



# **EARMA Malta**

## **Financial reporting in H2020 and the latest amendments in the Model Grant Agreement**

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# **Agenda**

**Last Closed Financial Year**

**Monthly Hourly Rate**

**Parental leave**

**Time sheets**

**Latest amendments to MGA**

**Audit in H2020**

**Lump sum pilot**

## 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 €)

# 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

1720 hours

## Individual annual productive hours

- Formula: annual workable hours + overtime - absences

## Standard annual productive hours

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

## 9. Actual personnel costs: calculation - I

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

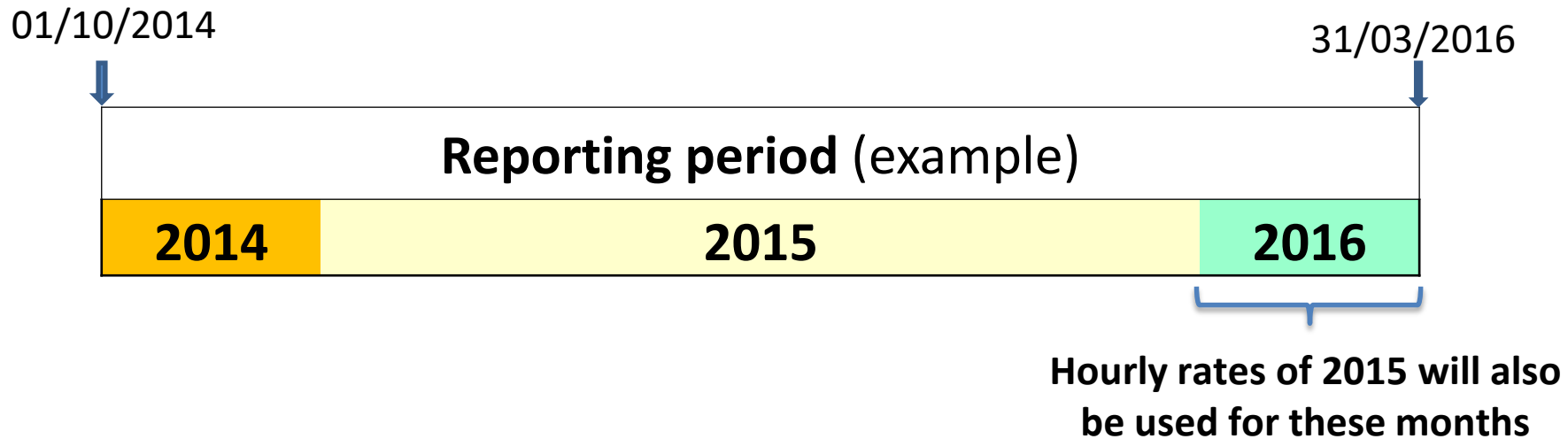
where

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

- 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><b>PRODUCTIVE HOURS</b></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"> <li>○ the annual productive hours applied were calculated in accordance with one of the methods described below,</li> <li>○ the full-time equivalent (FTEs) ratios for employees not working full-time were correctly calculated.</li> </ul> <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]</p> <p>[A: 1720 hours]</p> <p>[B: the 'total number of hours worked']</p> <p>[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>	

## 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 workable 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.*

## Ny Modelkontrakt Juli 2016

Ved "monthly rate" må Parental leave ikke fratrækkes i "Annual Productive Hours".

### II) For individual hourly rates:

#### The Auditor:

- reviewed the documentation provided by the Beneficiary, including manuals and internal guidelines that explain how to calculate hourly rates;
- recalculated the hourly rates of staff included in the sample (recalculation of all hourly rates if the Beneficiary uses annual rates, recalculation of three months selected randomly for every year and person if the Beneficiary uses monthly rates) following the results of the procedures carried out in A.1 and A.2;
- (only in case of monthly rates) confirmed that the time spent on parental leave is not deducted, and that, if parts of the basic remuneration are generated over a period longer than a month, the Beneficiary has included only the share which is generated in the month.

# Ny Modelkontrakt Juli 2016

*BENEFICIARY IN ACCORDANCE WITH PROCEDURE A.2.*

*HOURLY RATE FOR INDIVIDUAL ACTUAL PERSONAL COSTS:*

*IT IS CALCULATED FOLLOWING ONE OF THE TWO OPTIONS BELOW:*

*A) [OPTION BY DEFAULT] BY DIVIDING THE ACTUAL ANNUAL AMOUNT OF PERSONNEL COSTS OF AN EMPLOYEE VERIFIED IN LINE WITH PROCEDURE A.1 BY THE NUMBER OF ANNUAL PRODUCTIVE HOURS VERIFIED IN LINE WITH PROCEDURE A.2 (FULL FINANCIAL YEAR HOURLY RATE);*

*B) BY DIVIDING THE ACTUAL MONTHLY AMOUNT OF PERSONNEL COSTS OF AN EMPLOYEE VERIFIED IN LINE WITH PROCEDURE A.1 BY 1/12 OF THE NUMBER OF ANNUAL PRODUCTIVE HOURS VERIFIED IN LINE WITH PROCEDURE A.2. (MONTHLY HOURLY RATE).*

*TIME RECORDING SYSTEM*

32) The individual rates re-calculated by the Auditor were the same as the rates applied by the Beneficiary.

32.1) The Beneficiary used only one option (per full financial year or per month) throughout each financial year examined.



# TIME RECORDING FOR AN HORIZON 2020 ACTION

Month

Year

Title of the Action

Grant Number

Beneficiary's name:

## Person working in the action

Name of the person

Type of personnel

(see art. 6.2.A grant agreement)

	DAY	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	Σ
Reference <small>e.g. Work Package</small>																																	
Σ Hours																																	

Short description of the activities carried out in the month:

Signed (Name of the person):

Date:

Signature:

Signed (Name of the supervisor):

Date:

Signature:

## TIME RECORDING FOR A HORIZON 2020 ACTION – Minimum requirements

Title of the action (acronym):		Grant Agreement No:	
Beneficiary's / linked third party's name:			
Name of the person working on the action:		Type of personnel <small>(see Art. 6.2.A Grant Agreement)</small>	

	Month	[Month / Year]	[Month / Year]	[Month / Year]	[Month / Year]	[Month / Year]	[Month / Year]	...	Total
Number of hours									
Work packages (of Annex 1) to which the person has contributed by the reported hours									
Date and signature of the person working for the action									
Name, date and signature of the superior									



# Declaration on a person working exclusively in a Horizon 2020 action

## Horizon 2020 Action

<b>Title of the action</b>		<b>Grant Number</b>	
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## Reporting period covered by this declaration<sup>1</sup>

Period number	From (date)	To (date)

Entity's name <small>(beneficiary or third party)</small>	
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*[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)<sup>2</sup>:

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

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

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

Action		
<b>Title of the action (acronym)</b>		<b>Grant agreement number</b>
<b>Beneficiary's/linked third party's name</b>		
Reporting period covered by this declaration <sup>1</sup>		
<b>Reporting period number</b>	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)<sup>2</sup>

# Most relevant novelties

## Article 6.2.A.1

- **Direct personnel costs:** new definition for additional remuneration

## Article 6.2.A.2

- **Direct contracts eligible as personnel costs:** new focus on the factual situation instead of the legal form of the contract

## Article 6.2.A.5

- **New budget category for Internal Invoices:** for the acceptance of internal invoices as direct costs

## Article 6.2.E

- **Indirect cost for beneficiaries with operating grants:** allowing beneficiaries with an operating grant to claim indirect costs under H2020 grants under some conditions

## Article 14a

- **New type of third party:** implementation of action tasks by international partners without EU funding

## Implementation

- *In SyGMA from August 2017 onward (for calls launched before the switch v3.0 will continue to be used)*
- *Annotated grant agreement (AGA):*
  - *Explanations for the five main novelties consulted with the NCPs to identify potential remaining issues*
  - *Full AGA update in final consultation*

## Retroactivity

- *New rights: retroactive for all on-going grants*
- *New obligations: no retroactivity (only apply to new grants v4.0)*

## Unit Costs e.g. *animal housing facility*

- D.5 Costs of internally invoiced goods and services directly used for the action are eligible, if:
  - (a) they are declared on the basis of a unit cost calculated in accordance with the beneficiary's usual cost accounting practices;
  - (b) the cost accounting practices used are applied in a consistent manner, based on objective criteria, regardless of the source of funding;
  - (c) the unit cost is calculated using the actual costs for the good or service recorded in the beneficiary's accounts, excluding any ineligible cost or costs included in other budget categories.
- The actual costs may be adjusted by the beneficiary on the basis of budgeted or estimated elements. Those elements must be relevant for calculating the costs, reasonable and correspond to objective and verifiable information;
- (d) the unit cost excludes any costs of items which are not directly linked to the production of the invoiced goods or service.
- 'Internally invoiced goods and services' means goods or services which are provided by the beneficiary directly for the action and which the beneficiary values on the basis of its usual cost accounting practices.



## Examples of costs generally eligible as part of the unit cost

- staff working for the facility (e.g. keepers, veterinarians and other persons directly assigned to run the animal house) - BUT only if not already charged directly to a given project (H2020 action or not);
- consumables used for the animal housing (e.g. animal food, bedding);
- depreciation of cages and other equipment directly linked to the housing of the animals;
- generic supplies like electricity or water — BUT only if the consumption of the facility has been directly measured (e.g. through counters so that the cost can be accurately determined);
- maintenance and cleaning of the animal house facility — BUT only if the cost is directly identifiable (e.g. a separate reference in the invoice or contract for the maintenance and cleaning of the cages).

## Examples of costs ineligible as part of the unit cost

- staff already charged to a given project (H2020 action or not);
- cost of central services (e.g. accounting department, human resources department);
- shared infrastructures (e.g. central heating, air-conditioning) and their maintenance;
- shared services with no differentiation of the costs incurred for the animal house facility (e.g. cleaning services);
- depreciation of shared buildings (e.g. the animal housing is part of a main building of the beneficiary);
- bank interests, provisions for future expenses and any other ineligible costs listed in Article 6.5.

# 1. Framework for ex-post audits

## Horizon 2020



The information is not legally binding

# Why do errors still occur?

- **4 languages spoken**
  - Researchers
  - Accounting and financial people, including auditors
  - Lawyers
  - Policy makers
- **We all want simplification but it comes at a price**
  - Flat rate for indirect costs
  - Usual and unusual accounting principles
  - Legal certainty (both ways)
- **We are all human beings, and human beings make mistakes**
  - Because of lack of attention;
  - Because of lack of interest;
  - Because subject to temptations (or specific situations)



# Can errors be avoided?

## Advices on How To Avoid Errors few, clear, simple words (three)



- Discipline (keep your files in order).
  - Prudence (use the budget, do research, but avoid driving at a speed of 131,9 km/h all the time).
  - Perseverance (keep fighting for your rights, but choose the forum – rules must be adopted by way of legislation, not by way of audit approach).
- 
- AND in case of doubt, consult the NCP, the PO/FO, the EC enquiry service.

- *Can errors be avoided? (continued)*



**Indicate nothing  
else but  
The Reality**

# H2020 most common errors expected

1. Direct costs apportioned, not measured

2. Time sheets

3. Best value for money (subcontracting and purchase of goods)

4. Basic vs additional remuneration

5. In-house, near off-site, semi-permanent, teleworking consultants

5+. Same old friends: no papers, depreciation "in one shot", etc

# Lump sum project funding - pilots in H2020 grants

**P. Härtwich, CSC J.3**



# Why?

## **1) Huge simplification potential:**

*Despite all simplification, funding based on **reimbursement of incurred costs** stays **complex** and **error-prone**. Lump sum project funding **removes** all obligations on **cost reporting** and **financial ex-post audits** – i.e. major **reduction** part of **administrative burden** on beneficiaries and minimisation of financial error rates*

## **2) Focus on performance:**

*Shift of focus of from financial management and checking to scientific-technical content of the projects*



# How?

- Via **pilots** in the 2018-2020 work programme (one or a few call topics in one or two thematic areas)
- Two options under discussion:
  - **a) lump sum per project pre-defined in the call**
  - **b) lump sum fixed individually per project on the basis of cost estimation in the proposal**





## How?

- **Basic concept:** grant agreement fixes a series of lump sums, each linked to a set of conditions; lump sums are paid against the fulfilment of the conditions (not against incurred costs)
- **Conditions** for paying the lump sum (examples): *implementation of an activity (e.g. a clinical study, a series of test runs, a measurement campaign...), the reaching of a milestone etc; i.e. **not** an output in the strict sense of a **positive scientific result.***



## Option a): Pre-defined project lump sum in the call

- Call for proposals (fictive example):  
*"In topic xyz up to x Research and Innovation Actions will be funded with a lump sum EU contribution per project of y million Euro"*
- Proposals would contain description of planned efforts and resources (but not related costs), plus suggestion for split of the pre-defined project lump sum into "sub-lump sums", each linked to a set of conditions for their release
- Proposal evaluation as today (under "implementation", assessment of proposed conditions for paying the "sub-lump sums")



## Option b): Individual project lump sum based on budget estimation in the proposal

- Call for proposals as today
- Proposal contains detailed cost estimation, related to planned efforts and resources, broken down by set of conditions for releasing the respective lump sums
- Evaluators, as part of "implementation", assess appropriateness of resources **and** cost estimations
- Cost estimations, with comments of evaluators, are basis for fixing the set of lump sums

# Grant agreement

- Project lump sum and breakdown into "sub-lump sums" (no breakdown by partners)
- Set of conditions and timing for releasing each "sub-lump sum"
- Potentially: Indicative breakdown of EU contribution by beneficiary

# 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](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>

# 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 ([new version Juli 2016](#))*

*Make a "test" Audit Certificate, if possible*

*Pay close attention to "Last closed financial year" and "monthly hourly rate"*

*Good luck with your reporting*

**Thank you for your attention**