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Global Health
EDCTP3

Global Health EDCTP3 Funded Financial and Project Management Training

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Global Health
EDCTP3



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Basic Introduction

- This training is funded by the Global Health EDCTP3 Joint Undertaking (the granting authority).
- EDCTP in this presentation refers to Global Health EDCTP3 Joint Undertaking (EDCTP and EDCTP3 Joint Undertaking are used interchangeably in this presentation).
- This presentation is based on Horizon Europe (Funding Framework for the EDCTP3 programme).
- Majority of the information in these slides are extracted from the Horizon Europe Model Grant Agreement. In the event of a conflict between these slides and the grant agreement (GA), the GA takes precedence. Beneficiaries must therefore ensure that they are familiar with all the chapters, including the articles of the GA.

Global Health EDCTP3 Joint undertaking

- Funding framework for EDCTP3 is Horizon Europe
- Funding framework for EDCTP2 is Horizon 2020
- There are differences and similarities between H2020 and Horizon Europe Model Grant Agreements

Operational audit findings EDCTP2 programme (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 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 EDCTP2 programme (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. Reporting as direct costs bank charges not related to distribution of funds to beneficiaries.

Definition of key terms (1)

- **Cash accounting**

Under cash accounting, income is recognised when money is received; and expenses when the actual payment is made

- **Accruals accounting**

The accruals basis of accounting requires that the non-cash effects of transactions and other events to be reflected, as far as is possible, in the financial statements for the accounting period in which they occur and not, for example, in the period in which any cash involved is received or paid.

Definition of key terms (2)

- **Coordinator**

Coordinator is the beneficiary which is the central contact point for the project and represents the consortium towards EDCTP.

- **Beneficiaries**

The signatories of the Grant Agreement (either directly or through an accession form).

- **No-cost extension (changes in the duration of the project)**

A no-cost extension gives the Project Coordinator extra time to complete the scope and objectives of the project without additional funds being provided by the EDCTP.

Definitions of key Horizon Europe terms (3)

- **Purchases**

Contracts for goods, works or services needed to carry out the action (e.g. consumables and supplies) but which are not part of the action tasks.

- **Subcontracting**

Contracts for goods, works or services that are part of the action tasks (see Annex 1).

- **In-kind contributions**

Non-financial resources made available free of charge by third parties to a beneficiary

Definitions of key Horizon Europe terms (4)

- **Action**

The project which is being funded in the context of the Agreement. The term project and action are used interchangeably.

- **Participants**

Entities participating in the action as beneficiaries, affiliated entities, associated partners, third parties giving in-kind contributions, subcontractors or recipients of financial support to third parties.

- **Associated partners**

Entities which participate in the action, but without the right to charge costs or claim contributions

Definition of key terms (5)

- **Third party**

A third party can be any legal entity that has not signed the GA.

- **Non-profit legal entity**

Non-profit legal entity means a legal entity which by its legal form is non-profit-making or which has a legal or statutory obligation not to distribute profits to its shareholders or individual members.

Definition of key terms (6)

- **Direct costs**

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

- **Indirect costs**

Indirect costs are costs that are not directly linked to the action implementation and therefore cannot be attributed directly to it.

General eligibility conditions for actual costs

1. They must be actually incurred by the beneficiary;
2. They must be incurred in the period set out in Article 4 (with the exception of costs relating to the submission of the final periodic report, which may be incurred afterwards;
3. they must be declared under one of the budget categories set out in Article 6.2 and 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.

General eligibility conditions for unit costs or contributions

1. They must be declared under one of the budget categories set out in Article 6.2 and Annex 2;
2. The unit must:
 - Be used or produced by the beneficiary in the period set out in Article 4 (except for units relating to the submission of the final periodic report, which may be used or produced afterwards)
 - Be necessary for the implementation of the action and
3. The number of units must be identifiable and verifiable, in particular supported by records and documentation

General eligibility conditions for flat-rate costs or contributions

1. They must be declared under one of the budget categories set out in Article 6.2 and Annex 2;
2. The costs or contributions to which the flat-rate is applied must:
 - Be eligible
 - Relate to the period set out in Article 4 (with the exception of costs or contributions relating to the submission of the final periodic report, which may be incurred afterwards)

General eligibility conditions for lump sum costs or contributions (if any)

1. They must be declared under one of the budget categories set out in Article 6.2 and Annex 2
2. The work must be properly implemented by the beneficiary in accordance with Annex 1
3. The deliverables/outputs must be achieved in the period set out in Article 4 (except for deliverables/outputs relating to the submission of the final periodic report, which may be achieved afterwards).

Unit, flat-rate or lump sum costs or contributions according to usual cost accounting practices (if any)

- They must fulfil the general eligibility conditions for the type of cost concerned.
- The cost accounting practices must be applied in a consistent manner, based on objective criteria, regardless of the source of funding.

Financial management differences between H2020 and Horizon Europe

Some of the differences include:

- Threshold for submitting a certificate on the financial statement
- Budget categories
- Data sheet
- Project reporting – continuous and periodic reporting and ways of submitting the reports

Threshold for submitting a certificate on the financial statement (1)

- For EDCTP 2 grants (H2020) a 'certificate on the financial statements (see Annex 5)' is required for the payment of the balance (final report) if the actual eligible direct cost is greater than EUR 325 000 or more calculated based on its usual cost accounting practices.
- For EDCTP 3 grants (Horizon Europe), the threshold for submitting a certificate on the financial statement has increased to EUR 430,000. CFS mandatory only at final payment and only if the requested EU contribution to costs \geq EUR 430,000.
- The CFS threshold and schedule are set out in the Data Sheet, Point 4.3.
- If an entity is classified as low risk, following a System and Process Audit (SPA), a higher threshold for submitting a certificate on the financial statement (CFS) of EUR 725,000 applies instead of EUR 430,000.

Grant Agreement: key finance articles

1. Article 4: Duration and starting date of the action
2. Article 5: Grant
3. Article 6: Eligible and ineligible costs and contributions
4. Article 7: Beneficiaries
5. Article 8: Affiliated entities
6. Article 9: Other participants involved in the action
7. Article 11: Proper implementation of the action
8. Article 12: Conflict of interests
9. Article 20: Record keeping
10. Article 21: Reporting
11. Article 22: Payment and recoveries – calculations of amounts due
12. Article 24: Certificates
13. Article 25: Checks, reviews, audits and investigations — extension of findings
14. Article 27: Rejection of costs and contributions
15. Article 28: Grant reduction
16. Article 29: Payment deadline suspension
17. Article 30: Payment suspension

Structure of Horizon Europe Model Grant Agreement

1. Data sheet
2. 44 Articles
3. 6 Chapters
4. 7 Annexes

Data Sheet (1)

1. General data

Project summary (text from DoA Annex 1 Part A (same text as proposal extract). These include key words from the proposal, project number, project name, project acronym, call ID, topic ID, type of action, project start and end dates, project duration and name of granting authority (GH EDCTP 3)

2. Participants

This includes role, short name, legal name, country, PIC, total eligible costs and maximum grant amount

Data Sheet (2)

3. **Grant**

- Maximum grant amount, total estimated eligible costs and contributions and funding rate.
- Budget categories/activity types, grant form, grant mode and cost eligibility options

4. **Reporting, payments and recoveries**

4.1 Continuous reporting (article 21)

4.2 Periodic reporting and payments

- Reporting periods (reporting period number, month from, month to), types and deadline
- Payment types, deadline (time to pay) and pre-financing amounts
- Reporting and payment modalities

Data Sheet (3)

4.3 Certificates (Article 24)

4.4 Recoveries (Article 22)

5. Consequences of non-compliance, applicable law & dispute settlement forum

6. Other

Chapters

Chapter 1: General (Articles 1 - 2)

An introductory chapter regarding the subject of the agreement and the major definitions.

Chapter 2 – Action (Articles 3 - 4)

Duration and starting dates

Chapter 3 – Grant (Articles 5 - 6)

Everything about the grant (form, maximum amounts, budget flexibility), as well as eligible and ineligible costs and contribution are included here.

Chapter 4- Grant implementation (Articles 7 – 26)

Section 1 – Consortium: Beneficiaries, Affiliated entities, and other participants

Section 2 – Rules for carrying out the action

Section 3 – Grant Administration

Chapter 5 -Consequences of Non-compliance (Articles 27 – 35)

Section 1 – Rejection of costs and contributions

Section 2 – Suspension and termination

Section 3 – Other consequences: Damages and Administrative Sanctions

Section 4 – Force Majeure

Chapter 6 Final provisions (Articles 36-44)

Annexes

The MGA includes the following **Annexes**:

- Annex 1 – **Description of the Action** (DoA)
- Annex 2 – Estimated **budget**
- Annex 2a – Information on unit costs, if applicable
- Annex 3 – Accession Forms, if applicable
- Annex 3a – Declaration on joint and several liability of affiliated entities, if applicable
- Annex 4 – Model for the financial statements
- Annex 5 – Specific rules, if applicable

Horizon Europe Budget categories vs H2020

Horizon 2020 standard budget categories:

1. Personnel costs
2. Subcontracting
3. Other direct costs
4. Indirect costs

Horizon Europe standard budget categories:

1. Personnel costs
2. Subcontracting costs
3. Purchase costs (including non-deductible VAT)
 - Travel cost
 - Equipment costs – depreciation costs of equipment
 - Costs of other goods, works and services
4. Specific costs categories (if option applies)

Other cost categories (if option applies)

D1 - Financial support to third parties (FSTP)

Certain calls allow the project consortium to provide financial support to third parties (in the form of grants, prizes or similar forms of support) under special conditions.

D2 - Internally invoiced goods and services:

Goods or services which are provided within the beneficiary's organisation directly for the action and which the beneficiary values on the basis of its usual cost accounting practices. (Examples: self-produced consumables, use of specific devices or facilities needed for the action hosting services). *This option is always available for use.*

D3 - Transnational access to research infrastructure:

Access to facilities that provide resources and services for the research communities to conduct research and foster innovation in their fields.

D4 - Virtual access to research infrastructure:

similar case as above but access is only virtual. o D5 - PCP/PPI procurement: Costs related with the procurement activities under this specific category of projects.

D6 - Euratom Co-fund staff mobility costs:

Costs related with the mobility of the staff under this specific category of projects.

D7 - ERC additional funding:

Costs related to ERC projects (eligible to calculate indirect costs).

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

Flat-rate costs

- Calculated by applying 25% to eligible direct costs

Indirect Costs

- Indirect costs (overheads) are calculated on the basis of a 25% flat rate of the total direct eligible costs, excluding subcontracting (and all costs under specific cost categories except ERC additional funding) and beneficiaries do not have to provide any proof of these costs – no supporting documents are required – such as invoices or receipts – to support these costs.
- 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
- The percentage is the same as Horizon 2020 (EDCTP 2 funding framework)

■ 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).

Subcontracting (1)

- Subcontracting costs for the action (including related duties, taxes and charges, such as non-deductible or non-refundable value added tax (VAT)) are eligible, if they:
 - Are calculated on the basis of the costs actually incurred
 - Fulfil the general eligibility conditions
 - Are awarded using the beneficiary's usual purchasing practices — provided these ensure subcontracts with best value for money (or if appropriate the lowest price) and that there is no conflict of interests.
- Beneficiaries that are 'contracting authorities/entities' within the meaning of the EU Directives on public procurement must also comply with the applicable national law on public procurement.

Subcontracting (2)

- Subcontracting may cover only a limited part of the action.
- The tasks to be subcontracted and the estimated cost for each subcontract must be set out in Annex 1.
- The total estimated costs of subcontracting per beneficiary must be set out in Annex 2 (or may be approved ex post in the periodic report, if the use of subcontracting does not entail changes to the Agreement which would call into question the decision awarding the grant or breach the principle of equal treatment of applicants (simplified approval procedure).

Subcontracting (4)

- A subcontract means the purchase of goods, works or services that are identified in Annex 1 of GA as action tasks.
- The beneficiaries must award the subcontracts ensuring the best value for money or, if appropriate, the lowest price. In doing so, they must avoid any conflict of interests.
- The use of subcontractors was foreseen in Annex 1. The EDCTP may however approve subcontracts not set out in Annex 1 and 2 without amendment if they are specifically justified in the periodic technical report and
- Subcontracting costs were declared in the subcontracting category of the financial statement (financial report)
- Supporting documents on the selection and award procedure were kept

■ Subcontracting points to note (1)

- Subcontracting to beneficiaries is not allowed in the same grant. if one beneficiary needs the services of another to perform its part of the work it is the second beneficiary who should declare its own costs for that work
- Subcontracting to affiliates is normally not allowed in the same grant. Subcontracting to affiliated entities not participating in the action is possible only exceptionally e.g. in case of monopoly or where they have a framework contract (affiliate is their usual provider)

■ Subcontracting points to note (2)

- Subcontracting to associated partners or third parties giving in-kind contributions — Exceptionally possible, e.g. in case of monopoly or where they have a framework contract (the associated partner or third party giving in-kind contributions is their usual provider) and provided that the Annex 1 DoA explains clearly what tasks the participant will perform as associated partner, or contribute to as third party giving in-kind contributions and what tasks will be performed as subcontractor
- The subcontracting needs to comply with the general and specific eligibility conditions, including ensuring best value for money or lowest price and avoid any conflict of interest.

Distinction between contracts to purchase of goods, works or services and subcontracting (1)

Subcontracts concern the implementation of action tasks that are described in Annex 1. The price for the subcontracts must be declared as 'direct costs of subcontracting'. The declared costs of subcontracting shall be excluded in the calculation of indirect costs. The formula for calculating indirect costs is: $(\text{total eligible costs} - \text{subcontracting costs}) \times 25\%$.

Distinction between contracts to purchase of goods, works or services and subcontracting (2)

- Purchase contract means ordinary contract for services, works or goods needed to carry out the action, including the purchase of consumables and supplies. Purchase contracts are not implementation of action tasks, but they are necessary to implement action tasks by beneficiaries.
- They do not have to be indicated in Annex 1. The price for contracts is declared as 'purchase costs' in the financial statement. They will be considered in the application of the flat-rate for indirect costs.

Subcontractor's rights and obligations

The subcontractor has no contractual relation with the EDCTP or other beneficiaries. However, the subcontractor can be audited by the EDCTP, the European Commission, the European Anti-Fraud Office (OLAF) and the Court of Auditors.

Purchase costs (1)

- **Travel costs**

Travel costs include subsistence, transportation costs, accommodation, per diems (daily allowances for food, accommodation, etc.), costs for meals when on a trip related to the project (all such costs must be in line with the beneficiary's usual practices on travel).

- **Equipment**

Equipment that is used in the project but only its depreciated costs according to the accounting system of each beneficiary.

- **Other goods, works and services**

These include, for example, consumables and supplies, promotion, dissemination, protection of results, translations and publications, if required under the Agreement.

Purchase costs (1)

Purchase costs for the action (including related duties, taxes and charges, such as non-deductible or non-refundable value added tax) are eligible if they:

- Fulfil the general eligibility conditions, and
- They are bought using the beneficiary's usual purchasing practices — provided these ensure purchases with best value for money (or if appropriate the lowest price) and that there is no conflict of interests

Travel and subsistence costs

Purchases for travel, accommodation and subsistence must be calculated as follows:

- Travel: actual cost incurred and in line with the beneficiary's usual practices on travel
- Accommodation: actual cost incurred and in line with the beneficiary's usual practices on travel
- Subsistence: actual cost incurred

Equipment

- Purchases of equipment, infrastructure or other assets used for the action must be declared as depreciation costs, calculated on the basis of the costs actually incurred and written off in accordance with international accounting standards and the beneficiary's usual accounting practices.
- Only the portion of the costs that corresponds to the rate of actual use for the action during the action duration can be taken into account.
- 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.

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

Option for charging equipment costs

Charging the depreciation cost of the equipment, infrastructure or other assets (this is the default option)

■ 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.

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.

Example: depreciation calculation

- Cost of equipment: EUR 24,000
- Useful life of equipment = 4 years
- Purchase date: 1 June 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
 $= (24,000/4) * (10/12) = \text{EUR } 5,000$

Other goods, works and services

Purchases of other goods, works and services must be calculated on the basis of the costs actually incurred.

Financial support to third parties (1)

- This can be in form of grants, prizes or similar forms of support (if any)
- The recipients are not party to the Grant Agreement and therefore do not need to be listed nor be registered in the Participant Register.
- Costs for providing financial support to third parties are eligible, if they are:
 - Declared as eligible in the call conditions;
 - Fulfil the general eligibility conditions; and
 - Calculated on the basis of the costs actually incurred and the support is implemented in accordance with the conditions set out in Annex 1

Financial support to third parties (for grants or similar)

These conditions must ensure objective and transparent selection procedures and include at least the following:

- The maximum amount of financial support for each recipient; this amount may not exceed the amount set out in the Data Sheet (see Point 3) or otherwise agreed with the EDCTP
- The criteria for calculating the exact amount of the financial support
- The different types of activity that qualify for financial support, on the basis of a closed list
- The persons or categories of persons that will be supported, and
- The criteria and procedures for giving financial support

Financial support to third parties (for prizes or similar)

- These conditions must ensure objective and transparent selection procedures and include at least the following:
 - The eligibility and award criteria
 - The amount of the prize and
 - The payment arrangements
- This cost will not be taken into account for the indirect cost flat-rate

Internally invoiced goods and services (1)

- Internally invoiced goods and services' means goods or services which are provided within the beneficiary's organisation directly for the action and which the beneficiary values on the basis of its usual cost accounting practices.
- No indirect cost (25%) are received on this cost
- It is NOT necessary to have a document called 'internal invoice' to support these costs, but the beneficiary should have a documented methodology how to determine them (such a methodology must be part of its usual costs accounting practices).

Internally invoiced goods and services (2)

- 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 they are declared as eligible in the call conditions, and 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
 - according to usual cost accounting practices which are applied in a consistent manner, based on objective criteria, regardless of the source of funding.

Note

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.

Internally invoiced goods and services (3)

- The beneficiary must consistently apply its usual cost accounting practices to calculate the unit cost, based on objective criteria that must be verifiable if there is a check, audit, review or investigation. You must do this no matter who is funding the action.
- Setting up a new unit cost which applies only to EDCTP funded projects, the internally invoiced costs based on that new unit cost would be ineligible as they would not be your usual cost accounting practice.
- Adjusting a unit cost calculation by removing ineligible elements to comply with the Grant Agreement will be considered as usual cost accounting practice and not as a new unit cost.

Internally invoiced goods and services (4)

If necessary, the unit cost must be adjusted to remove:

- Cost elements that are ineligible under the Grant Agreement (even if they are part of the beneficiary's usual methodology for determining the unit cost for its internal invoices)
- Costs of resources that do not belong to the beneficiary and which it uses free of charge (e.g. personnel or equipment of a third party provided free of charge), because those costs are not in its accounts.
- Costs that are already included in other budget categories (double funding of the same costs)

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Internally invoiced goods and services (5)

Example from the Horizon Europe Annotated Grant Agreement:

- The beneficiary uses internal invoices for the use of an electronic microscope based on a unit cost per hour of use. The methodology to calculate the unit cost includes costs of capital (e.g. interest charged by the bank for a loan used to buy the microscope). Those costs are ineligible under the Grant Agreement and must therefore be removed. The unit cost must be recalculated without them.
- The beneficiary uses internal invoices for water chemistry analyses, based on a unit cost per water sample analysed. The methodology to calculate the unit cost includes the cost of the staff carrying out the analysis. However, the costs for those persons are already charged to the action under direct personnel costs. The cost of the staff must therefore be removed, and the unit cost must be recalculated without them.

Other goods, works and services costs

This cost category covers anything that you cannot include elsewhere and is still eligible. Examples of other goods and services include:

- Consumables and supplies
- Dissemination costs (project web site, printing costs for leaflets, conference costs etc.)
- Auditing costs (certificates on financial statements)
- Translation costs

■ Grant (Article 5)

- Form of grant
- Maximum grant amount
- Funding rate
- Estimated budget, budget categories and forms of funding
- Budget transfers (budget flexibility)

Form of grant

EDCTP grants are mainly action grants, which are budget-based mixed actual cost grants. These are grants based on actual costs incurred, but which may also but which may also include other forms of funding such as:

- Unit costs or contributions
- Flat-rate costs or contributions
- Lump sum costs or contributions
- Financing not linked to costs

Maximum grant amount

- The maximum grant amount set out in the Data Sheet (Point 3) and in the estimated budget (Annex 2). This is maximum amount of funding that the Global Health EDCTP3 Joint Undertaking has available for the grant. It is a ceiling and not necessarily the **final grant amount**.
- The Global Health EDCTP3 Joint Undertaking will make funds available to the beneficiary up to the maximum amount specified in the grant agreement (Data sheet point 3).
- The maximum grant amount cannot be exceeded in an EDCTP 3 grant.

Funding rate

The funding rate of the project is set out in the Datasheet (Point 3).

Estimated budget, budget categories and forms of funding (1)

- The estimated budget of the action is calculated on the basis of the estimated eligible costs and is annexed to the Grant Agreement as Annex 2.
- Annex 2 contains the estimated eligible costs and contributions for the action, broken down by participant and budget category
- Annex 2 also shows the types of costs and contributions (forms of funding) to be used for each budget category.
- If unit costs or contributions are used, the details on the calculation will be explained in Annex 2a.

Estimated budget, budget categories and forms of funding (2)

The standard budget categories are:

- Personnel costs
- Subcontracting costs
- Purchase costs
- Other cost categories
- Indirect costs

■ Payments and recoveries (Article 21)

- Payments and payment arrangements
- Types of payments and due dates
- Calculations of amount due
- Conditions for payments (initial pre-financing, additional pre-financing, interim and final)
- Amount due at beneficiary termination
- Enforced recovery
- The Mutual Insurance Mechanism (MIM)

Payments and payment arrangements

- Payments will be made in accordance with the schedule and modalities set out in the Data Sheet (see Point 4.2).
- Payment will be made in euro to the bank account indicated by the coordinator and must be distributed by the coordinator without unjustified delay (restrictions may apply to distribution of the initial pre-financing payment; see Data Sheet, Point 4.2).
- The cost of the transfer will be borne as follows:
 - EDCTP bears the cost of transfers charged by its bank
 - The beneficiary bears the cost of transfers charged by its bank
 - The party causing a repetition of a transfer bears all costs of the repeated transfer.

Types of payment, amounts due and due dates

EDCTP makes payments to the coordinator of the project. EDCTP will make payments in accordance with what is set out in the Data Sheet Point 4.2. The coordinator then transfers the payments to the partners. There are four types of payments that EDCTP makes to coordinators:

1. Initial prefinancing
2. Additional prefinancing payment (if applicable)
3. Interim payments
4. Final payment (payment of the balance)

Initial prefinancing

- This payment is made before the beginning of the action.
- The aim of the prefinancing is to provide the beneficiaries with a float. It remains the property of the EU until the final payment.
- Pre-financing will not be paid before the Grant Agreement is signed (even if the starting date of the action is before).
- The due date is 30 days from entry into force or 10 days before starting date – whichever is the latest. It allows the consortium to start working on the project.
- Payments will not be made if the payment deadline or payments are suspended
- The prefinancing amount is set out in the datasheet (Point 4.2).
- The contribution to the Mutual Insurance Mechanism will be retained from the prefinancing payments (at the rate and in accordance with the modalities set out in the Data Sheet; Point 4.2) and transferred to the Mechanism.

Additional prefinancing payment (if applicable)

- This payment (if any) is due 60 days from receiving additional prefinancing report.
- The additional prefinancing report is due 60 days after end of reporting period.
- The additional prefinancing amount is set out in the datasheet (Point 4.2). If the use of the previous prefinancing payment shows that less than 70% was used, the amount set out in the Data Sheet will be reduced by the difference between the 70% threshold and the amount used.

The amount of the initial and additional pre-financings (1)

The amount of the initial and additional pre-financings (if any) are fixed by EDCTP before grant signature. The calculation is usually based on a percentage of the maximum grant amount in Annex 2. It will be lowered for additional pre-financings if the beneficiaries used less than 70% of the previous pre-financing. The amount of the initial and additional pre-financings are set out in the datasheet of the grant agreement (Point 4.3). The EDCTP will inform the coordinator about the amount paid in the pre-financing payment letter.

The amount of the initial and additional pre-financings (2)

Example

Extract from the Data sheet

Prefinancing	
Type	Amount (EUR)
Initial pre-financing	120,000
Additional pre-financing	80,000

- The consortium reports in the statement of use of previous pre-financing payment that only EUR 72,000. Calculate the amount of the additional pre-financing amount.

Solution

- Additional pre-financing = $80,000 - ((120,000 \times 0.7) - 72,000) = \text{EUR } 68,000$

The amount of the initial and additional pre-financings (2)

An action with a maximum grant amount of EUR 2,500,000 and a pre-financing amount of EUR 900,000. If the MIM rate in the Datasheet is 5%, then EUR 125,000 (5% of the maximum grant amount of EUR 2,500,000) will be retained from the EUR 900,000 pre-financing resulting in a payment of EUR 775,000 ($900,000 - 125,000$) to the coordinator.

Interim payments (1)

- Interim payments reimburse the eligible costs and contributions claimed for the implementation of the action during the reporting periods (if any).
- Interim payment is subject to the approval of the periodic report. Its approval does not imply recognition of compliance, authenticity, completeness or correctness of its content.
- Interim payments will not be made if the payment deadline or payments are suspended
- Interim payments are made 90 days from receiving each periodic report (up to 90% of the total grant). A periodic report is due 60 days after end of reporting period.

Interim payments (2)

EDCTP determines the amount of the interim payments in two steps:

Step 1 — Calculation of the total accepted EU contribution
= (Accepted costs of each beneficiary x funding rate)
adjusted for requests for a lower contribution to costs,
grant reductions from beneficiary termination and CFS
threshold cappings, adding the contributions

Step 2 — Limit to the interim payment ceiling

The resulting amount is then capped to ensure that the total amount of prefinancing and interim payments does not exceed the interim payment ceiling set out in the Data Sheet (Point 4.2).

■ Final payment (payment of the balance) -1

- The final payment (payment of the balance) reimburses the remaining part of the eligible costs and contributions claimed for the implementation of the action (if any).
- The final payment (payment of the balance) after the end of the action.
- Payment is subject to the approval of the final periodic report. Its approval does not imply recognition of compliance, authenticity, completeness or correctness of its content.
- This payment is due 90 days from receiving period the final periodic report. The final report is due 60 days after the end of the final reporting period.

Final grant amount

The EDCTP calculate the final grant amount for the action following three steps:

Step 1 — Calculation of the total accepted EU contribution

Step 2 — Limit to the maximum grant amount

Step 3 — Reduction due to the no-profit rule

Recoveries

- Recoveries will be made, if — at beneficiary termination, final payment or afterwards — it turns out that the EDCTP has paid too much and needs to recover the amounts undue.
- Each beneficiary's financial responsibility in case of recovery is in principle limited to their own debt and undue amounts of their affiliated entities.
- In case of enforced recoveries (see Article 22.4), affiliated entities will be held liable for repaying debts of their beneficiaries, if required by the EDCTP (see Data Sheet, Point 4.4).

Balance (amount to be paid or recovered)

- The balance (amount to be paid or recovered) will be equal to the accepted EU contribution minus payments received by the beneficiary (pre-financing(s) and interim payments; if any).
- The EDCTP will make sure that the amount in question is recovered from the beneficiary concerned and injected back into the consortium (debit note issued by the EU). If the beneficiary doesn't honour the debit note, the EDCTP may call on the MIM to intervene and then recover the amount for the MIM (if needed by enforcing the recovery, using the mechanisms set out in Article 22.4).

Example from the Annotated Agreement for calculating the amount due at beneficiary termination

- Grant with three beneficiaries (A, B and C) and two reporting periods.
- Maximum grant amount: EUR 500 000 (beneficiary maximum grant amounts in Annex 2: A= EUR 200 000; B= EUR 200 000; C= EUR 100 000).
- Funding rate: 100 %. No contributions.
- Pre-financing: EUR 200 000.
- Accepted EU contribution: Beneficiary A goes bankrupt in the middle of the action and is terminated at month 18 (of 36), just before the end of RP1.
- Costs declared by beneficiary A in the termination report = EUR 62,500.
- Costs rejected for beneficiary A following audit = EUR 12,500.
- Accepted costs beneficiary A: EUR 62 500 – EUR 12 500 = EUR 50,000.
- Application of funding rate: EUR 50 000 (total accepted EU contribution).
- Beneficiary balance: Payments received by beneficiary A (according to the report on the distribution of payments): EUR 60 000.
- Beneficiary A balance = EUR 50 000 (accepted EU contribution) – EUR 60 000 (payments received) = EUR -10 000 (excess payments of EUR 10 000).
- Recovery: Amount to be recovered from beneficiary A: EUR 10 000 (negative balance of EUR 10 000 must be returned to the consortium).

The Mutual Insurance Mechanism (MIM) -1

- The Mutual Insurance Mechanism in Horizon Europe replaces the Guarantee Fund in Horizon 2020.
- Five to eight percent of the maximum EU grant is deducted from the pre-financing payment at the start of the project and paid into the MIM (the exact rate is set out in point 4.2 of the Data Sheet of the Grant Agreement). This amount will be transferred to the coordinator at the end of the action
- The Mutual Insurance Mechanism (MIM) provides security against certain defaults in payment. Each beneficiary's financial liability to EDCTP is in principle limited to their own debt and undue amounts paid for costs declared by their affiliated entities. The settlement of financial claims between beneficiaries requires an internal solution within the consortium. It is only for the contribution to the MIM that financial responsibility is shared.

The Mutual Insurance Mechanism (MIM) -2

- If a beneficiary fails to fulfil its obligation, at termination, to pay back any undue amounts to the consortium, the EDCTP may call on the MIM to intervene and then start a recovery procedure against the beneficiary in the name of the MIM (debit note). The MIM will intervene during an ongoing action if a beneficiary withdraws from the action and does not or is not able to repay the excess amount received.
- After the end of the action, the MIM will intervene and transfer the amount to EDCTP if the EDCTP issues a recovery order at the payment of the balance (final payment) and the beneficiary did not pay.

Release of the Mutual Insurance Mechanism to the coordinator

Between 5 to 8% of the maximum EU grant is deducted from the pre-financing payment at the start of the project and paid into the MIM. The exact rate is set out in point 4.2 of the Data Sheet of the Grant Agreement. If all costs are considered eligible, this fund is being released to the coordinator at the end of the project when the final payment is being made.

Payment offsetting

- All payments (pre-financings, interim payments and final payment) may be offset against debts of any of the beneficiaries towards EDCTP — up to the amount due to that beneficiary based on its eligible cost and contributions.
- This offsetting will be done automatically and is not subject to the consent of the beneficiary concerned.

Payment deadline

- All payments are subject to a payment deadline (i.e. number of days within which the EDCTP has to pay the consortium — after having received the payment request). The deadline is defined in the Data Sheet.
- If there are issues with the payment request or with the costs declared which make it impossible to continue with the payment, EDCTP will suspend the deadline (Article 29).
- The EDCTP can also, in specific circumstances, suspend payments (Article 30).

Payment distribution (1)

- The payments are made to the coordinator's bank account as set out in the Grant Agreement; the beneficiaries are not paid individually by the EDCTP.
- The coordinator must distribute the amounts received to the beneficiaries. How and when the payments are distributed is in principle an internal matter for the consortium – according to the Consortium Agreement.
- The consortium agreement (if applicable) may set out, for instance, specific periods for the distribution of payments or that the distribution will be carried out in instalments.

Payment distribution (2)

- The consortium agreement may provide for a distribution of the funding which is different from the contribution approved by the EDCTP for each beneficiary.
- If the coordinator does not comply with its payment distribution obligations, this is in principle an issue to be resolved within the consortium. However, persistent failure to comply with obligations of the coordinator (such as distribution of payments) may lead to any of the consequences as provided under the respective measure in Chapter 5.
- The EDCTP will normally not be informed of the distribution of the payments by the coordinator, unless:
 - if it specifically requests this;
 - in the event of recovery at the payment of the balance (see Article 22.3.4); and
 - if the participation of one or more beneficiary is terminated (see Article 22.3.2).

Article 7: Beneficiaries (1)

- The beneficiaries, as signatories of the Agreement, are fully responsible towards the EDCTP for implementing it and for complying with all its obligations.
- Beneficiaries must implement the Agreement to their best abilities, in good faith and in accordance with all the obligations and terms and conditions it sets out.
- They must have the appropriate resources to implement the action and implement the action under their own responsibility. If they rely on affiliated entities or other participants, they retain sole responsibility towards the EDCTP and the other beneficiaries.
- They are jointly responsible for the technical implementation of the action.

Article 7: Beneficiaries (2)

- If one of the beneficiaries fails to implement their part of the action, the other beneficiaries must ensure that this part is implemented by someone else (without being entitled to an increase of the maximum grant amount and subject to an amendment).
- The financial responsibility of each beneficiary in case of recoveries is governed by Article 22.
- The beneficiaries (and their action) must remain eligible under Horizon Europe funding the grant for the entire duration of the action. Costs and contributions will be eligible only as long as the beneficiary and the action are eligible.

Roles and responsibilities of each beneficiaries

- Keep information stored in the Portal Participant Register up to date (Article 19)
- Inform the EDCTP (and the other beneficiaries) immediately of any events or circumstances likely to affect significantly or delay the implementation of the action (see Article 19)
- Submit to the coordinator in good time:
 - The financial statements and certificates on the financial statements (Articles 21 and 24.2; and Data Sheet, Point 4.3)
 - The contribution to the deliverables and technical reports (see Article 21)
 - Any other documents or information required by the EDCTP under the Agreement
- Submit via the Portal data and information related to the participation of their affiliated entities.

The Coordinator

1. The coordinator must:
 - a) Monitor that the action is implemented properly;
 - b) Act as the intermediary for all communications between the consortium and the EDCTP, unless the Agreement or EDCTP specifies otherwise, and in particular:
 - Request and review any documents or information required and verify their quality and completeness before passing them on to the EDCTP
 - submit the deliverables and reports to the EDCTP
 - Inform the EDCTP about the payments made to the other beneficiaries (report on the distribution of payments; if required)
 - c) Distribute the payments received from the EDCTP to the other beneficiaries without unjustified delay.
2. The coordinator may not delegate or subcontract the above-mentioned tasks to any other beneficiary or third party (including affiliated entities).

Affiliated entities (1)

- Affiliated entities (H2020 called it 'linked third parties') are entities with a (usually legal or capital) link to a beneficiary and which implement parts of the action and are allowed to charge costs directly to the grant.
- They do not sign the Grant Agreement and therefore not beneficiaries.
- They can be part of the consortium and often play an important role in implementing the action.
- The Grant Agreement mentions them by name and defines their role (rights and obligations).
- They do not charge a price but declare their own costs.

Affiliated entities (2)

- The beneficiary remains responsible towards the EDCTP for the work carried out by its affiliated entities and for the recovery of undue payments from its affiliated entities (if any).
- They are treated in many ways like beneficiaries, including:
 - Having their own financial statement
 - Providing their own certificate of financial statement
 - Contribute to the preparation of the technical report
 - Submitting deliverables
- Affiliated entities do not however have direct access to the Portal My Area section. They therefore always need to go through their beneficiaries (to sign the declaration of honour, submit financial statements, and contribute to the technical report).

Affiliated entities - Examples

- Company A established in France holding 20% of the shares in Company B established in Italy. However, with 20% of the shares, it has 60% of the voting rights in company B. Therefore, company A controls company B and both companies may be affiliated entities.
- Company X and company Y do not control each other, but they are both owned by company Z. They are both considered affiliated entities.
- The Ministry A is in accordance with national law the supervisory authority of a national agency. They can be considered as affiliated entities. Conversely, if the national agency is by statute set up as independent from the central government, the agency and the Ministry should instead participate as separate beneficiaries (or other fitting roles).
- Associations, foundations or other legal entities composed of members — That entity is generally the beneficiary and the members are the affiliated entities.

Affiliated entities – points to note

- Just like beneficiaries, affiliated entities must normally fulfil the conditions for participation and funding.
- Company A established in Germany is a beneficiary in a grant. A owns B, a French company and also owns C, a company established in a non-EU country not associated to the programme. B and C may be considered affiliates to A, however only B may participate as affiliated entity to A, because company C is established in a non-associated third country and is therefore not eligible. C can instead participate as an associated partner
- Affiliated entities must be listed in Article 8, their tasks must be mentioned in Annex 1 and their budget in Annex 2. There is NO simplified approval procedure.
- The beneficiaries are responsible for the proper implementation of the action tasks done by affiliated entities (proper quality, timely delivery, etc).
- They must moreover ensure that the affiliated entities comply with the same obligations as they themselves

Other participants involved in the action (article 9)

- Associated partners
- Third parties giving in-kind contributions to the action
- Subcontractors
- Recipients of financial support to third parties

Associated partners (1)

- Associated partners are entities that implement action tasks, but without receiving EU funding.
- They do not sign the Grant Agreement (and are therefore not beneficiaries).
- They perform action tasks attributed to them in the DoA Annex 1
- They participate at own costs (do not receive EU funding).
- The consortium (or, in case the associated partner cooperates with a specific beneficiary as named in Article 9.1, that beneficiary) remains responsible towards the EDCTP for the work performed by the associated partners.
- Associated partners do not need to have a (capital or legal) link to any beneficiary (but they may have one).
- Since they do not receive EU funding, associated partners do NOT have to comply with the eligibility conditions (but they may)).
- Associated partners must be listed in Article 9.1, their tasks must be mentioned in Annex 1.

Associated partners (2)

Obligations extended to associated partners include:

- Proper implementation (see Article 11), including compliance with call conditions Avoiding conflict of interest (see Article 12)
- Confidentiality and security obligations (see Article 13)
- Ethics (see Article 14)
- Give visibility to the EU funding (see Article 17.2)
- Respect specific rules for the action implementation (see Article 18), including compliance with specific rules set out in Annex 5
- Information obligations (see Article 19)
- Record-keeping (see Article 20).

■ Third parties giving in-kind contributions to the action (1)

- Third parties may give in-kind contributions to the action if necessary for the implementation. These in-kind contributions can include personnel, equipment, other goods and works, which are free-of-charge.
- Third parties giving in-kind contributions do not implement any action tasks. They may not charge costs or contributions to the action, but the costs for the in-kind contributions are eligible and may be charged by the beneficiaries which use them, under the conditions set out in Article 6.
- The costs will be included in Annex 2 as part of the beneficiaries' costs.
- In-kind contributions and the third parties contributing them must be mentioned in Annex 1

■ Third parties giving in-kind contributions to the action (2)

- The beneficiaries must ensure that the bodies mentioned in Article 25 (EDCTP, OLAF, Court of Auditors) can exercise their rights also towards the third parties giving in-kind contributions.
- Example (from the Horizon Europe Annotated Agreement) of an in-kind contribution that is eligible): Civil servant working as a professor in a public university is also working on the action. His salary is paid not by the beneficiary (the university) but by the government (the ministry). In Horizon Europe, the beneficiary may charge these costs to the grant, even if they are incurred by a third party (the ministry/government).

■ Reporting (Article 21)

- Continuous reporting
- Periodic reporting: Technical reports and financial statements
- Currency for financial statements and conversion into euros
- Reporting language
- Consequences of non-compliance

Continuous reporting

- Continuous reporting means that beneficiaries must continuously report on the progress of the action (including providing regular updates on deliverables, milestones, outputs/outcomes, critical risks, and indicators) in the Portal Continuous Reporting tool in accordance with the timing and conditions agreed with EDCTP.
- The deliverables (including progress reports not linked to payments, if any) must be submitted through the Portal Continuous Reporting tool, in accordance with the schedule set out for them. Both the schedule and templates to be used (if any) are available through the Deliverables screen.

Periodic reporting: Technical reports and financial statements (1)

- In addition to the continuous reporting, beneficiaries (and their affiliated entities) must provide reports to request payments, in accordance with the schedule and modalities set out in the Data Sheet (Point 4.2).
- The coordinator must submit either an additional pre-financing report (for additional pre-financing payment) or a periodic report (for interim and final payment) through the Portal Periodic Reporting tool after the end of each reporting period, including the final one, in accordance with the schedule set out in the Data Sheet (Point 4.2)
- Both the additional pre-financing and periodic reports include a technical and financial part. The technical part includes an overview of the action implementation. It must be prepared using the template available in the Portal Periodic Reporting tool.
- The financial part of the additional pre-financing report includes a statement on the use of the previous pre-financing payment.

■ Periodic reporting: Technical reports and financial statements (2)

- The financial part of the periodic report includes:
 - The financial statements (individual and consolidated; for all beneficiaries/affiliated entities)
 - The explanation on the use of resources (or detailed cost reporting table, if required)
 - The certificates on the financial statements (Article 24.2 and Data Sheet, Point 4.3).
- The financial statements must detail the eligible costs and contributions for each budget category and, for the final payment, also the revenues for the action (see Articles 6 and 22).
- All eligible costs and contributions incurred should be declared, even if they exceed the amounts indicated in the estimated budget (see Annex 2). Amounts that are not declared in the individual financial statements will not be taken into account by the EDCTP.

Periodic reporting: Technical reports and financial statements (2)

By signing the financial statements (directly in the Portal Periodic Reporting tool), the beneficiaries confirm that:

- The information provided is complete, reliable and true
- The costs and contributions declared are eligible
- The costs and contributions can be substantiated by adequate records and supporting documents that will be produced upon request or in the context of checks, reviews, audits and investigations
- For the final periodic report all the revenues have been declared.

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(ECB website), calculated over the corresponding reporting period.
- If no daily euro exchange rate is published in the Official Journal for the currency in question, they must be converted at the average of the monthly accounting exchange rates published on the European Commission website (InforEuro), calculated over the corresponding reporting period.
- Beneficiaries with accounting established in euro must convert costs incurred in another currency into euro according to its usual accounting practices.

Reporting language

The reporting must be in the language of the Agreement, unless otherwise agreed with the EDCTP (see Data Sheet, Point 4.2).

Consequences of non-compliance

- If a report submitted does not comply with this Article, the EDCTP may suspend the payment deadline (see Article 29) and apply other measures described in Chapter 5.
- If the coordinator breaches its reporting obligations, the EDCTP may terminate the grant or the coordinator's participation (see Article 32) or apply other measures described in Chapter 5.

Receipts and no-profit rule (1)

- The grant must not produce a profit.
- The action's total receipts are the consolidated total receipts generated during its duration. The following are considered receipts:
 - Income generated by the action. These include income generated from selling equipment or other assets purchased under the Agreement
 - Financial contributions given by third parties to the beneficiary specifically to be used for the action, and
 - In-kind contributions provided by third parties free of charge and specifically to be used for the action, if they have been declared as eligible costs.

Receipts and no-profit rule (2)

- If there is a receipt, it will be deducted from the final grant amount.
- The following are however not considered receipts:
 - Income generated by exploiting the action's results;
 - Financial contributions by third parties, if they may be used to cover costs other than the eligible costs; and
 - Financial contributions by third parties with no obligation to repay any amount unused at the end of the period set out in Article 3.
- If there is a profit, it will be deducted from the final grant amount.

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.

Indirect costs

- 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)
- In EDCTP funded projects, indirect costs will be reimbursed at the flat-rate of 25% of the eligible direct costs (except volunteer's costs, subcontracting costs, financial support to third parties and exempted specific cost categories, if any).

General eligibility conditions for actual costs (1)

To be eligible, actual costs 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)
- Incurred during the action duration (the generating event that triggers the costs must take place during the action duration set out in the Data Sheet). If costs are invoiced or paid later than the end date, they are eligible only if the debt existed already during the action duration.
- Entered as eligible costs in the estimated budget, under the relevant budget category in Annex 2. Please note that this requirement has no impact on budget flexibility - costs may be transferred between beneficiaries and eligible budget categories without amending the Grant Agreement, under the conditions set out in Article 5.5

General eligibility conditions for actual costs (2)

To be eligible, actual costs must be:

- Connected to the action and necessary for its implementation as described in Annex 1, i.e. to achieve the action's objectives. The grant cannot be used to finance activities other than those approved by EDCTP.
- Identifiable and verifiable, i.e. come directly from the beneficiary/affiliated entity's accounts, be directly reconcilable with them and supported by documentation.
- The records and supporting documents must show the actual costs of the work - what was actually paid and recorded in the beneficiary's accounts
- Costs must be calculated according to the applicable accounting rules of the country in which the beneficiary is established and according to 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.

Personnel

- **A.1:** Costs for employees or equivalent
- **A.2:** Costs for natural persons working under a direct contract
- **A.3:** Seconded personnel by a third party against payment
- **A.4:** SME owners and natural person beneficiaries
- **A.6:** Other personnel costs

■ Personnel A.1: Costs for employees or equivalent (1)

- Costs for employees (or equivalent) are eligible as personnel costs if they fulfil the general eligibility conditions and are related to personnel working for the beneficiary under an employment contract (or equivalent appointing act) and assigned to the action.
- They must be limited to salaries (including net payments during parental leave), social security contributions, taxes and other costs linked to the remuneration, if they arise from national law or the employment contract (or equivalent appointing act)
- They must be calculated on the basis of the costs actually incurred using the formula:

Personnel cost = Daily rate x days worked on the action
(rounded up or down to the nearest half-day)

Personnel A.1: Costs for employees or equivalent (2)

The daily rate must be calculated as:

$$= \frac{\text{Actual annual personnel costs for the person}}{215}$$

- The actual time spent on parental leave by a person assigned to the action may be deducted from the 215 days indicated in the above formula.
- The total number of day-equivalents declared in EU grants, for a person for a year, cannot be higher than 215, minus time spent on parental leave (if any).
- The number of day-equivalents declared for a person must be identifiable and verifiable (Article 20).

■ Personnel A.1: Costs for employees or equivalent (3)

- For personnel which receives supplementary payments for work in projects (project-based remuneration), the personnel costs must be calculated at a rate which:
 - Corresponds to the actual remuneration costs paid by the beneficiary for the time worked by the person in the action over the reporting period;
 - Does not exceed the remuneration costs paid by the beneficiary for work in similar projects funded by national schemes ('national projects reference');
 - Is defined based on objective criteria allowing to determine the amount to which the person is entitled; and
 - Reflects the usual practice of the beneficiary to pay consistently bonuses or supplementary payments for work in projects funded by national schemes.

Personnel A.1: Costs for employees or equivalent (4)

- If the beneficiary uses average personnel costs (unit cost according to usual cost accounting practices), the personnel costs must fulfil the general eligibility conditions for such unit costs.
- The daily rate must be calculated using the actual personnel costs recorded in the beneficiary's accounts and excluding any costs which are ineligible or already included in other budget categories.
- the actual personnel costs may be adjusted on the basis of budgeted or estimated elements, if they are relevant for calculating the personnel 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.

A.2 (Costs for natural persons working under a direct contract) and A.3 (Seconded personnel against payment) -1

- These budget categories cover the costs of two types of persons:
 - Self-employed natural persons (e.g. some types of in-house consultants) who work on the action for the beneficiary under conditions similar to those of an employee, but under a contract that is legally not an employment contract
 - Persons who are seconded by a third party against payment.

A.2 (Costs for natural persons working under a direct contract) and A.3 (Seconded personnel against payment) -2

- They must be calculated on the basis of a rate which corresponds to the costs actually incurred for the direct contract or secondment and must not be significantly different from those for personnel performing similar tasks under an employment contract with the beneficiary.
- A.2 and A.3 are eligible as personnel costs if they are assigned to the action, and fulfil the general eligibility conditions and:
 - work under conditions similar to those of an employee (in particular regarding the way the work is organised, the tasks that are performed and the premises where they are performed), and
 - The result of the work belongs to the beneficiary (unless agreed otherwise).

A.2 (Costs for natural persons working under a direct contract) and A.3 (Seconded personnel against payment) -3

The costs of natural persons with direct contract (A.2) and seconded persons (A.3) must comply with the eligibility conditions set out in Article 6 in particular:

- Fulfil the general conditions for costs to be eligible (i.e. incurred/used during the action duration by the beneficiary, necessary, linked to the action, etc.);
- The person must be hired under either:
 - A direct contract signed between you and the natural person
 - A contract signed between you and a legal entity fully owned by that natural person
 - A secondment agreement with the employer of the natural person

A.2 (Costs for natural persons working under a direct contract) and A.3 (Seconded personnel against payment) -4

- The person must work under conditions similar to those of an employee, in particular:
 - The beneficiary must organise and supervise the work of the person in a way similar to that of its employees
 - The person is subject to similar presence requirements as the employees
 - The remuneration must be based on working time, rather than on delivering specific outputs/products
- The cost of the person must not be significantly different from costs for employees of the beneficiary performing similar tasks.
- The cost must correspond exclusively to the remuneration of the person and related eligible taxes.

■ Direct personnel costs: Seconded personnel (1)

- 'Seconded' means the temporary transfer of personnel from a third party to the beneficiary. The seconded person is still paid and employed by the third party, but works for the beneficiary. He or she is at the disposal of the beneficiary.
- Secondments should be formalized via a secondment agreement. The secondment agreement has to detail the conditions of secondment (tasks, payment (or not) from one entity to the other, duration of the secondment, location, etc.).

■ Direct personnel costs: Seconded personnel (2)

- A secondment normally requires the seconded person to work at the beneficiary's premises, although in specific cases it may be agreed otherwise in the secondment agreement
- The beneficiary must keep records of the hours which the seconded person worked for the action (e.g. time-sheets)

A.4: SME owners and natural person beneficiaries

The work of SME owners for the action (i.e. owners of beneficiaries that are small and medium-sized enterprises not receiving a salary) or natural person beneficiaries (i.e. beneficiaries that are natural persons not receiving a salary) may be declared as personnel costs, if they fulfil the general eligibility conditions and are calculated as unit costs in accordance with the method set out in Annex 2a.

A.6: Other personnel costs

Beneficiaries with personnel unit cost

The personnel costs under categories A.1-A.4 must be declared as unit cost and are eligible, if they fulfil the general eligibility conditions, are calculated as unit costs in accordance with the method set out in Annex 2a and comply with the conditions set out in Points A.1-A.4 for the underlying types of costs (personnel).

Horizontal 215-days ceiling

- If an employee work on multiple projects in a year, the total number of day-equivalents declared across EDCTP funded grants for the person cannot be higher than 215 in a calendar year (or the corresponding pro-rata by multiplying 215 with the working time factor), to avoid double-funding of personnel cost.
- Example: In the reporting period from 01/07/2022 to 31/12/2023 the horizontal ceiling per year for a 50% part-time employee hired on 01/08/2022 would be:
 - 2022: $(215/12 \times 5 \text{ [months employed in the RP]}) \times 0,5 \text{ [part-time]}$
= 45 [rounded]
 - 2023: $(215/12 \times 12) \times 0.5 = 107.5$

Maximum declarable day-equivalents

The maximum declarable day-equivalents for each reporting period are calculated as:

= $(215/12)$ multiplied by the number of months multiplied working time factor (during which the person is employed)

(Rounded the nearest to the nearest half day-equivalent)

Examples from the Annotated Agreement (1)

Example 1: The reporting period runs from 01/01/2022 to 30/06/2022 (6 months):

a) The person is a full-time permanent employee hired in 2020.

The maximum number of day-equivalents to be used in the daily rate formula:
 $= (215/12) \times 6 \times 1 = 107.5$

b) The person is a 50% part-time permanent employee hired in 2020.

The maximum number of day-equivalents to be used in the daily rate formula:
 $= (215/12) \times 6 \times 0.5 = 54$

c) The person is a 50% part-time employee hired on 1/06/2022.

The maximum number of day-equivalents to be used in the daily rate formula:
 $= (215/12) \times 1 \times 0.5 = 9$

Examples from the Annotated Agreement (2)

Example 2: In the reporting period from 01/01/2022 to 31/03/2023 (i.e. 15 months) you hire a new person starting in full-time on 16/01/2023.

The maximum number of declarable day-equivalents is:

$$=(215/12) \times 2.5 \times 1 = 45 \text{ [rounded to the nearest half-day equivalent]}$$

Examples from the Annotated Agreement (3)

For the purpose of all personnel cost calculations a month is considered to have 30 days.

Example

In the reporting period from 01/05/2022 to 31/03/2023, you calculate the number of months to be used when an employee is hired from 05/05/2022 until 20/10/2022:

- May: 26 days as of the day of being hired = $26/30 = 0.87$ months
- June - September: 4 months
- October: 20 days until end of employment = $20/30 = 0.67$ months

Total for the person in the reporting period = $0.87 + 4 + 0.67 = 5.54$ months

Examples from the Annotated Agreement (4)

If the working time factor changes for the person during the reporting period (e.g. a change from part-time to full-time, change of contract), you calculate the maximum declarable day-equivalents separately for the months before and after this change of condition and add them up afterwards to calculate the maximum declarable day-equivalents for the reporting period.

Example: In the reporting period from 01/01/2022 to 31/03/2023, you work full-time in 2022 and 50% part-time in 2023.

You calculate the maximum declarable day-equivalents separately for 2022 and 2023 (because conditions have changed).

2022: (12 months of full-time work) :

$$= (215/12) \times 12 \times 1 = 215$$

2023: 3 months of part-time work:

$$= (215/12) \times 3 \times 0.5 = 26.88$$

The total maximum declarable day-equivalents for the reporting period:

$$= 215 + 26.88 = 242 \text{ (rounded to the nearest half-day equivalent)}$$

Examples from the Annotated Agreement (5)

Calculation of the daily rate

Daily rate per person for the reporting period is calculated using:

(Actual personnel costs during the months within the reporting period)

Divided by

(Maximum declarable day-equivalents)

Examples from the Annotated Agreement (6)

Example: In the reporting period from 01/12/2021 to 31/05/2023 (18 months), the person works 50% part-time from 01/12/2021 to 31/05/2022 (6 months) and full-time afterwards (12 months). After taking into account all eligible elements (salary plus social contribution and taxes etc.) you recorded in your accounts a total eligible cost of EUR 15 000 personnel costs for working 6 months part-time and EUR 60 000 for 12 months full-time. Total cost of EUR 75 000.

Maximum declarable day-equivalents must be calculated separately due to a change from part-time to full-time work.

The 6 months of part-time work calculation would be:

$$= (215/12) \times 6 \times 0.5 = 53.75$$

The 12 months full-time period:

$$(215/12) \times 12 \times 1 = 215$$

The maximum number of declarable day-equivalents for the reporting period would be $53.75 + 215 = 269$ (rounded to nearest half-day equivalent).

$$\text{Daily rate} = \text{EUR } 75,000 / 269 = \text{EUR } 278.81$$

■ Specific cases: Teleworking

Teleworking days are accepted if:

- The beneficiary has in place clear rules allowing for teleworking, and
- The teleworked days were in line with those rules (for example: they did not exceed the maximum days of teleworking allowed by the beneficiary's rules).

Special cases: End-of-contract indemnities during the action (1)

- If the employment of a person working on the action ends during the action, the beneficiary may declare cost for end-of-contract indemnities, if in line with the general and specific eligibility conditions, and in particular that it is their usual remuneration practices.
- The eligible part of the indemnity can be charged in the reporting period in which the employee's contract ends. Since the entitlement to such indemnities is most often generated over a period of time longer than the reporting period (or the action), only the part of the indemnity that corresponds to the time worked by the person on the action can be charged. This pro-rata amount should be added separately on top of the personnel costs calculated on the basis of the daily rate.

Special cases: End-of-contract indemnities during the action (2)

Example: 6 month into the second reporting period (both RPs of 12 month) of an action, a full-time employee, having worked a total of 154 day-equivalents on the action, stops being employed and is entitled to an end-of-contract indemnity of EUR 10,750. The employee has accumulated this indemnity over 5 years (60 months) of employment. You have determined that 3000€ of this are attributable to the time of employment during the action (taking into account e.g. changes in salary, indemnity conditions, working time, etc.).

Portion of the indemnity chargeable to the grant =

= EUR 3000 divided by (215 [maximum declarable day equivalents RP1]
+ 107.5 [maximum declarable day equivalents RP2]) }
= EUR 9,30 per declarable day equivalent.

Then you multiply the indemnity amount per day-equivalent with the day-equivalents actually worked on the action, i.e. EUR 9.30 x 154 [day equivalents worked on the action in RP1+RP2] = EUR 1,432.20.

Special cases: Contracts without fixed salary/hours

- The maximum number of declarable day-equivalents for employees that do not have a fixed amount of salary and working hours defined in their contract but only an hourly rate (where allowed by applicable law and not fitting under other cost categories, e.g. SME owners, Subcontracting) can be calculated as follows:
- (Total salary paid to the employee in the reporting period) divided by (hourly rate fixed in the employment contract)) divided by 8 [default day conversion factor]}

Example: A person does not have a fixed amount of working time and salary set out in the contract but the contract specifies that the persons earns EUR 10/hour when called to perform a certain task. Under the contract, you paid the persons EUR 7000 during the reporting period.

The maximum declarable day-equivalents for the reporting period

$$= (\text{EUR } 7000 / 10) \text{ divided by } 8 = 87.5.$$

■ Staff provided by a temporary work agency

- A contract with a temporary work agency for the provision of staff qualifies typically as a purchase of services (unless the temporary work agency carries out directly some task of the action — in which case it can be considered as subcontracting).
- These costs must not be charged as personnel costs. The costs can be charged under other budget categories (other goods and services or subcontracting), if they comply with the eligibility conditions (e.g. best value for money and no conflict of interest).

Records for personnel costs — Day-equivalents worked for the action (1)

- 1) For persons who work for the action (regardless if they are full-time or part-time employees and/or if they work exclusively or not for the action; new to Horizon Europe), the beneficiaries may either:
 - a) By default, sign a monthly declaration on day-equivalents worked for the action (template), or
 - b) Use another paper- or computer-based reliable time recording system, to record (at least) all the time (days/hours) worked for the action.
- 2) It is recommended to explore the simplification potential of using monthly declarations on days worked for the action. This limits record-keeping burden and avoids the need for conversion of hours into day-equivalents.
- 3) Reliable time records must be dated and signed at least monthly by the person working for the action and their supervisor.

Rounding

- NO rounding (up or down to the nearest half day-equivalent) for the time recording in the monthly declarations.
- The rounding rule applies only for the cost calculation (i.e. the number of day-equivalents to declare and the maximum declarable day-equivalents) and for the conversion from the total hours worked on the action into day-equivalents (in case of time-recording systems based on hours).
- By contrast, it is not allowed to round up or down to the nearest half day-equivalent in the monthly declaration.

Example: If a person with a standard working day of 8 hours worked 2 hours on the action during a given month, 0.25 day-equivalents should be recorded for that month in their monthly declaration.

Conversion of hours into day-equivalents

- If you do not use the monthly declaration of days, and instead record the time worked in hours, you must convert the total hours worked into day-equivalents to calculate the personnel costs for the grant. To convert hours into day-equivalents:
= Number of hours worked by the person on the action during the reporting period divided by the number of hours of a day-equivalent
- The resulting figure must be rounded up or down to the nearest half-day

Examples

15.84 = 16 day-equivalents

15.62 = 15.5 day-equivalents

12.78 = 13 day-equivalents

Options to determine the number of hours of a day equivalent (1)

- **Option 1:** a day equivalent is 8 hours
- **Option 2:** average working hours as per contract (or another binding document, e.g. collective labour agreement, national labour legislation). You cannot use this option if the contract (or other binding document) does not allow to determine the average number of hours that the person must work per day.
- If the number of working hours is specified per day:
= Working hours per day divided by working time factor

Options to determine the number of hours of a day equivalent (2)

Examples

- The employment contract establishes that the person is employed full-time and must work 7.8 hours each working day. A day-equivalent for the person is 7.8 hours ($7.8 / 1$ [working time factor]).
- The employment contract establishes that the person is employed 50% part-time and must work 4 hours each working day. A day equivalent for the person is 8 hours ($4/0.5$ [working time factor]).
- If the number of working hours is specified per week or month:
$$= \{(\text{working hours per week [or month]} \text{ divided by working time factor}) \text{ divided by working days per week [or month]}\}$$

Options to determine the number of hours of a day equivalent (3)

Examples:

- The employment contract establishes that the person is employed full-time (100%) and must work 37.5 hours per week over 5 working days. A day-equivalent for the person is $((37.5/1 \text{ [working time factor]}) / 5 \text{ [days]}) = 7.5 \text{ hours}$.
- The person is employed 50% part-time and the contract establishes that the person must work 18.75 hours per week (consisting of five working days as per the beneficiary's practice). In practice, the person works two full days and a half each week (Monday, Tuesday, Wednesday morning). The number of working days to be used in the formula is 5 (NOT 2.5 or 3 actual days worked). A day-equivalent for the person is $((18.75/0.5 \text{ [working time factor]})/5 \text{ [days]}) = 7.5 \text{ hours}$.
- The person is employed 50 % part-time and the contract establishes that the person must work 80 hours per month over 22 working days. A day-equivalent for the person is $((80/0.5 \text{ [working time factor]})/22 \text{ [days]}) = 7.3 \text{ hours}$.

Options to determine the number of hours of a day equivalent (3)

Option 3: If you have a usual cost accounting practice determining the standard number of annual productive hours of a full-time employee, you may determine the value of a day-equivalent as follows:

{(the higher between the standard number of annual productive hours of a full-time employee and 90 % of the standard annual workable hours of a full-time employee) divided by 215}

Options to determine the number of hours of a day equivalent (4)

- The chosen option must be applied consistently, i.e. using the same option at least per group of personnel employed under similar conditions (e.g. same type of contract, same cost-centre). You cannot apply the most favourable option for each employee individually.
- A conversion normally needs to be done only once per person per reporting period for the purpose of reporting to the EDCTP. It is not required that you keep a parallel record system that directly converts hours into day-equivalents.
- If you keep parallel time record systems, e.g. weekly time-sheets of hours and monthly declarations of days, they must be consistent. In case of significant discrepancies discovered e.g. during checks, reviews and audits, only the set of documents recording the lower amount of days will be accepted.

Budgeting in a clinical trial

In a clinical trial, a budget is an estimate of the amount of financial resources needed to carry out the study over a specified period.

■ Preparing a budget for a research project

- A properly planned budget is critical to the success. Don't prepare a budget in a rush
- You should be able to justify your budget
- Hold discussions with experienced stakeholders: PIs, Coordinators, Grant Finance Officers and other study team members
- Study the protocol
- Understand the cost behavior of your site
- Know the number of patients, number and location of recruitment sites
- Refer to the budgets of recently concluded studies of similar in nature

Budget transfers (budget flexibility) - 1

- The estimated budget breakdown indicated in Annex 2 may be adjusted – without amendment (see article 39) -by transfer of amounts between participants and budget categories if this does not imply any substantive or important change to the description of the action in Annex 1.
- If the incurred eligible costs during the action implementation turn out to be lower than the estimated eligible costs, the difference can thus be allocated to another beneficiary or another budget category.
- The budget in Annex 2 of the GA is an estimate, and therefore at the time of reporting, beneficiaries may declare costs that are different from the estimated eligible costs in the budget

Budget transfers (budget flexibility) - 2

The following changes always require an amendment:

- Changes to the description of the action in Annex 1
- Changes to the budget category for volunteers (if used)
- Changes to budget categories with lump sums costs or contributions (if used; including financing not linked to costs)
- Changes to budget categories or activities with higher funding rates or budget ceilings (if used)
- Activation of the contingency reserve (where foreseen in the grant agreement).

Budget transfers (budget flexibility) - 3

The following require either an amendment or a simplified approval procedure:

- Addition of amounts for subcontracts not provided for in Annex 1
- other changes in certain specific cost categories, if specifically provided for in Article 6.2

Article 20: RECORD-KEEPING (1)

- The beneficiaries (and their affiliated entities) must keep appropriate and sufficient evidence to prove the eligibility of all the costs declared, proper implementation of the action and compliance with all the other obligations under the Grant Agreement. If costs are not supported by appropriate and sufficient evidence, they will be rejected.
- Beneficiaries that do not keep sufficient and appropriate supporting documents will bear the full risk. The EDCTP may take any measures set out in Chapter 5, including to reject cost or reduce or terminate the grant.
- The evidence must be verifiable, auditable and available.
- The evidence must be correctly archived for the duration indicated in the Grant Agreement (see Data Sheet, Point 6)

Article 20: RECORD-KEEPING (2)

- For actual costs, the beneficiaries must:
 - ✓ Keep detailed records and other supporting documents to prove the eligibility of the costs declared
 - ✓ Use cost accounting practices and internal control procedures that make it possible to verify that the amounts declared, amounts recorded in the accounts and amounts recorded in supporting documentation match up.
- The information included in the financial statements for each budget category (i.e. personnel costs, subcontracting costs, etc) must be broken down into details and must match the amounts recorded in the accounts and in supporting documentation.

Article 20: RECORD-KEEPING (3)

Examples from the Horizon Europe Annotated Model Grant Agreement

1) For costs declared in category A.1 Employees (or equivalent):

- The costs must be detailed for each person carrying out work for the action (individual daily rate multiplied by day-equivalents worked for the action)
- They must match the accounting records (i.e. general ledger transactions, annual financial statements) and supporting documentation (employment contracts, payslips, time records, bank statements)

2) For costs declared in category C. Purchase costs:

- The beneficiary must keep a breakdown of costs declared by type (i.e. equipment cost, costs of other goods, works and services, etc). It should be able to provide details of individual transactions for each type of cost. For depreciation, it must be able to provide details per individual equipment used for the action. Declared costs must match accounting records.

Article 20: RECORD-KEEPING (4)

Records for simplified cost and contributions, and financing not linked to cost

- In contrast to actual cost, for simplified cost options (units, lump sums, flat-rates) and financing not linked to cost, keeping of financial records on the actual cost incurred during the action is **NOT** required
- While the EDCTP Grant Agreement does not require beneficiaries to keep financial records on the actual cost incurred (for simplified cost and contributions), this does not release the beneficiary from record-keeping rules under applicable national law

EDCTP Checks, reviews and audits

1. Internal checks
2. Project reviews
3. Audits

Internal checks

The EDCTP may — during the action or afterwards — check the proper implementation of the action and compliance with the obligations under the Agreement, including assessing costs and contributions, deliverables and reports.

Project reviews

The EDCTP authority may carry out reviews on the proper implementation of the action and compliance with the obligations under the Agreement (general project reviews or specific issues reviews).

Auditing

- An audit is defined as an independent examination of, and expression of opinion on the financial statements of an entity
- The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material aspects, in accordance with an identified financial reporting framework.

External auditors' responsibility

Auditors are required to form an opinion as to whether:

- The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate in the circumstances;
- The information presented in the financial statements, including accounting policies, is relevant, reliable, comparable and understandable;
- The financial statements reflect the underlying transactions and events in a manner that fairly presents the financial information in accordance with the applicable financial reporting framework; and
- The financial statements provide sufficient disclosures to enable users to understand the impact of particular transactions or events that have a material effect.

■ The unqualified (unmodified) audit report

- An unmodified opinion is the opinion expressed by the auditor when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Modified opinion (qualified audit report)

A modified opinion is expressed when:

- a) the auditor concludes, based on the audit evidence obtained, that the financial statements as a whole are not free from material misstatement, or
- b) the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

Audits (1)

- The EDCTP may carry out audits on the proper implementation of the action and compliance with the obligations under the Agreement.
- Such audits may be started during the implementation of the action and until the time-limit set out in the Data Sheet (see Point 6).
- The EDCTP may use its own audit service, delegate audits to a centralised service or use external audit firms.
- The beneficiary concerned must cooperate diligently and provide — within the deadline requested — any information (including complete accounts, individual salary statements or other personal data) to verify compliance with the Agreement.

Audits(2)

- For on-the-spot visits, the beneficiary concerned must allow access to sites and premises (including for the external audit firm) and must ensure that information requested is readily available.
- Information provided must be accurate, precise and complete and in the format requested, including electronic format.
- On the basis of the audit findings, a draft audit report will be drawn up.

Audits

- The auditors will formally notify the draft audit report to the beneficiary concerned, which has 30 days from receiving notification to make observations (contradictory audit procedure).
- The final audit report will take into account observations by the beneficiary concerned and will be formally notified to them.
- Audits (including audit reports) will be in the language of the Agreement.
- European Commission has the same rights of checks, reviews and audits as EDCTP

■ OLAF, EPPO and ECA audits and investigations (1)

- The following bodies may also carry out checks, reviews, audits and investigations — during the action or afterwards:
 - The European Anti-Fraud Office (OLAF)
 - The European Public Prosecutor's Office (EPPO) under Regulation 2017/1939
 - The European Court of Auditors (ECA)

OLAF, EPPO and ECA audits and investigations

- The beneficiary concerned must provide to these bodies full, accurate and complete information in the format requested (including complete accounts, individual salary statements or other personal data, including in electronic format) and allow access to sites and premises for on-the-spot visits or inspections.
- The beneficiary concerned must keep all relevant information relating to the action, at least until the time-limit set out in the Data Sheet and, in any case, until any ongoing checks, reviews, audits, investigations, litigation or other pursuits of claims have been concluded.

Certificates on financial statements - Cost

The costs of a required CFS are eligible under the applicable cost category. The costs for CFS that are not mandatory (e.g. because the threshold was not reached or because it was not required in that reporting period) are NOT eligible (because not necessary for the action).

Example

Extract from Point 4.3 of Data Sheet of project X (a 5-year project): CFS mandatory only at final payment and only if requested EDCTP contribution \geq EUR 430,000.

- Beneficiary 1 (one of the beneficiaries of project X) submitted a CFS with the reports of the third-year financial report. **This is not eligible.**
- Beneficiary 2 (one of the beneficiaries of project X) with an actual expenditure of EUR 420,000 submitted a CFS in the final report. **This is not eligible.**
- Beneficiary 3 (one of the beneficiaries of project X) with an actual expenditure of EUR 500,000 submitted a CFS in the final report. **This is eligible.**

Certificates on financial statements (article 24.2) -1

- If required by EDCTP (Data Sheet 4.3), beneficiaries must provide certificates on their financial statements (CFS) in accordance with the schedule, threshold and conditions set out in the Data Sheet,.
- The CFS is a certificate covering the actual costs and costs (or contributions) according to usual accounting practices contained in a financial statement.
- The coordinator must submit them as part of the periodic report (Article 21).

Certificates on financial statements (article 24.2) -2

- The certificates must be drawn up using the template published on the Portal, cover the costs declared on the basis of actual costs and costs according to usual cost accounting practices (if any), and fulfil the following conditions:
 - be provided by a qualified approved external auditor which is independent and complies with Directive 2006/43/EC38 (or for public bodies: by a competent independent public officer)
 - the verification must be carried out according to the highest professional standards to ensure that the financial statements comply with the provisions under the Agreement and that the costs declared are eligible.
- The certificates will not affect the EDCTP's right to carry out its own checks, reviews or audits, nor preclude the European Court of Auditors (ECA), the European Public Prosecutor's Office (EPPO) or the European Anti-Fraud Office (OLAF) from using their prerogatives for audits and investigations under the Agreement.
- If the costs (or a part of them) were already audited by the EDCTP, these costs do not need to be covered by the certificate and will not be counted for calculating the threshold (if any).

■ System and Process Audit (SPA)

1. Which entities can apply for a system and process audit?
2. How can an entity apply for a system and process audit?

Which entities can apply for a system and process audit?

- An entity that uses unit, flat rate or lump sum costs or contributions according to documented usual cost accounting practices, or
- An entity that: (1) has formalized documentation on the systems and processes for calculating their costs and contributions (2) has participated in at least 150 projects under Horizon 2020 or Euratom, and (3) participates in at least 3 ongoing projects under Horizon Europe or Euratom.

System and Process Audit (SPA) steps

- 1) Application by the beneficiary
- 2) If the application is accepted, the EDCTP will carry out the systems and process audit
- 3) The audit result will take the form of a risk assessment classification for the beneficiary: low, medium or high

Low-risk beneficiaries will benefit from less (or less in-depth) ex-post audits (Article 25) and a higher threshold for submitting certificates on the financial statements.

ECA checks and audits

- The European Court of Auditors (ECA) is the external auditing body for all European institutions. As such, it may carry out audits on all recipients of EU funds (including beneficiaries, third parties involved in the action and recipients of financial support or prizes).

Internal control

- The policies, processes, tasks, behaviors and other aspects of an organization that taken together:
- Facilitate effective operation by enabling it to respond in an appropriate manner to significant business, operational, financial, compliance and other risks to achieve its objectives.
- Ensure the quality of internal and external reporting, which in turn requires the maintenance of proper records and processes that generate a flow of timely, relevant and reliable information from both internal and external sources.
- Ensure compliance with applicable laws and regulations and also with internal policies (Turnbull Report).

Objectives of internal controls

- Efficient conduct of business: to ensure that processes flow smoothly and operations are free from disruptions.
- Safeguarding assets: to ensure that assets are deployed for their proper purposes and are not vulnerable to misuse or theft.
- Completeness and accuracy of financial records.
- Preventing and detecting fraud and other unlawful acts.
- Timely preparation of financial statements.

Categories of controls

- Accounting: Accurate accounting records
- Administrative: Achieving objectives
- Prevent: Avoiding errors before they occur
- Detect: Identifying errors once they have occurred
- Correct: addressing the consequence of errors

Common internal control procedures

- Physical controls
- Authorisation and approval limits
- Segregation of duties
- Human resource controls

Internal control classification

- Preventative: stop from happening
- Detective: find what has happened
- Corrective: recovery from consequences
- Directive: clearly document the way things should be done

Preventative: stop from happening

- Physical controls
- Segregation of duties
- Authorisation and approval

Detective: find what has happened

- Bank reconciliation
- Budgetary control
- Stock take
- Internal audit
- Analytical review

Corrective: recovery from consequences

- Disciplinary action
- Error reporting

Directive: clearly document the way things should be done

- Accounting policies and procedures
- Internal control policies

Responsibilities for Internal Control

- Everyone in an organisation has an impact on the operation and effectiveness of internal controls
- The top executives are the ones who must take final responsibility for their establishment and success.
- Section 404 of SOX requires not only that companies that their internal controls and assess their adequacy, but that the company's auditors provide an opinion on management's assesment.

Fraud

The term “fraud” refers to an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.

Types of fraud

- There are two types of fraud that may cause material misstatement in financial statements:
- Fraudulent financial reporting
- Misappropriation of assets

Fraudulent financial reporting

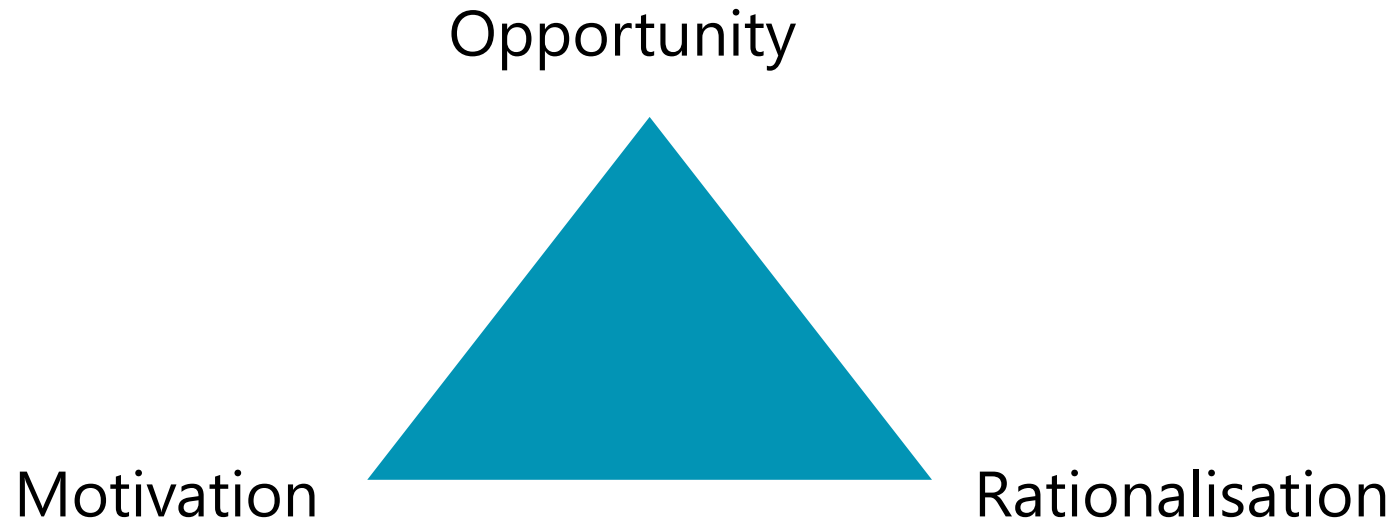
- Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users. Fraudulent financial reporting may include:
- Manipulation, falsification (including forgery), or alteration of accounting records
- Misrepresentation in, or intentional omission from, the financial statements
- Intentional misapplication of accounting principles relating to amounts.

Misappropriation of assets

- Misappropriation of assets involves the theft of an entity's assets. Misappropriation of assets is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing. It includes:
- Embezzling receipts
- Stealing physical assets
- Causing an entity to pay for goods and services not received
- Using an entity's assets for personal use.

Fraud Triangle

The three elements necessary for every for every fraud are referred to as the Fraud Triangle:



Opportunity

- The situation allows fraud to occur
- Fraud is more likely in companies where there is a weak internal control system, poor security over company property, little fear of exposure and likelihood of detection, or unclear policies with regard to acceptable behaviour
- Research has shown that some employees are totally honest, some are totally dishonest, but that many are swayed by opportunity (CIMA article)
- Internal controls are implemented to eliminate opportunity

Motivation

- Motivation based on either greed or need
- Track survey found that greed continues to be the main cause of fraud, resulting in 63% of cases in 2007 (Source CIMA)
- Other causes included problems from debts and gambling
- Some people with good objective principles can fall into bad company and develop tastes for the fast life, which tempts them to fraud

Rationalisation

- Justification for the deceptive act by the one committing the fraud.
- Many people obey the law because they believe in it and/or they are afraid of being shamed or rejected by people they care about if they are caught.
- Some people rationalise fraudulent actions as:
 - Necessary – especially when done for the business
 - Harmless – because the victim is large enough to absorb the impact
 - Justified – because 'the victim deserved it' or 'because I was mistreated'

Responsibilities with regard to fraud

The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and with management.

Auditor's responsibilities with regard to fraud

An auditor conducting an audit in accordance with international auditing standards is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement whether caused by fraud or error.

■ Proper implementation of the action (Article 11)

- Beneficiaries must implement the action as described in Annex 1 and in compliance with the provisions of the Agreement, the call conditions and all legal obligations under applicable EU, international and national law.
- If a beneficiary fails to properly implement the action, the grant may be reduced (Article 28).

■ Conflict of interests (Article 12)

- Beneficiaries must take all measures to prevent any situation where the impartial and objective implementation of the Agreement could be compromised for reasons involving family, emotional life, political or national affinity, economic interest or any other direct or indirect interest.
- Beneficiaries must formally notify the EDCTP without delay of any situation constituting or likely to lead to a conflict of interests and immediately take all the necessary steps to rectify this situation.
- The EDCTP may verify that the measures taken are appropriate and may require additional measures to be taken by a specified deadline.

Article 28: Grant Reduction (1)

The EDCTP may — at beneficiary termination, final payment or afterwards — reduce the grant for a beneficiary, if:

1. The beneficiary (or a person having powers of representation, decision-making or control, or person essential for the award/implementation of the grant) has committed:
 - a) Substantial errors, irregularities or fraud or
 - b) Serious breach of obligations under this Agreement or during its award including improper implementation of the action, non-compliance with the call conditions, submission of false information, failure to provide required information, and breach of ethics or security rules (if applicable), or
2. The beneficiary (or a person having powers of representation, decision-making or control, or person essential for the award/implementation of the grant) has committed — in other EU grants awarded to it under similar conditions — systemic or recurrent errors, irregularities, fraud or serious breach of obligations that have a material impact on the awarded grant.

Article 28: Grant Reduction (2)

Calculation of the reduction

The amount of the reduction will be calculated for each beneficiary concerned and proportionate to the seriousness and the duration of the errors, irregularities or fraud or breach of obligations, by applying an individual reduction rate to their accepted EU contribution.

Article 28: Grant Reduction (3)

Procedure for reduction

- If the grant reduction does not lead to a recovery, the EDCTP will formally notify the coordinator or beneficiary concerned of the reduction, the amount to be reduced and the reasons why.
- The coordinator or beneficiary concerned may — within 30 days of receiving notification — submit observations if it disagrees with the reduction (payment review procedure).
- If the grant reduction leads to a recovery, the EDCTP will follow the contradictory procedure with pre-information letter set out in Article 22.

Effects

If the EDCTP reduces the grant, it will deduct the reduction and then calculate the amount due.



Thank you very much for your
attention

Do you have any questions?