

Horizon 2020 Audits: How to get it right?

Event Summary Note

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Speakers

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Overview

In collaboration with BEIS and the European Commission, UKRO organised a one-day event on Horizon 2020 audits. Presentations were delivered by legal and financial experts from the European Commission's Directorate General for Research and Innovation. The speakers took the audience through the financial rules of the Horizon 2020 Model Grant Agreement (MGA) focusing on its general part. Other parts, for instance MSCA grants, were not covered. The participants had the opportunity to ask questions on the day and send them prior to the event.

[The Commission's slides](#) presented on the day are very informative and are available on the [event's website](#). This note provides UKRO subscribers with the summary of 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).

The event is part of the Commission's Europe-wide campaign aiming to help beneficiaries comply with the Horizon 2020 rules. In their talk the speakers highlighted that the objective of the audit policy of the Commission and auditors is not to recover grants from the projects, but to ensure that public money is spent correctly. It is therefore the Commission's aim to have the lowest error rate possible.

General Points

Budget transfers between beneficiaries in the same project, between the budget categories (personnel, other costs...) are eligible without the need for an amendment to the GA. There is *no limit to the transferred amount*, however, it is likely that large amounts are linked to changes in tasks' distribution across the consortium and therefore an amendment may be necessary.

The presenters strongly recommended requesting an amendment if a new subcontract is needed in the project, despite the possibility of adding these without an amendment in Horizon 2020. It is also possible to purchase a new piece of equipment not envisaged in Annex I. This does not necessarily require an amendment, as long as it does not represent a major change to what is described in Annex I. In case of any doubts, it is always best to discuss the issue with the Project Officer.

Communication with a Project Officer should be in writing and kept for the records, which may be useful should any issues come up at audit.

The usual accounting practices of an organisation are often a key element when auditors assess the eligibility of costs charged to the project. It is very important, in case of an audit, to be able to refer to written documents or other evidence to prove the usual practice. Usual practice should be a policy followed regardless of the source of funding, i.e. it should not be a 'Horizon 2020 funded projects usual practice'.

For purchases in Euro, the **conversion** into Sterling must be done according to the usual accounting practice. For reporting purposes, the costs need to be converted into Euro again at the end of the reporting period, using the average of the daily exchange rates published in the Official Journal of the EU calculated over the reporting period.

Personnel costs

- *Not everyone who works for the beneficiary can be declared under personnel costs*, in some cases other categories, for instance subcontracting, other costs (services) or third parties, may be appropriate. The classification will depend on several factors explained in detail in the AMGA. The contract signed with the person is a key document and its specific clauses will determine whether the cost is eligible under personnel costs. In case of consultants, for instance, beneficiaries should be very careful about the content of the contracts with regard to remuneration method, i.e. whether it is a fee for a piece of work (service) or a rate per hour (one of the conditions to claim consultants costs under personnel costs).
- It can be difficult to put a relevant contract in place where projects requiring engagement of local staff in some parts of the world. It is always best to discuss the most appropriate solution with the Project Officer on a case-by-case basis (e.g. to see whether a short-term contract or subcontracting agreement should be put in place).
- The employment contract must meet requirements according to national law. For instance, if the national system allows for the contracts not to be signed by an employee, it may be admissible.
- The use of the declaration for individuals working exclusively on the action instead of timesheets should be used prudently. It was advised to only use the declaration if the person is not involved in other activities, and that one declaration per person per reporting period is needed.
- The key message about timesheets is that they need to be consistent with HR records and the more detailed they are the better. The Commission's template linked to the AMGA is only an example and beneficiaries can use their own models. For instance, it does not include description of tasks, however it may be practical to include it in the timesheets.
- Electronic timesheets are allowed if they meet criteria described in the AMGA and when it is the usual practice of the organisation. If the system does not meet all criteria, for instance does not allow for approval by the supervisor (on a monthly basis), the timesheets should be printed and signed.
- If staff are working on projects under various programmes, it is possible to have separate timesheets or have one document.
- The possible methods of calculating personnel costs were explained – please see slides. The [UKRO Factsheet on legal and financial issues](#) also covers this topic in detail.

- SME owners who do not have a salary have to use the rates and formula provided in the GA. If they do have salaries, they have to claim their usual salaries, even if they are lower than the GA formula. There is no third option for SMEs.
- If organisations opt for annual productive hours of 1720, they cannot charge more hours to the project, but it is allowed that the timesheets record more hours spent on the project.
- Option 2 (individual annual productive hours) and option 3 (standard annual productive hours) are only allowed if the workable hours are defined in national labour law, a collective agreement or in the employment contract.
- If using option 3, it is the beneficiary's responsibility to explain the calculation method to the auditors. The UK TRAC system could be an example of the calculation method if this is a standard method used by the beneficiary.
- An organisation has to use the same option within each category of staff (i.e. technicians, academic staff), but can use different options for different categories.
- For the remuneration of students, usual personnel cost eligibility rules apply. If workable hours are not determined in the employment contract option 1 (1720) has to be used. As explained earlier, the eligibility under personnel costs will depend on the specific provisions in the contract.
- Since July 2016, a new option for using monthly hourly rates has been introduced. The AMGA will be updated in November 2016 and will include annotations regarding the new option. UKRO has disseminated [guidance](#) on the new option during the summer months.
- 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 reporting period.
- One method must be used for all Horizon 2020 grants during a given financial year. If an organisation wants to change from one option to another, it can only make this change in the next financial year. It is not possible to re-calculate the costs by using the new option in grants where the final reports have already been submitted.

Direct costs

- The speakers strongly emphasised that *all costs claimed under direct costs must be measurable*. For instance, costs of consumables or equipment must be directly measured. If for some reason it is not possible, the costs should be claimed under indirect costs.
- If a piece of equipment is consuming a lot of electricity/gas/water, etc. and the organisation is able to measure and demonstrate the exact costs linked to the project (which can be confirmed for instance through timesheets and the meter), the cost can be claimed under other direct costs.
- The speakers informed the audience that the next version of the AMGA (expected in November 2016) will include changes with regard to the notion 'full capacity of equipment'. UKRO understands that this will be changed back and only be applicable to Large Infrastructures under Horizon 2020 (special rules apply here).
- For internal charges (internal invoices), at the moment, under Horizon 2020, beneficiaries can only claim these costs under direct costs if the costs do not include any estimates, i.e. staff costs have to be supported by timesheets and overheads must be removed. There might be some changes to this rule in the near future, and this is a matter UKRO has campaigned and worked on for the past two years with the Commission and with the help of the UKRO Focus Group.

- The best value for money rule was highlighted by the speakers with regards not only to subcontracting, but also for the purchasing of goods. The auditors will normally accept standard practices, when properly used, however *"your accounting practices are not panacea!* (e.g. cash based depreciation is not automatically accepted even if it is in line with your accounting practices)". The key is that the usual practice does not depend on the funding source.
- PhD fees (linked to staff working on the project) are not an eligible costs under other direct costs. If certain conditions are met, it can be part of personnel costs. For details please see a related [UKRO article](#).
- In Horizon 2020 costs for the Certificates on the Financial Statements are eligible under other direct costs and are no longer regarded as subcontracting, as they were in FP7. They may only be submitted with the final financial report. However, it is possible for the beneficiary to have arrangements with auditors to perform audits at the interim report stage (the cost cannot be claimed at the interim report stage though).
- Using travel providers for booking travel for the project is permissible, if in line with the usual practice. However, the general rules on cost eligibility have to be met.

Third parties

- The presenter took the audience through the rules on Third Parties (TP) and highlighted that they are only used if necessary for the project. Please see also [UKRO Factsheet with FAQ on TP](#).
- In case of introducing a new subcontracting not foreseen in Annex I, it is always recommended that an amendment to the GA is requested, even if the current rules allow it without an amendment.
- The ultimate responsibility for the work delivered (or not) by the TP is always with the beneficiary. Therefore, it is strongly recommended that contracts with TPs are put in place, e.g. with regard to audit requirements.
- Where a TP is providing an in-kind contribution free of charge, which very often takes the form of seconding staff to work on the project, the general Horizon 2020 rules apply, for instance with regard to timesheets.
- The status of a beneficiary will determine the eligibility for the funding rate on the project, e.g. a linked party to a private beneficiary on an Innovation Action, would be eligible to claim 70% of the direct costs.
- It is strongly recommended that organisations clearly describe payment arrangements in place for TP in Annex I.
- Auditors will always like to see how the best value and non-conflict of interest rules have been respected for subcontracting and purchases (i.e. selection process with objective criteria). They will also need to see a justification for choosing a particular provider, in particular in special cases where tendering procedures were not used.
- Naming the subcontractors in the proposal/Annex I will not make the cost automatically eligible. In any case, the beneficiary has to follow the selection rules and evidence best value for money and the absence of conflicts of interest.