



EDCTP

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EDCTP Webinar: Final Reporting

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Operational audit findings (1)

The factual findings reported by our auditors for the recently concluded operational audits are listed below:

1. Incurring costs outside the duration set out in article 3 of the Grant Agreement.
2. Including recoverable VAT, which is an ineligible cost, as a direct project expenditure.
3. Charging costs of other projects to an EDCTP project.
4. Inconsistency between leave cards and timesheets.
5. Timesheets are not prepared at least once a month.

Operational audit findings (2)

6. Personnel costs charged to projects that are not based on timesheets.
7. Unnecessarily preparing timesheets for employees who work exclusively (100% of their time) on an EDCTP-funded project.
8. Charging personnel costs based on budgeted hours rather than actual hours.
9. Missing supporting documents.
10. Unsigned employment contracts.
11. Absence of clearly defined capitalisation limit for equipment.
12. Using wrong exchange rates in converting expenditures incurred in other currencies into euro.
13. Reporting as direct costs bank charges not related to distribution of funds to beneficiaries.

Summary of the EDCTP site visit findings

1. Timesheets are either not prepared or are not sufficiently detailed.
2. Declaration statement not prepared for full-time employees.
3. Salaries are based on budget rather than actual hours worked (as reported on the timesheets)
4. Instead of an employee preparing one timesheet, which clearly shows the time spent by an employee on each project, employees prepare a timesheet for each project. Each employee should have one timesheet, which clearly shows the time spent on each project.
5. Charging the full cost of an asset in the year of purchase
6. The fixed asset capitalisation limit not explicitly stated in a policy document.
7. The policies regarding salaries, allowances and additional remuneration to project staff are not documented.
8. No documented policy on accounting for the depreciation costs of capital equipment.
9. Fixed asset register is not sufficiently detailed to allow the identification of assets by donor.

Conditions for actual costs to be eligible

1. They must be actually incurred by the beneficiary;
2. They must be incurred in the period set out in Article 3, with the exception of costs relating to the submission of the periodic report for the last reporting period and the final report;
3. They must be indicated in the estimated budget set out in Annex 2;
4. They must be incurred in connection with the action as described in Annex 1 and necessary for its implementation;
5. They must be identifiable and verifiable, in particular recorded in the beneficiary's accounts in accordance with the accounting standards applicable in the country where the beneficiary is established and with the beneficiary's usual cost accounting practices;
6. They must comply with the applicable national law on taxes, labour and social security, and
7. They must be reasonable, justified and must comply with the principle of sound financial management, in particular regarding economy and efficiency.

■ **Conditions for flat costs to be eligible**

1. They must be calculated by applying the flat-rate set out in Annex 2, and
2. The costs to which the flat-rate is applied must comply with the conditions for eligibility set out in this Article.

ESTIMATED BUDGET AND BUDGET TRANSFERS

- The 'estimated budget' for the action is set out in Annex 2 contains the estimated eligible costs and the forms of costs, broken down by beneficiary and budget.
- The estimated budget breakdown indicated in Annex 2 may be adjusted — without an amendment by transfers of amounts between beneficiaries, budget categories and/or forms of costs set out in Annex 2, if the action is implemented as described in Annex 1.
- However, the beneficiaries may not add costs relating to subcontracts not provided for in Annex 1, unless such additional subcontracts are approved by an amendment or in accordance with Article 13.

Reporting

- The coordinator must submit to the EDCTP the technical and financial report within 60 days following the end of each reporting period
- The reporting periods are set out in article 20.2
- All reports (technical and financial reports, including the financial statements) must be submitted in the language of the Grant Agreement
- The cost of the linked third parties must not be included in the beneficiary's financial statement. Linked third parties must fill out their own financial statement
- For the last reporting period, beneficiaries also have to declare receipts for the action.

■ Periodic reporting

- The coordinator must submit a periodic report within 60 days following the end of each reporting period.
- The periodic report must include:
 - A periodic technical report, and
 - A periodic financial report.

■ Periodic financial report (1)

- An 'individual financial statement' (see Annex 4) from each beneficiary [and from each linked third party], for the reporting period concerned.
- The individual financial statement must detail the eligible costs for each budget category (see Annex 2).
- If an individual financial statement is not submitted for a reporting period, it may be included in the periodic financial report for the next reporting period.

Periodic financial report (2)

Each beneficiary [and each linked third party] must certify that:

- The information provided is full, reliable and true;
- The costs declared are eligible (see Article 6);
- The costs can be substantiated by adequate records and supporting documentation
- For the last reporting period: that all the receipts have been declared (see Article 5.3.3).

■ Periodic financial report (3)

- The individual financial statements of the last reporting period must also detail the receipts of the action.
- An explanation of the use of resources and the information on subcontracting (see Article 13) and in-kind contributions provided by third parties (see Articles 11 and 12) from each beneficiary [and from each linked third party], for the reporting period concerned.

Final financial report

In addition to the periodic report for the last reporting period, the coordinator must submit the final report within 60 days following the end of the last reporting period.

- A 'final summary financial statement' created automatically by the electronic exchange system, consolidating the individual financial statements for all reporting periods and including the request for payment of the balance and
- 2. A 'certificate on the financial statements' (drawn up in accordance with Annex 5) for each beneficiary [and for each linked third party], if it requests a total contribution of EUR 325 000 or more, as reimbursement of eligible costs

Duration and starting date of the action (project) duration

The duration of the action is fixed by the EDCTP in Article 3 of the GA. It is expressed as a number of months, running from the action start date until the end date of the action. Unless otherwise agreed, the default start date of the action is the first day of the month following the date when the last party signs it (the EDCTP signatories usually sign the GA last).

Duration and starting date of the action (project) duration

- Exceptionally, EDCTP may agree that the action starts on another day than the first day of the month, if the consortium requests it (usually in its proposal) and can show that there is a need to start the action at that moment (e.g. an action that is dependent on environmental conditions).
- If the consortium (via the coordinator) requests a fixed starting date before the entry into force of the GA, it (the consortium) assumes the risks implied by starting the action before the GA is signed, in particular not being reimbursed for the costs incurred (e.g. the eventuality that the proposal is not successful or that the GA is not signed)
- **The action starting date can never be before the submission of the proposal.**

No-cost extension (change in the duration – end date of the action) (1)

The Coordinator should provide the following information in the request for no-cost extension:

- The reasons for the request, including a clear description of specified activities in the approved work plan that remain to be completed
- Appropriate supporting documents
- The requested new end date
- The balance of funds that is projected to remain outstanding at the original end date of the project
- A revised estimated budget, which must be less than or equal to the maximum grant amount
- A revised work plan with clear indications and milestones to assure that outstanding objectives will be delivered during the no-cost extension period.

Currency for financial statements and conversion into euro

- Financial statements must be prepared in euro;
- Beneficiaries with accounting established in a currency other than the euro must convert the costs recorded in their accounts into euro, at the average of the daily exchange rates published in the C series of the Official Journal of the European Union, calculated over the corresponding reporting period; and
- Beneficiaries with accounting established in euro must convert costs incurred in another currency into euro according to its usual accounting practices.

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Actual costs (1)

- They must be actually incurred by the beneficiary, (i.e. real and not estimated, budgeted or imputed and definitively and genuinely borne by the beneficiary and not by any other entity);
- They must be reasonable, justified and must comply with the principle of sound financial management, in particular regarding economy and efficiency.

Actual costs(2)

- They must be incurred in the period set out in Article 3 of the GA, with the exception of costs relating to the submission of the periodic report for the last reporting period and the final report. The duration of the action is the period running from the starting date of the action to the end date of the action
- They must be identifiable and verifiable, in particular recorded in the beneficiary's accounts in accordance with the accounting standards applicable in the country where the beneficiary is established and with the beneficiary's usual cost accounting practices.

Actual costs(3)

- The beneficiaries must be able to show (with records and supporting documents) the actual costs of the work, i.e. what was actually paid for the work (and for depreciation costs: what is actually recorded in the beneficiary's profit and loss accounts).

Special rules - actual costs (1)

- Costs related to drafting and submitting the periodic report for the last reporting period and the final report (including costs of certificates of financial statements required by the GA) are eligible even if they are incurred after the action duration
- Costs actually incurred should normally also be paid during the action duration. In general, costs declared but not paid during the action duration (for instance because the beneficiary is waiting for the payment of the balance) are eligible only if the debt (and invoice) exists, and the final cost is known

Special rules - actual costs (2)

- Costs of services or equipment supplied to a beneficiary may be invoiced and paid after the action is completed, if the services or equipment were used by the beneficiary during the action duration
- If there is a check or an audit after the action ends, beneficiaries will need to prove (with supporting documents) that the payments were actually made (except for depreciation costs)
- Costs of services or equipment supplied after the end of the action or the GA termination are not eligible

Special rules - actual costs (3)

- Costs related to drafting the consortium agreement are not eligible because the consortium agreement should be signed before the action starts. However, costs related to updating the consortium agreement are eligible if incurred during the action duration
- Depreciation costs for equipment used for the action but bought before the action's start — if the equipment has not yet been fully depreciated according to the beneficiary's usual cost accounting practices, the remaining depreciation costs may be eligible (only for the portion corresponding to the duration of the action and rate of actual use for the purposes of the action)

Special rules - actual costs (4)

- Costs related to preparing, submitting and negotiating the proposals cannot be declared as eligible for the action (they are incurred before the action starts)
- Travel costs for the kick-off meeting — if the first leg of the journey takes place before the starting date of the action the costs may be eligible if the meeting is held during the action duration.

Direct costs

Direct costs are specific costs directly linked to the performance of the action and which can therefore be directly booked to it.

They are:

- Either costs that have been caused in full by the activities of the action; or
- Costs that have been caused in full by the activities of several actions (projects), the attribution of which to a single action can, and has been, directly measured (i.e. not attributed indirectly via an allocation key, a cost driver or a proxy).
- The beneficiaries must be able to show (with records and supporting evidence) the link to the action.

■ Calculation of person months

- No of productive hours per month =

$$\frac{\text{Working days per year} \times \text{No. hours worked per day}}{12}$$

- Working days = total days in year less weekends, vacations, courses, public holidays, holidays, sick leave

- Working hours/day = 8 hrs
- Working days = 200 days
- Annual salary = €50,000
- Annual employer pension contribution = €10,000

Solution

- Working hours/month = $\frac{200 \times 8}{12}$
= 133.33
- Hourly rate = $60,000/1600 = €37.50$

Calculating personnel months

- = % effort x no of months
- 50% effort for 8 months = $.50 \times 8 = 4$

Example: Person months calculation

- Example 1
- 30% for 10 months appointment = $0.3 \times 10 = 3$
- 20% for 12 month = $.2 \times 12 = 2.4$
- The beneficiaries may redistribute person-months between them (as compared with the original planning set out in Annex 2). This redistribution can be done without requesting an amendment— provided that it does not imply a substantial change to the action as described in Annex 1.
- Record-keeping & burden of proof: The burden of proof for eligibility is on the beneficiaries. They must keep sufficient supporting documents (see Article 18) to show that the person-months they declare are eligible.

Forms of costs

These are costs actually incurred, identifiable and verifiable, and recorded in the accounts. This can be used for all categories of costs, except for indirect costs.

- Actual costs
- Unit costs
- Flat-rate costs

Actual costs (1)

To be eligible, actual costs must meet the following criteria:

- They must be actually incurred by the beneficiary, (i.e. real and not estimated, budgeted or imputed and definitively and genuinely borne by the beneficiary and not by any other entity);
- They must be reasonable, justified and must comply with the principle of sound financial management, in particular regarding economy and efficiency;

They must be indicated in the estimated budget set out in Annex 2 of GA

Actual costs (2)

- They must be incurred in connection with the action as described in Annex 1 and necessary for its implementation;
- They must be incurred in the period set out in Article 3 of the GA, with the exception of costs relating to the submission of the periodic report for the last reporting period and the final report; and
- They must comply with the applicable national law on taxes, labour and social security.

Flat-rate costs

- Calculated by applying 25% to eligible direct costs

Personnel

- Introduction
- Direct personnel costs: Employees (or equivalent) (A.1)
- Costs for natural persons working under a direct contract (A.2)
- Direct personnel costs: Seconded personnel (against payment) (A.3)

Introduction (1)

- Personnel costs are eligible if they are related to personnel working for the beneficiary under an employment contract (or equivalent appointing act) and assigned to the project.
- They must be limited to salaries (including during parental leave), social security contributions, taxes and other costs included in the remuneration, if they arise from national law or the employment contract (or equivalent appointing act).

Direct personnel costs: Employees (or equivalent) (A.1)

Personnel costs for employees or equivalent (i.e. persons working for the beneficiary on the basis of an employment contract or equivalent appointing act) cover:

- The basic remuneration (i.e. basic salary and complements) and
- Only for non-profit legal entities: the additional remuneration for personnel that worked on the action.

Costs for natural persons working under a direct contract (A.2) (1)

- This budget category covers typically the costs of in-house consultants and similar persons that worked on the action (i.e. self-employed natural persons — not companies — working part-time or full-time for the action under a contract which is NOT governed by the labour law for employees).
- This category does not include staff provided by a temporary work agency or by any other entity against a price (because in this case there is no direct contract between the person and the beneficiary; the contract is not with the beneficiary but with the entity hiring the person).

Example from the Annotated Agreement

Example (extracted from the Annotated Grant Agreement):

A nuclear researcher in a public research centre (non-profit) worked for 1 720 productive hours:

- Remuneration components:
- a = annual salary: EUR 50 000
- b = a complement for holding a management post (e.g. Head of department): EUR 1 600
- c = additional remuneration for being Head scientist in the EU project: EUR 2,000
- d = additional remuneration for being First Assistant on an internal action: EUR 1,000
- **a** and **b** would be used to calculate the researcher's hourly rate:
- hourly rate for the EU action = $\{(50\,000 + 1\,600)/1\,720\}$ = EUR 30
- **c** would be subject to the specific eligibility conditions for additional remuneration. If eligible, it would be subject to the 8000 EUR ceiling.
- **d** would not be eligible and would not be taken into account when calculating the hourly rate for the EU action, as it is not linked to the participation in the EU action.

■ Calculation of personnel costs

- Personnel costs must be calculated by multiplying hourly rate and the number of actual hours worked on the project plus any additional remuneration, if applicable.
- The number of actual hours declared for a person working in EDCTP project must be identifiable and verifiable and cannot be higher than the annual productive hours used to calculate the hourly rate.

Timesheets (1)

- To support the declared personnel costs for employees who work part-time (working less than 100%) on an EDCTP funded project, beneficiaries must prepare a timesheet for number of hours declared for each employee who did not work exclusively on a specific EDCTP funded project.
- The timesheet must be in writing and approved by the persons working on the action and their supervisors, at least monthly. In the absence of reliable time records of the hours worked on the action, the EDCTP may accept alternative evidence supporting the number of hours declared, if it considers that it offers an adequate level of assurance.

Timesheets (2)

- A reliable means of recording staff time
- Timesheet template available for grantees to use if they wish
- It is essential that no person included in the budget form is being charged out at more than 100% of their available time across all projects they are working on
- Each employee shall record in the timesheet the accurate hours worked on each project, including the leave taken, illness and other absence
- The timesheet must be completed by the employee monthly, signed and approved by the employee's supervisor.

Timesheets (3)

- Personnel costs should only be charged from when the staff member is in post which is not necessarily the same date as the start of the project
- For employees who contribute 100% of their time to the EDCTP project, timesheet is not required. Instead, the project coordinator/collaborator of the site in which the employee works shall be asked to fill in a declaration form (annex 3) to confirm that these employees work full time on the EDCTP project

Declaration statement

- There is no need for persons working exclusively on an individual EDCTP funded project to keep timesheets if the beneficiary signs a declaration confirming that the persons concerned have worked exclusively on the individual EDCTP funded project. A sample Declaration Form is attached as an annex (Annex 3) to these guidelines.

Auditing timesheets

Auditors report on the following:

- All persons recorded their time dedicated to the action on a daily/ weekly/ monthly basis using a paper/computer-based system
- Time-records were authorised at least monthly by the project manager or other superior
- Hours declared were worked within the project period and were consistent with the presences/absences recorded in HR-records
- There were no discrepancies between the number of hours charged to the action and the number of hours recorded

Auditing personnel costs

- Personnel costs were recorded in the Beneficiary's accounts/payroll system
- Costs were adequately supported and reconciled with the accounts and payroll records
- Personnel costs did not contain any ineligible elements
- There were no discrepancies between the personnel costs charged to the action and the costs recalculated by the Auditor. The Beneficiary paying "additional remuneration" was a non-profit legal entity

Productive hours

For the number of productive hours, the beneficiaries may choose one of the following:

- Fixed number of hours: 1,720 hours for persons working full time (or corresponding pro-rata for persons not working full time)
- Individual annual productive hours: the total number of hours worked by the person in the year for the beneficiary, calculated as: annual workable hours (according to the employment contract, applicable collective labour agreement or national law) plus overtime worked minus absences (such as sick leave and special leave)
- Standard annual productive hours: the standard number of annual hours generally applied by the beneficiary for its personnel in accordance with its usual cost accounting practices. This number must be at least 90% of the 'standard annual workable hours.

■ Indirect costs (1)

- Indirect costs' are costs that cannot be identified as specific costs directly linked to the performance of the action.
- In practice, they are costs whose link to the action cannot be (or has not been) measured directly, but only by means of cost drivers or a proxy (i.e. parameters that apportion the total indirect costs (overheads) among the different activities of the beneficiary).

Indirect costs (2)

- Indirect costs are costs that are not directly linked to the action implementation and therefore cannot be attributed directly to it. Indirect costs are calculated by applying the 25% flat-rate to the eligible actual costs or unit costs after the deduction of eligible subcontracting costs. The formula for calculating indirect costs is: $(\text{total eligible costs} - \text{subcontracting costs}) \times 25\%$. They are costs whose link to the action can NOT be (or has not been) measured directly, but only by means of cost drivers or a proxy (i.e. parameters that apportion the total indirect costs (overheads) among the different activities of the beneficiary).
- The beneficiaries do not need to identify the costs covered or provide supporting documentation (such as accounting statements) to prove the amount declared at a flat-rate

Cost of Equipment, infrastructure or other assets

- General
- Types of equipment costs
- Options for charging equipment costs as actual costs in the accounts
- Costs of renting or leasing of equipment, infrastructure or other assets

General (1)

Any infrastructure or equipment purchased with EDCTP funds must:

- Include the text that “This [equipment/infrastructure/other type of result] is part of the EDCTP2 programme supported by the European Union’s Horizon 2020 research and innovation programme”; and
- Display the EU and EDCTP emblems. When displayed together with another logo, the EU and EDCTP emblems must have appropriate prominence.

General (2)

- To be eligible, all forms of equipment costs must fulfil the general conditions for actual costs
- The capitalisation limit must be specified in the relevant policy documents
- The beneficiaries must ensure the best value for money

Option for charging equipment costs

- Option 1- charging the depreciation cost of the equipment, infrastructure or other assets (this is the default option)
- Option 2 - Full purchase costs of equipment, infrastructure or other assets

Charging the depreciation cost (1)

- This is the default option
- The depreciation costs of equipment are eligible if:
 - Necessary to implement the action,
 - The purchases of the items were made with due regard to value for money
 - Conflict of interests were avoided through the entire procurement process
 - Written off in accordance with international accounting standards and the beneficiary's usual accounting practices

■ Charging the depreciation cost (2)

- They must be calculated according to the following principles:
 - The depreciable amount (purchase price) of an asset must be allocated on a systematic basis over its useful life
 - Depreciated equipment costs cannot exceed the equipment's purchase price
 - Depreciation cannot be spread over a period longer than the equipment's useful life
- The depreciation costs must be calculated for each reporting period.

Auditing of depreciation costs for equipment, infrastructure or other assets (1)

The Auditor will verify that:

- The assets were acquired in conformity with the Beneficiary's internal guidelines and procedures
- They were correctly allocated to the action (with supporting documents such as delivery note invoice or any other proof demonstrating the link to the action)
- They were entered in the accounting system
- The extent to which the assets were used for the action (as a percentage) was supported by reliable documentation

Auditing of depreciation costs for equipment, infrastructure or other assets (2)

Standard factual finding of the of the auditor will include:

- Procurement rules, principles and guides were followed.
- There was a link between the grant agreement and the asset charged to the action.
- The asset charged to the action was traceable to the accounting records and the underlying documents.
- The depreciation method used to charge the asset to the action was in line with the applicable rules of the Beneficiary's country and the Beneficiary's usual accounting policy
- The amount charged corresponded to the actual usage for the action.
- No ineligible costs or excessive or reckless expenditure were declared.

Equipment costs

- Under Horizon Europe you can purchase equipment on the condition that it is used to implement the action. Please note, however, you will be reimbursed only on the basis of depreciation costs (except if full equipment cost is foreseen in a call).
- Costs for renting or leasing equipment, infrastructure or other assets are also eligible, if they do not exceed the depreciation costs of similar equipment, infrastructure or assets and do not include any financing fees

Depreciation

Annual depreciation charge is calculated as:

$$=(\text{Cost of the equipment} - \text{scrap value}) / \text{useful life}$$

Cost of the equipment

An item of equipment should initially be recorded at cost. Cost includes all costs necessary to bring the asset to working condition for its intended use. These include costs of site preparation, delivery and handling and installation.

Scrap value

Scrap value is the value of the equipment at the end of its useful life. You can assume this is zero.

Useful life

Useful life of asset represents the number of periods/years in which the asset is expected to be used by the entity.

Examples of Depreciation questions)

- Cost of equipment: EUR 24,000
- Useful life of equipment = 4 years
- Purchase date: 1 February 2022
- Asset used 100% on EDCTP funded project from 1 June 2022.
- First reporting period: 1 April 2022 – 31 March 2023

Depreciation charge for the first reporting period
= $(24,000/4) * (10/12) = \text{EUR } 5,000$



Thank you very much for your
attention

Do you have any questions?