

# **EARTO Innovation School**

**Towards HEU Implementation:  
Lump-sums, Unit Costs, System Audits and Other  
Financial Aspects**



**6 May 2019, Brussels**

# RTOs Solve Real-World Problems



**Plan your predictive maintenance strategy with Big Data**



**Monitor your cows' health and location from your app**



**Eat delicious cakes with no added sugar**

**EARTO INNOVATION AWARDS 2018**

**10 YEARS**

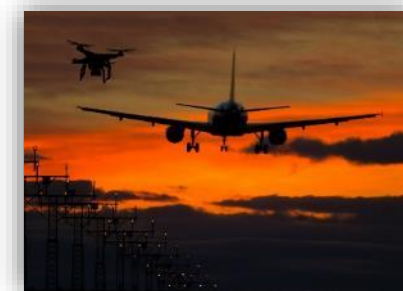
**EARTO**  
IMPACT  
DELIVERED

European Association  
of Research and Technology Organisations

[www.earto.eu](http://www.earto.eu)



**Make the green chemicals of the future out of wood and waste**



**Manage air traffic in the drone age**



**Tan leather without waste water by using CO<sub>2</sub>**

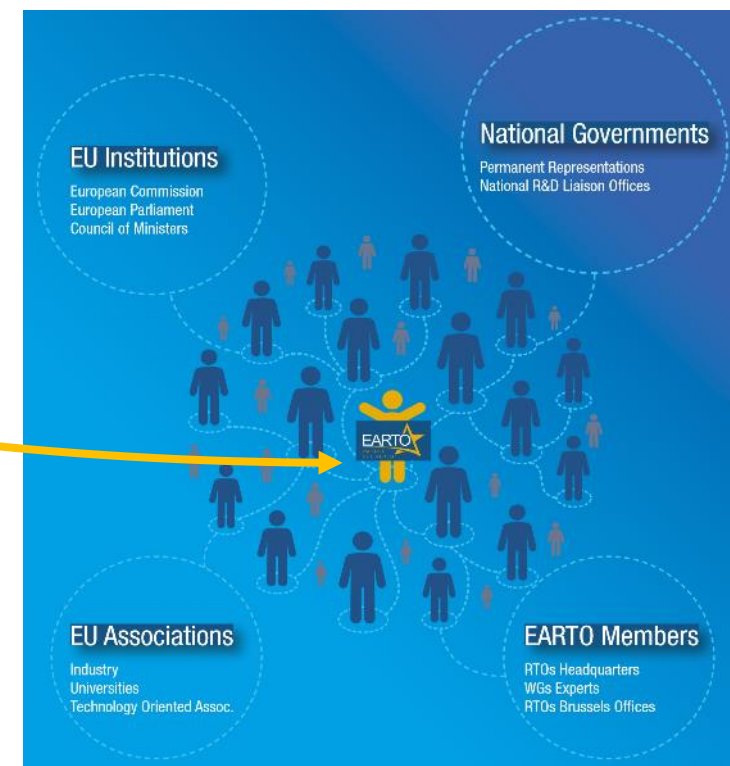
# EARTO Motto: **Impact Delivered!**

## EARTO Vision: **Technology for a Better World**



**23 COUNTRIES**

**350 RTOs**



**NETWORK**

**150 000**

**RESEARCHERS**

**ENGINEERS &**

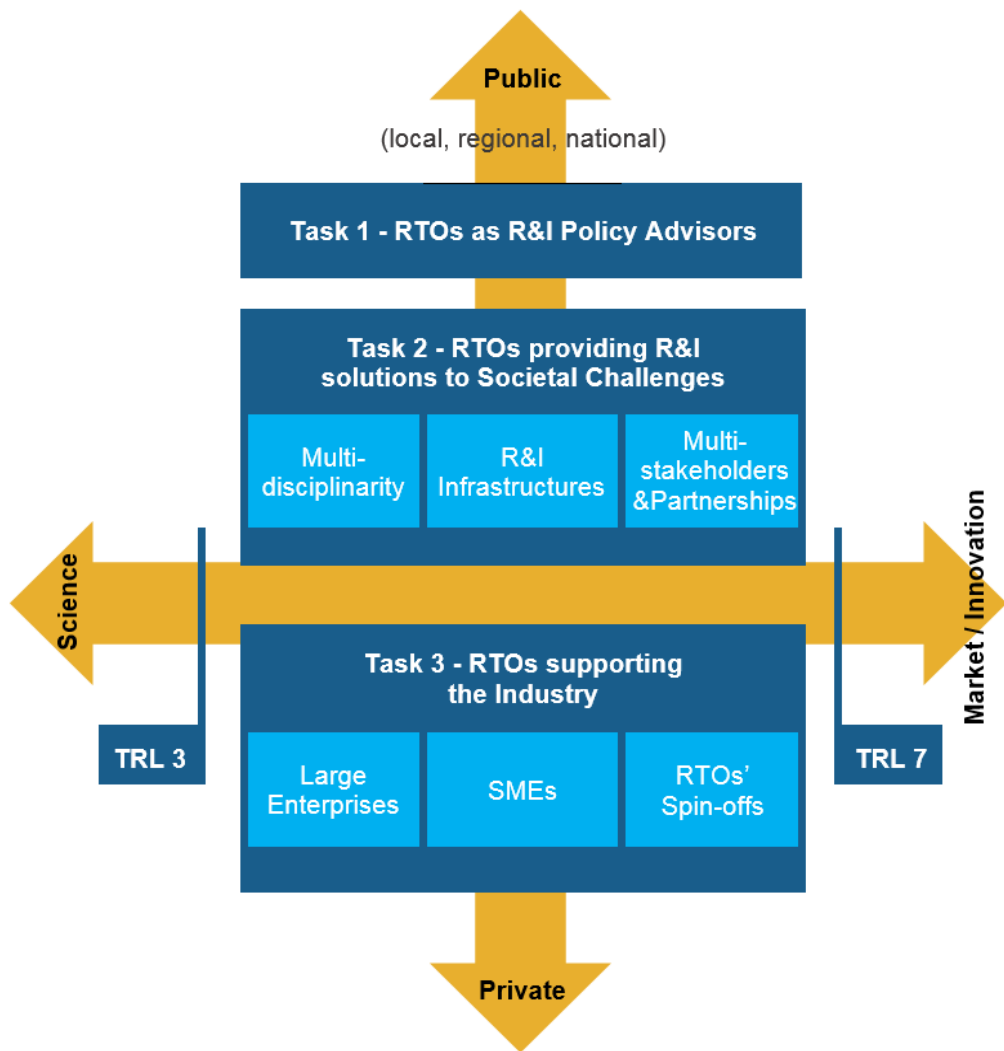
**TECHNICIANS**

**SHARING IDEAS**

**& INFORMATION**



# Profiling & Positioning of RTOs in Europe



**RTOs house various research infrastructures & demonstration facilities benefitting many stakeholders: universities, new enterprises, SMEs, large enterprises**

For **1 job** in an RTO, additional **4 jobs** were created elsewhere in Europe in 2016

For **€1 invested** by governments in RTOs as operational grants **€3 return** flew back to those governments in 2016

# Technology Infrastructures

- **Industry relies on Competence Centres like RTOs to access excellent technology infrastructures**, as they very often cannot afford the investment needed to operate such infrastructure
- Technology Infrastructures hosted by Competence Centres like RTOs **require high level of investments and highly skilled staff**

## Crucial role of Technology Infrastructures:

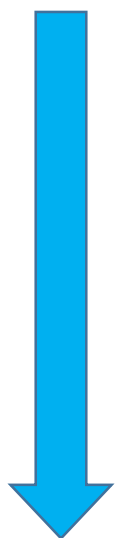
- For innovative technology to **reach high enough maturation level** and to be validated
- **To lower both the costs and the risks of R&I investment**



**EARTO very much welcomes the EU SWD on Technology Infrastructures, this will be crucial to:**

- 1. Ensure the long term sustainability of those infrastructures**
- 2. Create a long-term EU strategy, to support EU's innovation performance growth and speed-up innovations up-take**

# HEU Financial Framework



**Financial Regulation: New Possibilities in audits & Costs reimbursements**

**HEU Regulation & Rules for Participation**

**HEU Model Grant Agreement & Implementation**

**RULES**

# Implementation of HEU Rules for Participation



# **Towards HEU: EARTO Recommendations on Lump-Sums**

**EARTO's feedback on H2020 lump-sum pilot**



# EARTO Feedback on Lump-Sum Pilot Experiences

- 2 pilot calls to test the lump-sum approach in H2020 work programme
- Objective: increase simplification
- 4 RTOs involved in the H2020 lump-sum pilots
- First conclusions drawn from EARTO members' participation are not conclusive, and many issues have been encountered



**EARTO Input: Towards  
Lump sums within FP9**

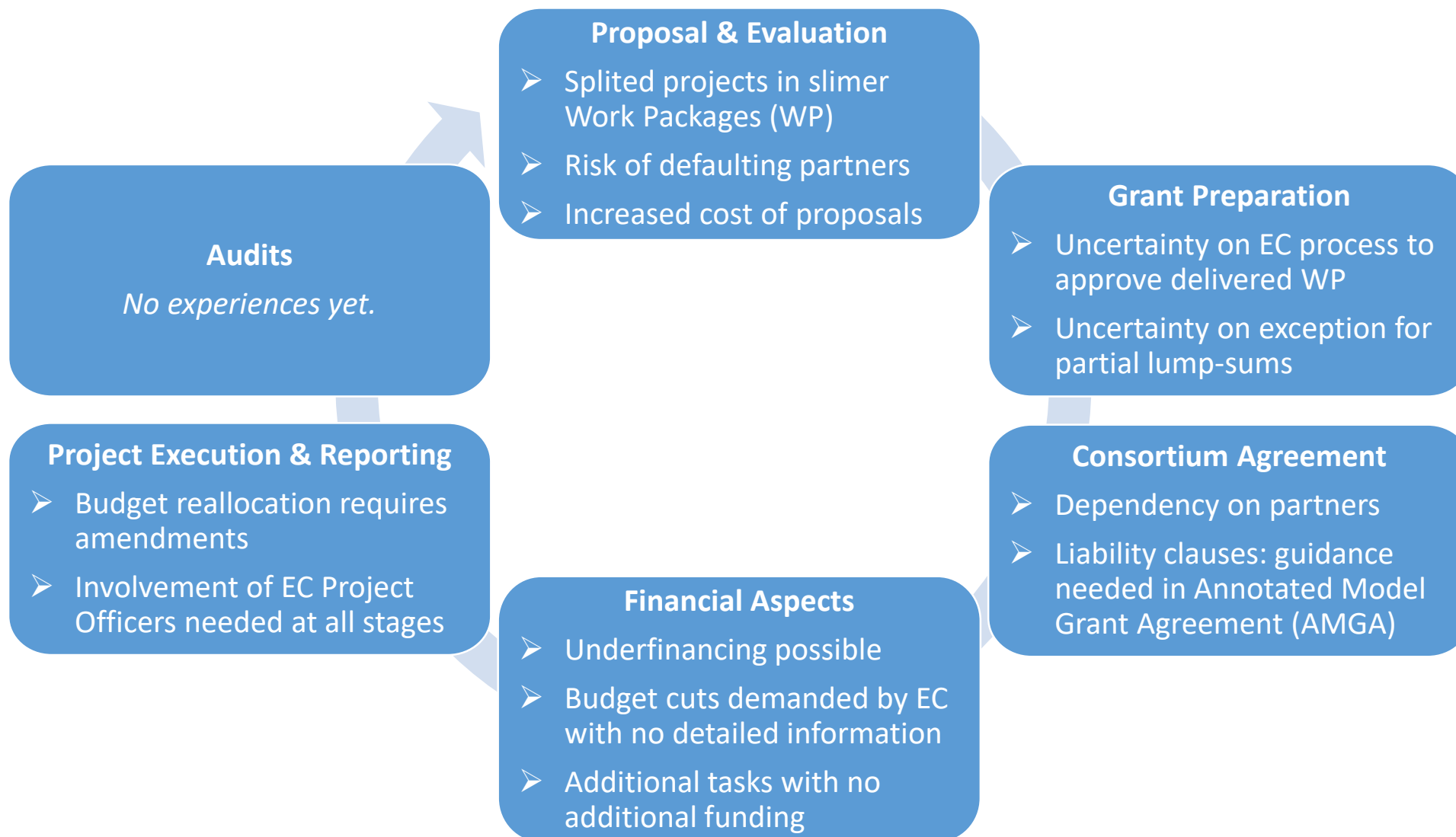
15 September 2017



**EARTO Feedback on  
H2020 Lump-Sums Pilot  
Experiences**

30 April 2019

# EARTO Feedback on Lump-Sum Pilot Experiences



# EARTO Feedback on Lump-Sum Pilot Experiences

## EARTO Recommendations:

- **Independent and transparent evaluation is needed before any extension** (incl. differentiation between projects' types & size).
- **Next step should strictly consist in a limited extension to a few more pilot calls, providing a more representative sample of projects.**

**Towards HEU:  
EARTO Recommendations on  
Usual Cost Accounting Practices  
and Unit Costs & Allocation Keys**

**Towards a Broader Acceptance of  
Usual Cost Accounting Practices of Beneficiaries**

# Usual Cost Accounting Practices of Beneficiaries

## HEU Regulation & Rules for Participation:

**Recital 47:** *“In accordance with the Financial Regulation, the Programme should provide the basis for a wider acceptance of the usual cost accounting practices of the beneficiaries as regards personnel costs and unit costs for internally invoiced goods and services (including for large research infrastructures as understood under Horizon 2020).”*

**Article 32(3a):** *“Beneficiaries may use their usual accounting practices to identify and declare the costs incurred in relation to an action in compliance with all terms and conditions set out in the grant agreement, in line with this Regulation and Article 186 of Financial regulation.”*

# Usual Cost Accounting Practices of Beneficiaries

- The aim is to make sure that the costs of RD&I activities are calculated in a consistent way within one organisation's contracts, using the same allocation keys.
- Usual Cost Accounting Practices may slightly vary from one organisation to the other.

**RTO level**

Continuity and consistency of  
an RTO's internal rules

- **RTOs abide by their national accounting practices**
- **RTOs are audited and controlled by their national/regional authorities.**

**National  
level**

National rules, laws or guidelines, or  
recommendations from ministries or other  
national authorities

**Usual Cost Accounting Practices are therefore systematically accepted at National level.**

# Usual Cost Accounting Practices of beneficiaries

## EARTO Recommendations:

- **Extend the acceptance of the usual cost accounting practices of the beneficiaries in the implementation of the programme: this should be substantially put forward in HEU MGA.**

# **Towards HEU: EARTO Recommendations on Usual Cost Accounting Practices and Unit Costs & Allocation Keys**

**Unit Costs & Allocation Keys:  
Combining and enhancing the internal invoicing & the  
large research infrastructure schemes in HEU**



# Unit Costs & Allocation Keys

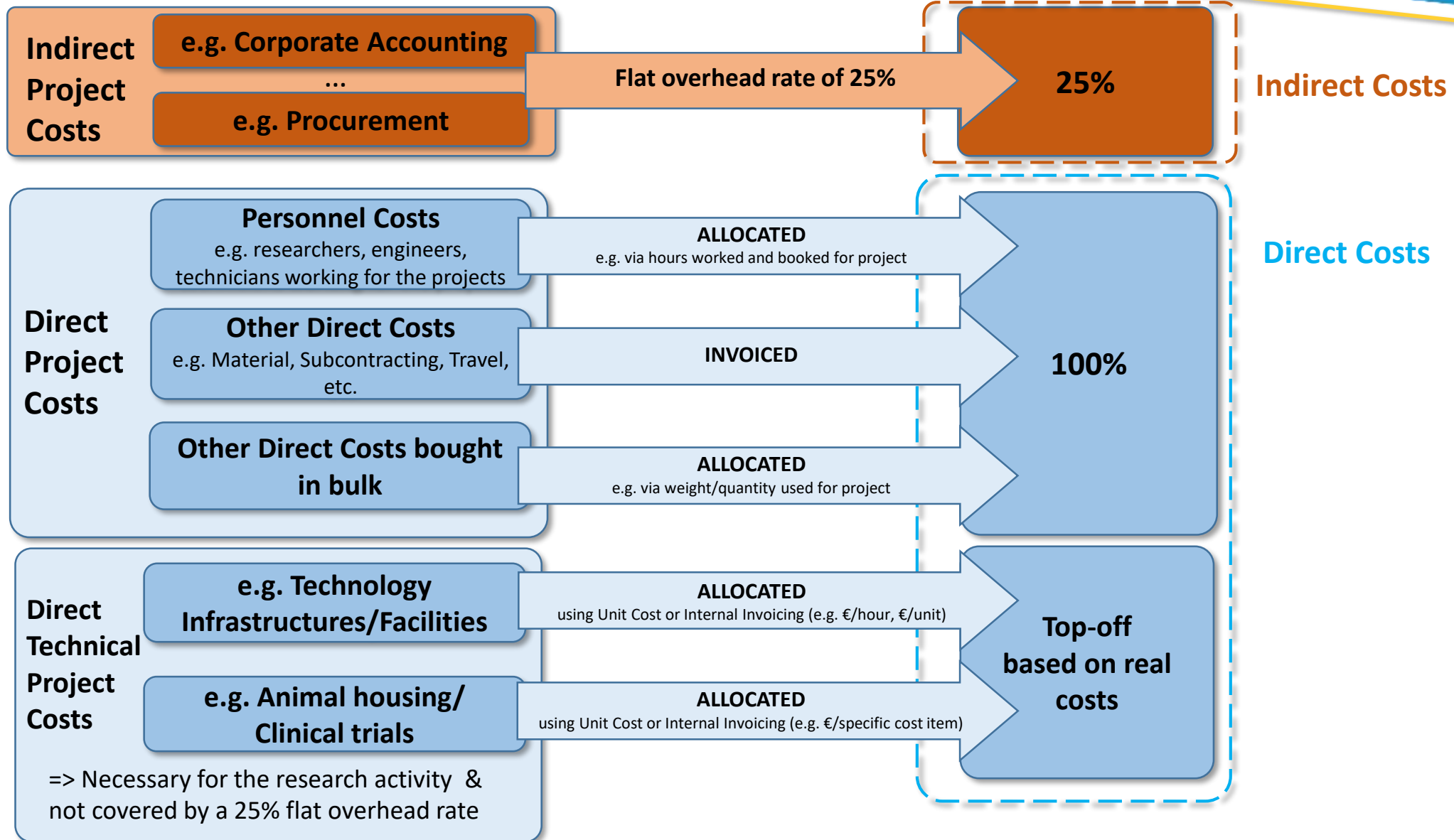
## HEU Regulation & Rules for Participation:

**Recital 47:** *“In accordance with the Financial Regulation, the Programme should provide the basis for a wider acceptance of the usual cost accounting practices of the beneficiaries as regards personnel costs and unit costs for internally invoiced goods and services (including for large research infrastructures as understood under Horizon 2020). The **use of unit costs** for internally invoiced goods and services calculated in accordance with the usual accounting practices of the beneficiaries combining actual direct costs and indirect costs should be an option which could be chosen by all beneficiaries.”*

**Article 31:** *“**Unit costs** for internally invoiced goods and services which shall be calculated on the basis of actual costs, in accordance with the beneficiaries' usual costs accounting practice.”*

# Unit Costs & Allocation Keys

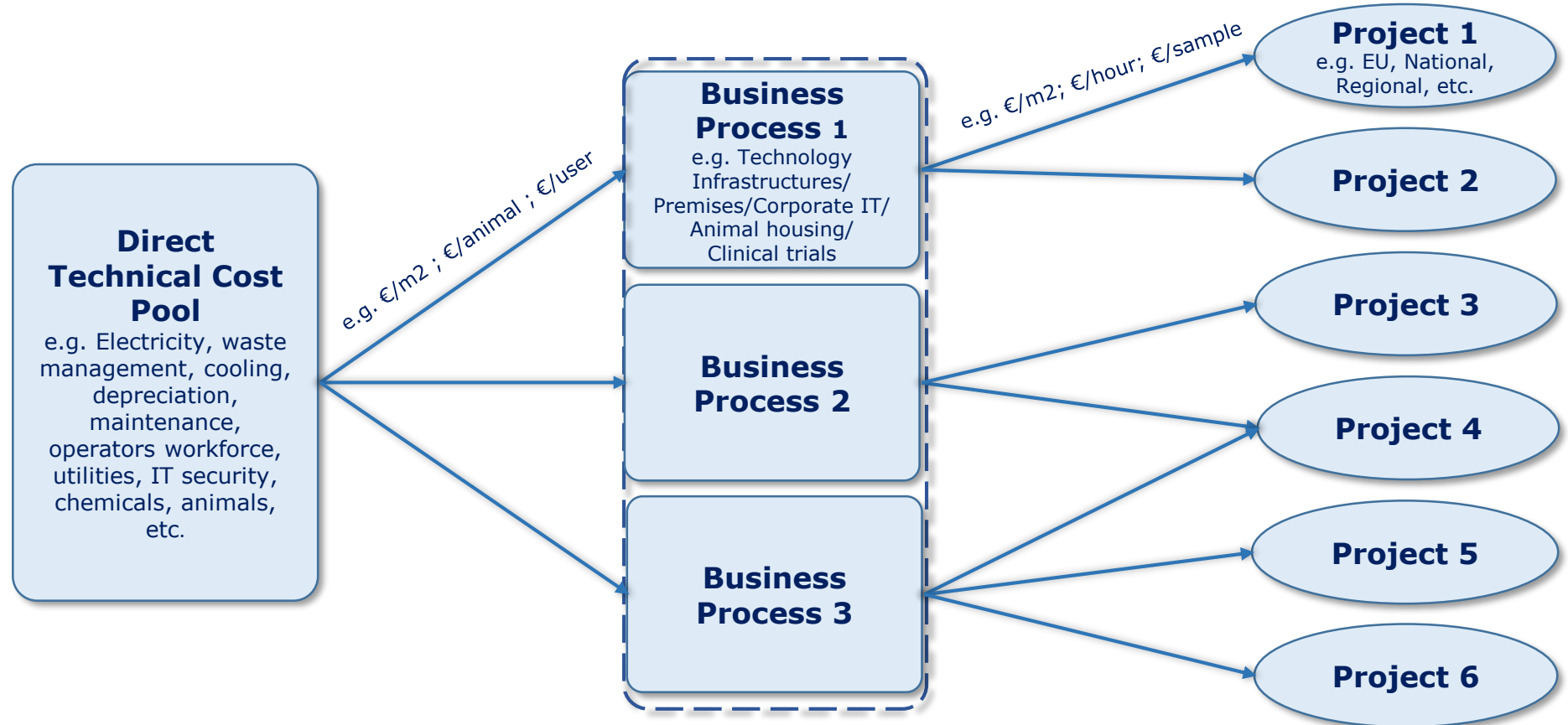
**EARTO  
Recommended  
Cost Allocation  
to HEU Projects**



# Unit Costs & Allocation Keys



## Allocating a pool of Direct Technical Costs to Projects via Allocation Keys



# Unit Costs & Allocation Keys

## EARTO Recommendations:

- **Implement the broader acceptance of Unit Costs via allocation keys in HEU MGA to better reflect the real costs of the beneficiaries, in particular for the use of technology infrastructures.**
- **Combine H2020 Large Research Infrastructure (LRI) scheme and Internal Invoicing in Horizon Europe for increased simplification.**
- **Enable beneficiaries to allocate Direct Technical Costs to projects using Unit Costs or Internal Invoicing, via reasonable allocation keys based on the Usual Cost Accounting Practices of the beneficiary.**

# **Towards HEU: EARTO Recommendations on Audits**

**Ensuring efficient cross reliance on audits in HEU**

# Cross-reliance on Audits

## HEU Regulation & Rules for Participation:

**Recital 52 (EP)** - Systematic *cross-reliance on audits* and assessments with other Union programmes should be implemented in accordance with Article 127 of the Financial Regulation for all parts of the Programme, in order to reduce administrative burden for beneficiaries of Union funds.

**Article 48 (4)** - In accordance with Article 127 of the Financial Regulation, the Commission or funding body may *rely on audits* on the use of Union contributions carried out by other independent and competent persons or entities, including by other than those mandated by the Union Institutions or bodies.

# Cross-reliance on Audits



**National/regional level  
audits**

**EU level audits**  
e.g. H2020, KICs,  
Structural Funds, JUs


**ECA**

- System Audits
- Audits on Financial (annual) reports
- Audits on specific Public Funding
- Certificate on financial Statements (CFS)
- Ex-post audits performed by the EC Common Audit Service (CAS) or contracting auditors
- Additional layer of EU-level audits

# Cross-reliance on Audits

## Cross Reliance on Audits at National & EU levels

		Audit level	
		National	EU
What is audited	System	(A) HEU Art.48§3	(B) LRI
	Projects	(C)	(D) CFS



In blue: area of possible cross-reliance of audits

In red: no possibility of cross-reliance of audits



# Cross-reliance on Audits

## **EARTO Recommendations:**

- **Reduce the audit burden on beneficiaries by ensuring efficient cross reliance on audits.**
- **EU-level audits need to rely on each other.**
- **Relevant elements of national audits performed by recognised independent auditors should be accepted at EU level.**

# **Towards HEU: EARTO Recommendations on Audits**

**Improving measures for ex-ante assessment:  
System & Process Audits**

# System & Process Audits

## HEU Regulation & Rules for Participation:

**Article 48 (3)** - *The Commission or funding body may rely on combined systems reviews at beneficiary level. These combined reviews shall be optional for certain types of beneficiaries and shall consist in a **systems and process audit**, complemented by an audit of transactions, carried out by a competent independent auditor qualified to carry out statutory audits of accounting documents in accordance with Directive 2006/43/EC33. They may be used by the Commission or funding body to determine overall assurance on the sound financial management of expenditure and for reconsideration of the level of ex-post audits and certificates on financial statements.*

# System & Process Audits

- Necessity in a situation of rapid digitalisation
- Necessity to have Legal certainty on the use of Usual Accounting Practices
- Need to feed on the experiences of the LRI and CoMUC, which have proven to be burdensome both for the Commission and for beneficiaries
- Requires deep knowledge of auditing IT systems: burdensome to carry out

**=> for many RTOs, a kind of system audit is already performed by their current qualified competent independent auditor when auditing the annual accounts**

# System & Process Audits

## EARTO Recommendations:

**Improve measures for ex-ante assurance and legal certainty and avoid double work by:**

- **relying on System & Process Audits performed by a National qualified competent independent auditor (ex-ante)**
- **complementing such System & Process Audit by an ex-post audit, decided upon by the financing body, in order to establish the eligibility of costs (ex-post)**

# Towards HEU Implementation: EARTO Recommendations

- **Lump-sum: Independent and transparent evaluation is needed before any extension.** Next step should strictly consist in a limited extension to a few more pilot calls, **providing a more representative sample of projects.**
- **Usual Cost Accounting Practices: Extend the acceptance of the usual cost accounting practices of the beneficiaries in the implementation of the programme: this should be substantially put forward in HEU MGA.**
- **Unit Costs & Allocation Keys: Implement the broader acceptance of Unit Costs via allocation keys in HEU MGA** to better reflect the real costs of the beneficiaries, combining H2020 LRI scheme and Internal Invoicing. **Enable beneficiaries to allocate Direct Technical Costs to projects using Unit Costs or Internal Invoicing, via reasonable allocation keys.**
- **Cross Reliance on Audits: EU-level audits should rely on each other** and **relevant elements of national audits performed by recognised independent auditors should be accepted at EU level.**
- **System & Process Audits: Rely on System & Process Audits performed by a National qualified competent independent auditor** (ex-ante) complemented by an ex-post audit, decided upon by the financing body, in order to establish the eligibility of costs (ex-post).

# **EARTO Policy Event & EARTO Innovation Awards Ceremony**

**8 October 2019 - Brussels**

- Keynote by EC DG RTD Director General J-E Paquet



# Stay Tuned with the Latest R&I News!

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**@EARTOBrussels**



**EARTO Group on LinkedIn**  
**"Horizon 2020 – News & Views"**



**News Section on EARTO Website**  
**[www.ear.to](http://www.ear.to)**

