

# Financial Administration and Auditing Preparation in EU funded projects

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# Content

- The EU Funding - legal basis
- EU Funding Instruments
- Horizon Europe and H2020
- Grants Management Process
- Cost Eligibility
- Receipts
- Examples and Questions

# KNOW YOUR PARTNER

## THE EUROPEAN COMMISSION

EC as the principal budget player of the EU

Other players in EU budget management

Financial principles of the EU budget management

Budget Implementation Methods and Financing Instruments

Controlling the EU funded actions

Eligibility Criteria for Funding



# EU Funding – legal framework

- Multi-Annual Financial Framework

- **Financial Regulation**

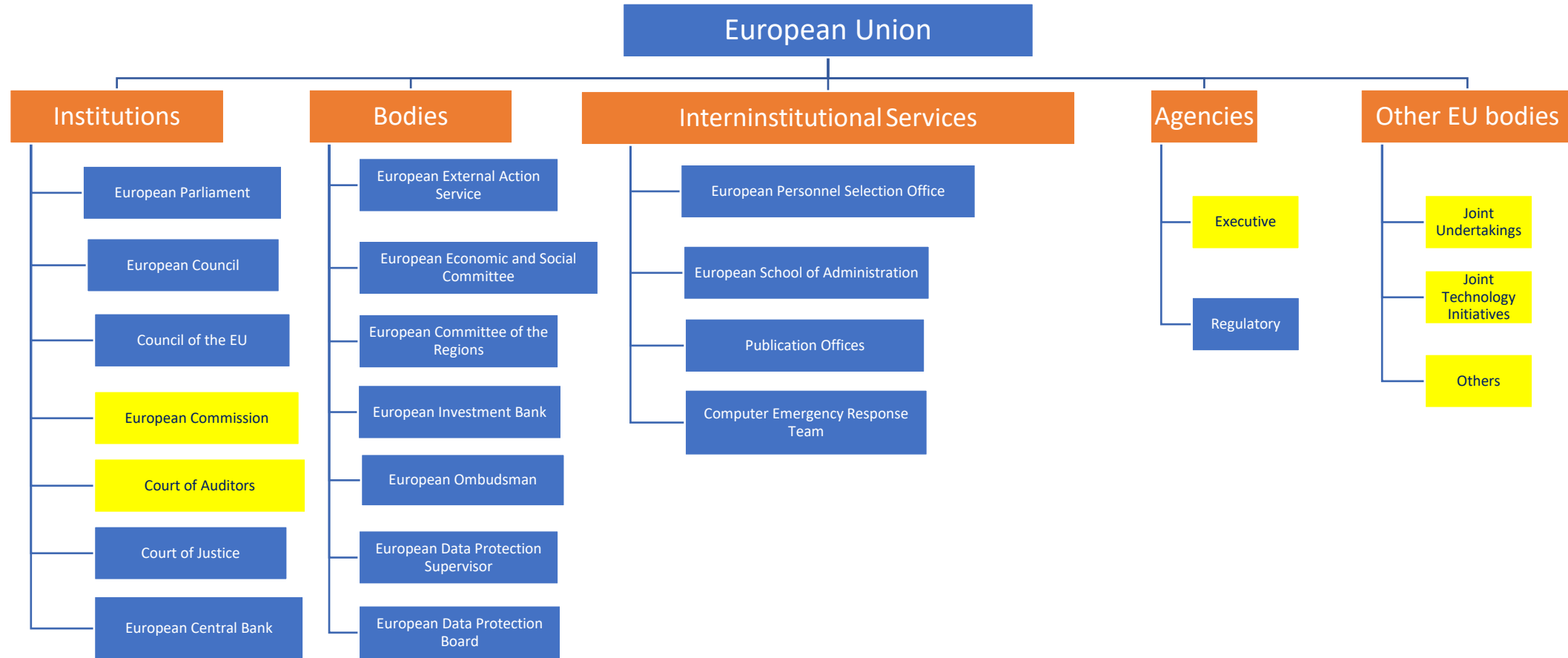
- Regulation (EU, Euratom) No 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union (the **Financial Regulation**)
- REGULATION (EU, Euratom) 2020/2092 of EU Parliament and the Council on a general regime of conditionality for the protection of the Union budget
- Interinstitutional Agreement (IIA) of 16 December 2020 between the European Parliament, the Council of the European Union and the European Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management, as well as on new own resources, including a roadmap towards the introduction of new own resources

- **Establishing Regulation**

- For each EU Programme – Horizon Europe, EU4Health, Erasmus, Digital Europe Programme, etc.

Read more in-depth: <https://www.europarl.europa.eu/factsheets/en/section/188/financing>

# EU organisational structure



# European Commission



Instigating and  
implementing the  
EU's policies

- Multi-annual Financial Framework (MFF) 2021 - 2027
- the 6 EC Priorities,
- EC Strategic documents and WPs
- Regulations and Decisions
- Guidance documents

# Methods of EU budget implementation

## Direct management (Art. 62, FR)

- The EU budget is implemented directly by EC departments, the EU delegations, or EAs and other EU bodies (Art. 62)
- Evaluation Committee (Art. 150 FR)
- Guarantees may be requested by the applicants. (Art. 152)
- Instruments of Titles VII, VIII, IX, X and XII of FR

## Shared management (Art. 62 and 63, FR)

- With Members States (national authorities participate in the organisation of the competitions, selection of projects and contract management)
- MSs share the control and audit obligations towards the EU budget
- EC monitors the management and control systems established in MSs
- the instruments for budget implementation shall be the ones provided for in sector-specific rules

## Indirect management (Art. 62 and Title VI, FR)

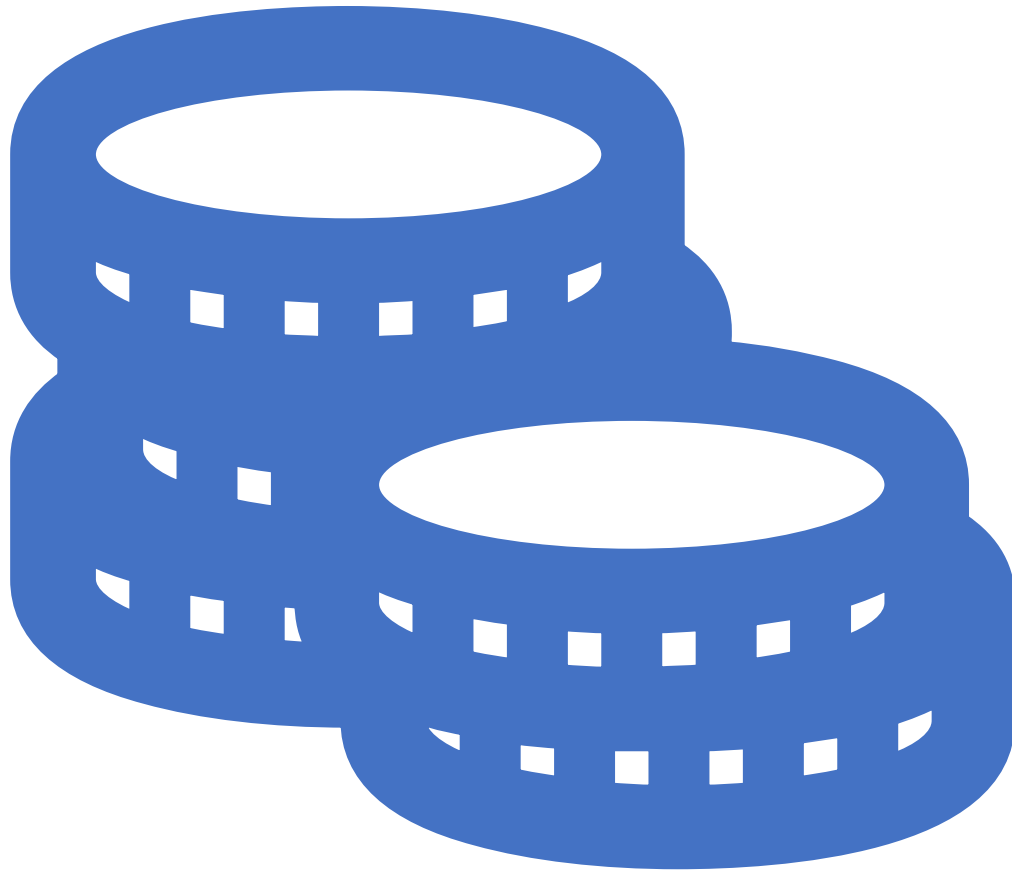
- apply the instrument of Title VI
- In the case of financial instruments and budgetary guarantees, Titles VI and X
- The implementing entities shall apply the instruments for budget implementation set out in the contribution agreement concerned.

# Instruments of EU Funding

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- **Grants** - Title VIII FR
  - Grants are based on the reimbursement of the eligible costs
  - Action / Operating Grants
- **Procurement** – Title VII FR
  - Public procurement is used by the Commission for the purchase of services and material necessary to the working of the European institutions.
- **Prizes** – Title IX FR
- **Financial Instruments and Budgetary Guarantees** – Title X FR
- **Other** – Title XII
  - Union Trust Funds
  - Support for 3rd countries
  - External experts





## Forms of EU contributions Art. 125 FR

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- Actual costs incurred
- Unit costs
- Lump sums
- Flat-rate financing
- A combination of the forms
- Financing not linked to the costs of the relevant operations

# Sound Financial Management



## Economy

The resources used shall be made available in due time, in appropriate quantity and quality, and at the best price



## Efficiency

The best relationship between the resources employed, the activities undertaken and the achievement of objectives



## Effectiveness

The extent to which the objectives pursued are achieved through the activities undertaken

# Sound financial management (Art. 33 of the FR)

- **Economy** - the resources used by the Union institution concerned in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality, and at the best price
- **Efficiency** - the best relationship between the resources employed, the activities undertaken and the achievement of objectives
- **Effectiveness** - the extent to which the objectives pursued are achieved through the activities undertaken
- **SMART** objectives: Specific, Measurable, Attainable, Relevant and Time-bound
- **RACER** PMI indicators: Relevant, Accepted, Credible, Easy and Robust
- Funding Risks:
  - for the Commission
  - for the Beneficiaries

# Who is managing the EU grants?



## Administrative structure

- EC's Directorates General (DGs) and Services
- Central Validation Service (REA)
- Common Implementation Service, Common Audit Service
- Agencies and other EU bodies
- Court of Auditors
- OLAF
- EPPO

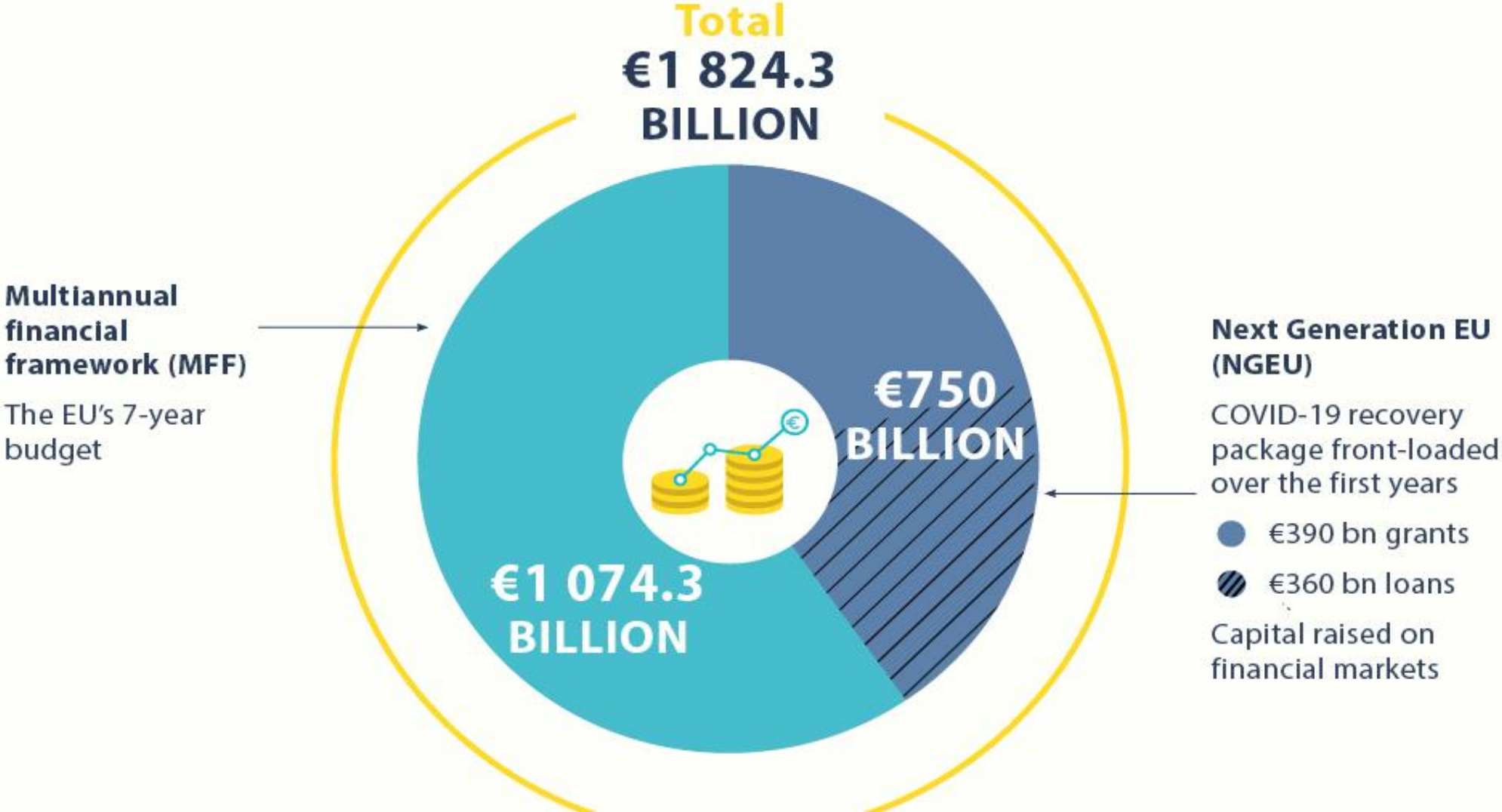
# Why communication and publicity are so important for the EU funded projects?

- Communication should be more targeted and should aim to increase the visibility of the Union contribution for citizens. (Recitals, (11) FR)
- The Commission shall make available, in an appropriate and timely manner, information on recipients of funds financed from the budget (Art. 38.1 FR)
- The GA shall include provisions governing the visibility of the Union financial support, except in duly justified cases where public display is not possible or appropriate (Art. 201, 2(h) FR)
- Art. 17 in the GA – General Obligation to inform

[How to use the EU Logo and enhance Visual Identity of EU Funding Performance and Reporting](#)



# EU Expenditure 2021-2027 (in 2018 prices)

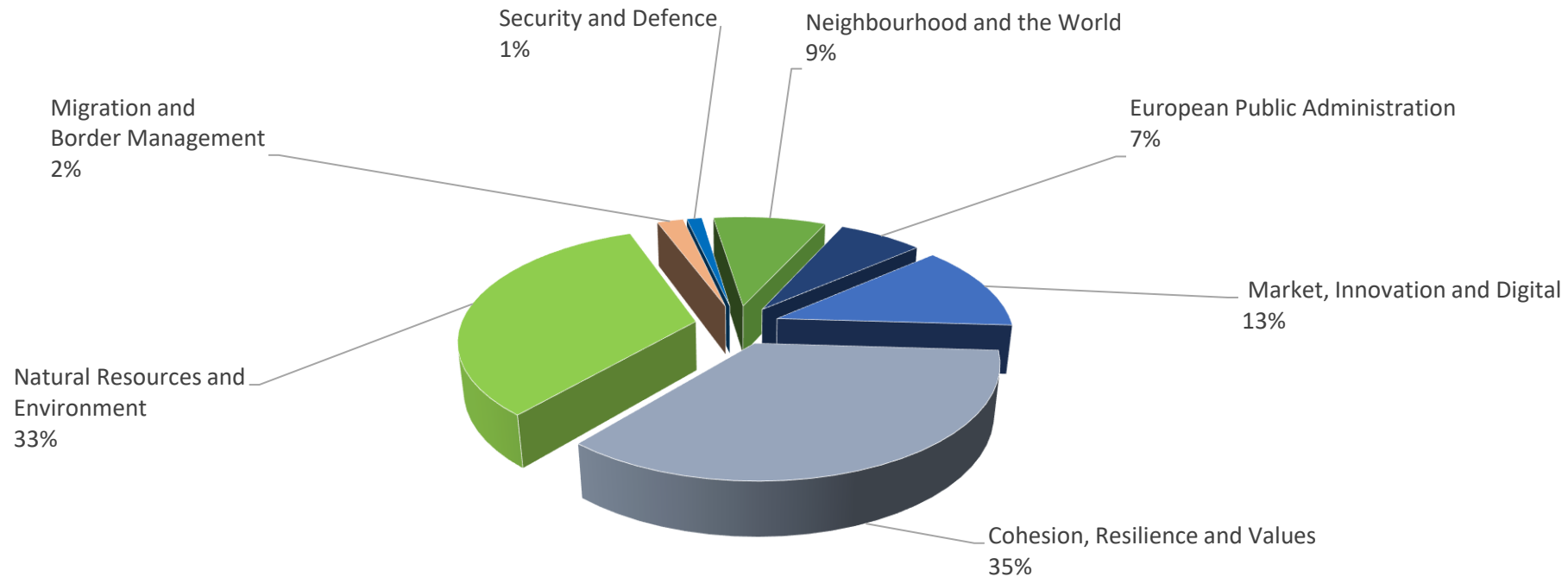


# MFF 2021-2027 headings / proportions

2022 EU budget: breakdown of commitment appropriations into MFF categories

<b>MFF heading</b>	<b>EUR billion</b>	<b>%</b>
Single Market, Innovation and Digital	21.78	12.9%
Cohesion, Resilience and Values	56.04	33.1%
Natural Resources and Environment	56.24	33.2%
Migration and Border Management	3.09	1.8%
Security and Defence	1.79	1.1%
Neighbourhood and the World	17.17	10.1%
European Public Administration	10.62	6.3%
Thematic Special Instruments	2.8	1.7%
<b>Total</b>	<b>169.52</b>	<b>100.0%</b>

# Multiannual Financial Framework 2021-2027 (own resources)



Details per EU Programme: [https://ec.europa.eu/info/funding-tenders/find-funding/eu-funding-programmes\\_en#eu-programmes-and-funds-financed-from-the-eu-budget-and-nextgenerationeu](https://ec.europa.eu/info/funding-tenders/find-funding/eu-funding-programmes_en#eu-programmes-and-funds-financed-from-the-eu-budget-and-nextgenerationeu)



# NextGenerationEU breakdown

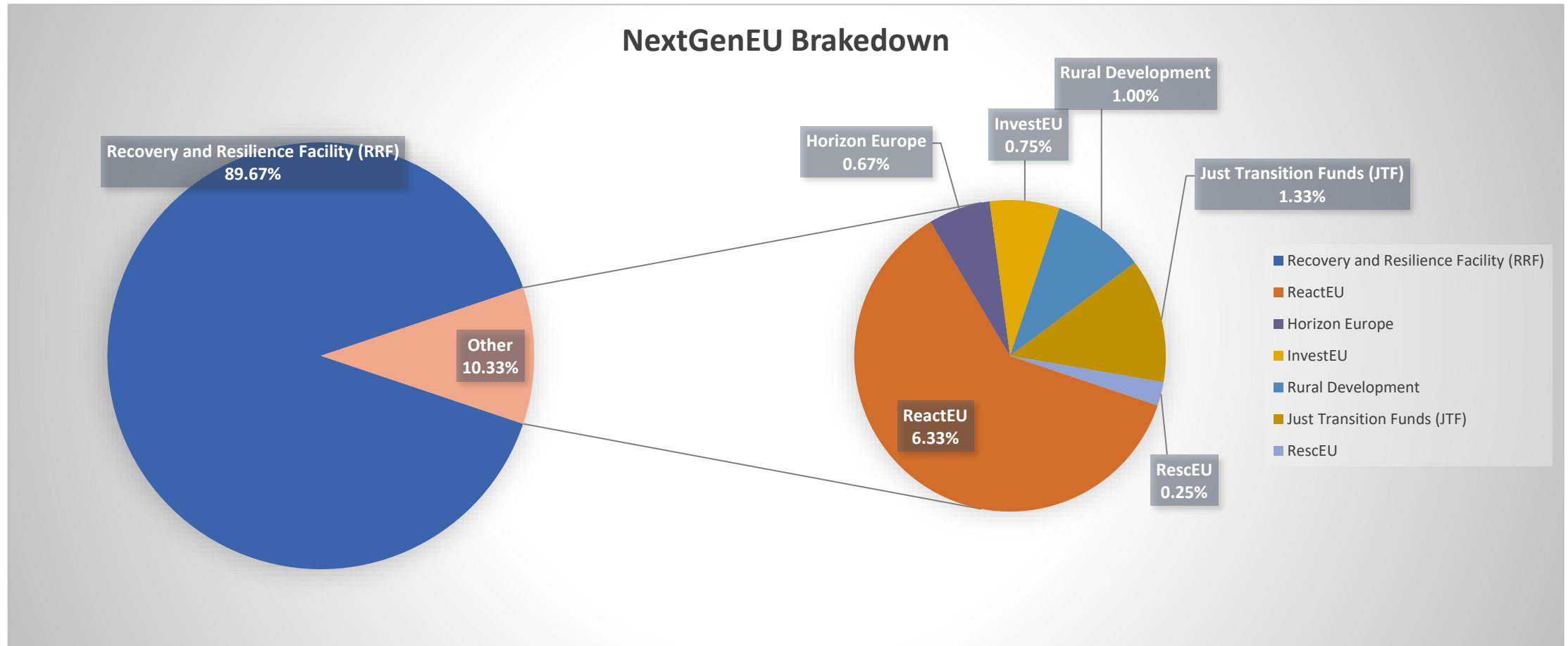
Source: Conclusions of the European Council of 21 July 2020

	2018 prices	2022 prices
<b>Recovery and Resilience Facility (RRF)</b>	<b>672,50</b>	<b>723,8</b>
<i>of which, loans</i>	360	385,8
<i>of which, grants</i>	312,5	338
<b>ReactEU</b>	<b>47,5</b>	<b>50,6</b>
<b>Horizon Europe</b>	<b>5</b>	<b>5,4</b>
<b>InvestEU</b>	<b>5,6</b>	<b>6,1</b>
<b>Rural Development</b>	<b>7,5</b>	<b>8,1</b>
<b>Just Transition Funds (JTF)</b>	<b>10</b>	<b>10,9</b>
<b>RescEU</b>	<b>1,9</b>	<b>2</b>
<b>TOTAL</b>	<b>750</b>	<b>806,9</b>

All amounts in €, in **billions**. Source: European Commission

# NextGenEU Breakdown

Source: Conclusions of the European Council of 21 July 2020



# Horizon Europe

Horizon Europe is be the ninth framework programme for investment in research and innovation

Financial envelope:

€95.5 billion

That includes €5.4 billion from the **NextGenerationEU**

And 4.6 billion addition to the July 2020 MFF

Increase of 29% in comparison with the H2020 (2014-2020) (adjusted for the UK's departure).

# World Research Investment 2000-2018

- Source: DG Research and Innovation, Chief Economist - R&I Strategy & Foresight Unit.
- Notes:
- (1) Data produced by Science-Metrix based on Scopus database. Fractional counting method used.
- (2) BRIS includes Brazil, Russian Federation, India and South Africa.
- (3) Developed Asia economies includes Japan and South Korea.
- Figures correspond to year 2018.
- See Page 11, Horizon Europe - Practical Guide for China <https://op.europa.eu/en/web/eu-law-and-publications/publication-detail/-/publication/3f5d8bd9-d358-11eb-ac72-01aa75ed71a1>

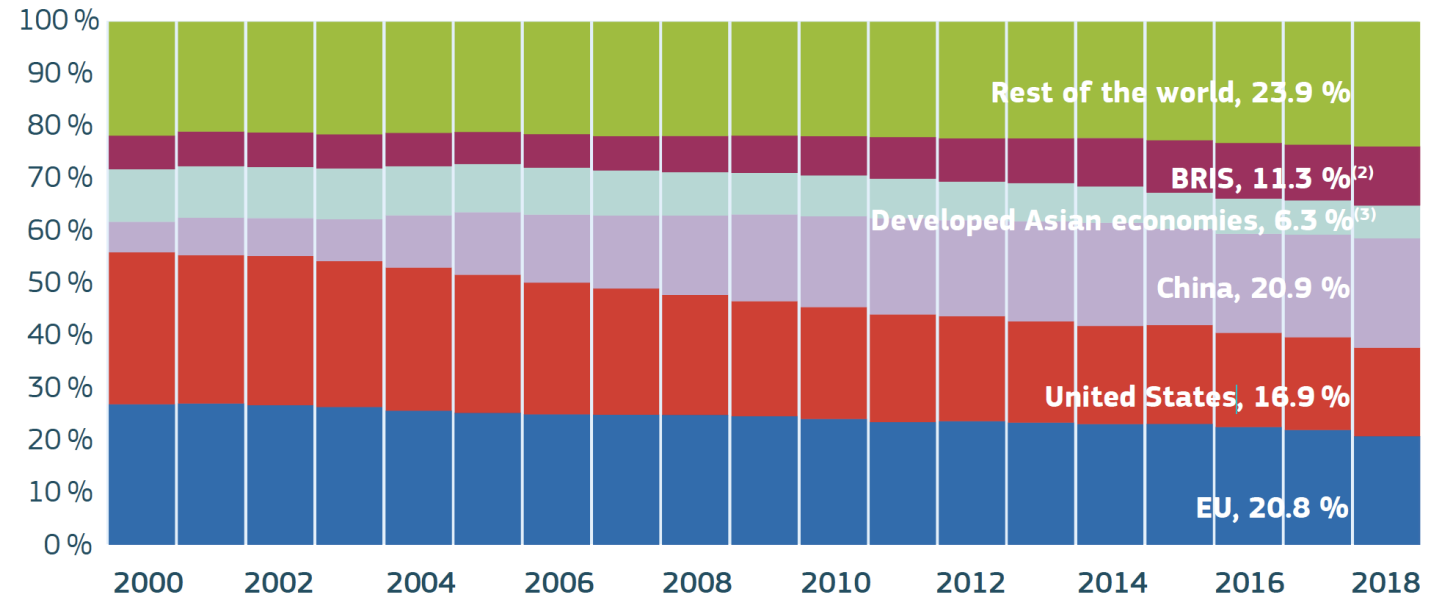
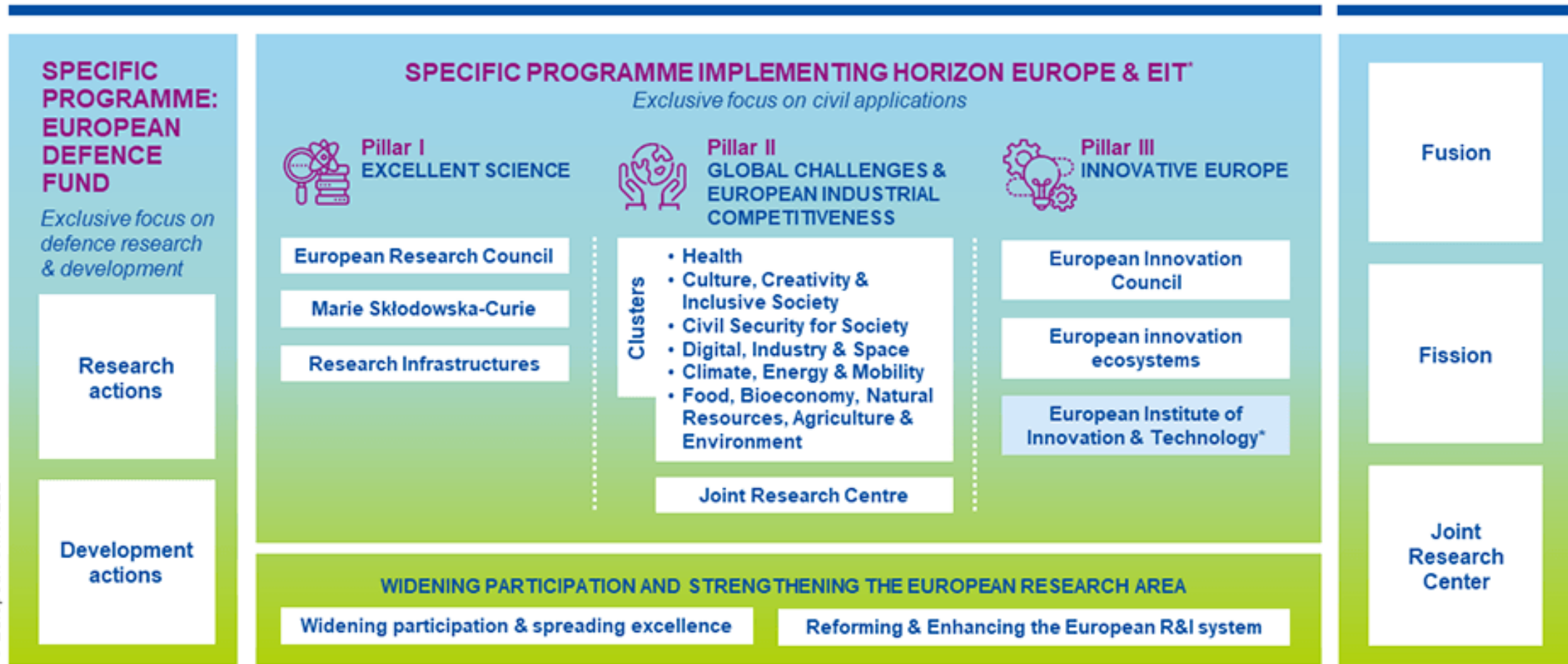


Figure 1 World share of scientific publications<sup>1</sup>, 2000 and 2018

# Horizon Europe Pillars Structure

## HORIZON EUROPE

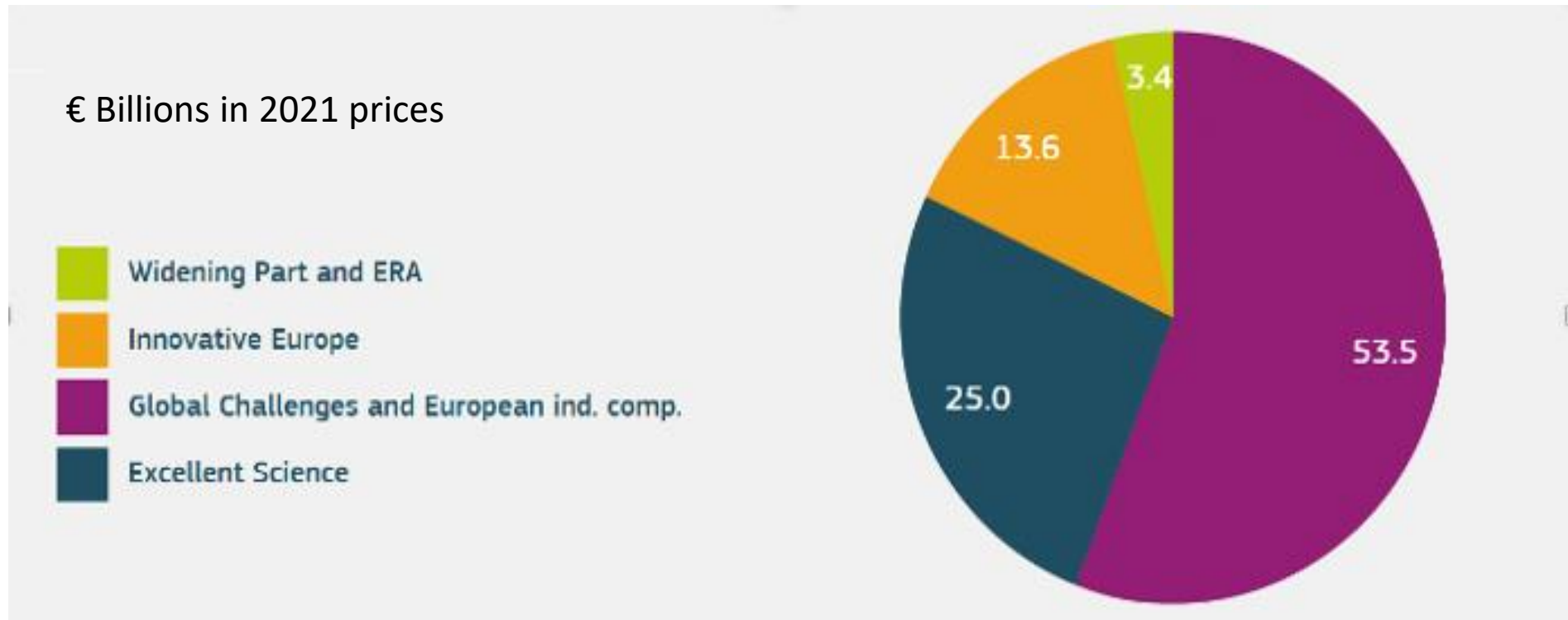
## EURATOM



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\* The European Institute of Innovation & Technology (EIT) is not part of the Specific Programme

# EU Investment in R&I priorities of the HE



[Horizon Europe - the most ambitious EU research & innovation programme ever](#)

# Horizon Europe – Different from H2020

- Corporate MGA mandatory for all EU programmes
  - The articles were reduced from 58 to 44 and their format is more straightforward and easy to interpret; the use of the same terminology across programmes ensures a consistent interpretation of rules.
- Data Sheet
  - summarises the project's key information, covering not only general data such as a summary of the project, the start and end date, the acronym, and the participants list, but also includes its financial data, reporting and payments scheduling and consequences of non-compliance
- Personnel Cost Accounting
  - Corporate **Daily Rate** (new method, based on "day-equivalents")
    - $[\text{Actual Personnel Costs per person per year}]/215$
    - Time recording and conversions of total yearly hours to day equivalents
    - No more 'last closed financial year' rule
    - Use of calendar year approach
  - **New calculation of** Additional Remuneration
    - (the lower of the two rates between action rate and national schemes rate)

# Horizon Europe – Different from H2020

- For internally produced or provided goods and services within the beneficiary's organisation directly for the action:
  - Not considered into account for the calculation of the indirect costs (25% flat-rate on top of direct eligible cost)
  - Instead, possibility to accept actual indirect costs allocated via beneficiary's usual key drivers in the unit cost calculation;
- Unit costs for Travel, Subsistence and Accommodation
  - based on EC method, reference in the Data Sheet
- Audit Optimisation (art. 53.3 HE Establishment Regulation)
  - System and Process Audit (SPA) – less audits, less CFS, risk planning, control system assessment
    - CFS thresholds: 430 000 or 725 000 euro
    - Art. 24.4 GA (p.65 Annotated version) and Art. 36 Fin Regulation 2018/1046



# Horizon Europe

- Missions (new)
- [Open Science Policy](#)
- [Seal of Excellence](#)
- European Defence Fund (new)
- Mutual Insurance Mechanism (new name)
- European Innovation Council (Pathfinder, Transition, Accelerator)
- Sinergies between all EU programmes
- [New approach to European Partnerships](#)
- **35%** of the **HE budget** contributing to climate objectives

# Missions & IEP

## EU Regulation 2021/695 Establishing HE

### ANNEX VI

#### AREAS FOR POSSIBLE MISSIONS AND AREAS FOR POSSIBLE INSTITUTIONALISED EUROPEAN PARTNERSHIPS TO BE ESTABLISHED UNDER ARTICLE 185 OR 187 TFEU

In accordance with Articles 8 and 12 of this Regulation, the areas for possible missions and possible European Partnerships to be established under Article 185 or 187 TFEU are set out in this Annex.

#### I. Areas for possible missions:

- Missions Area 1: Adaptation to Climate Change, including Societal Transformation.
- Mission Area 2: Cancer.
- Mission Area 3: Healthy Oceans, Seas, Coastal and Inland Waters.
- Mission Area 4: Climate-Neutral and Smart Cities.
- Mission Area 5: Soil Health and Food.

Each mission follows the principles set out in Article 8(4) of this Regulation.

#### II. Areas for possible Institutionalised European Partnerships on the basis of Article 185 or 187 TFEU:

- Partnership Area 1: Faster development and safer use of health innovations for European patients, and global health.
- Partnership Area 2: Advancing key digital and enabling technologies and their use, including but not limited to novel technologies such as artificial intelligence, photonics and quantum technologies.
- Partnership Area 3: European leadership in Metrology including an integrated Metrology system.
- Partnership Area 4: Accelerate competitiveness, safety and environmental performance of Union air traffic, aviation and rail.
- Partnership Area 5: Sustainable, inclusive and circular bio-based solutions.
- Partnership Area 6: Hydrogen and sustainable energy storage technologies with lower environmental footprint and less energy-intensive production.
- Partnership Area 7: Clean, connected, cooperative, autonomous and automated solutions for future mobility demands of people and goods.
- Partnership Area 8: Innovative and R&D intensive SMEs.

# The first Horizon Europe strategic plan (2021-2024)

- Key strategic orientations
  - Digital, Enabling, Emerging Technologies
  - Restoring Europe's Ecosystems and Biodiversity
  - Circular, Climate-Neutral and Sustainable Economy
  - Resilient, Inclusive, Democratic European Society
- European co-funded and co-programmed partnerships
- Missions
- International Cooperation

# H2020 Legal Framework

- The Financial Regulation of the EU/Euratom - Regulation 2018/1046
- The H2020 Establishment Regulation of the EU 1291/2013
- Rules for Participation and Dissemination Regulation 1290/2013
- Rules of Application (RAP) - Regulation (EC, Euratom) No 1268/2012
- H2020 Work Programmes
- **Model Grant Agreement and the Annotated MGA**
- MGA Annexes

# Horizon Europe Legal Framework

- The Financial Regulation of the EU/Euratom - Regulation 2018/1046
- The Horizon Europe Framework Programme Establishment Regulation 2021/695
- The HE Specific Programme Decision 2021/764
- HE Strategic Plan 2021-2024 and HE Strategic Plan 2025-2027
- Model Grant Agreement and the Annotated version
- MGA Annexes

# H2020 – types of action: funding rates

- RIA 100% or RIA-LS - Research and Innovation Actions (LS – Lump-Sum)
- IA 70% or IA-LS – Innovation Actions (100% for non-profit beneficiaries)
- CSA 100% or CSA-LS – Coordination and Support Actions
- ERC 100%
- MSCA 100%
- COFUND
  - ERA-NET 33%
  - EJP 70%
- Procurement
  - PCP 30%
  - PPI 50%
- SME Instrument
  - 1st phase – a lump sum of 50 000 euro;
  - 2<sup>nd</sup> phases – 70% (of a range 0.5 - 2.5 mln euro)

# GRANTS

Art. 180, p. 2, Financial Regulation

Grants may be awarded in order to finance any of the following:

- (a) an action intended to help achieve a Union policy objective ('**action grants**');
- (b) the functioning of a body which has an objective forming part of, and supporting, a Union policy ('operating grants').

Operating grants shall take the form of a financial contribution to the work programme of the body referred to in point (b) of the first subparagraph.

# Control Safeguards

Ex-Ante  
financial  
capacity  
check

Required only  
for private  
coordinators in  
projects of more  
than  
EUR 500.000  
Art.27 HE EstReg

Mutual  
Insurance  
Mechanism

5 % of the total  
Grant amount  
All Grants  
All funding  
schemes,  
Upon  
reevaluation:  
<5% or up to 8%

Certified  
Financial  
Statements

Only one CFS in the  
last reporting period;  
For costs above 325  
000 euro;  
If positive SPA: the  
threshold may be  
lifted to 425K or up to  
730K

EX-Post  
audits

Emphasis on risk-  
based control and  
fraud detection;  
Ex-post audits up to  
2 years after the  
payment of the  
balance

System and  
Process  
Audits

For certain  
beneficiaries it  
would be possible to  
apply for SPA;  
positive SPA results  
in less audits, higher  
thresholds for CFS,  
risk planning, control  
system assessment

Larger beneficiaries / beneficiaries with less control system reliability: a priority for auditing



# Mutual Insurance Mechanism/ Participant Guarantee Fund

- (H2020 MGA) Art. 21.2 Amount retained for the Guarantee Fund
  - 5% of the maximum grant amount (see Article 5.1), is retained by the *Granting Authority*
  - from the pre-financing payment and
  - is transferred into the 'MIM/**Guarantee Fund**'
- At the final payment of the balance:
  - Release of the retained amount after covering all amounts due by the beneficiary

# Grant management



# GRANTS MANAGEMENT

- Pre-signature
  - Call for proposal, Submission of proposal, Selection, Evaluation, Validating checks/(Negotiation), Signature, Start date of the duration of the action
- After signature
  - [Keeping records](#)
  - [Amendments](#)
  - [Reporting, Payments and Suspensions](#)
  - [Checks, reviews, audits and investigations](#)
  - **Role of the Coordinator**
  - Deliverables
  - Dissemination and Exploitation of Results
  - Communication

# Cooperation for protection of the **financial interests of the EU**

- **EU Financial Regulation, Article 129**
- (1) Any person or entity receiving Union funds shall fully cooperate in the protection of the financial interests of the Union and shall, as a condition for receiving the funds, grant the necessary rights and access required for the AOR, for the EPPO..., for OLAF, for the CoA, and...national authorities, to comprehensively exert their respective competences.
- (2) Any person or entity receiving Union funds under direct and indirect management shall agree in writing to grant the necessary rights as referred to in paragraph (1) and shall ensure that any 3rd parties involved in the implementation of EU funds grant equivalent rights.

# GRANTS Management

- REQUEST OF INFORMATION (Art.17 of the GA H2020)
  - The Commission may request a Beneficiary to provide ANY information at ANY time during or after the action.
    - In an **ex-post financial audit** that starts 18 months after the balance is paid, the Commission may request any information it needs during the audit. The audit may continue **beyond the 2 years after the balance is paid** (see Article 22).
    - The Commission may request information from the beneficiaries in order to evaluate the **action's impact up to 5 years after the balance is paid** (see Article 23).
    - The beneficiaries must comply with any additional **exploitation obligations** set out in Annex 1, for **up to 4 years after the action ends** (see Article 3).
    - **Personal data** may be transferred to internal audit service, to the Court of Auditors or to the European Anti-Fraud Office (OLAF) and between authorising officers of the Commission, and the executive agencies (Art. 57 of Financial Regulation)

# GRANTS Management

- Keeping Records (Art. 132 FR)
  - **Sufficiency** relates to the quantity of evidence;
  - **Appropriateness** relates to its quality.
  - The evidence must be **verifiable**, **auditable** and **available**.
  - **Original documents (according to national law) or certified copies**
  - In principle, documents should be kept in the format in which they were received or created.
  - 5 years after the payment of the balance and 3 years for low-value grants < 60 000€ (Art. 132, FR, (1))

# GRANTS Management

- Keeping Records (Art.18 MGA H2020)
  - Beneficiaries' usual accounting practice and internal control practice must enable direct reconciliation between the costs declared, the accounting records and the supporting documents
    - For Unit Costs:
      - Number of units declared; or COMUC compliance
    - For Flat-Rate Costs:
      - Only the eligibility of the cost basis, on which the flat-rate is applied
    - For Lump Sum funded actions:
      - Prove of implementation of the tasks according to Annex 1, but not for the concrete costs

# Grant management

- Keeping records (2):
  - For Personnel Costs (Art.18.1.2) reported as actual costs
    - TIME records (H2020)
      - [Monthly timesheets](#): Name/Signature of person, Name/Signature of supervisor, Number of HOURS
      - [Declarations](#) – for people working EXCLUSEVELY on the action
    - Accounting records and supporting documents
      - general ledger transactions, annual financial statements and supporting documentation (i.e. labour contracts, collective labour agreements, applicable national law on taxes, labour and social security contributions, payslips, bank statements showing salary payments , etc.
  - Costs must be detailed for **each person** carrying out work for the action




# GRANT Management

- Keeping records (3):
  - For other direct costs:
    - Breakdown of costs declared by cost type
    - For equipment - details per individual equipment used for the action – date of acquisition, price of acquisition, relevant depreciation methods according to national legislation and/or beneficiary's usual accounting practice, accounting records on date of writing-off in case of disposal, etc.
    - .general ledger transactions, annual financial statements and supporting documentation
      - purchase orders, delivery notes, invoices, contracts, bank statements, asset usage logbook, depreciation policy
  - Linked third parties
    - The Original financial statements and supporting documents, related to the costs declared are the be kept by the Beneficiary , (so not only timesheets, but also CFS, annual reports, etc.)
  - Non-compliance
    - Non-eligible (Art.6), Rejected Costs (Art. 42)
    - Grant amount may be reduced (Art. 43)

# Grant management

- Keeping records (4)
  - Costs declared as unit costs set by the Commission:
    - prove the number of units declared !
  - Costs declared as unit costs as usual accounting practices (average personnel costs and costs for internally developed goods and services, art.5.2 MGA)
    - show that the costs **used** to calculate the unit cost **match** the actual costs as recorded in the statutory accounts
    - verify that the unit cost is free of ineligible cost components
    - assess the acceptability of budgeted and estimated elements
    - for personnel costs H2020: verify the number of productive hours used to calculate the unit cost (hourly rate)

# GRANTS Management (H2020)

- COMUC - Certificate on Methodology for Unit Cost Accounting for Personal Costs (Art. 18.1.2. (b))
    - Certifies that the Beneficiary's cost accounting practices conform with Art.6.2 of GA
    - Drawn-up by an Independent Auditor/Public Officer, using the template in Annex 6 of GA
    - Approved by the Commission/Agency
    - Valid for FP7 ≠ Valid for H2020 ≠ **Horizon Europe**
    - Request for approval – before or during the Grant duration
    - The Certificates allows approval of personnel costs declared according to the unit costs method for all H2020 projects of the Beneficiary, even for those before the Commission/Agency approval
  - Not applicable for HE and current EU programmes.
- 👉 Keep detailed records and other supporting documents to prove that the methodology complies with the rules in case of audit. 

# GRANTS Management

- Amendments to the GA (Art. 55 of the GA)

45 days

- By the Project Consortium, via the Coordinator
- By the Commission
- Before the End date of the project duration (but exception for bank account change, Coordinator change)
- For inclusion/termination of a Beneficiary & linked third parties. Beneficiary's **partial takeover**
- For changes involving the Coordinator
- For changes on the technical implementation of the project (Annex 1 of the GA), acronym, start date, duration
- For financial aspects of the Grant:
  - Maximum Grant Amount (pre-financing, PGF contribution)
  - Reimbursement Rate(s),
  - Estimated eligible costs
  - Specific unit costs



# Case question

- How **may** Beneficiaries address potential delays in finalising the action tasks at the last reporting period in order for the consortium to be able to submit the Final Report and to be paid?
  - If the previous payments have NOT reached the 90% of the grant amount, the Coordinator may introduce an amendment request for adjusting the reporting schedule with the **introduction of an additional interim period** to allow the consortium to receive up to 90% of the grant amount. The amendment should be combined with a request for **extending the action duration** to allow the consortium to have sufficient time to finalise the action tasks and declare all corresponding costs in their final report.
  - If the payments have already reached the 90% of the grant amount, it will not be possible to pay the 10% retention (see Article 21.3.2 H2020 MGA), therefore the request for amendment should be only for **extending the action duration**.



# Budget (Art. 4 and Annex 2 GA)

- The action budget is an estimation.
  - It will be a reference in case of grant reductions.
- Budget transfers are possible:
  - Between beneficiaries
  - Between budget categories in a beneficiary's estimated action budget
- Budget transfer is **NOT** possible:
  - to a **form of costs** that is not set out in the estimated budget in Annex 2
- But
  - Cost amounts budgeted may be transferred from A1 to A2/A3 **direct personnel costs** budget categories without an amendment to the grant agreement even if they did not foresee that form of cost in Annex 2



Consult the Commission before budget transferring.

# REPORTING

- Reporting by “periods” as defined by the GA, Art. 20
  - Periodic Reports – within 60 days after each Period
    - Technical (on deliveries)
    - Financial (Art. 20.3. (b), and Annex 4 of the GA)
  - All beneficiaries - including the Coordinator - must fill in their own financial statement, electronically sign it and submit it to the Coordinator.
  - Let’s see the EC’ templates on the EU Portal

# Payments in H2020 (Art.21 of the GA)

- Pre-financing

- Paid to the Coordinator within 30 days of the entry into force of the GA
- 5% of the Grant Amount is transferred to the Guarantee Fund



- Interim payments

- Subject to the approval of the periodic report.
- 90% of the maximum Grant amount as per the GA
- The Reimbursement rate as in the GA (art. 5)
- Paid to the Coordinator within 90 days from receiving the periodic report (except in case of suspension)
- 30 days to submit observations on the EU decision on the payment amount

- Payment of the Balance

- Grant Amount -Pre-financing - Interim payments + Amount retained for the Guarantee Fund
- Paid to the Coordinator within 90 days of approval of the final report
- Contradictory Procedure (Art. 43 and 44 of the GA)

👉 The Beneficiary bears the **cost of transfers charged by its bank** for the Grant Payments from the Commission.



# Payments in Horizon Europe

- Pre-financing
  - Paid to the Coordinator within 30 days of the entry into force of the GA
  - 5% or up to 8% of the Grant Amount is transferred to MIM (could be less than 5% exceptionally)
- Interim payments
  - Subject to the approval of the periodic report. The approval of the periodic reports does not imply recognition of compliance, authenticity, completeness or correctness of its content.
  - Ceilings are set in the Data Sheet (normally 90% of the total Grant amount)
  - The Reimbursement rate as in the GA (art. 5)
  - Paid to the Coordinator in accordance with the schedule and modalities set out in the Data Sheet (normally 90 days)
  - 30 days to submit observations on the EU decision on the payment amount
- Payment of the Balance
  - Grant Amount - Pre-financing - Interim payments + Amount retained for the Guarantee Fund
  - Paid to the Coordinator in accordance with the schedule and modalities set out in the Data Sheet
  - Contradictory Procedure (Art. 43 and 44 of the GA)

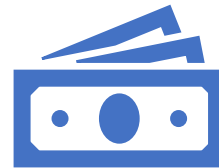
☞ The Beneficiary bears the **cost of transfers charged by its bank** for the Grant Payments from the Commission.

# Pre-financing



## When

Within 30 days from the signature of the grant or 10 days before the starting date, whichever is latest



## How much

Usually = maximum grant amount / number of periods  
Retention 5-8 % of maximum grant for Guarantee Fund



## Why

It remains the property of the EU until the payment of the balance

# SUSPENSIONS

- Suspensions - Art. 47 and 48 of GA
  - Payment request does not comply with the provisions of the GA
  - Payment request is incomplete or requires clarification
  - Doubts on the eligibility of costs
  - Substantial errors, irregularities or fraud OR serious breach of obligations (in **this** or **other** grant)
  - Late payment without suspension of the payment deadline gives rise to late-payment **interest for the beneficiaries** (Art. 21.11)
    - Late-payment interest is NOT due if all beneficiaries are EU Member States
  - the Commission may also terminate the Agreement or the participation of the Beneficiary (Art. 50.3.1(I)) if:
    - non-compliance of the technical or financial reports (see Article 20) and
    - the revised report or statement is not submitted or was submitted but is also rejected



# CERTIFICATE ON FINANCIAL STATEMENT

## H2020

P. 190 AMGA, art.20.4 and Annex 5 of GA

- EU contribution (at the end of the action) reaches the threshold **325 000** euro (Art.20.4.(b)(ii) of the GA)
- Excludes flat-rate and lump-sum costs and costs previously audited by the EC/ CFS.
- Beneficiaries/linked 3<sup>rd</sup> parties may submit **either one** certificate per reporting period **or a single** CFS for the whole action (scope)
- May **ONLY** be submitted with the **FINAL** financial report within 60 days of the last reporting period (submission time) (attached as a PDF with the Final Report)
- Costs for partial certificates (i.e. one certificate per reporting period) will be accepted **ONLY** in the **last** reporting period and **ONLY** if:
  - a CFS is mandatory (i.e. the threshold is reached at the end of the action) and
  - the total costs of the partial certificates is similar to the cost that would have been incurred for a single certificate.
- **Public bodies** — the certificate **MAY** be issued by an Independent Public Officer with formal competence to audit the Beneficiary/linked 3<sup>rd</sup> party (instead of by an external auditor).
- **Linked 3<sup>rd</sup> parties** must submit a certificate if their costs reach the threshold

# CERTIFICATE ON FINANCIAL STATEMENT

## Horizon Europe

- EU contribution requested reaches the threshold **325 000** euro **or as per** the Data Sheet
- The **coordinator** must submit them as part of the **periodic** report
- CFS must be drawn up using the **template** published on the Portal
- The threshold is calculated including only the costs declared on the basis of *actual costs* and *costs according to usual cost accounting practices if they haven't been previously covered by another CFS/ EC audit*
- Public bodies — the certificate may be issued by an Independent Public Officer with formal competence to audit the Beneficiary/linked 3<sup>rd</sup> party (instead of by an external auditor).
- **Linked 3<sup>rd</sup> parties** must submit a certificate if their costs reach the threshold

# CURRENCY

- Currency for Financial Reporting: always EURO (Art. 20.6)
- Beneficiaries/linked 3<sup>rd</sup> parties **with accounting records in a currency other than the euro**: conversion of costs recorded in their accounts by one of the following:
  - Daily euro exchange rate is published in the C series of the *Official Journal of the European Union* for the currency in question: [using the average of the daily exchange rates](#) published over the **corresponding reporting period**
  - For cost adjustments to previous periods ('adjustment financial statements'), the exchange rate to be used is the one for the reporting period in which the costs adjusted were incurred.
  - For eligible cost related to drafting and submitting the final reports incurred after the action duration, the exchange rate to be used is the one for the last reporting period.
- Beneficiaries/*linked third parties* with accounting established in euro must convert costs incurred in another currency into euro according to their **usual accounting practices**.

# CHECKS, REVIEWS, AUDITS and INVESTIGATIONS

- Checks, reviews, audits and investigations (Art. 22 of GA)
  - During and After the end of the Action and/or Payment of the Balance
    - (audit may be started up to 2 years after end date, but may prolong beyond the 2 years))
  - No approval by the Beneficiary
  - Internal Commission Staff or External Experts
  - Deadline for presenting the information requested
  - Meetings, on-the-spot reviews, access to premises, contractors, subcontractors, linked third parties readily available information

# REVIEWS

Art. 22 of the GA

- Assessment of:
  - proper implementation of the action (including assessment of deliverables and reports)
  - compliance with the obligations under the Agreement and
  - continued scientific or technological relevance of the action
- Review Reports
- The review report together with the Commission comments will be notified to the Coordinator (or, exceptionally, the Beneficiary concerned) for comments within 30 days (**contradictory review procedure**)



# AUDITS

Art. 22 of the GA

- Audits (EC and/or ECA)
  - During the Implementation of the Action and/or up to **two years** after the payment of the balance
  - Draft Audit Report (DAR)
  - Contradictory Audit Procedure (observations from the Beneficiary within 30 days from sending the DAR, **Art. 22.1.3**)
  - Final Audit Report
  - Letter of Audit Closure (referring to eventual cost rejections, extrapolation rate)

# Audits Sampling

- Materiality Level:
  - 5% of total costs claimed
- Samples (for personnel costs or for other direct cost per cost sub-category)
  - When the value is below 5% - the tests are performed on the item with highest value in the cost population
  - When the value is above 5%, then:
    - If less or equal to 5 items - all items are tested
    - If more than 5 items:
      - Randomly selected items higher or equal to 10% of the total value of the cost sub-category
      - 50% in value based on the total cost sub-category
      - Up to 15 items

# Results of the reviews, audits and investigations

- Cost rejection, suspension of the payment deadline, termination, grant reduction and recovery (Art. 42-44, 47-50), or exclusion and/or financial penalties (Art. 45), amendment (Art.22.5.1)
- In some audit cases, findings may result in the acceptance of additional costs (if the Beneficiary declared them)
- Criminal prosecution before the national authorities

# Extension of findings (Art. 202, FR)

- Extension of findings to non-audited grants and/or periods (be it on-going or closed)
  - Recurrent error - an infringement found in several **grants** of the Beneficiary
  - Systemic - an infringement that is inherently related to the Beneficiary's methodologies, accounting, management or internal control practices
  - Letter of Audit Conclusions:
    - for cost rejection:
      - a request to submit revised financial statements for the grants/reporting periods on the list (via a specific form annexed to the letter of audit conclusions)
      - the proposed correction rate for extrapolation (if the Beneficiary does not submit revised financial statements)
      - the conditions for external counter-audits to propose an alternative correction method
    - for grant reduction: the proposed flat-rate for the correction

# FIN RG Art. 202, 4

- Where it is not possible or practicable to quantify precisely the amount of ineligible costs for each grant concerned, the amounts to be reduced or recovered may be determined by **extrapolating the reduction or recovery rate** applied to the grants for which the systemic or recurrent irregularities, fraud or breach of obligations have been demonstrated, or, where ineligible costs cannot serve as a basis for determining the amounts to be reduced or recovered, by applying a flat rate, **having regard to the principle of proportionality**. The beneficiary shall be given the opportunity to propose a duly substantiated alternative method or rate before the reduction or recovery is made.

# Extension of findings (2)

- The Extension rate will be **used** if:
  - The Beneficiary explicitly requests it
    - Example: if the Beneficiary considers that the administrative workload related to submitting revised financial statements for all the grants affected would be disproportionate or impossible and so it decides to accept the correction rate.
  - The Beneficiary does not submit revised financial statements or refuses to cooperate (in time)
  - The Commission cannot approve the revised financial statements (because they do not properly reflect the audit/review findings)
  - The Commission cannot accept the alternative correction method proposed by the Beneficiary

# Extention of findings (3)

- The correction rate for cost rejection will normally correspond to the average correction rate calculated in the sample of audited **grants** (for the flawed cost category(ies) or even for the total costs claimed).
- The flat-rate for grant reductions will normally be based on the relative importance of the tasks improperly implemented or the seriousness of the breach of obligations — compared to the action (i.e. calculated according to the principle of proportionality).
- The findings may be extended both to *on-going* grants (i.e. grants for which the payment of the balance has not yet been carried out) and to *closed* grants — up to 2 years after the payment of the balance.
- Findings may be extended to all other EU or Euratom grants awarded under similar conditions.

# Extension of findings (4)

- Contradictory procedure 90 days (Art. 22.5.3.1) – the Beneficiary may:
  - submit comments on the list of grants, or
  - submit revised financial statements (free of the errors or irregularities raised)
    - if the Beneficiary does not intend to submit revised financial statement, but disagrees with the proposed correction rate, the Beneficiary may:
      - for cost rejection: present an alternative correction method (alternative correction rate), substantiated by an audit performed by an independent external auditor ONLY to determine a **more precise error rate** for the audit/review findings of the Commission (NOT to contest those findings themselves)
      - for grant reduction: present an alternative correction method (alternative flat rate), substantiated by a note explaining why the alternative rate is more appropriate than the rate proposed by the Commission



# Investigations

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If the Commission suspects that a Beneficiary or 3<sup>rd</sup> party involved in an action committed fraud or other illegal acts, it will inform OLAF, who may decide to investigate



# Role of the coordinator

- Art. 19 and 20 of the GA
  - The Coordinator must submit the deliverables identified in Annex 1, in accordance with the timing and conditions set out in that Annex.
  - The Coordinator must submit the technical and financial reports
    - requests for payment
    - using the forms and templates provided in the electronic exchange system
  - The Coordinator must distribute the payments between the beneficiaries without unjustified delay (Art. 21.7)
    - If the coordinator breaches any of its obligations under this Article, the grant may be reduced and the Agreement or the participation of the coordinator may be terminated, or the Beneficiaries may be subject to other consequences as described in Art. 6.
      - Pre-financing, interim and final payments
  - The Coordinator must not delegate its administrative tasks, except for those listed in Art. 41.2
    - Except for public bodies of secondary or higher education.

# Role of the coordinator

- How and when the payments are distributed is in principle an internal matter for the consortium.
- It is **only if** the Coordinator is terminated that the Commission (and especially the Guarantee Fund) will intervene; *see Article 50*).
- Inform the Commission on the distribution of the payments:
  - if it specifically requests this
  - in the event of recovery at the payment of the balance (*see Article 44*)
  - if the participation of one or more beneficiary is terminated (*see Article 50*)

# Background agreement

(part of the Consortium Agreement)

- Art. 24 GA
- The beneficiaries must identify and agree (in writing) on the background for the action, committing to share:
  - any data, know-how or information — whatever its form or nature (tangible or intangible), including any rights such as intellectual property rights — that:
    - is held by the beneficiaries before they acceded to the Agreement, and
    - is needed to implement the action or exploit the results.
- If a Beneficiary breaches its obligations to the Background Agreement
  - 
  - The grant may be reduced
  - Art. 6 measures

# Other Grant Management issues

- CHAPTER 4, Sector 3
  - Dissemination and exploitation of results Art. 28 and 29 of the GA
  - Visibility of the action Art. 38
  - Intellectual Property Management, Access Rights, Ownership and Protection of Results

# Communication

- **Art. 38 of the GA**
  - Promote the action and its results, by providing targeted information to multiple audiences (including the media and the public) in a strategic and effective manner
  - Apply obligations on dissemination (Art. 29), confidentiality (Art. 36) and/or on security obligations (Art. 37)
  - Before engaging in a communication activity expected to have a major media impact, the beneficiaries must inform the *Commission/Agency/EU funding body*.
- **VISIBILITY OF THE ACTION**
  - EU emblem AND a specific text
  - Art. 27, 29 and 38

# Eligibility of costs



# Eligibility of costs

- Art.6 of the GA (based on Art. 186 of the FR)
- **Eligibility** of costs: **general criteria**
  - Incurred during the implementation of the action
  - Necessary for the action
  - Indicated in the budget, Annex 2
  - Identifiable and Verifiable
  - Compliant with national legislation on taxes and social security
  - Reasonable, justified, based on the principle of Sound Financial Management (economy and efficiency)
- Costs incurred by the Affiliated Entities – identified in the GA, abide by the same rules applicable to the Beneficiary
- Non-recoverable VAT
- Reference to Art. 4.2 on estimated budget categories - possible for transfer



# Eligibility of covid19 - related force majeure costs

- Force majeure (Art. 51 GA):
  - was unforeseeable, exceptional situation and beyond the parties' control
  - proves to be inevitable in spite of exercising all due diligence
  - must be formally notified to the other party without delay, stating the nature, likely duration and foreseeable effect
  - Travel tickets/hotel bookings/meetings cancelled
- Costs are eligible if they fulfil:
  - the general eligibility conditions of Article 6 MGA AND
  - Beneficiaries must immediately take all the necessary steps to limit any damage due to force majeure

# Direct and Indirect costs

- **Direct costs** – costs that are directly linked to the action implementation and can therefore be attributed to it directly. They must not include any indirect costs
  - Staff related
  - Travel, accommodation and subsistence allowances
  - Services under Subcontracts and Implementation Contract
- **Indirect costs** - costs that are not directly linked to the action implementation and therefore cannot be attributed directly to it

# Forms of costs

- **Actual costs**
  - Real, not budgeted or estimated numbers
- **Unit costs**
  - Personnel costs for SME owners/Natural persons not receiving a salary
  - Usual costs accounting practice of the Beneficiary for average personnel costs
  - Internally invoiced goods and services
- **Specific unit costs**
  - costs for energy efficiency measures in buildings
  - access costs for providing trans-national access to research infrastructure
  - access costs for providing virtual access to research infrastructure
  - costs for clinical studies
- **Flat rate for indirect costs**
  - 25% of direct eligible costs
- **Lump sum**

# Forms of costs

- The forms of cost are included in the Grant Agreement per cost category. (Art. 5.1 and Annex 2a GA)
- The reimbursement rates apply to all forms of costs (actual, unit, lump sums and flat-rates costs) and all budget categories.
- Within a grant, *different forms* of costs CAN be used.

# Personnel costs – Categories

(H2020 MGA Art. 6.2.A, Chapter 3)

- A.1. Personnel working under an employment contract (or equivalent appointing act) and assigned to the action (actual costs OR **unit costs**)
- A.2. Natural persons working under a contract with the Beneficiary, other than an employment contract, (actual OR **unit costs**)
- A.3. Seconded by a 3<sup>rd</sup> party against payment (actual costs)
- A.4. SME owners not receiving a salary (**unit costs**) and A.5. Beneficiaries that are natural persons without salary (**unit costs**)
- A.6. Personnel costs for providing trans-national/virtual access to research infrastructure (actual OR **unit costs**)



**When are external experts NOT Staff but Services Costs?**

# Personnel costs - Hourly rate

- Annual hourly rate
  - using the personnel costs and the number of productive hours for each full financial year covered by the reporting period concerned; If a financial year is not closed at the end of the reporting period, the beneficiaries must use the hourly rate of the last closed financial year available
  - 3 Options for calculating the annual productive hours
- Monthly hourly rate
  - using the personnel costs for each month and (one twelfth of) the annual productive hours calculated:
    - Either Option 1 "Fixed annual productive hours 1720", or
    - Option 3 "Standard annual productive hours", where there is an applicable reference to what a standard workable hours is



# Personnel Costs – annual hourly rate

- One hourly rate for each person for each full financial year - p. 53, AMGA
- The hourly rate must be calculated by **full financial year** (i.e. the 12-month period covered by the annual accounts of the entity).
  - most recent **full financial year** for which all information necessary to calculate the hourly rates in accordance with the GA is available at the end of the reporting period
- **Financial year different from fiscal year**
  - If the financial year is different from the fiscal year (i.e. the 12-month period used to calculate the income taxes), the entity may use the **fiscal year** instead of the financial year for calculating the hourly rate. The method must however be consistently applied and can NOT be changed within the same grant.

# Personnel Costs

- Double ceiling rule:
  - The total N hours worked and declared for a person for a year in all EU/Euratom grants, is NOT higher than the number of annual PH used for the calculation of his/her Hourly Rate
  - The total amount of personnel costs declared for a person for a year is NOT higher than the total personnel costs recorded in the accounts for that person for that year.
- Parental Leave:
  - Can be deducted from the annual productive hours for all options, when using the ANNUAL hourly rate
  - Can be considered when calculating the annual personnel cost in proportion to the actual hours worked when using the MONTHLY hourly rate
  - Similar is in H\_E, page 38 AGA



# Costs declared on the basis of the usual accounting practices

- For two budget categories (A. personnel costs and D.5 costs of internally invoiced goods and services), costs may be declared **not as a fixed unit cost**, but on the basis of the beneficiary's usual cost accounting practices. In this case, the beneficiary:
  - must calculate the costs according to its usual accounting practices
  - must budget and declare a **total amount** (not the units used)
  - the amount per unit is not fixed (by the EC) in Annex 2a.
- Other costs may NOT be declared according to the usual cost accounting practices. For them, the amounts per unit will be **fixed by the Granting Authority (the EC)** and set out in Annex 2a of the GA (*see Article 5.2*).

# Personnel costs – MSCA action grants (Research Funds)

- The **unit cost** for SME owners and other natural persons not receiving a salary shall be updated in accordance with the method specified in Commission Decision C(2013)8194.
- The eligible direct personnel costs declared by beneficiaries **that are** SMEs for their owners not receiving a salary and by beneficiaries that are natural persons not receiving a salary shall be based on a unit cost per hour worked on the action to be calculated as follows:  
$$\left\{ \text{Monthly living allowance for experienced researchers calculated according to Commission Decision C(2013)8194 (including the country-specific correction coefficient)} / 143 \text{ hours} \right\}$$
- The standard number of annual productive hours per SME owner and natural person is equal to 1 720 hours.

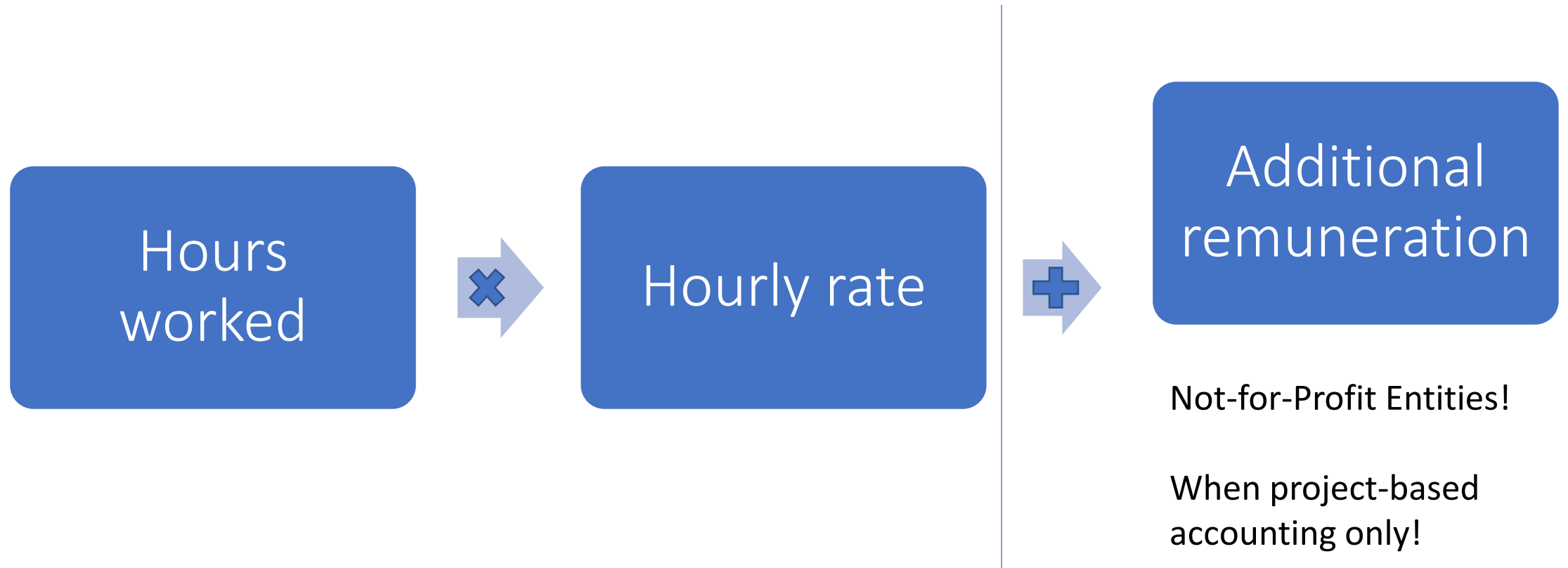
# A1. Personnel working under employment contract (actual costs)

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(Art.6.2.A.1 )

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# Personnel Costs (H2020)



Not-for-Profit Entities!

When project-based  
accounting only!

# Hourly rate (H2020)

Annual personnel costs for a person for a financial year

divided by

Productive hours worked by the person for the year



# Annual Productive Hours (H2020)

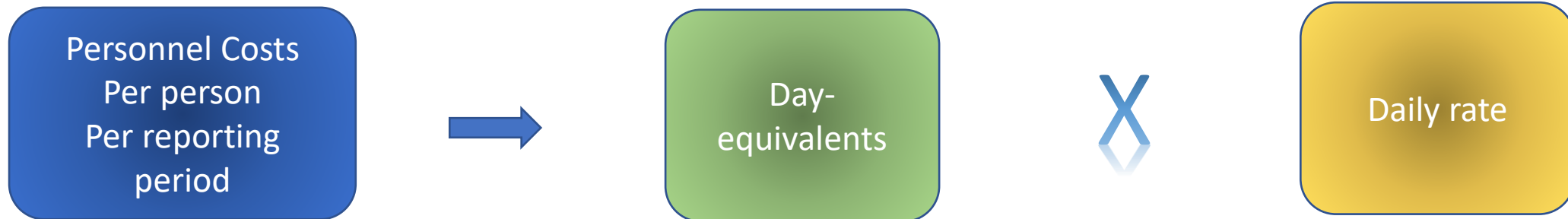
- 3 options:
  - 1720 fixed
    - For full-time working personnel
    - Pro-rata for non full-time working personnel
  - Individual annual PH – based on workable hours for the year
    - Workable hours +overtime-absences
  - Standard number of annual PH
    - Usual Beneficiary's accounting practices
    - At least 90% of standard workable PH



# Workable hours

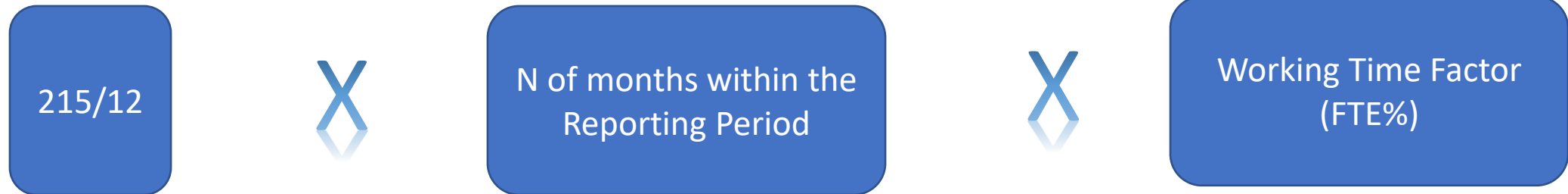
- Article 6.2.A.1 of the GA
  - the 'annual workable hours' are established according to one of the following:
    - employment contract of the person concerned
    - applicable collective labour agreement
    - national law on working time
- If the contract (or applicable collective labour agreement or national working time legislation) does not allow to determine the annual workable hours, Option 2 for productive hours calculation **cannot be used**

# Compare the calculation in Horizon Europe:





# Day Equivalents (Horizon Europe)



# Daily Rate (Horizon Europe)

Actual personnel costs during the months within  
the reporting period

Divided by

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Maximum declarable day-equivalents

# Bonus payments

- They are part of the Basic Remuneration (page 49, AMGA)
- Additional Eligibility Conditions:
  - part of the usual remuneration practices for national projects
  - not based on commercial targets or fund raising
  - be paid in accordance with national law, the collective labour agreement and the employment contract/equivalent appointing act
  - **exclude arbitrary bonuses** (i.e. bonuses which are not part of the beneficiary's usual remuneration practices and/or which are not based on objective conditions)

# Annual Personnel costs

- **Basic Remuneration** = Annual Salaries + Social Security Contributions + Statutory Costs
  - up to what is the beneficiary's usual remuneration practice for national or other non-EU-funded projects
  - **Bonuses (p.49 AMGA) (the same is valid for Horizon EUROPE)**
- **Additional Remuneration** (for non-profit organisations only) p.44 AMGA
  - Paid above the beneficiary's usual remuneration practice for national projects
    - **8000 EUR ceiling**
  - Consistently applied whenever the same kind of work or expertise is required and regardless of the source of funding used



# Other Payments and Additional Remuneration in Horizon Europe:

- 13th salary, Christmas pay, retroactive salary increase
  - When recorded in the statutory accounts
- Supplementary payments included in the personnel costs nominator:
  - If – beneficiary usual remuneration practice, and paid consistently for same kind of work or expertise, AND
  - Based on objective and generally applied criteria, regardless of the source of funding

Reference: p.25- 26 of the Annotated Corporate Grant Agreement (10-15 min reading time).

## A2. Natural Persons working under a DIRECT contract

- Art. 6.2.A.2 The **costs for natural persons working under a direct contract** with the beneficiary other than an employment contract are eligible personnel costs, if:
  - (a) the person works under conditions similar to those of an employee (in particular regarding the way the work is organised, the tasks that are performed and the premises where they are performed);
  - (b) the result of the work carried out belongs to the beneficiary (unless exceptionally agreed otherwise), and
  - (c) the costs are not significantly different from those for personnel performing similar tasks under an employment contract with the beneficiary.

Calculation principles to Category A.1 apply also to A.2.



# Natural Persons working under a DIRECT contract – Category A.2

- Usually "in-house" consultants, free-lancers
- Actual OR unit costs (average personnel costs)
- Eligibility:
  - General criteria
  - Direct contract
  - Output/product owned by the beneficiary
  - Similar working conditions
  - Costs not significantly different (50% higher, p.33 IAP)
- The remuneration must be based on the working time (not on output)
- New in HE: An entity with one person only can also be A2, subject to all General and Additional Criteria

# Personnel costs

Let's have an examples on hourly rates and personnel cost categories:

Please, refer to the Practice Case 1.1





# Seconded personnel Art.6.2.A.3

Costs of persons that work on the action and that are **seconded** by a third party as an in-kind contribution ***against payment***

*Seconded personnel is NOT:*

- Staff provided by a temporary work agency
- Secondment of staff between beneficiaries (or from linked third parties who participate in the action)
- Persons seconded by a third party free of charge

Calculation principles to Category A.1 apply also to A.3.

# Seconded personnel A.3

GA Art. 6.2.A.3, p.75 AMGA

- General eligibility conditions should be observed
- The 3rd party must be in Annex 1 GA
- Secondment assignment Best Practice:
  - The **secondment agreement** has to detail the conditions of secondment (tasks, payment (or not) from one entity to the other, duration of the secondment, location, etc.).
- The costs must be reimbursed up to the value actually incurred by the providing entity for the time working on the action, as reconciled with the accounting records

# Seconded personnel A.3

GA Art. 6.2.A.3, p.75 AMGA

- Art.11.1 special conditions:
  - Only up to the actually incurred costs by the third party can be declared
  - If the beneficiary paid less than that – declare the rest as receipts
- Indirect costs **of the third party**:
  - Can be claimed only if the staff worked NOT in the beneficiary's premises (and in that case: 3rd party's costs estimation in Annex 2)

# Seconded personnel A.3

GA Art. 6.2.A.3, p.75 AMGA

- Additional eligibility criteria:
  - The beneficiaries must ensure that the Commission/Agency, the European Court of Auditors (ECA) and the European Anti-Fraud Office (OLAF) have the right to carry out checks, reviews, audits, and investigations on the third parties (see Article 22), and in particular audit their underlying costs.
  - They must also ensure that the Commission/Agency has the right to make an evaluation of the impact

# SMEs owners & Natural Persons not receiving a salary

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A4 and A5  
H2020

Art.6.2.A.4 & A.5

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# SME owners/Natural persons not receiving a salary – Category A.4/A.5 (H2020)

- Working time remuneration/compensation is composed of:
  - *dividends,*
  - *service contracts*
  - *other non-employment contracts between the company and the owner*
- Declared as unit costs (hourly rate) fixed by Commission and set out in Annex 2 and 2a of the GA
  - (4650/143)\* (Country Specific Correction Coefficient) – p.76 AMGA and p.37 IAP
  - EUR 4 650 for calls under Work Programmes 2014-2015 and 2016-2017
  - EUR 4 880 for calls under Work Programme 2018-2020
  - EUR (5080/18)\* (Country Specific Correction Coefficient) for Horizon Europe
- The **total number of hours** declared for an SME owner for a year (i.e. a financial year) can NOT be higher than 1 720
- The unit costs is fixed by the Commission in the Annex 2a budget table

# SME owners/Natural persons not receiving a salary – Category A.4 (HE)

- The unit daily rate is fixed Decision C(2020) 7115, set out in Annex 2a
- Annex 2a daily rate:
  - $5080/18 = 282.22$
  - Multiplied by the country-specific coefficient

# Personnel costs

Let's have an example with the calculation of the personnel costs and the definition of the annual hourly rates.

Please, refer to the Practice Case 1.2.





# Personnel Costs

- Project-based accounting (for **non-profit legal entities** only)
  - The beneficiary usual accounting practice in project management is to complement the personnel working on international projects with additional payment
    - GA, Art. 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**.
    - Only for non-profit legal entities
    - Regardless of the source of funding
    - This “usual accounting practice” should be evidenced in the internal rules
    - There should have been at least one paid additional remuneration before the submission of the action proposal!
    - Pages 58-61 AMGA

# ”National Schemes”

- **National projects**

- all types of projects funded under any type of national (public or private) funding scheme (including projects **co-financed** by EU funds that are managed by the Member States, *e.g. regional funds, agricultural and fisheries funds*).
- Projects from EU programmes directly managed by the Commission/Agencies or their funding bodies (*e.g. LIFE, ERASMUS, Health, etc.*) do not, however, qualify as national projects (but as EU/international projects).

# Project-based accounting in Horizon 2020/HE

- Calculation of the Additional Remuneration:
  - **"Action Reference" (AR)** - reference rate for the work on the H2020 action
  - **"National Projects Reference" (NPR)** - reference rate for the usual remuneration practice for national projects
  - Compare both rates:
    - If  $AR > NPR$ , there is additional remuneration
    - If  $AR \leq NPR$ , there is NO additional remuneration, all remuneration is basic
  - Calculation of the additional remuneration cost
    - $(AR - NPR) \times (\text{actual working hours on H2020 for a person for a year})$
    - Application of the 8000 ceiling rule

# Personnel Costs

- Project-based accounting (H2020)
  - Annually, the additional remuneration should be capped to 8000 euro per person.
    - The ceiling is *fixed* at EUR 8 000 per year for each full time equivalent (FTE), i.e. EUR 8 000 for a **full-time employee working exclusively for the action during the entire year**.
      - This ceiling covers not only the additional payment (bonus) but also the additional taxes, costs and social security contributions triggered by the additional payment.
    - For an **employee working exclusively for the action but not hired full time during the entire year**, the ceiling is reduced pro-rata
    - For an **employee not working exclusively for the action**, the ceiling is *calculated pro-rata*, based on the hours worked for the action.

# Project-based accounting in Horizon Europe

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- The daily rate to be used for the EU grant financial statement will be the **lower** of the two.
- In practice, the HE framework does not allow additional remuneration in the context of what it means under H2020.
- Page 53 in the AGA-HE-3 (Art.6.2.A.1)



# Personnel costs

Let's have an example with the calculation of the personnel costs and the definition of the additional remuneration.

Please, refer to the Practice Case 1.3.  
Solution in 14.55h CET

Feel free to alert me by **hand raised** when you are done.



# Costs of Third Parties



- Any party not signing the Financial Contribution Agreement with the EC is a third party
  - Subcontractors
  - In-kind contributions
    - for free
    - against payment
  - Linked third parties
  - International organisations
  - Contractors

# Subcontracting (Art. 13 of GA)

- Beneficiaries may award subcontracts covering the implementation of **certain action tasks**.
- Subcontracting may cover only a **limited part** of the action.
- Beneficiaries/linked third parties may NOT subcontract tasks to other beneficiaries/linked third parties
- The tasks to be implemented and the estimated cost for each subcontract must be set out in Annex 1 and the total estimated costs of subcontracting per beneficiary must be set out in Annex 2.



# Subcontracting (Art. 13 of GA)

- Example of subcontracting costs:
  - Translation, Interpretation, specific Evaluation, external Expertise, Information, Dissemination, Reproduction, Publication
- Beware of additional eligibility rules:
  - Best value for money - price-quality ratio OR lowest possible price
  - No core activities, no Coordinator's tasks
  - Included in the Grant Agreement (Annex 1 and Annex 2)
    - OR agreed with the Commission (amendment/simplified procedure)
  - Procurement rules - when beneficiaries are 'contracting authorities' or 'contracting entities' (within the meaning of the EU public procurement Directives 2014/24/EU and 2014/25/EU37)
- The Subcontractor should abide with the same obligations and provide the same rights to the Commission as those of the Beneficiary

# Subcontracting

## Obligations that must be extended to subcontractors:

- Avoiding conflicts of interest ([see Article 35](#))
- Maintaining confidentiality (*see Article 36*)
- Promoting the action and give visibility to the EU funding (*see Article 38*)
- Liability for damages (*see Article 46*).

Failing to abide with these obligations, the grant may be reduced and/or other penalty consequences may occur, according to Art. 13.2 , Art. 43 and Art. 6

# Subcontracting

- **Conflict of interests (Art. 35, GA)**

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



# In-kind contributions

by third parties (art. 11 and 12. GA)

- **In-kind contributions must be set out in Annex I of GA**
  - May also be approved by the Simplified Approval Procedure
- **Against payment**
  - Direct costs – ACTUALLY incurred **or** UNIT cost based (Art. 6.2 GA)
  - Indirect costs – *25% on the actually incurred eligible direct costs of the 3rd party* when NOT in the beneficiary's premises
- **Free of charge**
  - The beneficiary does not pay to the 3rd party but it may claim the actually incurred costs of the 3rd party (**only for Research programmes H2020 and HE, except for secondment of people**)
  - The beneficiary may NOT include the indirect costs a second time to calculate its own indirect costs
  - Free of charge in-kind contributions may also have to be declared as receipts — capped by the amount declared as third party costs for the contribution. (Article 5.3.3(c))
- **The accounting records of the third-party prevail over the beneficiary's paid balances**

# In-kind contributions for free

Art. 12, p.142 AMGA

- The 3rd party makes available some of its resources to a beneficiary, for free
  - i.e. without any repayment
  - the beneficiary itself makes no payment and there is therefore NO cost incurred by the beneficiary.
  - However, the GA provides that beneficiaries may charge the costs incurred by the third party for its in-kind contribution:
    - as eligible direct costs in the corresponding cost category: personnel costs, other direct costs (equipment, infrastructure, assets)
- The same eligibility conditions as for in-kind contributions against payment.

# In-Kind Contributions

Indicative Audit Programme Ref. Section A 20-21; D 70,-72, 81- 84

- For ODC in-kind contributions :
  - The costs claimed do not exceed the actually incurred direct costs
  - Cost do not exceed depreciation costs of similar equipment, infrastructure or assets
  - "Arms' length" principle (No profit transferring)
  - No profit/financial fees are included in the in-kind costs
  - No estimations
  - Indication for the costs in Annex I / or approved in writing by EC
    - For in-kind contr. NOT used in the beneficiary's premises: indication in Annex 2



## In-Kind Contributions - HORIZON EUROPE

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- **FREE of Charge**
  - Ref: Art. 9.2 GA
  - The rules from H2020 remain the same!
- **Against Payment**
  - only for HE, not for other EU Programmes
- **In-kind contributions and the third parties contributing them must be mentioned in Annex 1**
  - simplified approval procedure allowed

# Linked third parties

Art. 14 Ga

- The linked 3rd parties implement part of the action
- Their **action tasks** are indicated in the GA, Annex 1
- They must be named in Article 14 and their action tasks and estimated costs must be set out in Annexes 1 and 2 already at the moment of the GA signature (or if the linked third party is added later, through an amendment).
- The beneficiaries must make special arrangements regarding results produced by the linked third parties (in order to be able to fully comply with their obligations under the GA; see Article 26.3).
- The Commission/Agency may (during the selection procedure) require joint and several liability of a linked third party, if:
  - the financial capacity of a beneficiary is 'weak' and
  - the beneficiary mainly coordinates the work of its linked third party.



# Linked third parties

Art. 14 Ga

- Linked third party does not charge a price, but declares its own costs for implementing the action tasks.
- Linked third party itself performs certain action tasks directly and is responsible for them towards the beneficiary. Linked third parties do NOT sign the GA (and are therefore not beneficiaries).
- The beneficiary remains responsible towards the Commission/Agency for the work carried out by the linked third party. Moreover, the beneficiaries are financially responsible for any undue amount paid by the Commission/Agency as reimbursement of costs for their linked third parties — unless the GA foresees joint and several liability (see Article 44.1).
- Work is attributed to the linked third party (in Annex 1) and is usually carried out on its premises.
- Work is under the full and direct control, instructions and management of the linked third party, who carries out this part of the action (with its employees).

# Linked third parties

## Art. 14 Ga

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- There is NO simplified approval procedure for the inclusion of a linked 3rd party in the implementation of the action.



# Linked third parties

Art. 14 Ga

## affiliated entities

- under the direct or indirect control of the beneficiary
- under the same direct or indirect control as the beneficiary
- directly or indirectly controlling the beneficiary

## entities with a legal link to a beneficiary

- established legal relationship
- broad and not specifically created for the work in the GA that goes beyond the action duration and usually pre-dates and outlasts the GA

# Affiliated entity – Rules for Participation

## Art. 2, (paragraph 1, (2))

- 'affiliated entity' - any legal entity that is under the direct or indirect control of a participant, or under the same direct or indirect control as the participant, or that is directly or indirectly controlling a participant.
- Control may take any of the forms set out in Article 8(2)

## Art. 8, par. 2

# What does the GA say? Art. 14

<sup>30</sup> For the definition see Article 2.1(2) Rules for Participation Regulation No 1290/2013: ‘**affiliated entity**’ means any legal entity that is:

- under the direct or indirect control of a participant, or
- under the same direct or indirect control as the participant, or
- directly or indirectly controlling a participant.

‘Control’ may take any of the following forms:

- (a) the direct or indirect holding of more than 50% of the nominal value of the issued share capital in the legal entity concerned, or of a majority of the voting rights of the shareholders or associates of that entity;
- (b) the direct or indirect holding, in fact or in law, of decision-making powers in the legal entity concerned.

However, the following relationships between legal entities shall not in themselves constitute controlling relationships:

- (a) the same public investment corporation, institutional investor or venture-capital company has a direct or indirect holding of more than 50% of the nominal value of the issued share capital or a majority of voting rights of the shareholders or associates;
- (b) the legal entities concerned are owned or supervised by the same public body.

<sup>31</sup> ‘**Third party with a legal link to a beneficiary**’ is any legal entity which has a legal link to the beneficiary implying collaboration that is not limited to the action.

p.150 AMGA

# What is not an affiliated entity?

## Rules for Participation, Art. 8, par. 3

- the same public investment corporation, institutional investor or venture-capital company has a direct or indirect holding of more than 50 % of the **nominal** value of the issued share capital or a majority of voting rights of the shareholders or associates;
- or
- the legal entities concerned are owned or supervised by the same **public** body.



# Comparison -3rd Parties HORIZON EUROPE

- **Affiliated entities partners**

- Named in GA, action tasks indicated Annex 1 and 2
- Costs and contributions
- Ref: Art. 8 GA

- **Associated partners**

- Named in GA, section tasks set in Annex 1
- Ref: Art. 9.1 GA
- Not eligible for funding

- **Third parties giving in-kind contributions**

- Free of charge/ (against payment only for HE)
- Set in Annex 1
- Art. 6.1 and Art. 9.2 GA

- **Subcontractors**

- Costs and related action tasks should be set in Annex 1 and 2
- Value for money

# Subcontracting/ Third/ Linked parties

TYPE	CHARACTERISTICS						
	Works on action tasks?	Provides resources or services for action?	What is eligible?	Must be indicated in Annex 1?	Indirect costs?	Selecting the third party	GA articles
Linked third party	YES	NO	Costs	YES	YES	Must be affiliated or have a legal link and be eligible for funding	Article 14
International partners	YES	NO	N/A	YES	N/A	Must not be eligible for funding	Article 14a
Subcontractor	YES	NO	Price	YES	NO	Must be best value for money, avoid conflict of interest	Article 13
Third party providing in-kind contribution	NO	YES	Costs	YES	YES	May not be used to circumvent the rules	Articles 11 and 12
Contractor (selling, equipment, good or service)	NO	YES	Price	NO	YES	Must be best value for money, avoid conflict of interest	Article 10
Third parties receiving financial support <sup>33</sup>	The third parties participate in the action as recipients.		Amount of support given	YES	NO	According to the conditions in Annex 1	Article 15



# Third parties' costs

Please, refer to the Practice Case 3.



# Other direct costs

- Purchases of **goods, works or services**.
  - Ensure the **best value for money or**, if appropriate, **the lowest price** and avoid any conflict of interests (see Article 35).
  - Internally invoiced goods and services (Art. 6.2. and D.5 of the GA)
    - Calculated as unit costs only, according to usual practice
- **Equipment**
  - Depreciation of purchased equipment or the corresponding amounts if rented or leased equipment
  - No financial fees (e.g. for credits on the purchase, or for the leasing, etc.)
- **Report on Explanations on the use of resources (n.a. MSCA & LS)**
  - If actual costs declared under "other direct costs" are equal or less than **15% of claimed personnel costs** for the beneficiary in each reporting period, no need to give any detail.

# Other direct costs

- Rental of meeting rooms/interpretation booths
- Costs for certificates on the financial statements
- Financial costs, e.g. related to the bank guarantee if required
- Intellectual Property Rights reviews
- Communication events, material, services

Ensure competitive selection procedure for purchase of goods, works, and services, based on pre-announced award criteria, value for money and no conflict of interest.

# Other direct costs

- **Travel and subsistence allowances (actual cost only)**
  - Costs are necessary for the implementation of the action, reasonable, verifiable and not reckless
  - Keep tickets, bills, receipts, proof of payment
  - Must be declared in euro according to the rules in the GA
  - According to the Beneficiary's usual travel policy but in compliance with GA
  - Only costs related to the time for travel related to the work on the action
  - Per diem/Fixed fees reconcile with the Beneficiary's usual travel policy, procedures or practice
- **COVID19 : equipment for holding online meetings may be **eligible**.**

# COVID19 lockdown related problems

- If the equipment is not being used by researchers, are corresponding depreciation costs eligible?
- For newly purchased equipment, which has not been used due to delayed/impossible tasks, depreciation costs are incurred more than budgeted, are they all eligible?



# Indirect costs

- **One flat rate 25% of total eligible direct costs minus:**
  - Subcontracting costs
  - In-kind contributions related costs incurred by 3<sup>rd</sup> parties outside of the Beneficiary's premises
  - Costs of providing financial support to 3<sup>rd</sup> parties
  - Costs from specific costs categories (unit or lump-sum costs) that include indirect costs
- **BEWARE:**
  - Indirect costs cannot be reimbursed and thus should not be declared if the Beneficiary also receives an Operating grant (for the operation and running costs of an entity, Art. 180.2.(b) of the FR), unless the Beneficiary applies separate accounting and shows no double funding doubts

# Ineligible costs

- In principle – if costs **do not meet the general and specific eligibility conditions** set out in Articles 6.1 to 6.4 of the GA
- Costs **listed in Article 6.5** of the GA
  - Return on capital or return generated by an investment (dividends)
  - Debt and debt service charges (on loans)
  - Interest owned
  - Provisions for bad debts and losses
  - Bank costs
  - Currency exchange losses
  - Deductible VAT
  - Incurred during the suspension of the implementation of the action
  - Declared under another EU or Euratom grant
  - In-kind contributions from 3<sup>rd</sup> parties (voluntary work, equipment available for free, etc.)

# Receipts from the action

NO PROFIT RULE (HE, H2020)

- Receipts from the action (Art. 5.3.3 of the H2020 MGA)
  - (a) Income generated by the action; if the income is generated from selling equipment or other assets purchased under the Agreement, the receipt is up to the amount declared as eligible under the Agreement;
  - (b) financial contributions given by third parties to the Beneficiary/linked 3<sup>rd</sup> party specifically to be used for the action, and
  - (c) in-kind contributions provided by 3<sup>rd</sup> parties free of charge and specifically to be used for the action, if they have been declared as eligible costs
  - Example: p. 204 AMGA

If Grant Amount + Receipts > Total Eligible Costs → Deduction of profit



# Final grant amount

- Calculated by the Commission when the Payment of the Balance is made
- Corrected with 4 Steps (Art. 5.3 of the GA)
  - Step 1 — Application of the reimbursement rates to the eligible costs
  - Step 2 — Limit to the maximum grant amount
  - Step 3 — Reduction due to the no-profit rule
  - Step 4 — Reduction due to substantial errors, irregularities or fraud or serious breach of obligations
- The final grant amount will be the lower of the following two:
  - the amount obtained following Steps 1 to 3 or
  - the reduced grant amount following Step 4, and
- Deducting the total amount of pre-financing and interim payments already made
- See also Art. 44.1.2. for recovery of undue amounts by the beneficiary

# THANK YOU FOR PARTICIPATING IN THIS COURSE

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