



Internal Invoicing – H2020

Final Meeting of the WG 2 Finance
COST Targeted Network TN1302: BESTPRAC

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Internal Cost allocation

- **Research infrastructure** (e.g. large devices, high-performance computers, animal housing facilities etc.) are often **jointly used** by several departments and are **organised as 'Core Facilities'**.
- These facilities provide other organisational units (e.g. departments or institutes) with access to infrastructure and services.
- They typically invoice a '**package price**' such as fixed hourly rates or fixed per-unit rates for the usage of devices, which are made up of different elements of costs (amortization charges, maintenance costs, consumables, personnel costs, etc.).

The Challenge is:

Where such internally invoiced services are utilised in the course of a **research project**, can relevant unit costs be charged in the H2020 cost claim?



Going back....

FP7 versus H2020 (2016 position):

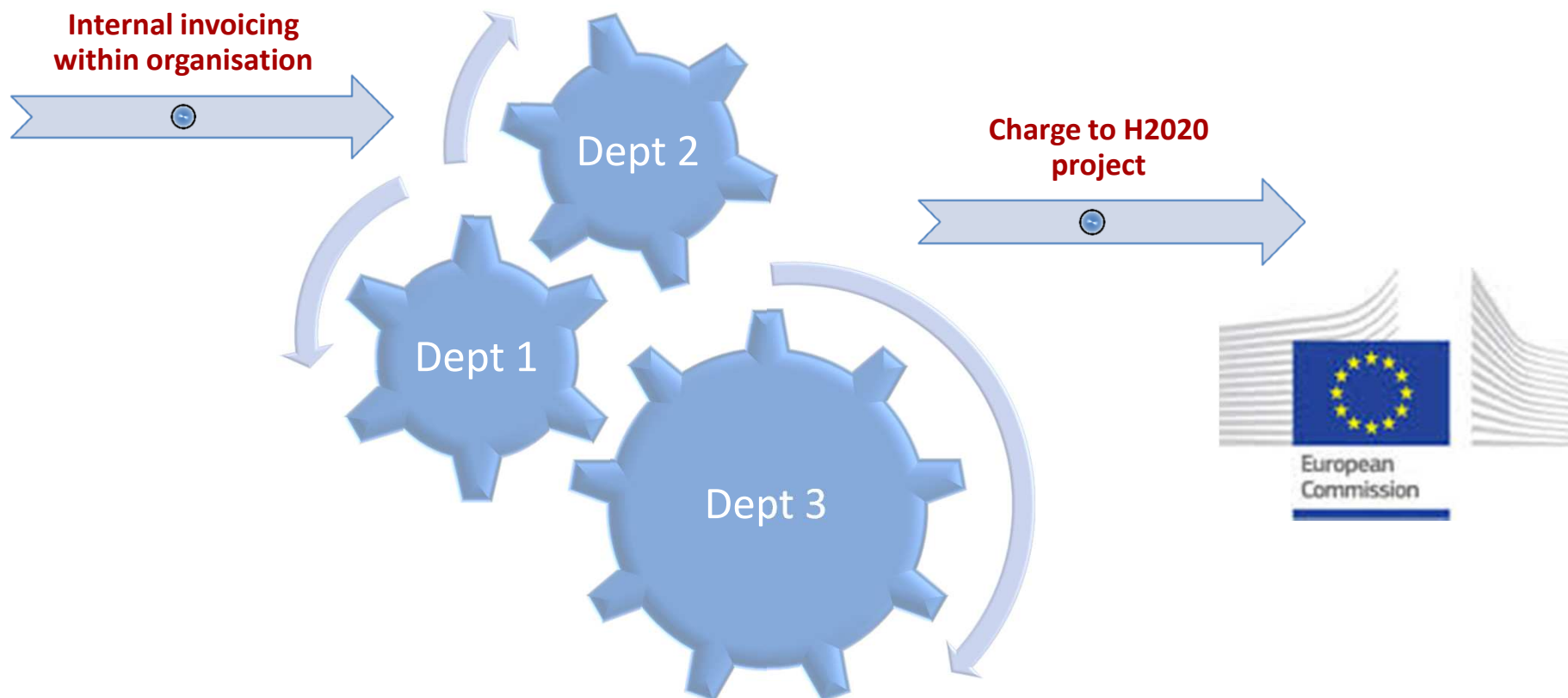
Explicit possibility to use average costs in FP7 for those items for which it is difficult to calculate the costs for each individual element.

The Helmholtz-Initiative for a better regulation ([Joint Statement](#) – Jan 2016):

Together with other European partner organisations the Helmholtz Association submitted a joint position paper on internal invoicing to the European Commission. On the 17th of June 2016 chosen experts met the European Commission in Brussels to present their case and discuss possible solutions.



H2020 definition: ‘Internally invoiced goods and services’ - goods or services which are provided by the beneficiary directly for the action and which the beneficiary values on the basis of its usual cost accounting practices.





Eligibility

Eligible if the following conditions are met (H2020 > Chapter 3 > Article 6.2.D.5, p. 103):

- (a) they are declared on the basis of a **unit cost calculated in accordance with the beneficiary's usual cost accounting practices**;
- (b) the cost accounting practices used are applied in a **consistent manner, based on objective criteria**, regardless of the source of funding;
- (c) the unit cost is **calculated using the actual costs for the goods or services recorded in the beneficiary's accounts**, excluding any ineligible cost or costs included in other budget categories.

The actual costs may be **adjusted** by the beneficiary **on the basis of budgeted or estimated elements**. Those elements must be relevant for calculating the costs, reasonable and correspond to objective and verifiable information;

- (d) the unit cost excludes any costs of items which are not directly linked to the production of the invoiced goods or services.

Cost Type & examples (MGA)

Type	Example
Self-produced consumables	<i>Electronic wafers, chemicals</i>
Use of specific research devices or research facilities	<i>Clean room, wind tunnel, supercomputer facilities, electronic microscope</i>
Specialised premises for hosting the research specimens used for the action	<i>Animal house, greenhouse, aquarium</i>
Standardised testing or research processes	<i>Genomic test, mass spectrometry analysis</i>
Hosting services for visiting researchers participating in the action	<i>Housing, canteen</i>



YES

- Direct staff
- Consumables
- Depreciation of the item
- Maintenance and supplies **if** their costs are directly identifiable

NO

- Indirect staff
- Costs of central services
- Shared costs for which the part used for the item is not directly identifiable
- Ineligible cost (e.g. bank interests)



Budget table

The table below summarises the different budget categories and forms of costs that may be used in H2020 actions under the General MGA:

Forms of costs	Budget categories					
	Direct personnel costs	Direct costs of sub-contracting	Direct costs of financial support to third parties (option used if Article 15 applies)	Other direct costs	Indirect costs	Specific cost categories (option used if Article 6.2 (F) applies)
Actual costs	YES	YES	YES	YES	NO	NO
Unit costs	YES, only for: -costs established according to the usual cost accounting practices of the beneficiary -costs of SME owners and natural persons not	NO	NO	YES, only for: costs of internally invoice goods and services	NO	YES, only if foreseen by Commission Decision

Some Audit Challenges

Consistent Methodology

- In large academic institutions this is a significant challenge. It is quite normal for different departments and individual Principal Investigators to apply their own unique rate for each item of equipment. In the absence of a **university wide policy** these rates tend to be determined at a department/PI level.

Technician Time

- Time of technicians must be justifiable based on a **reliable method** for recording their time. Normally such time is not recorded and may be based on a PI's 'estimate' (which is generally not accepted by auditors as 'reliable'). Where technicians salary costs are already charged to the project then the per unit/item rate must be adjusted accordingly.

Depreciation - 1

- Depreciation is only eligible where the cost of the equipment has not been funded from another source. For older items of equipment this can prove difficult as the internal accounting systems may not record the source of funding for each item of equipment.

Some Audit Challenges – cont.

Depreciation - 2

- Where an item of equipment is fully depreciated in the accounts of the organisation the applicable rate must be adjusted. For example, the normal accounting policy of the organisation may be to depreciate equipment over five years. In this example the unit cost must be adjusted after five years to remove the depreciation element and therefore from year six onwards it will have a lower cost per hour or cost per sample.

Budgeted/Estimated elements

- Whilst it is possible to include certain costs on the basis of **budgeted or estimated elements** in reality the subjective nature of ‘estimates’ mean they are more difficult to verify and are more likely to be challenged by auditors.

Audit Programme / Guide

- Further guidance and clarity from the Commission for both beneficiaries and the auditors of H2020 projects would be welcome, as often it is the ‘interpretation’ of rules that is inconsistent during audits. What tests are to be performed by auditors while performing audits?

The Value for Money Proposition

- The Helmholtz-Initiative for a better regulation suggested that one of the ‘solutions’ to the difficulties of internal invoicing and H2020 would be to **outsource the requisite services to the private sector** and charge the project the full cost.
- Perhaps we could expand on this very valid point and apply it in the context of one of the audit principles – **‘Value for Money’**. Could this possibly form part of the discussion and justification of internal costs charged to a H2020 project? Could we as a group engage with the Commission to encourage them to consider internal services from this perspective when challenging the eligibility of internal charges?

Example

- *A H2020 project requires 1,000 water samples to be analysed. The internal cost of each test is €5 per sample. If the beneficiary can satisfy the audit requirements on internal invoicing then the eligible costs to the project would be €5,000.*
- *To outsource the analysis of the samples to an external laboratory the cost would be say €10 per sample or €10,000.*
- *In this example we can clearly demonstrate that it is better 'value for money' for the project (and the Commission) to access these services internally.*



Thank you!