Horizon 2020 Financial Rules and Audits
Event Summary Note

BEIS Conference Centre, London

Thursday, 27 September 2018

Overview

The second "Horizon 2020 Financial Rules and Audits" event was jointly organised by the UK Research Office (UKRO), the Department for Business, Energy & Industrial Strategy (BEIS) and Directorate General for Research and Innovation (DG RTD) of the European Commission in London on 27 September 2018.

The event was targeted at those working on Horizon 2020 project finances and those responsible for preparing project audits, including project managers, accountants and auditors working in research organisations, universities, SMEs and other enterprises, and aimed at helping them prepare for Horizon 2020 audits. The event was organised in the context of the EU-wide Horizon 2020 Communication Campaign – an initiative of the European Commission – and included presentations on the financial rules and audit procedures in the current EU Framework Programme.

The Commission's **slides** presented on the day are very informative and are available together with the detailed **programme** of the day on the UKRO Portal. This note is intended to provide UKRO subscribers with a summary of the discussions and key messages from the speakers.

Please note that the eligibility of costs on EU grants will depend on the specific context of the project activities described in Annex I of the Grant Agreement (GA).

Speakers

The speakers were: David Mejuto, legal officer from the Common Legal Support Service of DG RTD and Andrew Forde, external auditor from the Common Audit Service (CAS).

Main messages from the event

General points

- The speakers started off by explaining that the rules discussed during the event apply only to Horizon 2020-funded projects and not those funded under either the previous Framework Programme – FP7, or the next one – Horizon Europe, both of which have different rules.
- It was explained that there are over 20 versions of the Horizon 2020 grant agreement with similar, but not identical sets of rules, which depend on the funding scheme in Horizon 2020.
- The **Annotated Grant Agreement** (AGA) is the standard reference guide for lawyers and auditors in DG RTD and should be used by beneficiaries to comply with the requirements of the programme.
- There is a new **Lump sum Pilot Model Grant Agreement**, which applies to approximately 30 selected projects funded by Horizon 2020 and possibly more under Horizon Europe.

Personnel costs

- Personnel costs usually constitute the biggest part of the Horizon 2020 projects' budgets (around 70%) and consequently are the category where most systematic errors occur.
- Not all individuals can work for a beneficiary on a Horizon 2020 project with the costs included in the 'direct personnel costs category' - In some cases, other categories such as subcontracting or other costs (e.g. contracts for services) will be more suitable. The classification will depend on several factors explained in detail in the AGA.
- In particular, the cost of staff provided by a temporary work agency to the beneficiary should normally be claimed as contracts for works and services (other direct costs), or as subcontracts, rather than direct personnel cost.
- The employment contract must meet the requirements stipulated by national law. For example, if the national system allows for the contracts not to be signed by an employee, it may be admissible.
- SME owners not receiving a salary and natural persons must use the rates provided in the GA (unit costs determined by the European Commission).
- Only the hours actually worked on the action should be charged to it, even if this means significant variations from the personnel costs included in the indicative budget submitted in the proposal. However, when claiming the costs, beneficiaries should take into account the so-called 'double ceiling', which is explained in the AGA.
- Where the monthly rate is used, and the hours worked exceed the annual productive hours, the number of hours needs to be capped on an annual basis (financial year, not calendar year) and not per month.
- When establishing individual/standard productive hours, the auditors need to see some sort of reference to the number of hours worked (e.g. per month) in the employment contract, collective labour agreement, etc. and it was explained that their approach is quite flexible.
- Redundancy pay can be an eligible cost in certain conditions and more information is included in the AGA under 'end-of-contract indemnities'.
- Personnel costs of PhD students receiving a stipend/scholarship, etc. can be an eligible cost, as explained in the AGA. However, beneficiaries should only charge the part of time actively spent on the Horizon 2020 action. Time spent on teaching/training activities is not eligible.
- Sick leave is not considered productive time on the project and can only be deducted when using individual or standard productive hours (NOT 1720 hours).
- If the cost of sick leave is ultimately recovered from national authorities/private medical insurance provider then the cost can no longer be charged to the grant.

Time recording

- The speakers highlighted that the actual time spent on Horizon 2020 actions should be recorded in timesheets, even if it is not charged to the grant because the number of hours exceeds the allowed limits (e.g. 1720 hours).
- It was also stressed that if an individual works on several Horizon 2020 projects, they will need to take the limitations imposed by the so-called 'double ceiling' into account when reporting personnel costs.
- Individuals working exclusively on the project for at least one full calendar month (dedicating 100% of their total working time to the action) can use the '**Declaration on exclusive work on the action**'. Those who do not work exclusively on the action, must use time records (e.g. **timesheets**).

Timesheets

- Timesheets are the most popular way of recording time spent on Horizon 2020 actions, but are also most prone to errors.
- Timesheets must be signed by the person working on the action and their supervisor at least monthly.
- If the person working on a project had left the organisation before signing the timesheets, every effort should be made to rectify this.
- The speakers pointed out that the approach taken by auditors in case of unsigned timesheets depends on the severity of the problem (e.g. unsigned timesheet for the last month against timesheets from earlier periods when the person had still been employed at the organisation).

Declaration on exclusive work on the action

- Exclusive work means that no other non-project-related activities (e.g. teaching, etc.) can be performed by the person using the declaration.
- Auditors might still require supplementary evidence of the hours worked on the action is the declaration is used and a good practice is to keep timesheets as a backup option.
- It was confirmed that the declaration is rarely used by the beneficiaries mainly due to the lack of clear rules for its use and the fact that the level of scrutiny by auditors can vary.

Depreciation costs of equipment

- The speakers stressed that it is necessary to provide a persuasive, quantifiable and demonstrable link to the Horizon 2020 project, even if the equipment is purchased specifically for the project. Auditors will need to be provided with a proof of the cost (e.g. invoice etc.).
- Equipment must be depreciated in accordance with standard accounting practices of the beneficiaries and the International Accounting Standards (in particular IAS 16). When an institutional practice is not compatible with the IAS, the latter prevails.
- Some equipment (for example a server) may be expected to be covered by overheads and if beneficiaries want to charge the direct cost to the project, they will need a valid reason and proof that it is an actual cost to the project.
- Only the portion of the depreciation cost of equipment that corresponds to the action duration and to the rate of actual use for the purposes of the project can be charged to the grant.
- It is necessary to demonstrate the use of each piece of equipment against the project (the so-called 'working time') with sufficient evidence such as logs, lab books, etc.
- If equipment has not been fully depreciated by the end of the action, beneficiaries cannot charge the rest of the cost to the project as provisions for future losses are ineligible on Horizon 2020 projects.
- The auditors confirmed that it is not necessary to change the standard institutional practices for Horizon 2020 project, but when reporting, it is necessary to follow the rules of the programme, which might mean that not all costs will be recovered.

Third parties

- The speakers explained that 'third parties' is a collective name for entities that are not beneficiaries, but which participate in Horizon 2020 projects in some ways, and presented the options available to beneficiaries.
- The speakers indicated that the easiest and safest way to implement a project is using the beneficiary's own resources, but if necessary, third parties can be used.

- There are three ‘groups’ of third parties:
  - Third parties directly implementing actions tasks (e.g. subcontractors, or linked third parties);
  - Third parties providing additional resources to enable the beneficiary to implement actions tasks (e.g. third parties providing in-kind contributions); and
  - Third parties receiving financial support from the beneficiaries in the form of cascaded funding (e.g. SMEs receiving prizes in a contest, etc.)
- It was stressed that beneficiaries are always responsible for their third parties (incl. claiming back ineligible costs, if required), as the Commission has no legal relationship with them since they do not sign the GA.
- Subcontracting to other consortium members under the same GA is not allowed. Similarly, subcontracting to affiliated entities is, in principle, not possible.

Audits

- The speakers explained the audit procedure and clarified that EC audits can be performed directly by auditors from the Common Audit Service of DG RTD, or by external audit companies, appointed by the EC.
- The speakers stressed that the European Court of Auditors (ECA) follows a different audit programme than EC auditors – The ECA checks, if the EC audits on beneficiaries had been conducted properly.
- The CAS is not directly involved in the implementation of the audit findings (e.g. recovery of costs) and the best moment to question any of the findings is when the draft audit report is sent to the beneficiary.
- The speakers confirmed that currently auditors are required to interview many people during audits, which is very time consuming – Thus, changes to the process are being considered.
- It was confirmed that there would be no expectation for staff who retired, or moved to another institution, to be present during an audit.
- Any information and documents that can help the auditors conduct the audits at the premises of the beneficiary faster, including timesheets, can be sent in advance.
- A common error is that the cost details do not match invoices, etc. or have been altered to fit the project budget. Costs reported to the Commission must match those incurred by the beneficiaries and recorded in their accounts.
- It was highlighted that the rules on including the part of the project that had already been audited in the Certificate on the Financial Statements (CFS) have changed several times and that it is best to consult the Project Officer on this matter.

MSCA Audits

- Since the MSC Actions are based on unit costs (person months), the audits do not focus on the eligibility of each cost item, as is the case with actual costs. Instead, the auditors will check if researchers working on projects are eligible for the specific funding instrument (e.g. if the person meets the requirements for an Experienced Researcher in MSCA Individual Fellowships).
- It was stressed that the auditors will also want to verify if the researchers were recruited in an open and transparent way, etc. They usually look at employment contracts to ensure the necessary information (stated in the relevant MSCA Grant Agreements) has been included
- There is no need to keep documentation to prove the number of units declared and that the costs have been fully incurred by the beneficiary, since the units costs are linked to the eligibility of specific person months.

- The speakers confirmed that, as stated in the AGA, any unspent funds from the institutional unit costs in MSCA can be used to top up the salary of the researcher to help beneficiaries comply with the ‘no profit’ rule of Horizon 2020.
- On RISE projects, it is possible for the beneficiary to book the travel etc. directly for the person moving on a secondment, instead of paying it out as taxable salary. However, it is recommended that a proof of such request from the individual be kept for an audit.