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Certification Modalities in FP7

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1





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Preliminary Remarks

- New Scheme → Need for Information and Communication.
- Specific conditions and eligibility criteria for FP7 participants.
- Basic elements in *FP7 Guide to Financial Issues*.
- Specific Guidance notes in preparation - will be published on Cordis - End June 2007.
- December 2007 Technical guidance for the auditors (testing procedures).



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Overview of presentation

- How we came to this
- What types of certification
- Advantages
- Practical issues
 - submission
 - timing
 - cost
 - format
 - content



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Changes in Certification from FP6 to FP7

- Problems noted by Commission and Court when re-auditing certified FP6 project. Commission needed tighter control over work carried out by auditors
- Decision to adopt 'agreed upon procedures' rather than 'assurance opinion'
- Introduction of the Certificates on Methodology



“Agreed Upon Procedures”

- Auditors will provide information according to a specific format specified via agreed terms of reference (ToR)
- ToR are annexed to the FP7 model grant agreement (Annex VII)
- ToR are derived from common practice in audits and correspond to international audit standards



Types of Certification in FP7

- **Certification of financial statements (CFS)**
 - Verification of costs and receipts (Form D)
- **Certification on the Methodology (CoM)**
 - System verification (Form E)
 - for Personnel & Overheads ('Waiver')
 - for Average Personnel Costs ('No Waiver')

N.B.: The submission of a certificate does not waive the right of the Commission to carry out its own audits (Article II.22 of the FP7 model grant agreement).



Auditors Eligible to Deliver Certificates

- Beneficiaries are free to choose an External Auditor, but requirements (cumulative):
 - Independent
 - Qualified (8Th Council Directive)
- Public bodies, secondary and higher education establishments and research organisations may opt for a Competent Public Officer instead of External Auditor



Certification of Financial Statements (CFS)

- Similar way to FP6, but:
 - Only when cumulative requested contribution is $> \text{€ } 375,000$ (if project < 2 years, at the end of the project)
 - Auditor will carry out procedures in a detailed report (no opinion but facts & findings)
 - The Commission will draw conclusions from the report as to acceptability
 - Where applicable, reference to CoM for average personnel costs



Certificates on Methodology (CoM): Rationale

- Resolve most recurrent errors observed in the past from the outset (« Fix the future »)
- Experience shows main sources of errors are found in Personnel and Overheads
- CoM instrument to promote use of correct methodologies in conformity with FP7 rules, with several advantages...



Main Advantages of CoM

- Use of average rates for personnel costs allowed
- No recalculation of individual actual costs for personnel in the certificate on the financial statements for the final payment or during ex-post audit
- Early assessment of compliance to contractual provisions to calculate personnel and indirect costs. Early detection and corrections of possible errors
- Waiving of interim CFS (only if certificate on methodology on both personnel and indirect costs)
- Valid throughout all FP7 projects
- Reduced costs for the whole certification system
- Simplification of administrative burden both for beneficiaries and EC operational services (less number of certificates to provide/process)



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CoM Personnel & Overheads (waiver)

- Optional for those meeting EC criteria: 8 FP6 participations with EU contribution > 375K €)
- EC takes final decision on acceptability
- Enables intermediate CFS to be waived and reduces audit scope for personnel and overheads in last CFS (e.g. check compliance omitting individual calculations.)
- Once accepted, it is valid for all subsequent financial statements submitted by the beneficiary



CoM

Average Personnel Costs (no waiver)

- Mandatory for everyone who wishes to use average costs in their claims (even if requested amount < € 375.000)
- Not necessary if a Certification of Methodology for Personnel & Overheads on the same system exists
- EC takes final decision on acceptability
- Does not enable intermediate CFS to be waived
- Enables EC to assess 'significant deviation' of the system as required by the Rules for Participation



Summary

- Requested EC contribution (cumulative) $\leq 375.000\text{€}$: No certificate on financial statements (not even at the end)
- Requested EC contribution (cumulative) $> 375.000\text{€}$: Certificate on financial statements has to be submitted:
 - CFS every time $> 375.000\text{€}$
 - If certificate on methodology: no interim CFS but only at the end, if $> 375.000\text{€}$



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Example : Participant *with* certificate on methodology

-Year 1 EC contribution= 185.000€ -> no CFS
because <375.000€

-Year 2 EC contribution=
200.000€ (185.000€+200.000€> 375.000€) ->no
intermediate CFS

-Year 3 EC contribution= 250.000€
->CFS for the whole duration



Submission of the CoM

- 1*) Request to EC (eligibility criteria): During lifetime of FP7
- 2*) Acceptance / Rejection of request: within 30 calendar days
- 3) Submission of the CoM: During lifetime of FP7 and at the earliest at the start date of the first FP7 project (the certifying auditor needs a sound basis to perform the agreed upon procedures)
- 4) Acceptance /Rejection: normally within 60 calendar days

** Not applicable for Certificates on Average Personnel costs*



Submission of CoM : Consequences

- In case of rejection, a motivated decision will be communicated to the beneficiary. The beneficiary will be invited to submit another certificate on the methodology which is compliant with the requirements of the Commission.
- Pending acceptance decision:
 - for CoM for Personnel and overheads, the requirement to provide intermediate CFS is not waived.
 - for CoM for Average Personnel costs, until the acceptance the beneficiary cannot charge average personnel costs.



Cost of CoM

- The auditors' fee is an eligible cost in the first financial statements or in any of the financial statements submitted after the acceptance by the EC, even if it relates to all FP7 grant agreements.
- Can be claimed only once in the lifetime of FP7 unless, due to a change of the methodology, the submission of a new certificate is required.
- Cost charged subject to the general eligibility criteria of the grant agreement and should consider relevant market prices for similar services. In order to be eligible, the price should in particular be consistent with the principles of economy, efficiency and effectiveness. Excessive or reckless expenditure will be rejected.
- The eligible cost is limited to the performance of the agreed upon procedures with the exclusion of any costs relating to consultancy (design, implementation, improvement of a cost accounting methodology).



Format of The CoM (Annex VII, Form E)

- Use of the reporting format attached as Annex VII of the model grant agreement is compulsory
- Must be signed and dated by the external auditor (or competent public officer)
- Drafted in the language indicated in Article 4 of the grant agreement.



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Content of The CoM (Annex VII, Form E)

- Form E has to be filled in by the beneficiary and the auditor
- If in doubt, add more information, not less
- Commission will provide a model of a 'filled in' form E to guide beneficiaries
- General guidance will be available in coming weeks (-> Cordis)
- Detailed technical guidance for Auditors will be provided in December 2007



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Thank you very much for your attention!

Questions?





FAQ relevant to CoM

- Analytical Accounting System and its impact in the method for calculating overheads
- Overview of Indirect Costs Calculation Methods
- The “simplified” method and the CoM
- When CoM for Average Personnel Costs must be requested
- When CoM for Personnel & Overheads must be requested
- Time Recording



FAQ 1: Analytical accounting

No single definition from the academic point of view. As far as FP7 rules, at least these two elements must be present:

- The system can identify and group their indirect costs (pool of costs) in accordance with the eligibility criteria (e.g. exclude non-eligible costs)
- A fair and reliable cost driver to allocate indirect cost from the 'pool of cost' into the different projects.

Whatever the method of calculation, it must be in accordance with normal accounting practices and should be extracted from or reconciled with the official accounts.



FAQ 2: Overview of Indirect Costs Calculation Methods

- Direct Methods: Based on actual Indirect Costs:
 - ‘Normal’
 - Simplified (at entity level)
- Indirect Methods: Based on other variable different than indirect costs (e.g. direct costs)
 - Flat rate 20% (general)
 - Flat rate 60% (transitional)



FAQ 3: Simplified Method and CoM

- The use of this method does not require certification (is optional), however:
- 'Simplified' ≠ 'Simple'
 - The system allows to identify and group the indirect costs in accordance with the eligibility criteria (e.g. exclude non-eligible costs)
 - A fair and reliable cost driver is in place to allocate indirect cost from this 'pool' to the different projects.
- Is called 'Simplified' because the calculation is done at 'entity' level (i.e. not by departments, activities, etc).



FAQ 4: When CoM for Average Personnel Costs must be requested

- Whenever Average Personnel Costs are used, this method does require certification.
- There must be enough personnel categories to ensure no excessive differences between average and actual costs.

Note: Average Personnel Costs can be combined with other cost calculation schemes within the same organisation (e.g. 'average' for permanent staff and 'actual' for additional staff)



FAQ 5: When CoM for Personnel & Overheads could be requested

- Do you meet EC criteria?
- Do you intend to use direct calculation methods for indirect costs?
 - If yes, minimum analytical elements must be present (select and group eligible costs). 'Form E' specific requirements:
 - Have you eliminated non-scientific costs from overheads (e.g., manufacturing, education)?
 - Have non-eligible costs been eliminated?
 - if not, may be interesting the CoM for Average Personnel Costs instead
- Ultimately, cost-benefit analysis to be done by each organisation



FAQ 6: Time Recording

- Primary source to support personnel costs allocation:
 - Personnel working in multiple projects
 - Personnel working in multiple activities (e.g. R&D, management, etc)
- For staff involved in multiple projects, their total time with a breakdown by project should be recorded → Without total time no basis for apportioning the total salary
- In most cases, it is also the primary source to support overheads allocation in direct calculation methods (being the most common 'cost driver')
- Each organisation to determine which degree of time recording suits its needs



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