

HORIZON 2020

Other direct costs, internal invoices and subcontracting

• *TOPICS*

Direct Costs Intro & General Eligibility (p3-10)

Subcontracting (p11-15)

Other Direct Costs (p16-26)

- Travel
- Equipment
- Internal Invoicing

• ***DIRECT COSTS***

Direct costs are costs that are directly linked to the action's implementation and can be attributed to it directly. They must not include any indirect costs

Direct costs are:

- costs that have been caused in full by the action
- or costs that have been caused in full by several actions and the attribution to a single action can, and has been, directly measured (e.g. not allocated via cost drivers)

• ***DIRECT COSTS***

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.

DIRECT COSTS - GENERAL ELIGIBILITY

Standard Rules

Verify:

1. Claimed costs match breakdown list of Beneficiary;
2. No systematic errors in the calculations;
3. Correct conversion to EUR

DIRECT COSTS - GENERAL ELIGIBILITY

Costs were actually incurred

Verify:

1. Claimed amounts vs documents (e.g. invoices)
2. Documents are addressed to Beneficiary
3. Costs are recorded in the accounts (GL)
4. Any discount or rebate is accounted for
5. No altering transaction in 6 months
6. No re-invoicing by the Beneficiary within 6 months
7. Costs are paid (or netted off)

DIRECT COSTS - GENERAL ELIGIBILITY

Costs claimed fall within the project period

Verify:

1. Dates of Invoices, delivery notes, transport documents
2. Cost before the project period relate to kick-off meeting
3. Costs after the project period relate to final reporting
4. Costs are recorded in the respective accounting period

DIRECT COSTS - GENERAL ELIGIBILITY

***No Costs are claimed also from another EU/
non EU fund/ Costs do not include deductible VAT***

Verify:

1. No sampled item is included in 5 non EU projects (if any)
2. No item funded by the State is included in the claims to EU
3. costs claimed vis-a-vis National law
4. tax declarations

Sound Financial Management

Verify:

1. Best value for money
2. No conflict of interest
3. Policy Documents (travel, procurement, depreciation...)
4. If no Policy Documents – check that sound financial principles applied

Direct Costs - Sampling

Is the value of the population below the planning materiality level (5% of total costs declared)?

No

Yes

- Select **all the items** with a value **higher or equal to 10%** of the costs declared for the costs subcategory
- and add **randomly** selected items until you reach
 - 1) either 50% coverage of the costs declared in the sub-category**OR**
 - 2) a maximum number of 15 items.**A minimum of 5 items must be selected unless the population is less than 5.**

Test the item with the highest value of the the population.

Definition of an item:

Subcontracting: one contract

Travel costs: one person costs for an event/ conference

Consumables: one line in the breakdown

Equipment: one equipment from the breakdown



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Subcontracting

Subcontracts vs. Contracts

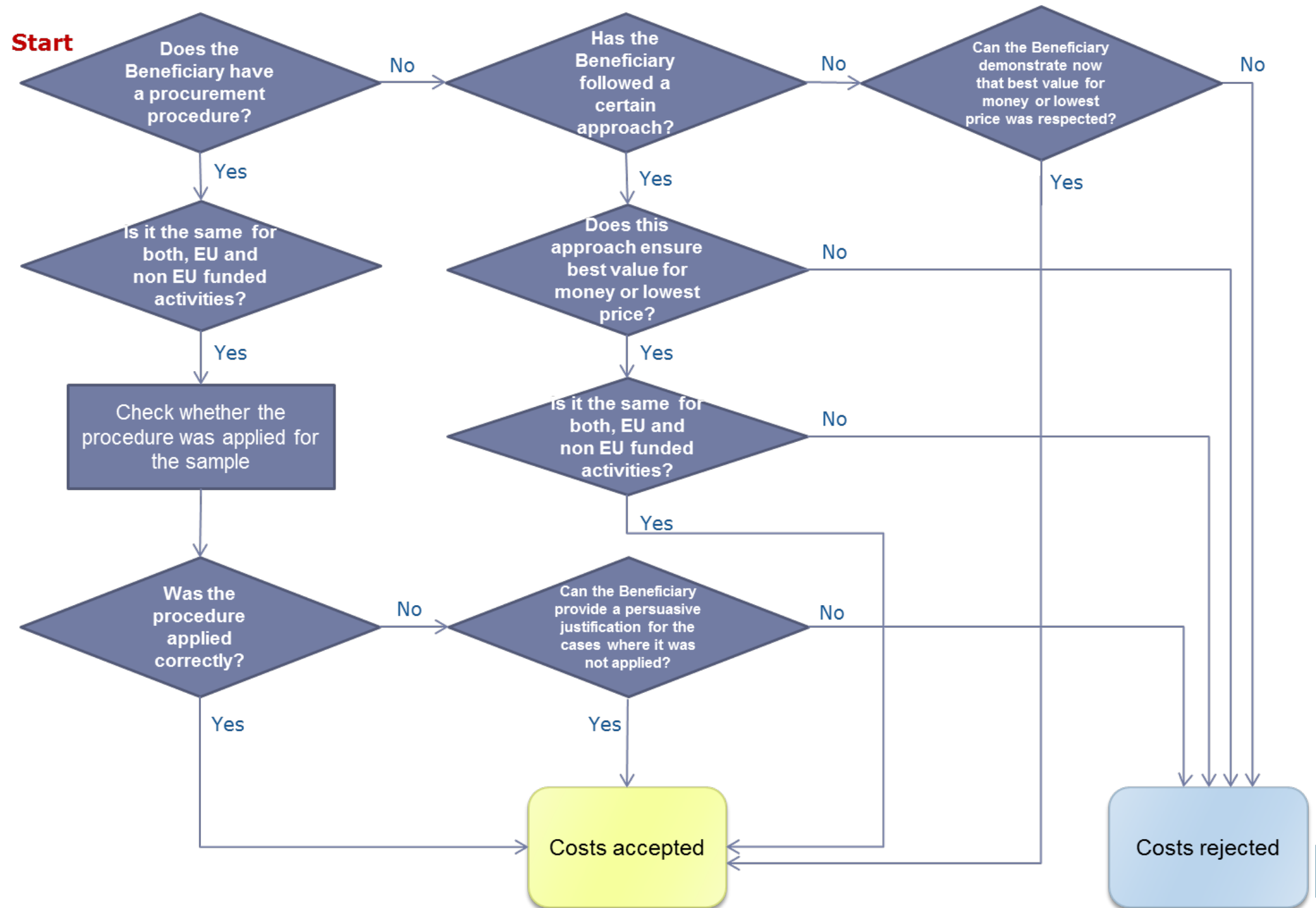
Article 10 Contracts to purchase goods, works or services	Article 13 Subcontracts
These contracts do not cover the implementation of action tasks, but they are necessary to implement action tasks by beneficiaries.	Subcontracts concern the implementation of action tasks; they imply the implementation of specific tasks which are part of the action and are described in Annex 1.
Do not have to be indicated in Annex 1.	Must be indicated in Annex 1.
The price for these contracts will be declared as ‘other direct costs’ — column D in Annex 2 — in the financial statement; they will be taken into account for the application of the flat-rate for indirect costs.	The price for the subcontracts will be declared as ‘direct costs of subcontracting’ — column B in Annex 2 — in the financial statement; they will not be taken into account for the application of the flat-rate for indirect costs.

SUBCONTRACTING COSTS – APPROVAL

Subcontracting costs should be either:

- 1) clearly specified in Annex 1 in terms of nature and amount, thus known by the Commission when selecting the action's proposal or
- 2) approved via an amendment to the Grant Agreement after its signature with (again) nature of the costs and amount known by the Commission or
- 3) approved, on an exceptional basis, by the Commission by accepting the justifications provided by the Beneficiary in the technical periodic reports.

SUBCONTRACTING COSTS – AUDIT APPROACH



SUBCONTRACTING COSTS - ACCOUNTING



Costs must be actually incurred by the Beneficiary (Art.6.1.a).

Costs must not include deductible VAT (Art.6.1.a.xi).

Costs must be incurred during the project period defined in Art.3 of the GA.

- 1. Documentation exists in proper form;*
- 2. Costs are recorded and paid;*
- 3. VAT is excluded if deductible for the Beneficiary.*

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Other Direct Costs

OTHER DIRECT COSTS - TRAVEL

Beneficiary complies with its usual accounting practices

Verify:

1. Travel costs against Beneficiary's own travel policy
OR (in the absence of internal policy)
2. Travel costs against Beneficiary's usual practice

OTHER DIRECT COSTS - TRAVEL

Travel costs are necessary for the action

Verify:

1. Travel costs versus list of staff of the project
2. Dates of travelling against dates charged on timesheets
3. Dates of travelling against period of the project
4. Dates of expenditures against duration of the event
5. Beneficiary's justification on necessity of travel cost
6. Travel events versus GA and annexes

OTHER DIRECT COSTS - TRAVEL

Travel costs are real

Verify:

1. Minutes of meetings, attendance lists, etc.
2. Dates of traveling against dates charged on timesheets
3. Beneficiary's justification on necessity of travel cost
4. Project events versus GA and annexes

OTHER DIRECT COSTS - TRAVEL

Travel costs are reasonable

Verify:

1. No entertainment or hospitality costs
2. No Tips
3. No travel agency fees (unless there is a policy)
4. No private costs (e.g. TV, laundry, mini bar, etc.)

OTHER DIRECT COSTS - EQUIPMENT

The asset exists

Verify:

1. Physical existence or demonstration of operation by staff
2. Written confirmation of existence by remote sites
3. Accounting entries for destroyed/sold assets
4. Matching serial numbers on the asset and the invoice
5. JU and EU Logo

Depreciation Rules Respected

Verify:

1. Usual accounting practices of Beneficiary vs Acc. Standards
2. Usual accounting practices of Beneficiary vs National Law
3. Depreciation charged is based on Accruals
4. Depreciation charged corresponds to the period of action

OTHER DIRECT COSTS - EQUIPMENT

Bad Example

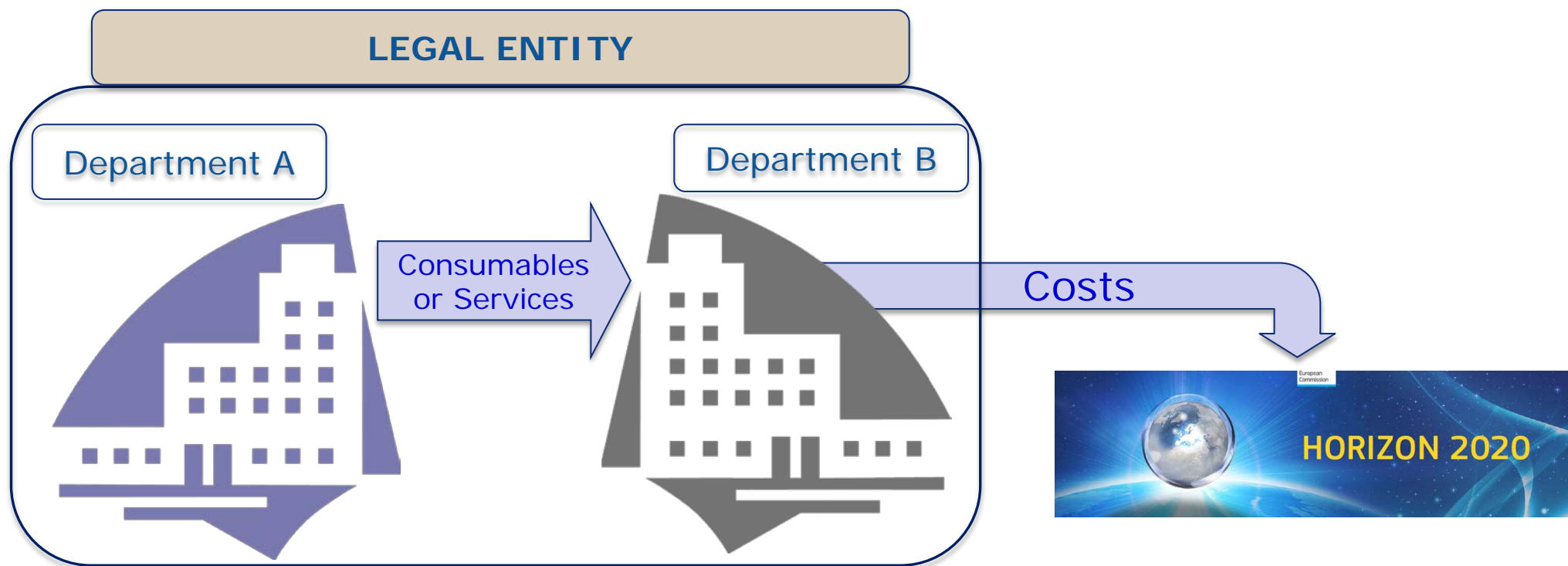
A beneficiary uses a x-ray machine **for the action** for few hours and for the rest of the time the x-ray machine is used **for other activities**. The beneficiary charges the **full** depreciation costs for the period in the cost statement of the action.

NOT ALLOWED!

The allocation of the part of the annual depreciation to the H2020 action must be calculated based on the number of hours/days/months of actual use of equipment for the action. The **actual** use should be **directly measured** (logbook, etc.).

OTHER DIRECT COSTS – INTERNAL INVOICING

Internal invoices refer to costs of goods or services produced by the same beneficiary who use them directly for the H2020 action and calculated in accordance with its usual cost accounting practices



OTHER DIRECT COSTS – INTERNAL INVOICING

Article 6.2.D.5 of the Grant Agreement:

- a) They are declared on the basis of a **unit costs** calculation 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 costs are 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.

OTHER DIRECT COSTS – INTERNAL INVOICING

Internal invoices must be calculated in accordance with the usual cost accounting practice of the beneficiary, but adjusted if needed to comply with the cost eligibility conditions





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Thank You



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Back-Up

Special case : affiliated entities

*In case of subcontracting to affiliated entities
verification if :*

- 1. the affiliate entity is the usual supplier or there
is a framework contract*
AND
- 2. the subcontracting is carried out at market
conditions*

E. Depreciation costs



Sold or offered assets do not result in undeclared profit



Verify:

1. Accounting entries in case of sale of asset
2. In-kind contributions in Annex I
3. In-kind contributions charged do not include estimates
4. In-kind contributions charged do not exceed 3rd party's cost

Consequences:

Adjustments when differences occur

H. Linked Third Parties



General eligibility conditions apply to linked 3rd parties



Verify that:

1. Claimed costs match breakdown list
2. Linked 3rd parties are mentioned in GA
3. No costs after termination of 3rd party's participation

Consequences:

Adjustments when differences occur

F. Conflict of interest



Conflict of Interest is avoided



Verification procedures:

- *Review Beneficiary's internal procedures*
- *Interviews with key personnel*
- *Representation Letter*

Consequences:

Report any finding

G. Contracting authorities



*If the Beneficiary is contracting authority,
National law on Contracting authorities has
to be applied*

Verify:

- *Beneficiary's practices on procurement vis-à-vis
National law*

Consequences:

Adjustments for any non-compliance

Auditor's advice: direct measurement

Energy and power supply: *can I charge it as direct in H2020?*

Yes, if I can measure it...

Administrative staff members *doing accounting for the action: can I charge them to the action?*

Yes, with timesheets and provided it is your usual practice...

Multi-purpose equipment *used for several activities/actions: can I charge its depreciation to an EU action as a % of its capacity based on my experience?*

No. I have to measure its use.

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>