

1. Invoices, debit/credit notes vis-a-vis national law requirements
2. Statutory audit reports (if any) for relevant findings

### Consequences:

Adjust for any non-complying items

# Personnel Costs

# FOCUS POINTS – PERSONNEL COSTS

- **Workforce Contracts**
  - **Natural Persons**
  - **Time Recording**
    - **Hourly Rates**
  - **Productive Hours**
    - **Double Ceiling**
      - **Consistency**
- **And much more 😊**



# Classifying workforce contracts

Is it an employment contract or another type of contract?

Is it the only contract with the person or are there several contracts?

Does the contract establish the working time conditions?

Is the contract concluded with a person or with a company?



And what about 'consultants'?

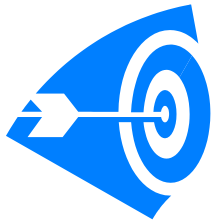
# What contract under what budget category

A. Direct personnel costs		B. Direct costs of subcontracting	C. Direct costs of fin. support]	D. Other direct costs	E. Indirect costs <sup>2</sup>
A.1 Employees (or equivalent)	A.4 SME owners without salary			D.1 Travel	
A.2 Natural persons under direct contract	A.5 Beneficiaries that are natural persons without salary			D.2 Equipment	
A.3 Seconded persons				D.3 Other goods and services	
[A.6 Personnel for providing access to research infrastructure]				[D.4 Costs of large research infrastructure]	
Actual	Unit <sup>7</sup>	Unit <sup>8</sup>	Actual	Actual	Flat-rate <sup>9</sup>

Workforce costs

# What contract under what budget category

## What can be declared under personnel costs?



### Persons hired by the beneficiary via an *employment contract*

(qualified as such under national law; and for whom the beneficiary pays social security contributions)

#### Other cases:

→ Natural persons hired **directly** via a contract other than an employment contract **if**:

- the person works under conditions similar to those of an employee (e.g. organisation or work, premises, etc.)
- The result of the work belongs to the beneficiary (exceptions may apply)
- The costs are not significantly different from those of an employee of the beneficiary doing similar tasks

From  
2017

→ Employees of a third party seconded to the beneficiary (must be set in Annex 1!)

# What contract under what budget category

## What can **NOT** be declared under personnel costs?

- ❌ Contracts with companies to provide staff (e.g. temporary work agencies)
- ❌ Natural persons (e.g. consultants) not fulfilling all the conditions mentioned in the previous slide.
  - e.g. working systematically off-site while employees have to work in the premises of the beneficiary
- ❌ Natural persons (e.g. consultants) paid *for deliverables* rather than for *working time*



**In the cases above the costs may be eligible under 'Other goods and services' or under 'Subcontracting' but not as personnel costs**

# Time records: Main Errors

- ✗ **Inconsistency with HR records**
- ✗ **Minimum requirements not fulfilled**
- ✗ **Double ceiling not fulfilled**



# Double ceiling

## Beneficiaries must ensure that:

- the **total number of hours declared** in EU and Euratom grants for a person for a year is **NOT higher** than the number of **annual productive hours** used for the calculation of the hourly rate



$\Sigma$  hours declared  $\leq$  total annual productive hours

- the **total** amount of **personnel costs declared** (for reimbursement as actual costs) in EU and Euratom grants for a person for a year is NOT higher than the total personnel costs recorded in the **beneficiary's accounts** (for that person for that year).



$\Sigma$  cost declared  $\leq$  total personnel costs for the person

## Minimum Requirements:

- ✓ title and number of the action
- ✓ beneficiary's full name
- ✓ full name, date and signature of the person working for the action
- ✓ number of hours worked for the action
- ✓ supervisor's full name and signature
- ✓ reference to the action tasks or work packages of Annex 1



Information included in time-sheets must match records of annual leave, sick leave, other leaves and work-related travel.



# Time records - Options

⇒ **Depend if the person works exclusively on a H2020 action or not**

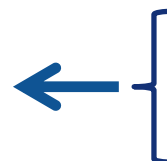
↳ For this purpose, "*working exclusively*" refers to an uninterrupted period of at least one full calendar month during which all the hours worked by the employee for the beneficiary were dedicated to the H2020 action.

Working exclusively	Records	Conditions (full details available in the AGA; page 160)
YES	<b>Declaration on exclusive work for the action</b>	<ul style="list-style-type: none"><li>→ only one per reporting period (per person)</li><li>→ covering one uninterrupted period of exclusive dedication of at least one calendar month</li></ul>
NO	<b>Time records (i.e. timesheets)</b>	<ul style="list-style-type: none"><li>→ dated and signed at least monthly by the person and his/her supervisor</li><li>→ <b>minimum conditions</b> and information needed are detailed in the AGA</li></ul>

# Declaration for persons working exclusively on the action:

## Model available in the AGA

- ☐ the whole reporting period
- ☐ from ...../...../.....<sup>3</sup> until ...../...../.....<sup>4</sup>  
(This period must cover at least one full natural month)<sup>5</sup>



### Declaration on a person working exclusively on a H2020 action

Action			
Title of the action (acronym)		Grant Agreement number	
Beneficiary's/linked third party's name			
Reporting period covered by this declaration <sup>1</sup>			
Reporting period number	from (date)	to (date)	

This document certifies that .....<sup>2</sup> has worked for the beneficiary/linked third party exclusively on the above-mentioned H2020 action during (chose one below):

- ☐ the whole reporting period
- ☐ from ...../...../.....<sup>3</sup> until ...../...../.....<sup>4</sup>  
(This period must cover at least one full natural month)<sup>5</sup>

Short description of the activities carried out during the period covered by this declaration	
Reference (e.g. work package)	Activities

#### SIGNATURES

For the beneficiary/linked third party (supervisor)

Name: .....

Date: ...../...../.....

Signature:

For the person working exclusively on the action

Date: ...../...../.....

Signature:



**Only one declaration can be made per reporting period for each person**



<sup>1</sup> Only one declaration can be made per reporting period for each person working in the action.

<sup>2</sup> Insert name of the person.

<sup>3</sup> Insert date.

<sup>4</sup> Insert date.

<sup>5</sup> The person must keep timesheets for any hours worked for the action outside the period indicated herein.

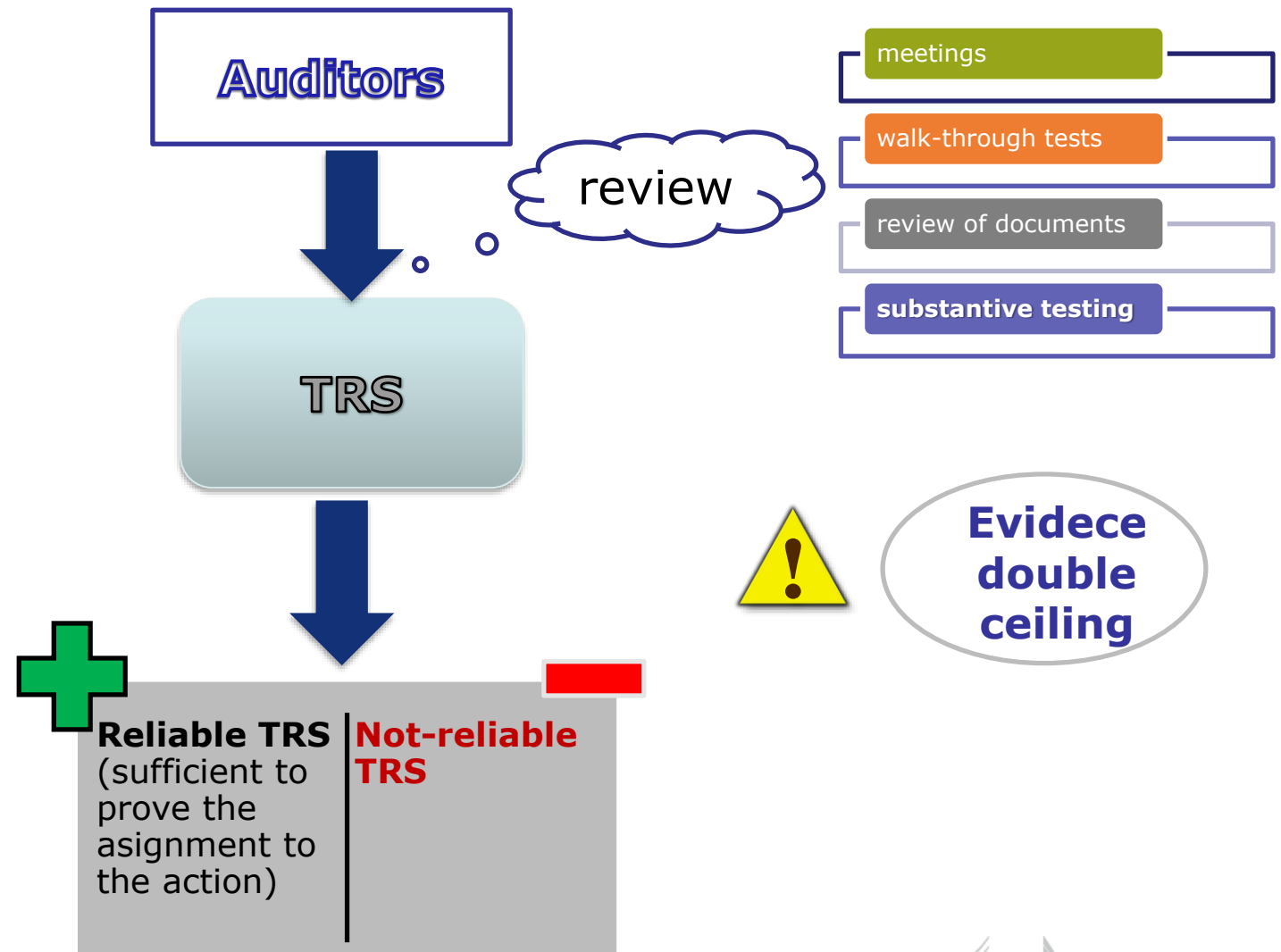
# Declaration of Exclusive work for the action

**Person works 100% on the action  
so they do not have to fill in time sheet, correct?**

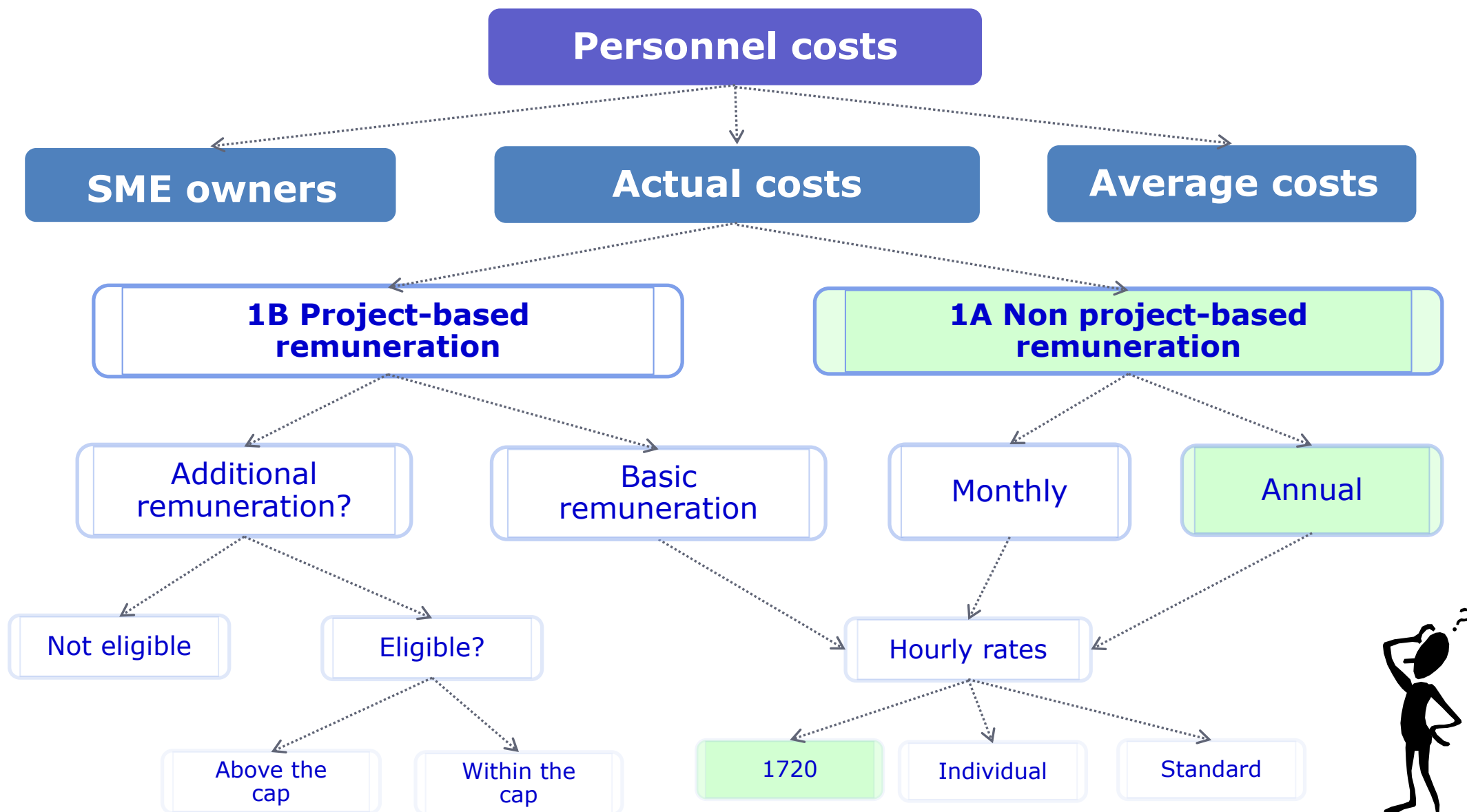
**Correct, but pay attention:**

- ☒ Significant part of time building up a network with other entities or other laboratories of company, for future projects?
- ☒ Time in writing proposals for the next calls?
- ☒ Lectures for the University?
- ☒ Travels for other unforeseen activities?

## Time Recording



# Finding your way



# Calculation

**Hours  
worked**



**Hourly rate**

**EUR/hour**



**Additional  
remuneration**



**Time records**



**Formula actual costs  
&  
specific unit costs**

**Applies only to  
beneficiaries with project-  
based remuneration schemes**



# Types of hourly rate

## SME owner without a salary

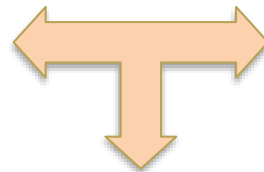
- Hourly rate (unit cost) fixed in the grant by the Commission

## Average personnel costs

- Average hourly rate (unit cost) calculated in accordance with the beneficiary's usual cost accounting practices

## Actual costs

**1.A** Salary is **NOT** project-based



**1.B** Salary is project-based

Per **full-financial year** or per **month**

# Hourly rate when no Salary

For **SME owners without a salary** or a **natural person without a salary**

Costs must be declared on the basis of the unit cost (hourly rate) fixed by Commission Decision C(2013) 8197 and indicated in Annexes 2 and 2a of the grant agreement.

In practice: SYGMA calculates the hourly rate by using the formula:

$$\frac{\text{Monthly living allowance for experienced researchers under the IF actions}}{143} \times \text{Country correction coefficient}$$



The SME owner or natural person may be remunerated by dividends, service contracts between the company and the owner, etc., but:

**Still, the unit cost must be declared if there is no salary**

## SME Owners / Natural Persons not receiving a salary

- **When Salary exclusively to the management of the SME**  
-> apply SME unit costs.
- **Changes of remuneration status.**

**The hourly rate is calculated according to the usual cost accounting practice provided that:**

- ✚ It is applied in a consistent manner, based on objective criteria, and regardless of the source of funding
- ✚ It is calculated using the actual personnel costs recorded in the accounts, excluding ineligible cost or costs included in other budget categories
- ✚ It is used one of the options to determine the annual productive hours provided in the Model Grant Agreement

## Actual costs

**1A - General case:** the salary does not depend on specific projects

$$\text{Hourly rate} = \frac{\text{Total personnel costs}}{\text{Total productive hours}}$$

**1B - Specific case:** project-based remuneration

$$\text{Hourly rate} = \frac{\text{Personnel costs for the H2020 action}}{\text{Hours worked for the H2020 action}}$$



Subject to the provisions on  
**additional remuneration**

# Case 1A vs Case 1B



How do I know if I am in the general case 1A or in the specific case 1B?

If remuneration for time worked in some projects is different from remuneration for other duties: you are in the **specific case (1B)**

For example:

- Supplementary employment contract to work in a project are used
- A bonus or premium for the time worked in a project is received
- Contract fixes a specific hourly rate for work in specific projects

Otherwise, you are in the **general case (1A)**

# Hourly rate: CASE 1A

$$\text{Hourly rate} = \frac{\text{Personnel costs}}{\text{Productive hours}}$$

**From  
2016**

## **Annual** hourly rate

*Hourly rates calculated per full  
financial year*

$$\frac{\text{Annual personnel costs}}{\text{Annual productive hours}}$$

**Two  
options**

## **Monthly** hourly rate

*Hourly rates calculated per  
month*

$$\frac{\text{Monthly personnel costs}}{\text{Monthly productive hours}}$$

# Hourly rate: CASE 1A

$$\text{Hourly rate} = \frac{\text{Personnel costs}}{\text{Productive hours}}$$

## Eligible personnel costs

### ➤ Include:

- ✓ Salaries
- ✓ Social security contributions (employers' and employees')
- ✓ Taxes and other costs included in the remuneration if they arise from national law or the employment contract

### ➤ Do not include:

- ✗ Any ineligible item (article 6.5)
- ✗ Any costs included in other budget categories (e.g. indirect costs)



# Productive Hours: CASE 1A

$$\text{Hourly rate} = \frac{\text{Personnel costs}}{\text{Productive hours}}$$

## Annual productive hours

### Advice

**1720 hours**



you must use this option if the employment contract does not specify the working time conditions or if the "annual workable hours" cannot be determined

### Individual annual productive hours

- Formula: annual workable hours + overtime - absences

### Standard annual productive hours

- According to the beneficiary's usual accounting practices. Minimum threshold: annual productive hours  $\geq$  90 % of the standard annual workable hours

## Annual productive hours options: principles

- ❖ Same option applied to all personnel working in H2020 actions; although... different options for different types of personnel are possible, if:
  - ✓ the same option is applied at least **per group of personnel** employed under similar conditions (e.g. same staff category, same type of contract, cost center, etc.); and
  - ✓ the options are applied **consistently** (e.g. the choice of the option is not changed ad-hoc for specific employees)
- ❖ keep the same option(s) for the full financial year
  - ✓ Options **may be changed for the next financial year**

## Calculation of annual productive hours

### Option 1 (A) – 1720 fixed (no restriction)

**!** Does not need to be supported

**!** Pro-rata when not working full time or full year

### Option 2 (B) – Individual annual productive hours




**!** The formula for the hourly rate is mandatory

->> The absences and overtime must be supported

### Option 3 (C) – Standard annual productive hours

**!** Minimum 90% of workable hours

## Calculation of annual productive hours

-  **Consistent application of the options for productive hours per staff category/ type in all H2020 actions in the same financial year**
-  **Option 2 is not allowed for monthly hourly rates**
-  **Option 3 – Verify consistency with the usual cost accounting practice. Selection left at the discretion of the professional judgment of the auditor.**

# Hourly rate: CASE 1A

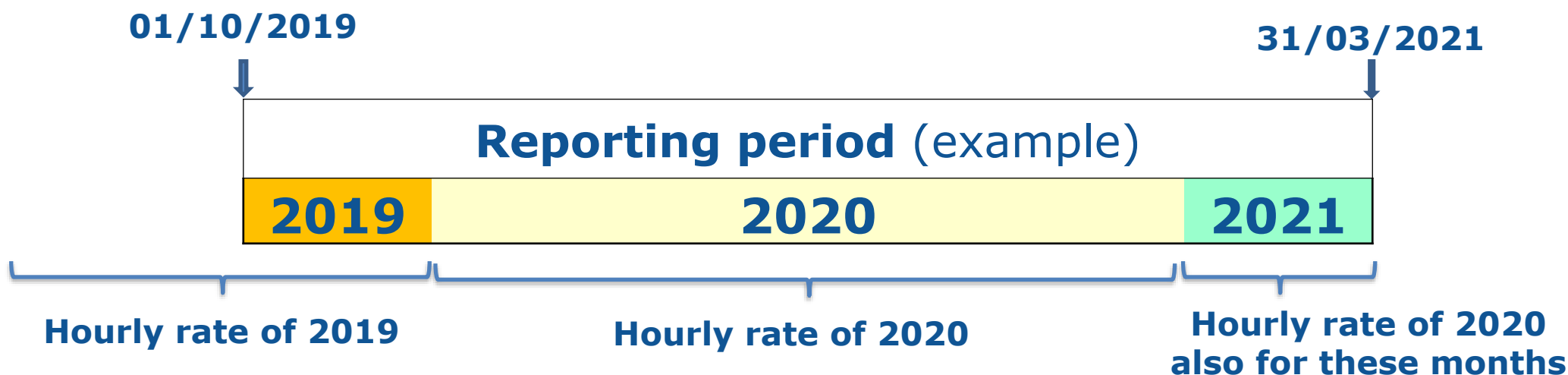
## Annual hourly rate specificities

$$\frac{\text{Annual personnel costs}}{\text{Annual productive hours}}$$



The annual hourly rate must be calculated **per full financial year**

If the financial year is not closed at the end of the reporting period, the beneficiary must use the hourly rate of the *last closed financial year available*.



# Hourly rate: CASE 1A

## Monthly hourly rate specificities

$$\frac{\text{Monthly personnel costs}}{\text{Monthly productive hours}}$$

One hourly rate **per each month the person works in the action**

↪ **Monthly productive hours** = 1/12 of the annual productive hours

⚠ Only options 1 (1720) and 3 (standard) are allowed. Option 2 (individual) is NOT allowed for monthly hourly rates.

↪ **Thirteen salary** (and similar) included in each month "pro-rata"; not in full in the month when they are paid.

↪ **Time spent in parental leave** cannot be deducted from the monthly productive hours. However, personnel costs incurred during parental leave may be charged in proportion to the time the person worked for the action.

## **Consistent application of the options for hourly rate calculation**

- **Annual or monthly rates in all H2020 actions in same Financial OR Fiscal year**
- **Consistent usage of Unit costs or Actual costs**


# Bonuses

## BONUSES

### Ineligible

- Arbitrary bonuses
- Bonus based on commercial targets (e.g. sales target), fund raising targets or representing profit distribution (dividends)
- Bonus applied only to EU actions

### Additional Remuneration

- Triggered by specific projects and resulting in a level of remuneration higher than under national projects
- Paid for additional work or expertise
- Part of the usual remuneration practices of the entity
- Based on objective criteria established in the internal rules
-  **Eligible only for non-profit legal entities**

### (also) Basic Remuneration

- If not triggered by specific projects OR if triggered by projects, up to the level of remuneration paid in national projects
- Scheme authorised by law, collective agreement of contract
- Determined using objective criteria established in the internal rules



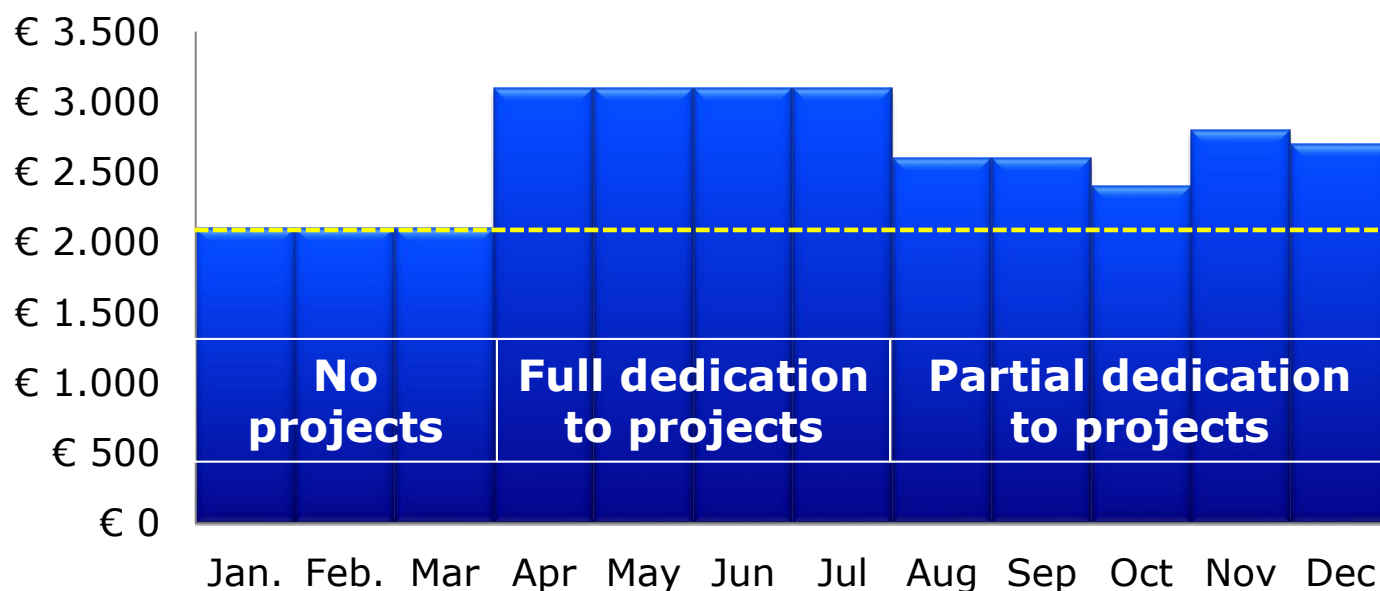
# CASE 1B (project-based remuneration)

From  
2017

**The remuneration of Ms R. is composed of:**

*Gross annual salary fixed by contract: 24 000 EUR + family allowance fixed in the collective labour agreement: 100 EUR/month*

Besides, when she works in externally funded projects she gets an extra remuneration of 1 000 EUR per month of full dedication



**Ms R. would be in the specific case 1B!** (her remuneration is project-based)

1

**Additional remuneration?**

Identify what part of the remuneration of the employee is 'basic' and what part is 'additional'

2

**Hourly rate**

Calculate the hourly rate of the employee using only the 'basic remuneration'

3

**Personnel costs: 'basic'**

Multiply that hourly rate by the number of hours worked in the action

4

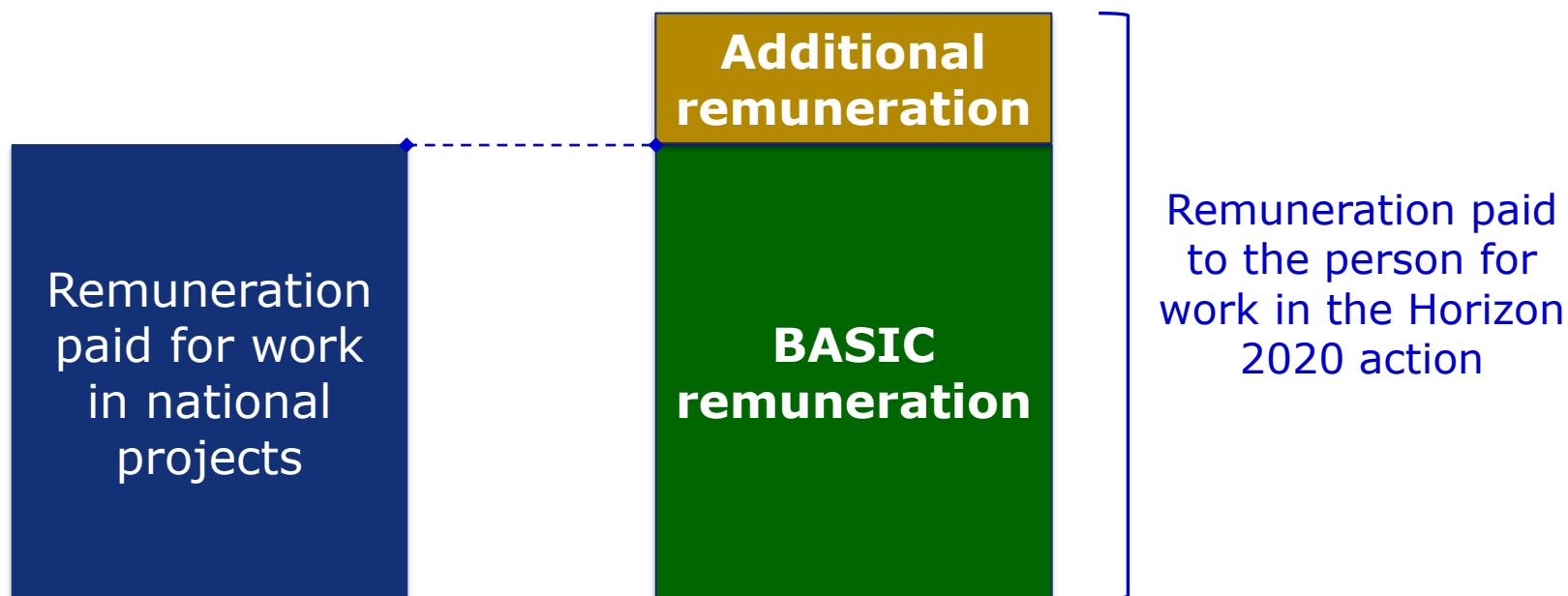
**+ Additional remuneration**

Calculate what part of the additional remuneration identified in Step 1 is eligible & add it to the result of Step 3

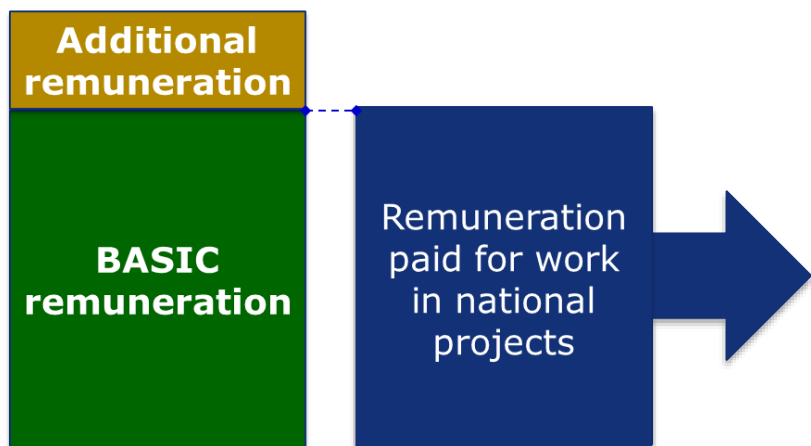
**CASE 1B: FOUR STEPS TO CALCULATE THE PERSONNEL COSTS**

## What is additional remuneration?

Article 6.2.A.1: 'Additional remuneration' means any part of the remuneration which exceeds what the person would be paid for time worked in projects funded by national schemes.



Additional remuneration may only be eligible for non-profit legal entities



## What is considered as remuneration paid for work in national projects?

- ➡ Remuneration set out in national law or internal rules for work in national projects (it must have been paid at least once before the submission of the proposal to any employee of the entity)

**Only if** there is no applicable national law or internal rules:

- ➡ Average of the salary of the person the previous year (excluding remuneration and time for work in H2020 actions)

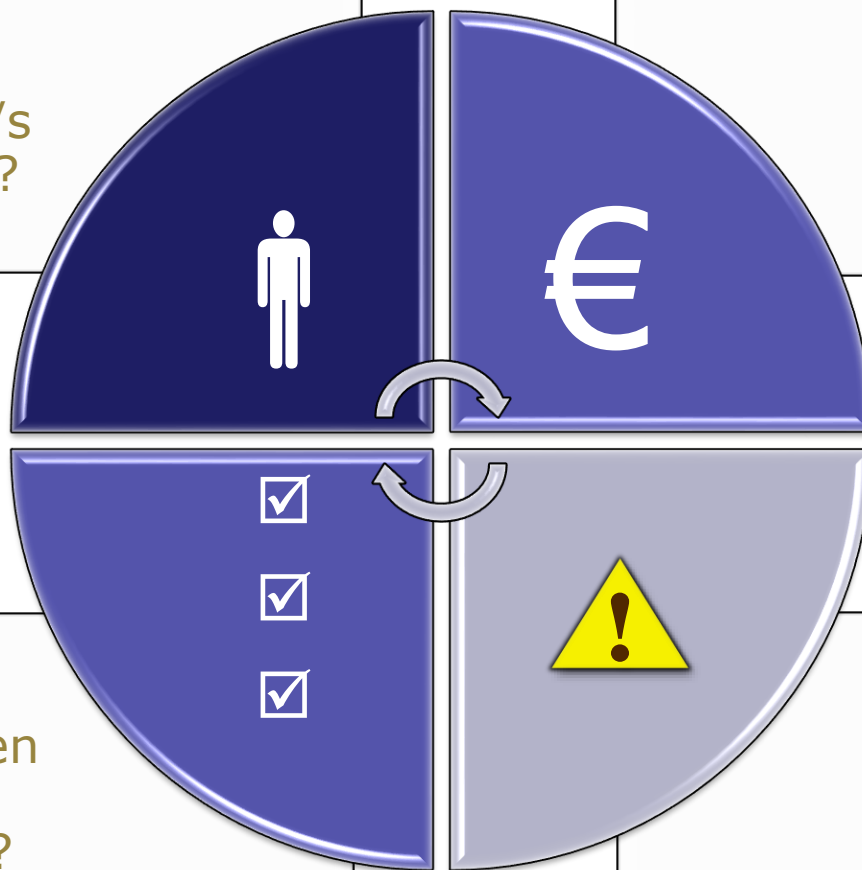
## What do the internal rules have to say?

- **Who** can get the extra remuneration (e.g. which person/s or staff categories)?

- **How much** extra money will they get?

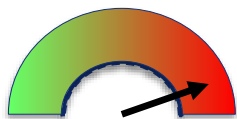
- **What** has to happen for them to get the extra remuneration?

- It can **NOT** apply only to EU actions !



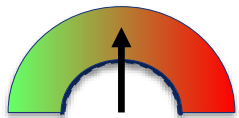
## What if the internal rules say...

- The director may decide an extra payment for any member of staff participating in projects*



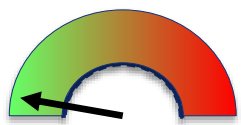
There would not be any objective condition and the extra remuneration would not be eligible at all

- Any researcher participating in projects receiving external funds will get an extra remuneration of 20 % of its salary*



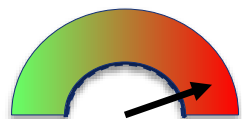
If the extra remuneration is the same regardless of the number of hours worked in the project, it would have to be divided by all the hours worked by the person (project and non-project) to calculate the eligible part.

- Any professor participating in a research project receiving external funds will get 10 € extra per hour worked in the project



✓ We know who will get how much when

- We do not have internal rules for the bonuses but we always pay the same bonuses in the same circumstances.



If you actually do so, write it down in your internal rules !

# Example (I): Identification of additional remuneration

The remuneration of Ms T. is composed of:

- Annual basic salary: 18 000 €
- ✚ Fix annual complement for seniority: 3 500 €
- ✚ Variable complements depending on her participation in research projects. Those variable complements are paid based on the internal rules of the entity.

In 2016 she worked 860 hours in the Horizon 2020 action and she got 12 900 € extra for that work.

The beneficiary uses 1720 as annual productive hours and calculate annual hourly rates.

**Is any part of her salary 'additional remuneration'?**

**If so, how much?**



# Example (I): Identification of additional remuneration

## .... It depends on:

- What the internal rules say
- What the entity has paid in past for work in national projects

## Example (follow up):

- The internal rules say that employees working in externally-funded research projects **may get up to 2 500 € extra** per month of full dedication
- Due to budgetary restrictions, **the maximum paid** by the entity as extra to any person **is 1 433 €** per month of full dedication

# Example (I): Identification of additional remuneration

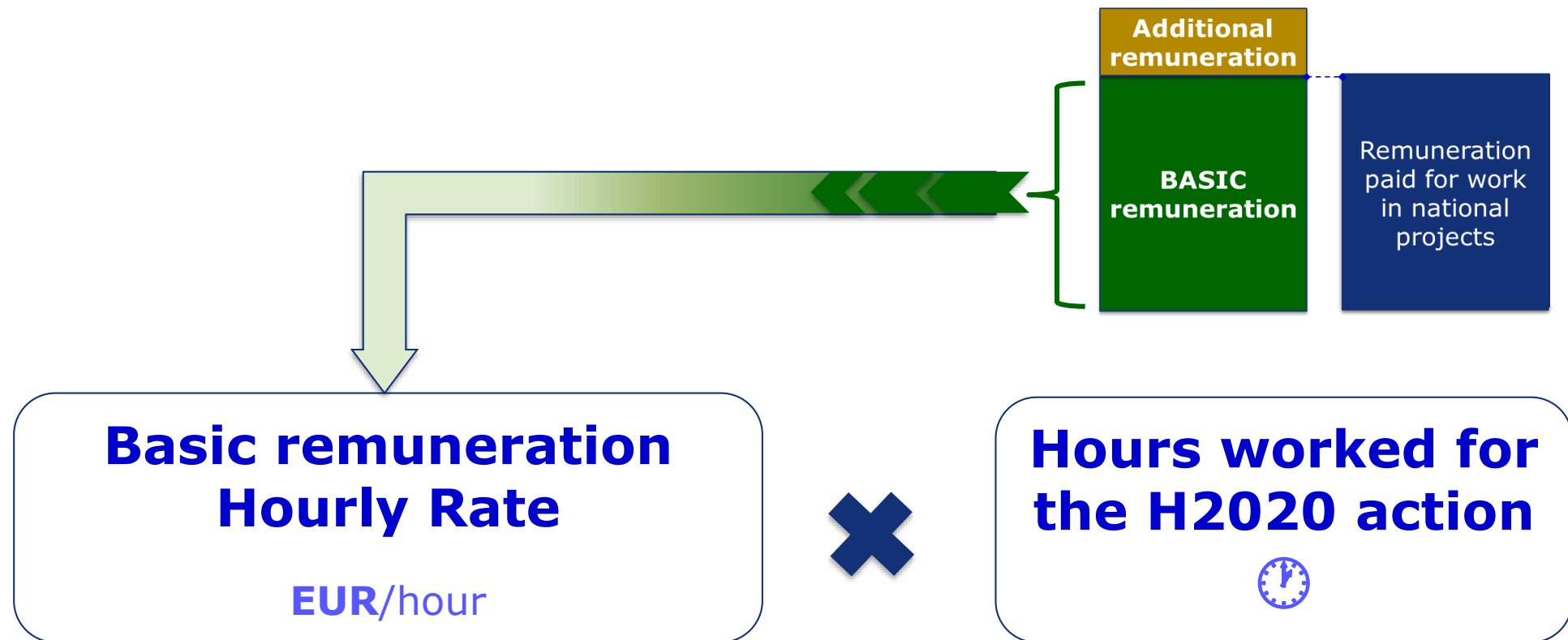
## Additional remuneration =

Hourly rate of the person for work in the H2020 action (*action reference*)  
**minus** Hourly rate paid for national projects (*national reference*)

	Fix salary		Project bonus		
<i>Action reference</i>	$((18\,000 + 3\,500)/1720)$	+	$(12\,900 / 860)$	=	
	12,5	+	15	=	<b>27,5 €</b>

<i>National reference</i>	$((18\,000 + 3\,500)/1720)$	+	$(1\,433 / (1720/12))$	=	
	12,5	+	10	=	<b>22,5 €</b>

**Additional remuneration** =  $27,5 - 22,5 = 5 \text{ €/hour} \times 860 \text{ hours} = \mathbf{4\,300 \text{ €}}$



*Example (II): Calculate the 'basic' personnel costs*

**'Basic' personnel costs = 22,5 €/hour x 860 hours = 19 350 €**

# Additional remuneration ceiling

## Additional remuneration

Eligible additional remuneration is subject to a eligibility ceiling fixed at EUR 8 000 for a full-time employee working exclusively for the action during the entire year.

Occupation	Contract	
	hired full time during the entire year	NOT hired full time during the entire year
<b>working exclusively</b> for the EU action during the entire year	<b>EUR 8 000</b>	pro-rata amount of EUR 8 000
<b>NOT</b> working exclusively for the EU action during the entire year	$\{8\ 000 / \text{annual productive hours FTE}\} * \text{hours worked for the action over the year}$	



The ceiling covers the additional salary + all additional taxes, costs and social security contributions triggered by the additional salary.

## Example (III): Add eligible additional remuneration (Step 4)

'Basic' personnel costs =  $22,5 \text{ €/hour} \times 860 \text{ hours}$  = 19 350 €

Additional remuneration =  $27,5 - 22,5 = 5 \text{ €/hour} \times 860 \text{ hours}$  = 4 300 €

LEGAL  
ENTITY

If **for-profit**: eligible additional remuneration = Ø

Personnel costs =  $19\,350 + 0 = \mathbf{19\,350 \text{ €}}$

If **non-profit**: additional remuneration eligible up to the pro-rata of the ceiling

Pro-rata =  $(8\,000 / 1720) \times 860 = 4\,000 \text{ €}$

Paid (4 300) > Pro-rata (4 000) → 300 € ineligible

Personnel costs 2016 =  $19\,350 + 4\,000 = \mathbf{23\,350 \text{ €}}$

## Seconded by Third Parties against payment (Art 11)

### *Documentation of the temporary transfers:*

- **Review secondment contracts, or other equivalent supporting documentation (decisions, engagements);**
- **Verify that the seconded personnel work for the beneficiary;**
- **Clause that persons are at the disposal of the beneficiary.**

# ***Subcontracting Costs***

# FOCUS POINTS – SUBCONTRACTING COSTS

- **Best Value for Money or Lowest Price**
- **Approach towards contracting authorities**
  - **Third Parties Types**





## Tendering



**Review** of the original signed subcontracting agreement  
**and verification of:**

1. Consistency with the accounting documents.
2. Compliance with formal requirements.
3. The use of claimed subcontracting costs was foreseen in Annex 1 of GA
4. The subcontracts were not awarded to other Beneficiaries of the consortium.

### Consequences:

- Not consistent – costs are rejected
- Formal requirements not complied with – report, except for classified results

## Principle of Best value for money

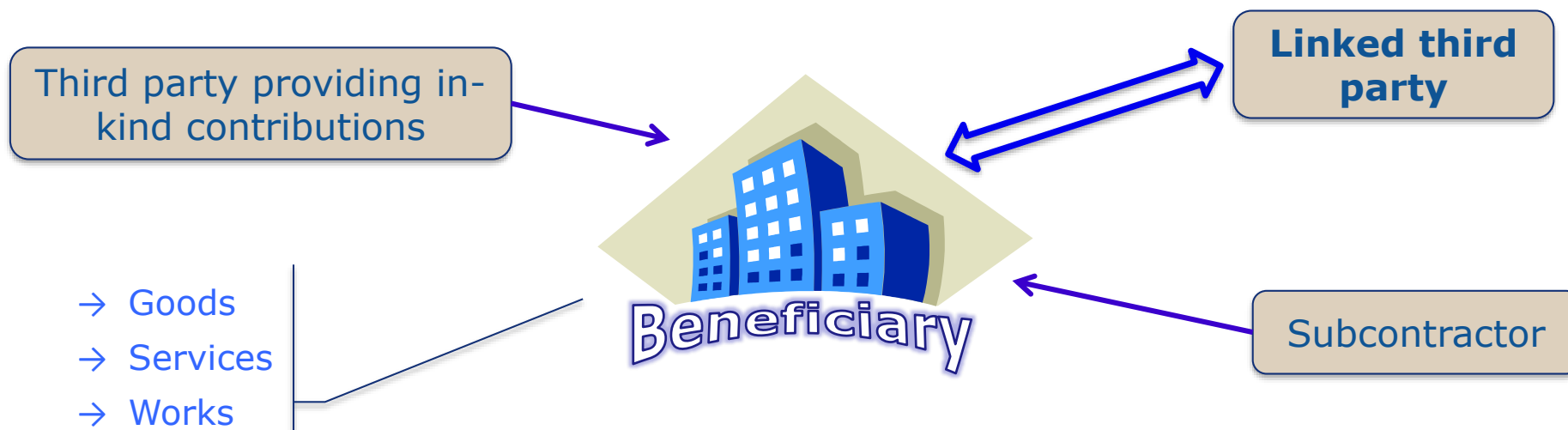
### Two different approaches:

**1.**In case the beneficiary is a contracting authority or a contracting entity within the meaning of Directives 2004/17/EC and 2004/18/EC.

**2.**All other beneficiaries.

**In all cases, the tests foresee detailed re-performance for the sample**

# Third parties: Warnings !



**The beneficiary retains the sole responsibility for the work and the costs declared !**

If something goes wrong with the third party, the beneficiary will be responsible



The beneficiary must ensure that Commission, OLAF and European Court of Auditors can audit its third parties including subcontractors and providers



In case of an audit to a 3<sup>rd</sup> party, the beneficiary is also in copy of all relevant communications (announcement of the audit, audit report, etc.)

# Third parties: summary

Types of third parties	CHARACTERISTICS						
	Does work of the action	Provides resources or services	What is eligible?	Must be indicated in Annex 1	Indirect costs	Selecting the third party	Articles
<b>Linked third party</b>	<b>YES</b>	<b>NO</b>	<b>Costs</b>	<b>YES</b>	<b>YES</b>	Must be affiliated or have a legal link	Article 14
<b>Subcontractors</b>	<b>YES</b>	<b>NO</b>	<b>Price</b>	<b>YES</b>	<b>NO</b>	Best value for money, avoid conflict of interest	Article 13
<b>International partners</b>	<b>YES</b>	<b>NO</b>	<b>No EU funding</b>	<b>YES</b>	<b>No EU funding</b>	Partner to one beneficiary	Article 14a
<b>In-kind contributions by third parties</b>	<b>NO</b>	<b>YES</b>	<b>Costs</b>	<b>YES</b>	<b>YES</b>	Not used to circumvent the rules	Articles 11 and 12
<b>Contractors</b>	<b>NO</b>	<b>YES</b>	<b>Price</b>	<b>NO</b>	<b>YES</b>	Best value for money, avoid conflict of interest	Article 10
<b>Financial support to third parties</b>	<b><u>Only if allowed in the call</u></b> The beneficiaries' activity consists in providing financial support to the target population			<b>YES</b>	<b>NO</b>	According to the conditions in Annex 1	Article 15

## Linked Third Parties



**General eligibility conditions  
apply to linked 3rd parties**



### Verify that:

1. Claimed costs match breakdown list
2. Linked 3rd parties are mentioned in GA
3. No costs after termination of 3rd party's participation

### Consequences:

**Adjustments when differences occur**

## Special case : affiliated entities

In case of subcontracting to affiliated entities verification if :

1. the affiliate entity is the usual supplier or there is a framework contract  
**AND**
2. the subcontracting is carried out at market conditions

# *Other Costs*

# FOCUS POINTS – OTHER DIRECT COSTS



- **Direct measurement of costs  
(Recording of Usage or Consumption)**
- **Useful life vs project duration (Equipment)**
  - **Best value for money**
- **(and Contracting Authorities)**
  - **Travel Costs**



# Direct costs for the action

**Direct costs** are costs that are directly linked to the action's implementation and can be attributed to it directly. They must not include any indirect costs

**Direct costs** are:

- costs that have been caused in full by the action
- or costs that have been caused in full by several actions and the attribution to a single action can, and has been, directly measured (e.g. not allocated via cost drivers)

# Direct costs for the action

- Must be justified by sufficient **persuasive evidence** showing the **direct link to the action**
- Must be **properly recorded** in order to allow direct measurement of the use for the action and to ensure auditability
- The measurement system used by the beneficiary must accurately **quantify** the cost
- Direct measurement of costs **does not mean** fair apportionment of costs through proxies, cost drivers or allocation keys. Once you use them, it's indirect cost!
- In principle, what was considered direct/indirect in FP7 remains the same in H2020 **But** → Now, it is even more important because Indirect Cost is calculated at 25% flat rate

# Example (1)

A beneficiary uses a x-ray machine **for the action** for few hours and for the rest of the time the x-ray machine is used **for other activities**. The beneficiary charges the **full** depreciation costs for the period in the cost statement of the action.

**NOT ALLOWED!**

The allocation of the part of the annual depreciation to the H2020 action must be calculated based on the number of hours/days/months of actual use of equipment for the action. The **actual** use should be **directly measured** (logbook, etc.).

## Equipment



**Sold or offered assets do not result in undeclared profit**



### Verify:

1. Accounting entries in case of sale of asset
2. In-kind contributions in Annex I
3. In-kind contributions charged do not include estimates
4. In-kind contributions charged do not exceed 3rd party's cost

### Consequences:

**Adjustments when differences occur**

## Equipment



**Depreciation is correct and in compliance with the Standards**

### Verify:

1. Usual accounting practices of B vs Acc. Standards
2. Usual accounting practices of B vs National Law
3. Depreciation charged is based on Accruals Basis
4. Depreciation charged correspond to the period of action
5. Full usage principle is respected

### Consequences:

**Adjustments when differences occur**

# Best Practice

Beneficiary must demonstrate '**best value for money**' both, in sub-contracting and in purchases of goods.

- Some level of tendering to demonstrate 'best value'
  - e.g. tender, three offers, market survey, etc.
- Naming the supplier in the grant does not mean that Beneficiary does not have to demonstrate best value
- We will normally accept Beneficiary standard practices, when properly used

**BUT**



Beneficiary accounting practices are not panacea!

(e.g. cash basis depreciation is not automatically accepted even if it is in line with Beneficiary accounting practices)

## Equipment



**Assets charged are SFM and BVfM compliant**

### ***Verify:***

- 1. Adherence to the internal rules of procurement OR**
- 2. Adherence to the usual practice/approach OR**
- 3. Ad-hoc persuasive justification**

### ***Consequences:***

**Adjustments when differences occur**

## Contracting authorities



**If the Beneficiary is contracting authority,  
National law on Contracting authorities has  
to be applied**

### **Verify:**

- **Beneficiary's practices on procurement vis-à-vis  
National law**

### **Consequences:**

**Adjustments for any non-compliance**



## Example (2)

The **total consumables costs** are charged as **direct costs** on the H2020 action as **proportion** of the action hours to total worked hours in the laboratory.

**NOT ALLOWED!**

Even if the usual accounting practice of a beneficiary is to consider laboratory consumables as direct costs.

The costs of other goods and services should be declared as **actual** costs e.g. direct consumption for the action should be **measured**.

## Direct measurement

In FP7, energy and power supply was an indirect cost:  
can charge it as direct cost in H2020?

**Yes, if they** can measure it...

Administrative staff members doing accounting for the action:  
can charge them to the action?

**Yes, with** time sheets and provided it is usual practice...

Multi-purpose equipment used for several activities/actions:  
can charge its depreciation to an EU action as a % of total capacity based on experience?

**No.** I they need to measure its use.

# Conflict of interests

## Avoid **conflict of interests**

(Art.35 of the MGA)

'The beneficiaries must take all measures to prevent any situation where the impartial and objective implementation of the action is compromised for reasons involving economic interest, political or national affinity, family or emotional ties or any other shared interest (**'conflict of interests'**).'

# Conflict of interests

## **Avoid conflict of interests** (Art.35 of the MGA)

The beneficiaries must formally notify the EC/Agency without delay any situation constituting or likely to lead to a conflict of interests and immediately take all the necessary steps to rectify this situation.

Non-compliance may have consequences (reduction of grant, termination).

## Travel costs



**Beneficiary complies with its usual accounting practices**

### Verify:

- 1. Travel costs against B's internal policy on traveling**  
**OR** (in the absence of internal policy)
- 2. Travel costs against B's usual practices**

**And then:**

**Adjust when differences occur**

## Travel costs



**Travel costs are necessary for the action**

### Verify:

1. Travel costs vis-à-vis list of staff of the project
2. Dates of travelling against dates charged on timesheets
3. Dates of travelling against period of the project
4. Dates of expenditures against duration of the event
5. Beneficiary's justification on necessity of travel cost
6. Travel events vis-à-vis GA and annexes

### Consequences:

**Adjustments when differences occur**

## Travel costs



**Travel costs are real**



### Verify:

1. Minutes of meetings, attendance lists, etc.
2. Dates of traveling against dates charged on timesheets
3. Beneficiary's justification on necessity of travel cost
4. Project events vis-à-vis GA and annexes

### Consequences:

**Adjustments when differences occur**

## Travel costs



**Travel costs are Sound Financial Management (SFM) compliant**



### Verify that:

1. No entertainment or hospitality costs
2. No Tips
3. No travel agency fees (unless there is a policy)
4. No private costs (e.g. TV, laundry, mini bar, etc.)

### Consequences:

**Adjustments when differences occur**





# HORIZON 2020

# Thank you