

Financial Reporting – What's new?





EARMA Luleå

Financial reporting in H2020-what's new?

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Agenda


Structural changes

Terminologi changes

Financial changes

Summary table

FP7 priorities & budget

The 4 Pillars	Themes	Health	Biotech, Food, Agriculture	Information Society	Nano, Materials, Production	Energy	Environment	Transport	Socio-economic Research	Space and Security	
COOPERATION	Collaborative Research	6,1	1,9	9,1	3,5	2,3	1,9	4,2	0,6	2,8	32,4
IDEAS	European Research Council										7,5
PEOPLE	Marie Curie Actions										4,7
CAPACITIES	Research Infrastructures	Research for SMEs	Regions of Knowledge	Research Potential	Science in Society	Research policies	International Co-operation				
	1,9	1,3	0.13	0,4	0.3	0,07	0,19				
	Total										48,7*
											

*Not including contributions to Euratom (2.75 Bn) and JRC (1.80 Bn)



EUROPEAN
COMMISSION

HORIZON 2020



Excellent Science (24.4 B €)

European Research
Council
(13.1 B €)

Future and Emerging
Technologies
(2.7 B €)

Marie Skłodowska-Curie
Actions
(6.1 B €)

Research Infrastructures
(2.5 B €)

Industrial Leadership (17 B €)

LEIT = Leadership in
enabling and industrial
technologies

- ICT
- Nano, new materials
- Biotechnology
- Space

(13.5 B €)

Access to Risk Finance
(2.9 B €)

Innovation in SMEs
(0.6 B €)

Societal Challenges (29.7 B €)

Health
(7.5 B €)

Food
(3.9 B €)

Energy
(6 B €)

Transport
(6.3 B €)

Climate
(3 B €)

Inclusive Societies
(1.3 B €)

Security
(1.7 B €)

Spreading Excellence (0.8 B €)

Science for Society (0.5 B €)

EIT (2.7 B €)

JRC (1.9 B €)

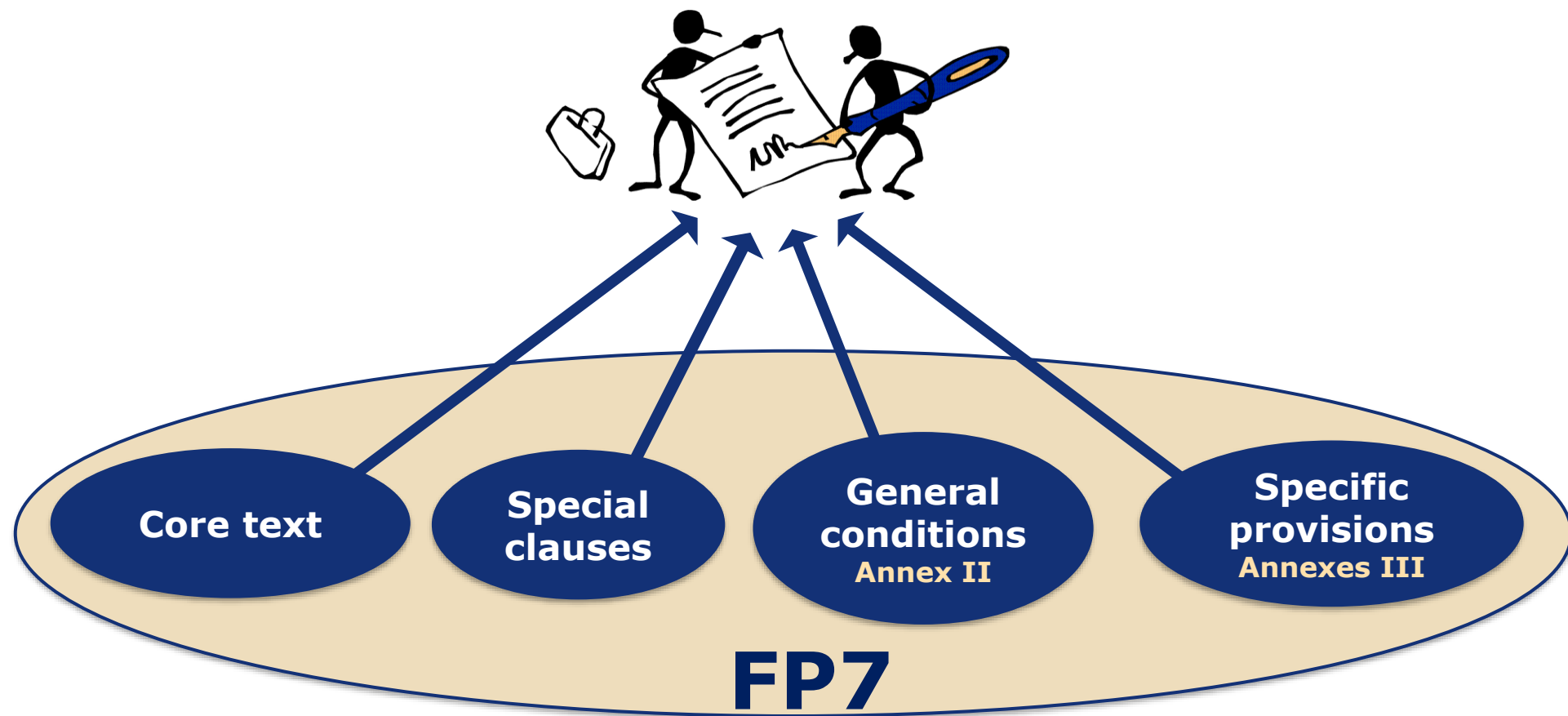
Euratom (1.6 B €)

Terminology changes from FP6 to FP7 to Horizon 2020

FP6	⇒	FP7	⇒	Horizon 2020
Partner	⇒	Beneficiary	⇒	Beneficiary
Contract	⇒	Grant Agreement	⇒	Grant Agreement
Knowledge	⇒	Foreground	⇒	Results
Instrument	⇒	Funding scheme	⇒	Action, RIA
Financial Guidelines	⇒	Guideline to Financial Issues	⇒	Annotated Model Grant Agreement (AMGA, 700 pgs)
Audit Certificates	⇒	Certificate on the Financial Statement 14 check points	⇒	Certificate on the Financial Statement (CFS) 63 check points

Horizon 2020 model Grant Agreement:

A single document with all provisions



Horizon 2020 model Grant Agreement:

grant

Annexes to the

Annex 1: **Description of the action**

Annex 2: **Estimated budget**

Annex 3: **Accession Forms, 3a & 3b**

Annex 4: **Financial statements**

Annex 5: **Certificate on the financial statements**

Annex 6: **Certificate on the methodology**

1. Forms of costs

Actual costs

- Costs actually incurred, identifiable and verifiable, recorded in the accounts, etc.

 **NEW:** non-deductible VAT paid is also eligible

Unit costs

- A fixed amount per unit determined by the Commission. Example: SME owners' unit cost
- For average personnel cost (based on the usual accounting practices) + f.eks. Unit cost til Clinical trial.

Flat rate

- A percentage to be calculated on the eligible costs Example: Indirect costs = 25 % Direct costs

Lump sum

- A global amount to cover one or several cost categories Example: Phase 1 of the SME instrument

2. Funding rate



Maximum reimbursement rates	Research and technological development activities (*)	Demonstration activities	Other activities
Network of excellence	50% 75% (**)		100%
Collaborative project(****)	50% 75% (**)	50%	100%
Coordination and support action			100% (***)

(*) Research and technological development includes scientific coordination.

(**) For *beneficiaries* that are *non-profit public bodies*, secondary and higher education establishments, *research organisations* and *SMEs*

(***) The reimbursement of indirect eligible costs, in the case of coordination and support actions, may reach a maximum 7% of the direct eligible costs, excluding the direct eligible costs for subcontracting and the costs of resources made available by third parties which are not used on the premises of the *beneficiary*.

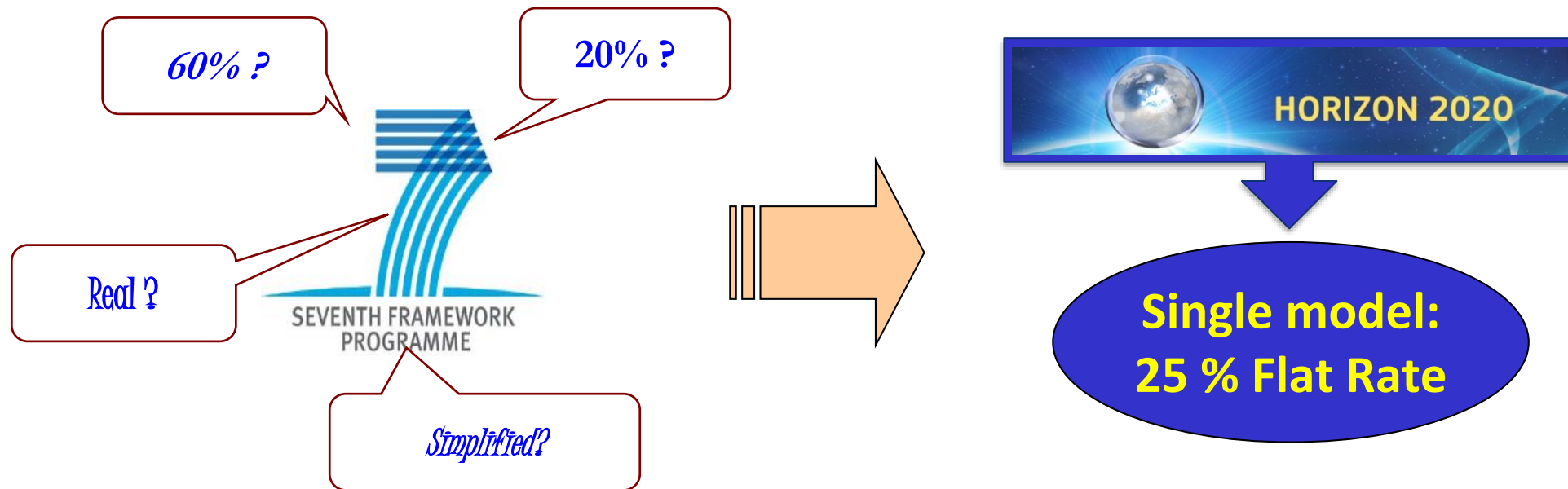
(****) Including research for the benefit of specific groups (in particular SMEs)

**One project = One rate
for research actions**

- ✓ For all beneficiaries and activities in the grant.
- ✓ Defined in the Work Programme:
 - Up to 100 % of the eligible costs for **research actions**;
 - Up to 70 % for **innovation actions** (exception for non-profit organisations – up to 100%).


3. Single indirect costs rate


Simplifying project management and removing recurrent errors.




4. Funding model: what impact on the EU contribution?

An example

	Direct costs	Indirect costs (60%)	Total costs	% EU contribution	EU contribution
75 / 60 Funding	100	60	160	75%	€ 120

	Direct costs	Indirect costs (25%)	Total costs	% EU contribution	EU contribution
100 / 25 Funding	100	25	125	100%	€ 125



Note: In FP7, most Universities and more than a half of the Research Organisations applied the 60% flat-rate for indirect costs.

7. Personnel costs: novelties



- ✓ **Less requirements for time records**

Example: No time records for researchers working exclusively on the project.

- ✓ **Wider acceptance of average personnel costs**

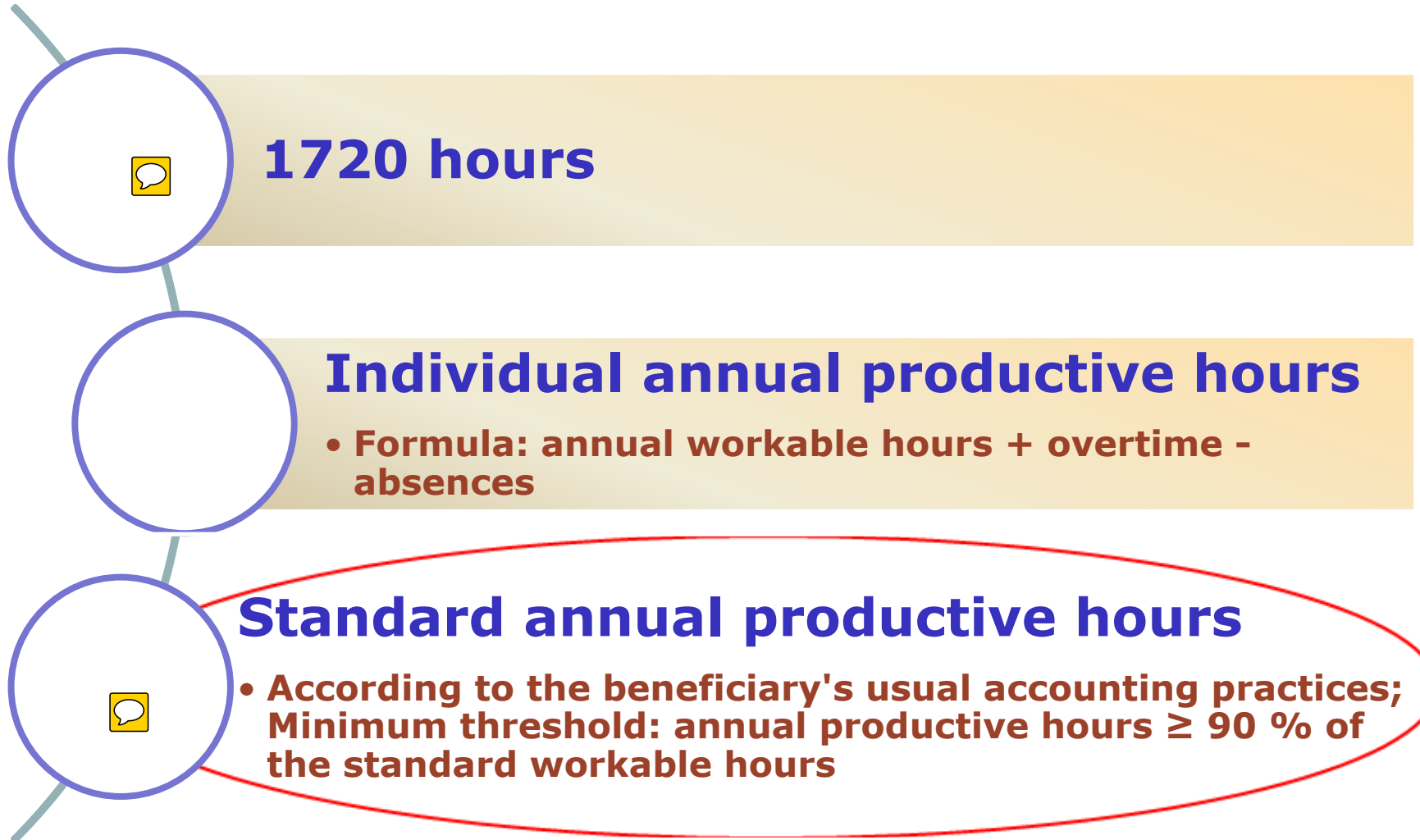
Broadening the acceptance of usual cost accounting practices (including cost-centre approaches) as unit costs.

- ✓ **Acceptance of additional remuneration**

- *Limited to non-profit legal entities*
- *Up to 8000 Euro/year/person working full-time exclusively in the action*
- *Subject to specific conditions*



9. Actual personnel costs: annual productive hours



9. Actual personnel costs: calculation - I

$$\text{Actual Personnel Cost} = \text{Hours worked for the project} \times \text{Hourly rate}$$

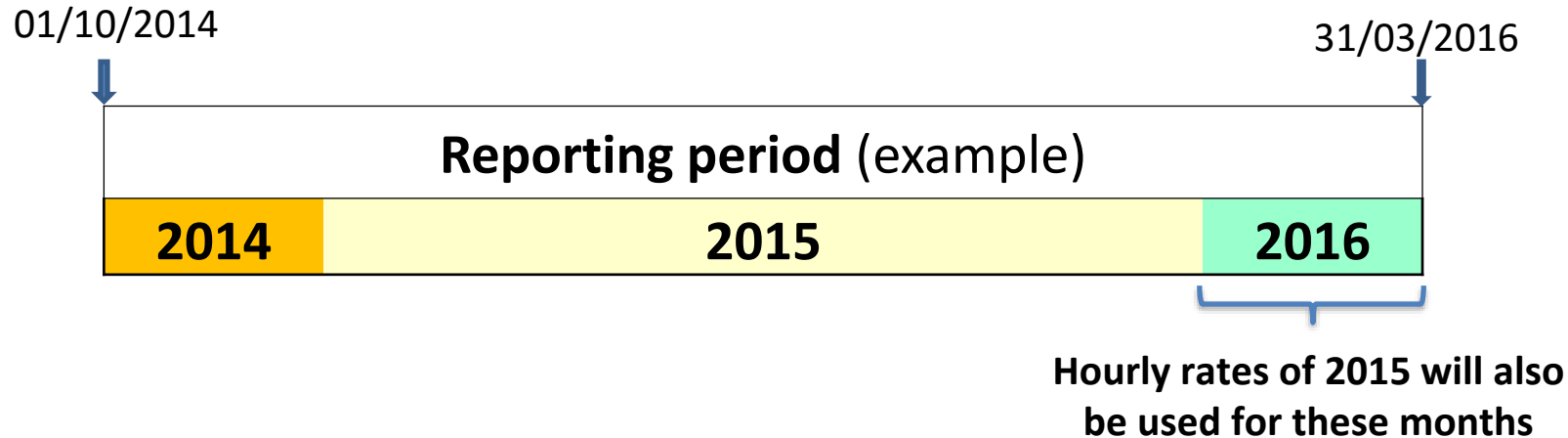
where

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

- The hourly rate is to be calculated per financial year
- If the financial year is not closed at the time of reporting, the beneficiary must use the last closed financial year available.

9. Actual personnel costs: calculation - II

Use of the last closed financial year



ADVANTAGES FOR THE BENEFICIARIES

- ➡ NO ADJUSTMENTS TO BE DECLARED IN THE NEXT PERIOD
- ➡ LEGAL CERTAINTY: NO DOUBTS ABOUT WHAT PERIOD AND WHAT DATA MUST BE USED FOR THE CALCULATION
- ➡ REMOVES ERRORS DUE TO INCORRECT CALCULATIONS FOR FRACTIONS OF A YEAR

H2020 - Actual personnel costs: calculation

$$\text{Actual Personnel Cost} = \text{Hours worked for the project} \times \text{Hourly rate}$$

where

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

Annual productive hours = annual workable hours + overtime – absences

Absences = sick leave, special leave (e.g. parental leave)

Ref	Procedures	Standard factual finding	Result (C / E / N.A.)
		recorded in the accounts of the third party and were supported with documentation.	
A.2	<p>PRODUCTIVE HOURS</p> <p>To confirm standard factual findings 23-28 listed in the next column, the Auditor reviewed relevant documents, especially national legislation, labour agreements and contracts and time records of the persons included in the sample, to verify that:</p> <ul style="list-style-type: none"> the annual productive hours applied were calculated in accordance with one of the methods described below, the full-time equivalent (FTEs) ratios for employees not working full-time were correctly calculated. <p>If the Beneficiary applied method B, the auditor verified that the correctness in which the total number of hours worked was calculated and that the contracts specified the annual workable hours.</p> <p>If the Beneficiary applied method C, the auditor verified that the 'annual productive hours' applied when calculating the hourly rate were equivalent to at least 90 % of the 'standard annual workable hours'. The Auditor can only do this if the calculation of the standard annual workable hours can be supported by records, such as national legislation, labour agreements, and contracts.</p> <p><i>BENEFICIARY'S PRODUCTIVE HOURS' FOR PERSONS WORKING FULL TIME SHALL BE ONE OF THE FOLLOWING METHODS:</i></p> <p><i>A. 1720 ANNUAL PRODUCTIVE HOURS (PRO-RATA FOR PERSONS NOT WORKING FULL-TIME)</i></p> <p><i>B. THE TOTAL NUMBER OF HOURS WORKED BY THE PERSON FOR THE BENEFICIARY IN THE YEAR (THIS METHOD IS ALSO REFERRED TO AS 'TOTAL NUMBER OF HOURS WORKED' IN THE NEXT COLUMN). THE CALCULATION OF THE TOTAL NUMBER OF HOURS WORKED WAS DONE AS</i></p>	<p>23) The Beneficiary applied method [choose one option and delete the others] [A: 1720 hours] [B: the 'total number of hours worked'] [C: 'annual productive hours' used correspond to usual accounting practices]</p> <p>24) Productive hours were calculated annually.</p> <p>25) For employees not working full-time the full-time equivalent (FTE) ratio was correctly applied.</p> <p><i>If the Beneficiary applied method B.</i></p> <p>26) The calculation of the number of 'annual workable hours', overtime and absences was verifiable based on the documents provided by the Beneficiary.</p>	

Ref	Procedures	Standard factual finding	Result (C / E / N.A.)
	<p><i>FOLLOWS: ANNUAL WORKABLE HOURS OF THE PERSON ACCORDING TO THE EMPLOYMENT CONTRACT, APPLICABLE LABOUR AGREEMENT OR NATIONAL LAW PLUS OVERTIME WORKED MINUS ABSENCES (SUCH AS SICK LEAVE OR SPECIAL LEAVE).</i></p> <p><i>C. THE STANDARD NUMBER OF ANNUAL HOURS GENERALLY APPLIED BY THE BENEFICIARY FOR ITS PERSONNEL IN ACCORDANCE WITH ITS USUAL COST ACCOUNTING PRACTICES (THIS METHOD IS ALSO REFERRED TO AS 'TOTAL ANNUAL PRODUCTIVE HOURS' IN THE NEXT COLUMN). THIS NUMBER MUST BE AT LEAST 90% OF THE STANDARD ANNUAL WORKABLE HOURS.</i></p> <p><i>'ANNUAL WORKABLE HOURS' MEANS THE PERIOD DURING WHICH THE PERSONNEL MUST BE WORKING, AT THE EMPLOYER'S DISPOSAL AND CARRYING OUT HIS/HER ACTIVITY OR DUTIES UNDER THE EMPLOYMENT CONTRACT, APPLICABLE COLLECTIVE LABOUR AGREEMENT OR NATIONAL WORKING TIME LEGISLATION.</i></p>	<p><i>If the Beneficiary applied method C.</i></p> <p>27) The calculation of the number of 'standard annual workable hours' was verifiable based on the documents provided by the Beneficiary.</p>	
		<p>28) The 'annual productive hours' used for calculating the hourly rate were consistent with the usual cost accounting practices of the Beneficiary and were equivalent to at least 90 % of the 'annual workable hours'.</p>	



Clip slide

Rectangular Snip

Bored yet

An example

- ***Total working hours per year*** ***= 1924 hours***
- ***Paid holiday (6 X 37,5)*** ***= -225 hours***
- ***Average national holiday, Eastern etc. (8 x 7,5)*** ***= - 60 hours***
- ***Total annual productive hours*** ***= 1639 hours***
- ***Ac. to SFF 28, min. annual workable hours (1639 x 0,9)*** ***= 1475 hours***
-
- ***At the University of Copenhagen, we have calculated "Annual productive hours" to be 1548 hours per year.***

- *Method 3 to calculate the annual productive hours fully relies on the usual costs accounting practice of the beneficiary, conditioned to the fact that the resulting number of hours must be at least 90 % of the standard annual workable hours.*
- *If the usual practice of the beneficiary is to review the standard annual productive hours, for instance, once every four years this would not be contrary to the H2020 provisions. However, the beneficiary must check annually that those standard annual productive hours are indeed at least 90 % of the standard annual workable hours of the year. Thus, in your example, what you qualify as "minimum annual productive hours" would fluctuate each year depending on (for instance) the public holidays of the specific year. Each year the beneficiary has to determine the standard annual workable hours and compare it with the annual productive hours resulting from its usual practice. If the latter are indeed at least 90 % of the former, the beneficiary may apply the number of hours it generally applies (regardless of the periodicity of its updates). We will clarify also the SFF 24 in the guidelines in this regard.*

Declaration on a person working exclusively in a Horizon 2020 action

Horizon 2020 Action

Title of the action		Grant Number	
---------------------	--	--------------	--

Reporting period covered by this declaration¹

Period number	From (date)	To (date)

Entity's name (beneficiary or third party)	
---	--

[Name of the person working exclusively for the action]

This document certifies that has worked for the beneficiary/third party exclusively in the Horizon 2020 action mentioned above during (chose one below)²:

☐

The whole reporting period

☐

From the start date of the reporting period until *[insert date]*/...../.....

Signature: for the entity (beneficiary or third party)	Signature: person working exclusively for the action
Name: (Name of the supervisor signing on behalf of the entity)	

Declaration on a person working exclusively on a H2020 action

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


This document certifies that [name of the person]
has worked for the beneficiary/linked third party exclusively on the above-mentioned H2020
action during (chose one below):

- ☒ the whole reporting period
- ☐ from [insert date]/...../..... until [insert date]/...../.....
(This period must cover at least one full natural month)²

Time recording: common errors

- ✗ Inconsistency with HR records
- ✗ Time sheets not properly dated or signed
- ✗ More than full time employment charged among different projects → double funding!
- ✗ Poor or limited information captured

12. Payments

	Time-to-Pay	From
One Pre-financing	30 days	The latest between starting date and entry into force
→ Retention 5 % of maximum grant for the Guarantee Fund		
Interim Payments	90 days	From reception of periodic report
→ Based on financial statements (EU contribution= eligible costs approved * reimbursement rate)		
→ Limit = 90 % of the maximum grant (Retention 10%)		
Payment of the Balance 	90 days	From reception of final reports

14. Exchange rates provisions

➤ **Beneficiary's accounts in €**

For purchases in other currencies ⇒ conversion into Euros according to its usual accounting practice

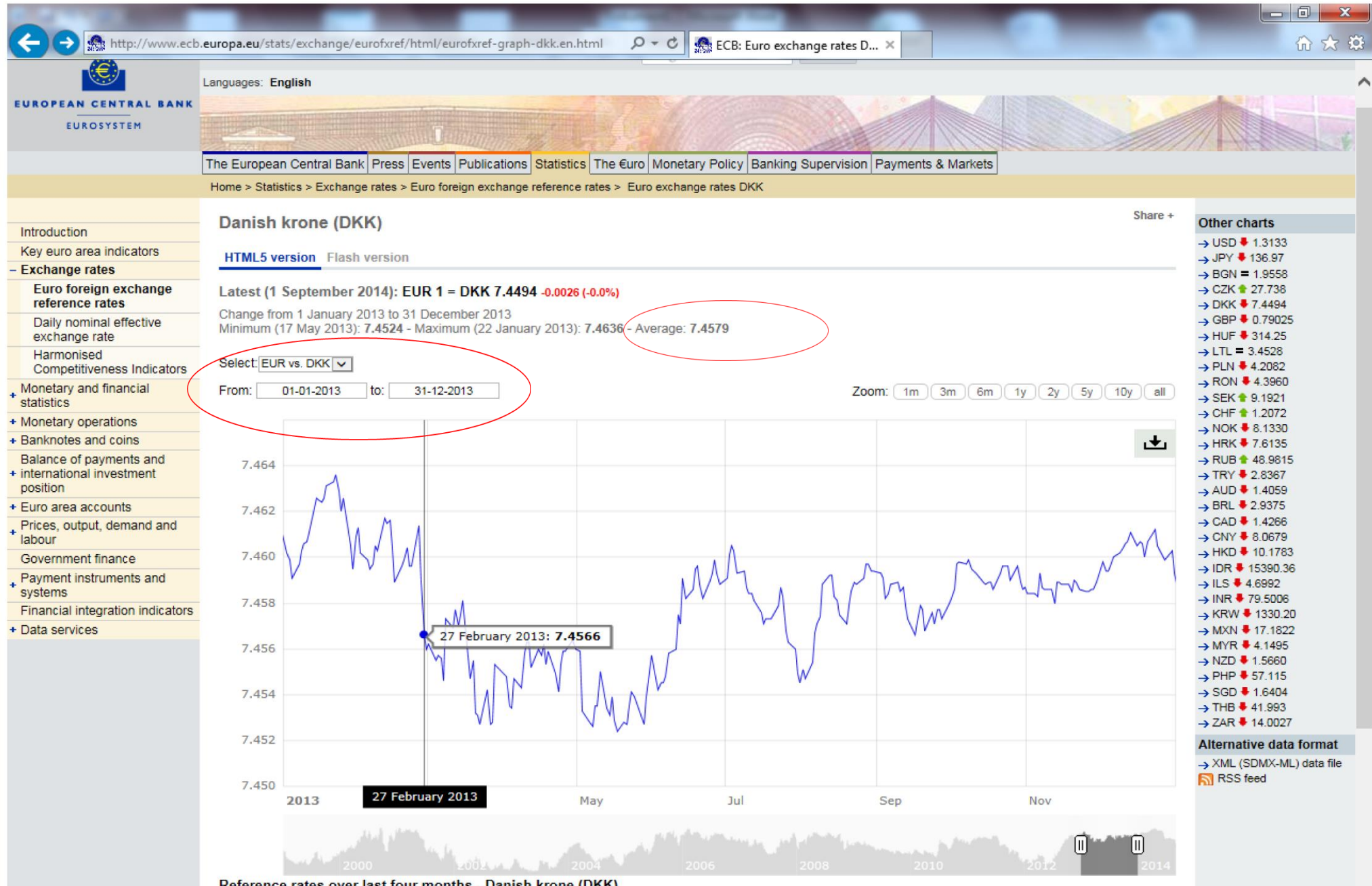
➤ **Beneficiary's accounts in other currency**

Average of the daily exchange rates published in the Official Journal of the EU calculated over the reporting period.

Calculation shortcut: you may use the editable charts on the website of the European Central Bank at:

<http://www.ecb.europa.eu/stats/exchange/eurofxref/html/index.en.html>





15. Controls and audits: ex-ante

Financial viability

- ⇒ Most beneficiaries exempt from detailed analysis; only systematic check for coordinators when requested EU funding for the project is \geq EUR 500 000

Certificates

- ⇒ **Certificate on the financial statements:** Only for final payments when total EU contribution claimed by the beneficiary on the basis of actual costs + unit costs for average personnel \geq EUR 325.000 (⚠ excluding e.g. flat rates !)
- ⇒ **Certificate on the methodology:** Optional for average personnel costs (now under unit costs)

15. Controls and audits: ex-post

Ex-post audits

⇒ Audits of the Commission limited to **two years** after the payment of the balance

Extension of audit findings

- ⇒ Former "extrapolation" (FP7) now included in the MGA
- ⇒ In the case of systemic or recurrent errors, irregularities, fraud or breach of obligations

ADDITIONAL INFO:

Participant Portal

At: <http://ec.europa.eu/research/participants/portal/desktop/en/home.html>



Horizon 2020 Documents

http://ec.europa.eu/research/participants/portal/desktop/en/funding/reference_docs.html



Horizon 2020 On-line Manual

<http://ec.europa.eu/research/participants/portal/desktop/en/funding/guide.html#>



Questions? *Research Enquiry Service*

<http://ec.europa.eu/research/enquiries>

Background: FP7 10 most common errors

1. Costs claimed are not substantiated or not linked to the project
2. Third parties and subcontracting costs not properly reported
3. Depreciation costs not correctly charged to the project
4. Indirect costs model not properly reflecting the entity's reality
5. Indirect costs – ineligible costs included

Background: FP7 10 most common errors

6. Personnel costs – calculation of productive hours

7. Personnel costs – charging of hours worked on the project

8. Personnel costs – use of average personnel costs

9. Payment of salaries to owner/managers of SME

10. VAT

Direct costs for the action

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

To summarise

- **Eligible Costs**

- ✓ Therefore, costs must be :

- ⇒ actual, economic and necessary for the project incurred during the duration of the project (exception: costs of the final reports)

- ⇒ recorded in the accounts (or third parties)

- ✓ and must exclude indirect taxes, duties, interests, costs reimbursed in respect of another Community project, and not give rise to profit

Differences from FP7 to H2020

FP7	H2020
Audit Certificate (CFS) are claimed as subcontracting <u>without</u> overhead	Audit Certificate (CFS) are claimed as "Goods and services <u>with</u> overhead
Limit for Audit Certificate: Each time more than 375.000 € in Total <u>Requested</u> Contribution	New limit for Audit Certificate: 325.000 € in Total <u>Direct</u> Costs. (=Total Requested Contribution 406.250 €). Only due at payment of the balance (final payment). Make a "test" CFS, if possible.
Exchange rate: Normally, first bank day after the end of the Reporting Period	Exchange rate: Average exchange rate for the entire Reporting Period: www.ecb.europa.eu/stats/exchange/eurofxref/html/index.en.html

FP7	H2020
No demand for yearly calculation of Productive Hours.	Productive Hours have to be calculated annually. Moreover, Productive Hours have to be minimum 90% of Workable Hours .
Timesheets required for all time paid by the project. (- Marie Curie fellow)	Timesheets not mandatory if the person works exclusively for the project. (Declaration instead). For persons <u>not</u> working exclusively on the project – Timesheets are mandatory.
Pre-financing normally up to 160% of expected expenditure during the first Reporting Period	No rules for Pre-financing. Hopefully, 100% expected expenditure during the first Reporting Period but might vary from call to call
"List of Definitions" are part of Grant Agreement, Annex II, General Conditions.	"List of Definitions" have been moved to "Rules for Participation" (Do you know where to find them?)

FP7	H2020
Audit of the project up to 5 years after the official end date of the project.	Audit of the project up to 2 years after "Final Payment". However, OLAF up to 5 years, so save all documents.
Lab costs, gloves, reagents, etc. could be charged to the project by "fair apportionement"	Lab costs etc. can only be charged to the project if they are "quantifiable and measureable". However, new rule for "self produced consumables", lab mice, etc.
Identifiable VAT <u>is not</u> an eligible cost.	Non-deductible VAT <u>is</u> an eligible cost. Special case for "Partially Deductible VAT". OBS. Time is money – also for universities

FP7	H2020
<p>Marie Curie Overhead = 10%</p>	<p>Marie Sklodowska Curie (MSC) No overhead in %, but instead a fixed Unit Cost per fellow month</p>
<p>Marie Curie Management = recorded "Actual Costs"</p> <p>Often difficult to define "Management" activity</p>	<p>In Marie Sklodowska Curie ITN Management and Overhead are merged into a Unit Cost = 1200€/fellow month.</p> <p>This implies that overhead will vary from project to project.</p> <p>It's a good idea to handle this issue already at the proposal stage.</p>

FP7	H2020
<p>Costs related to parental leave could, under certain circumstances, be claimed as direct cost to the project.</p>	<p>No longer possible to claim parental leave as costs to a specific project. Only option is to include Parental leave as "absence" when calculation Annual Productive Hours.</p> <p>For Marie Skłodowska Curie (MSC) projects, maybe new "parental leave pot".</p>

Some good advice

All H2020 projects should follow the new rules.

***Start by reading the “Agreed-upon procedures”
Annex 5 in the Model Grant Agreement.***

Make a “test” Audit Certificate, if possible

Pay attention to “Last closed financial year”.

Good luck with your reporting

Thank you for your attention