

**BRIEFING**

# Accepting University Accounting Practices under Horizon Europe

Strategic and practical recommendations

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The simplification of EU funding management has attracted considerable attention during preparation of Horizon Europe - the future EU Framework Programme for Research and Innovation. This is because it has the potential to increase the added value and improve the efficiency and impact of EU funds.

EUA understands simplification of EU funds to mean the achievement of a coherent set of rules that take the diversity of actions and beneficiaries covered by the programme into consideration, and that ensures both quality processes and effective use of resources.

Universities are the biggest beneficiaries of Horizon 2020 and comply with various funding programme rules as a result of their involvement in diverse regional, national and European schemes. They are established institutions with professional financial management procedures that are regulated and audited at national level. Most of the accounting practices used by individual institutions or indeed, in several European countries, the entire national university sector are based on sound costing methodologies. These are effective management tools ensuring institutional financial sustainability, transparency and internal control.

The European University Association (EUA) explains its vision for impactful simplification of the Framework Programme in the paper [Taking simplification of EU funding to the next level: the university perspective](#). The [compendium](#) accompanying this brief aims to contribute to the transparency of the discussions and promote broader acceptance of institutional practices as a major step towards simplifying EU funding. It features good practices from 12 European countries and describes different national methodologies and institutional accounting practices accepted by the national funders of competitive research programmes. These are compared to current Horizon 2020 rules so as to explore opportunities to align EU and national practices.

## Recommendations for an impactful simplification of Horizon Europe

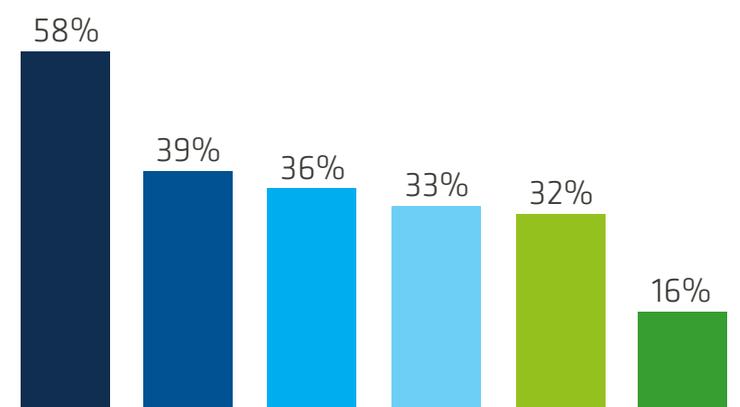
EUA recognises improved acceptance of institutional accounting practices as a major step towards EU funding simplification. Increased trust should also be accompanied by the acknowledgment of beneficiary diversity through the provision of several options to accommodate different needs.

The following table summarises universities' preferred options for an impactful simplification of EU project management.

EU funders should provide Horizon Europe participants with the following options:
<p><b>An improved and adequate certification procedure to authorise the use of:</b></p> <ol style="list-style-type: none"> <li><b>Institutional accounting methodologies for cost calculation and reporting</b> This option is suitable for large institutions that manage several projects and use methodologies audited at EU and national levels.</li> <li><b>National accounting systems used by the university sector in several European countries, following the example of the TRAC EC-FP7 approach in the UK</b> This option is relevant for countries where national public funders and universities have developed a common methodology (AT, IE, FI, NO, SE, UK).</li> </ol>
<p><b>An improved model for accepting internal accounting practices for reimbursing specific cost types, based on existing Horizon 2020 procedures.</b></p> <p>This option is suitable for institutions that have already adapted their accounting practices to Horizon 2020 rules and would prefer to continue using them.</p>

### Recommendations for the technical simplification and improvement of Horizon 2020 rules

When asked about ways to improve the acceptance of accounting practices, university practitioners expressed their clear interest in extending this acceptance to all cost types. Acceptance of the national rules for hiring, depreciation and time-recording, as well as improved procedures for certifying unit cost calculations were also seen as useful ways to simplify cost reporting and auditing.



#### **Extend acceptance to all cost types**

Extending acceptance of institutional accounting practices to all cost types is seen as a major step towards simplification

#### **Improve acceptance of hiring rules**

Acceptance of national hiring rules is particularly relevant for temporary staff, who are sometimes defined as subcontractors

#### **Flexible methodologies for certifying unit costs**

Beneficiaries would like improved unit cost certification procedures to make the process faster and more transparent

#### **Improve acceptance of national depreciation rules**

#### **Improve acceptance of time recording rules**

#### **Improve acceptance of tax refund rules**

Source: EUA Member Consultation 2017-2018: Impactful simplification of the EU Framework Programme for research and innovation

The following table summarises technical divergences between the accounting practices used for EU funded research projects and nationally funded research projects experienced by university practitioners in 12 European countries. Proposals on how to overcome technical issues and improve the alignment of European and national practices are highlighted in bold.

## Preferred measures for improving acceptance of institutional accounting practices

Staff Cost Calculations	
Eligibility of different salary components	<p>Practitioners in some EU countries (e.g. Finland, Sweden) experienced difficulties in attributing all of the different salary elements (e.g. sick leave, holidays, pension fees, occupational healthcare) to EU funded projects. Supplementary charges for costs related to teaching activities or clinical work in Austria and Germany are also ineligible. Moreover, the EU requires proof of the actual payment of any salary components. This creates a high administrative burden.</p> <p><b>Make different salary components eligible for reimbursement under staff costs, in line with national legislations across Europe. Accept institutional calculation methods through a transparent certification procedure and waive the obligation to provide proofs of payment of salary components for individual staff members within a defined period, as these can be difficult or impossible to obtain.</b></p>
Use of unit costs	<p>Allowing unit costs to be calculated according to institutional methodologies could substantially reduce the administrative burden. Practitioners report that it is impossible to apply unit costs to all staff categories (e.g. professors) and that this is an obstacle to delivering genuine simplification. Moreover, universities who have applied for the Horizon 2020 Certificate on the Methodology for Unit Costs (CoMUC) report that it took a very long time to process their applications and that there was a lack of information and transparency regarding the evaluation procedure.</p> <p><b>Make the procedure used to certify institutional methodologies for calculating average staff costs more transparent and based on an improved evaluation procedure. Make it possible to extend the application of unit costs to all staff categories.</b></p>
Period of calculation of staff costs (financial year used)	<p>Calculating staff costs on the basis of the previous financial year does not account for any salary adjustments incurred over the actual period of staff costs reported, which may lead to financial losses. Several institutions report differences between EU and national requirements: at national level costs are usually reimbursed for the actual period covered by financial reporting.</p> <p><b>Allow beneficiaries to calculate staff costs on the basis of an estimation or on actual costs.</b></p>
Time recording/ allocation systems	<p>Institutions in several countries (e.g. France, Germany, Ireland, Norway, Sweden) work with different time recording systems for EU and nationally funded projects. In many cases, the use of internal cost accounting methodologies would make timesheets unnecessary. For some institutions, the use of 1720 productive hours/year as the basis for calculations leads to unreasonably low values for employees who spend long periods out of office (sick leave, parental leave, holidays, etc).</p> <p><b>Allow the use of national/institutional time allocation/reporting rules for the calculation of actual staff costs. Consider extending the use of declarations to justify the time spent by staff working on the project, especially for fixed-time personnel.</b></p>
Proofs of payment for staff costs	<p>Some institutions pay their staff collectively and therefore find it difficult to produce individual proofs of actual salary payments.</p> <p><b>Consider waiving the obligation to provide proofs of actual salary payments.</b></p>
Internal Invoicing Procedures	
<p>The Annotated Model Grant Agreement allows ‘unit costs for internally invoiced goods’ to be reimbursed according to institutional accounting practices. However, beneficiaries are required to exclude all cost elements that are ineligible under the Grant Agreement, even where these are included in their usual unit cost accounting methods. The process is burdensome and risks including indirect/ineligible costs in the financial reporting. The issue is particularly relevant for universities in Belgium, Finland, France and Sweden.</p> <p><b>Expand the eligibility of internally invoiced goods costs to fully accept institutional accounting practices.</b></p>	

### 'Other Direct Costs' Calculations

Divergences between institutional accounting practices and EU funding rules largely relate to different methods of calculating equipment reimbursement. Under EU rules, equipment is reimbursed using the depreciation method while in some cases (e.g. Ireland) national funders reimburse the full cost. Additional issues stem from the large variety of costs included in the 'Other Direct Costs' category. The cost of justification is often disproportionate to the cost of the item. Deducting foreign VAT from researchers' travel bills is seen as particularly time consuming and not worth the effort.

**Allowing beneficiaries to choose whether to declare 'Other Direct Costs' as either actual costs or a flat rate could reduce reporting time for small partners.**

### Indirect Cost Calculations

Large research-intensive universities that base their accounting practices on full costing methodologies can demonstrate that a 25% flat rate does not cover the indirect costs of some Horizon 2020 projects. For instance, universities in Finland and Norway calculate that the Horizon 2020 flat rate covers only half of their actual indirect costs for scientific personnel. In other cases (e.g. Austria and Ireland) national public funders use very similar methods to the EU when it comes to reimbursing indirect costs. However, smaller institutions value the introduction of a 25% flat rate as this suits their accounting practices.

**Provide an alternative option to allow the reimbursement of indirect costs based on the actual costs calculated using a methodology certified at the launch of Horizon Europe, in addition to a flat rate for indirect costs.**

### Auditing and Control

EU audits involve a significant workload. This work is often seen as unnecessary, bureaucratic and a duplication of what is already carried out at national level. Moreover, transaction-based project audits do not allow universities to build on the knowledge acquired from previous audits at the same institutions. Indeed, differing interpretations of the rules, especially by external auditors, is often reported to be a major issue as it increases the financial risk of participating in the programme as well as uncertainty.

**Move from transaction-based audits to control-based audits that focus on the correct implementation of an accounting methodology to be applied to all Horizon Europe projects managed by the institution. Certifying the accounting methodologies accepted by national funders at the beginning of Horizon Europe would not only facilitate cost reporting, it would also improve cross-reliance on audits. Performing EU audits as an integrated part of the national auditing programme would save time and avoid uncertainty. Auditing obligations could also be lifted for universities whose accounting practices are certified, for a certain period.**

The European University Association (EUA) is the representative organisation of universities and national rectors' conferences in 48 European countries. EUA plays a crucial role in the Bologna Process and in influencing EU policies on higher education, research and innovation. Thanks to its interaction with a range of other European and international organisations EUA ensures that the independent voice of European universities is heard wherever decisions are being taken that will impact their activities. The Association provides a unique expertise in higher education and research as well as a forum for exchange of ideas and good practice among universities. The results of EUA's work are made available to members and stakeholders through conferences, seminars, website and publications.