



UNIVERSITY OF COPENHAGEN

Internal Invoicing in Horizon Europe Legal & Financial NCP meeting Brussels 16 June 2023

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Agenda

- *Comparison of Internal Invoicing rules for Horizon 2020 and Horizon Europe*
- *Some practical examples*
- *Summary*

Actual costs – General eligibility conditions



- they must be **actually incurred** by the beneficiary
- they must be **incurred during the action duration**
- they must be **declared** under one of the budget categories
- they must be **incurred in connection with the action** (Annex 1) and **necessary** for its implementation
- 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
- they must comply with the **applicable national law** on taxes, labour and social security and
- they must be **reasonable, justified** and must comply with the principle of **sound financial management**, in particular regarding economy and efficiency

Internal invoicing – Horizon Europe



What? *Costs for goods and services which are produced or provided within the beneficiary's organisation directly for the action and the beneficiary values on the basis of its usual cost accounting practices.*

Examples:

- *self-produced consumables (e.g. electronic wafers, chemicals)*
- *specialised premises for hosting the research specimens used for the action (e.g. animal house, greenhouse, aquarium)*
- *standardised testing or research processes (e.g. genomic test, mass spectrometry analysis)*
- *use of specific research devices or research facilities (e.g. clean room, wind tunnel, supercomputer facilities, electronic microscope)*

NEW

Wider reliance on beneficiary's usual cost accounting practices for the unit cost calculation with:

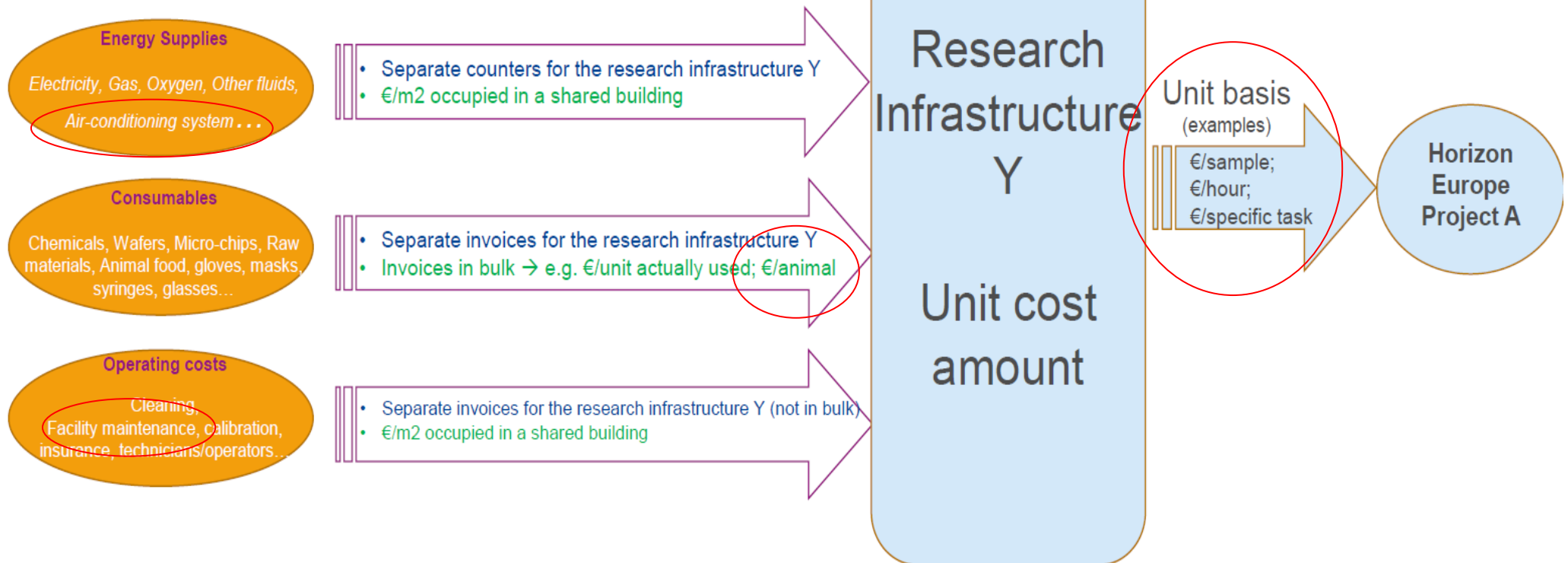
- ❖ No application of the 25% flat-rate on top of the unit cost (*H2020 rules*)
- ❖ **instead**, possibility to accept actual indirect costs allocated via beneficiary's usual key drivers in the unit cost calculation

H2020 Internal Invoicing

Examples of costs generally eligible as part of the unit cost	Examples of costs ineligible as part of the unit cost
<ul style="list-style-type: none">– 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).	<ul style="list-style-type: none">– 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, <u>air-conditioning</u>) and their <u>maintenance</u>;– 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.

Pool of costs allocation – some examples (non-exhaustive)

- Either by direct measurement ('direct actual costs')
- Or by key drivers/proxies ('indirect actual costs')



Horizon Europe Model Grant Agreement

- *Costs for internally invoiced goods and services directly used for the action may be declared as unit cost according to usual cost accounting practices, if and as declared eligible in the call conditions, if they fulfil the general eligibility conditions for such unit costs and the amount per unit is calculated:*
 - *- using the actual costs for the good or service recorded in the beneficiary's accounts, attributed either by direct measurement or on the basis of cost drivers, and excluding any cost which are ineligible or already included in other budget categories;*
 - *the actual costs may be adjusted on the basis of budgeted or estimated elements, if they are relevant for calculating the costs, reasonable and correspond to objective and verifiable information*
- *and*
 - *- according to usual cost accounting practices which are applied in a consistent manner, based on objective criteria, regardless of the source of funding.*

Horizon Europe Annotated Model Grant Agreement

- *if budgeted or estimated elements were included in the calculation of the amount per unit, those elements must:*
 - be relevant (i.e. clearly related to invoiced item)
 - be used in a reasonable way (i.e. do not play major role in calculating the unit cost)
 - correspond to objective and verifiable information (i.e. their basis is clearly defined and the beneficiary can show how they were calculated)



Key features – summary

- Documented methodology
- Supporting evidence of the use of the good or service for the action showing the number of units used
- **Share of cost** item used for the production of the good or service must be calculated either by direct measurement ('actual direct costs') or by using the **allocation keys defined in the beneficiary's usual costs accounting practices ('actual indirect costs')**

***example:** power supply costs allocated to a clean room on the basis of the square meters it occupies.*



Allocation keys resulting in a higher unit cost for the internally invoiced good or service when used in EU projects compared with other projects will not be accepted.

Some practical examples

Maintenance costs for DNA sequencing

Manual work with lab mice, blood samples, biopsies etc.

Summary

Horizon Europe has many good initiatives for simplification and reduced error rates

E.g. Lump Sum funding, Monthly Declaration, only one method for calculating daily rate etc.

However, the new rules for Internal Invoicing are not a step in the right direction

For Internal Invoicing the level of detail has been increased – not reduced

- *More costs might be eligible, but all costs still have to be based on objective and verifiable information and the beneficiary has to show how they were calculated.*
- *Not much different from H2020 rules*
- *Only applicable for Horizon Europe and Digital Europe projects*

- *Only beneficiaries with a rather sophisticated accounting system are able to fulfill all requirements for Internal Invoicing in Horizon Europe*
- *Most universities and smaller companies do not have such a sophisticated system*
- *To set up a sophisticated accounting system can be very expensive*

- *What about "allocation keys defined in the beneficiaries usual cost accounting practices".*
- *Why is this not sufficient?*
- *Please observe that researchers and auditors have a common interest in reducing error rates and ensuring "best value for money".*

- *Costs for internally invoiced goods and services are often very competitive compared to market prices.*
- *If the researchers can purchase goods or services cheaper elsewhere from an external provider – **they will do so***

- *Therefore, concerning internal invoicing the first and most important action to be performed by the auditors should be to check the following:*
- *What is the usual cost accounting practices of the beneficiary?*
- *Allocation keys resulting in a higher unit cost for the internally invoiced goods or service when used in EU grants compared to other projects will NOT be accepted.*

- *Other national and international grant providers e.g. National Institute of Health (NIH), Wellcome Trust etc. all accept internal invoicing costs as long as it can be proven they are incurred in line with usual cost account practices.*

Only the Commission wants to see all the calculations behind.

- *This will most likely lead to more errors in new audits, boths for H2020 and Horizon Europe projects.*
- *Is this in line with the principle of sound financial management ?*

Thank you for your attention