



INFORMATION PAPER

Horizon 2020 Framework Programme: Certification of EU funds

HORIZON 2020

Horizon 2020 is the EU's new framework programme for research and innovation. It is the largest programme of its kind, with more than €70 billion of funding available between 2014 and 2020 (in addition to the private investment that will be attracted).

The programme, which is open to everyone, has three main priorities: **excellence in science**, **industrial leadership** and **societal challenges**. Specific provisions should facilitate the participation of small and medium-sized enterprises to this funding programme.

One of the objectives of the European Commission has been to simplify the architecture, rules, procedures and control strategy of the framework programme, to attract the most innovative enterprises.

OPPORTUNITIES FOR THE AUDIT PROFESSION

In certain circumstances, a qualified external auditor must perform agreed-upon procedures to meet the European Commission's requirement to certify the specific financial statements prepared by the recipients of Horizon 2020 funding.

These services may be provided by:

- An **external auditor** – the statutory auditor or not – qualified to carry out statutory audits of accounting documents in accordance with the EU statutory-audit directive (2006/43/EC)
or
- A **public officer** with the legal capacity to audit the beneficiary (only for research organisations, secondary- and higher-education establishments and public bodies)
or
- An **internal or external auditor** in accordance with internal financial regulations and procedures (only for international organisations)

CERTIFICATES

Financial statements

The auditor needs to produce a **certificate on the financial statements (CFS)**, which is a factual report designed to enable the European Commission (or the EU agency responsible for awarding the grant money) to check whether costs declared in the financial statements are eligible. Further details are provided in **box 1** below.

A CFS is required if a beneficiary requests a total financial contribution of €325,000 or more as reimbursement of actual costs and average personnel costs (i.e. direct personnel costs declared on the basis of unit costs calculated in accordance with its usual accounting practices). This €325,000 threshold does not apply to indirect costs, costs based on lump sums, flat rates or unit costs other than those for personnel costs calculated in accordance with the

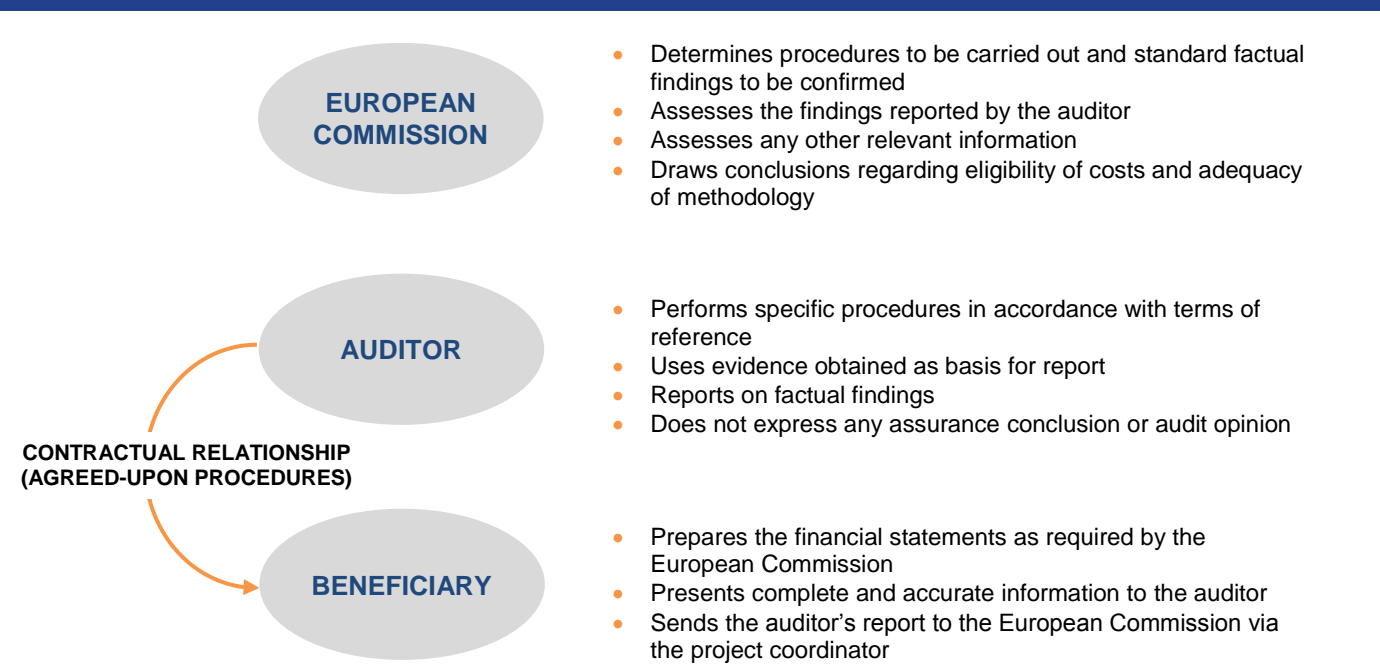
beneficiary's usual cost-accounting practices. An example is provided in **box 2**.

The CFS should be based on the model provided in **annex 5** to the Horizon 2020 **model grant agreement** and consist of:

- The terms of reference (signed by the beneficiary and the auditor); and
- The auditor's independent report on factual findings (issued on the auditor's letterhead, dated, stamped and signed by the auditor)

The auditor must perform specific procedures and report factual findings to certify that the costs declared in the financial statement are accurately recorded in the beneficiary's accounting system and are eligible costs based on the grant agreement. If the auditor is for any reason unable to do this, a detailed explanation of the exceptions encountered must be provided in the certificate.

BOX 1 THE PARTIES INVOLVED



SOURCE: EUROPEAN COMMISSION (DIRECTORATE-GENERAL FOR RESEARCH AND INNOVATION)

BOX 2 CALCULATION OF COSTS COVERED BY THE CFS

The beneficiary (A) declares the following total eligible costs:

AVERAGE PERSONNEL COSTS	SUBCONTRACTING COSTS	DEPRECIATION COSTS OF EQUIPMENT USED TO CARRY OUT THE ACTION	INDIRECT COSTS (25% FLAT RATE)*	TOTAL ELIGIBLE COSTS CLAIMED
€250,000	€40,000	€60,000	€77,500	€427,500

The reimbursement rate is 100%*.

As the amount of eligible actual costs and average personnel costs incurred by A (and hence the corresponding EU contribution) is higher than €325,000, A must submit a CFS for the following costs:

DIRECT PERSONNEL COSTS	SUBCONTRACTING COSTS	OTHER DIRECT COSTS	INDIRECT COSTS	TOTAL COSTS COVERED BY THE CFS
€250,000	€40,000	€60,000	€0	€350,000

* The 25 % flat rate of indirect costs – calculated on direct costs minus subcontracting – as well as the reimbursement rate of 100% are the main difference with the previous EU's framework programme (called FP7)

SOURCE: HORIZON 2020 ANNOTATED MODEL GRANT AGREEMENT

Methodology

In some cases, beneficiaries that declare direct personnel costs as unit costs calculated in accordance with their usual cost-accounting practices may also engage the auditor to produce a **certificate on the methodology to calculate unit costs (CoMUC)** stating that there are adequate records and documentation to prove that the cost-accounting practices used comply with the conditions set out in point A of article 6.2 of the model grant agreement.

The CoMUC, which is optional, should be based on the model provided in **annex 6** to the model grant agreement. Like the CFS, it should consist of the terms of reference and the auditor's independent report on factual findings.

The main reason for carrying out this exercise: once the European Commission has accepted a CoMUC, no systemic or recurrent error can be attributed to the accepted methodology.

AGREED-UPON PROCEDURES

The provision of a CFS or CoMUC is an engagement performed using **agreed-upon procedures** defined by the European Commission. These procedures are based on the framework established by the International Audit and Assurance Standards Board (IAASB). The report concerns factual findings and does not include an audit opinion or expression of an assurance conclusion.

The model certificates provided in annexes 5 and 6 of the model grant agreement are mandatory. Auditors may not perform different procedures unless it is impossible to carry out these agreed-upon procedures, in which case such matters must be highlighted as exceptions. The *Further Remarks* section could also be used to describe the additional procedures that were carried out.

The terms of reference in annexes 5 and 6 include

details of the agreed-upon procedures and constitute the minimum terms of reference for the auditor's work. The beneficiary and the auditor may agree further specific terms – e.g. the auditor's fees, liability, applicable law – provided that those terms meet the minimum terms of reference.

ELIGIBLE COSTS

Detailed information on eligible (and ineligible) costs can be found in **article 6** of the model grant agreement where detailed criteria are set out, depending on the nature of the costs (actual costs, unit costs or flat rate costs).

FURTHER INFORMATION

Online manual

http://ec.europa.eu/research/participants/docs/h2020-funding-guide/index_en.htm

FAQs

<http://ec.europa.eu/research/participants/portal/>

Multi-beneficiary general model grant agreement
Incl. annexes 5 and 6

http://ec.europa.eu/research/participants/data/ref/h2020/mga/gga/h2020-mga-gga-multi_en.pdf

Mono-beneficiary general model grant agreement
Incl. annexes 5 and 6

http://ec.europa.eu/research/participants/data/ref/h2020/mga/gga/h2020-mga-gga-mono_en.pdf

Annotated model grant agreement

http://ec.europa.eu/research/participants/data/ref/h2020/grants_manual/amga/h2020-amga_en.pdf

Helpdesk

<http://ec.europa.eu/research/index.cfm?pg=enquiries>



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