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Certification Modalities in FP7

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Overview of presentation

- Types of certification
- Advantages
- Practical issues
 - Submission, timing and format
 - Cost, content
 - Examples and common errors
- Questions & Answers



Types of Certification in FP7

- **Certification on financial statements (CFS)**
 - Verification of costs and receipts (Form D)
 - Replaces the FP6 *Audit Certificates*.
 - Submission periodicity of CFS does no longer depend on the clauses of the grant agreement
 - To be submitted only when cumulative EC contribution is $\geq \text{€ } 375,000$ (exception: if project ≤ 2 years, only at the end of the project).
- **Certification on the Methodology (CoM & CoMAv)**
 - Verification of systems (Form E)
 - for Personnel & Overheads (optional)
 - for Average Personnel Costs (mandatory if average system applied by the beneficiary)



CoM for Personnel & Overheads (I)

- Covers the method applied by the beneficiary for the calculation of Personnel costs and Overheads
- Optional for those beneficiaries meeting EC eligibility criteria:
 - At least 8 FP6 participations with EU contribution $\geq 375K$ €
 - Alternative criteria based on FP7 participations will be settled in 2008
- Can be also requested by beneficiaries using flat-rate for calculating overheads



CoM for Personnel & Overheads (II)

- MAIN ADVANTAGES:
 - **Enables intermediate CFS to be waived**
(only a final CFS will have to be submitted when EC contribution \geq 375.000)
 - **Early detection and correction of possible errors** of the calculation method applied regarding the grant agreement provisions
 - Once accepted, the certificate is **valid for all subsequent financial statements throughout FP7.**



CoMAv for Average Personnel Costs

- **Mandatory for any beneficiary who wishes to use average costs in their claims** (even if requested amount < 375.000 €)
- Not necessary if a CoM for Personnel & Overheads on the same calculation method has been already approved by the Commission.
- **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

When must the Certificates be submitted?

– ***Certificate on Financial Statements (CFS)?***

- Requested EC contribution (cumulative) < 375.000€: No CFS to be submitted (not even at the end of the project)
- Requested EC contribution (cumulative) ≥ 375.000€: CFS has to be submitted:
 - » CFS every time ≥ 375.000 €
 - » If certificate on methodology (CoM) accepted : no interim CFS but only at the end of the project

– ***Certificate for Average Personnel Cost (CoMAv)?***

- Whenever average personnel costs are applied AND
- If there is no Certificate on the Methodology approved

– ***Certificate for Personnel and Indirect Costs (CoM)?***

- This certificate is OPTIONAL and can be submitted by any beneficiary fulfilling the EC eligibility criteria



Submission of the Certificates on Methodology - Process (I)

Only applicable to CoM for Personnel & Overheads

- 1) Request to EC (eligibility criteria): at any time during FP7
- 2) Acceptance / Rejection of the request: within 30 calendar days

Applicable to both types of Certificates on Methodology

- 3) Submission of the CoM: During lifetime of FP7 and at the earliest on the start date of the first grant agreement signed by the beneficiary (warning: the certifying auditor needs a sound basis to perform the agreed upon procedures)
- 4) Acceptance /Rejection: normally within 60 calendar days



Submission of the Certificates on Methodology – Process (II)

- 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 (Personnel and overheads), the requirement to provide intermediate CFS is not waived.
 - For CoMAv (Average Personnel costs), until the acceptance the beneficiary cannot charge average personnel costs.



Cost of CoM & CoMAv

- **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 (to be eligible, price should be consistent with 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 & CoMAv (Annex VII, Form E)

- Use of the reporting format attached as Annex VII of the model grant agreement is compulsory
- ToR are to be completed and signed by the beneficiary and the auditor
- The report on factual findings must be signed, stamped and dated by the external auditor (or competent public officer)



EXAMPLES AND COMMON ERRORS

PERSONNEL COSTS

DEFINITIONS

TIME RECORDING

AVERAGE COSTS

INDIRECT COSTS

CALCULATION METHODS

ANALYTICAL ACCOUNTING

SIMPLIFIED METHOD



Personnel : Definitions (I)

Productive hours: represent the (actual / average / standard) number of hours actually worked by an employee.

Productive hours = maximum chargeable time



Hourly Personnel Rate: actual cost per hour of an employee

$$\text{HPR} = \frac{\text{Total actual personnel costs for the employee}}{\text{Total productive hours for the employee}}$$





Personnel: Definitions (II)

Example of Productive Hours

Total days in a year	365
Weekends	-104
Annual holidays	-21
Statutory holidays	-15
Illness / Others	-15
<hr/>	
Workable days in a year	210
	*
Working hours per day	8
<hr/>	
Total productive hours	1680





Personnel: Definitions (III) Most common errors encountered

- Use of budgeted rates instead of actual rates
- The beneficiary uses only the hours worked in research for calculating the hourly rate, thus overcharging the EC project



Personnel: Time Recording

- **A reliable system of time recording is required for the eligibility of the costs**
- Primary source to support personnel costs allocation:
 - Personnel working in multiple projects
 - Personnel working in multiple activities (e.g. R&D, management, etc)
- Primary source in most cases to support overheads allocation in direct calculation methods (being the most common 'cost driver')





Use of Average Personnel Costs

- Whenever Average Personnel Costs are used, this method does require certification.
- Conditions of acceptability:
 - The use of average rates is consistent with the beneficiary's management principles and usual accounting practices (not purpose-made for the Commission)
 - There must be enough personnel categories to avoid excessive differences between average and actual costs
 - For each category:

Average personnel rate * total productive hours ≤ Actual costs
(actual costs = costs recorded in the accounting records)

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)



Indirect Costs Calculation (I) Methods

- Based on actual Indirect Costs:
 - ‘Normal’
 - Simplified (at entity level)
 - Flat-rates on direct costs
 - Flat rate 20% (general)
 - Flat rate 60%* (transitional rate until 31/12/2009)
- * For funding with RTD and for certain types of entities



Indirect Costs Calculation (II) Most common errors encountered

- Cost driver used for allocating indirect costs is an unsubstantiated estimation
- Identifiable indirect costs not related to research charged to the project.
- For flat-rate beneficiaries: indirect costs are also applied on subcontracting (& resources made available by third parties not used on the premises of the beneficiary)



Analytical accounting

- No single definition from the academic point of view. As far as FP7 rules are concerned, 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 costs' into the different projects.
- Whatever the method of calculation is, it must be in accordance with normal accounting practices and should be extracted from or reconciled with the official accounts.





Simplified Method (I)

- The use of this method does not require certification (is optional), however:
- 'Simplified' \neq 'Simple'
 - 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).



Simplified Method (II)

Most common errors encountered

- The pool of costs contains clearly differentiable indirect costs not related to research activities
- Only research hours (and not all productive hours) are used for the allocation of the indirect costs to the projects



FURTHER INFORMATION

- Basic elements published on Internet :

http://cordis.europa.eu/fp7/home_en.html

- *FP7 Guide to Financial Issues*
- *Guidance Notes for beneficiaries and auditors part I* (incl. by Dec. 2007 Technical guidance for the auditors)

- In case of questions, FP7 Helpdesk is available :

[http:// ec.europa.eu/research/enquiries](http://ec.europa.eu/research/enquiries)



**Thank you very much for your
attention!**

Questions?



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Annexes : examples



Example : Participant WITHOUT CoM for Personnel and Indirect Costs

- Year 1 EC contribution= 185.000€ : No CFS because <375.000€
- Year 2 EC contribution= 200.000€ : CFS to be submitted (since 185.000€+200.000€> 375.000€)
- Year 3 EC contribution= 380.000 : CFS because >375.000€

	Year 1	Year 2	Final Period
EC Contribution	185.000 €	200.000 €	380.000 €
Contribution accumulated not covered by CFS	185.000 €	385.000 €	380.000 €
CFS Mandatory	NO	YES	YES
	(<375.000 €)	(>375.000 €)	(>375.000 €)



Example : Participant WITH CoM for Personnel and Indirect Costs

- **Year 1** EC contribution= 185.000€ \Rightarrow no CFS because $< 375.000\text{€}$
- **Year 2** EC contribution= 200.000€ ($185.000\text{€} + 200.000\text{€} > 375.000\text{€}$) \Rightarrow no intermediate CFS due to the approval of the CoM
- **Year 3** EC contribution= 380.000€ \Rightarrow CFS for the whole duration

	Year 1	Year 2	Final Period
EC Contribution	185.000 €	200.000 €	380.000 €
Contribution accumulated not covered by CFS	185.000 €	385.000 €	765.000 €
CFS Mandatory	NO	NO	YES
	Interim CFS waived due to the approval of the CoM		(>375.000 €)



Use of Average Personnel Costs

Example for one category

	A	B	C	D	E	F
	Annual cost for the employer (accounting records)	Working time (Full time=100%)	Months worked in the year	% of year worked (C / 12)	Full time equivalent (B * D)	Equivalent annual cost for full year (A * E)
Technician 1	21.000,00	100%	12	100%	1,00	21.000,00
Technician 2	2.631,25	50%	3	25%	0,13	21.050,00
Technician 3	21.060,00	100%	12	100%	1,00	21.060,00
Technician 4	10.750,00	100%	6	50%	0,50	21.500,00
Technician 5	3.550,00	33%	6	50%	0,17	21.515,15
Technician 6	22.090,00	100%	12	100%	1,00	22.090,00
Technician 7	22.100,00	100%	12	100%	1,00	22.100,00
TOTAL	103.181,25				4,80	

Average = $103.181,25 / 4,80 = 21.496,09 \text{ €}$



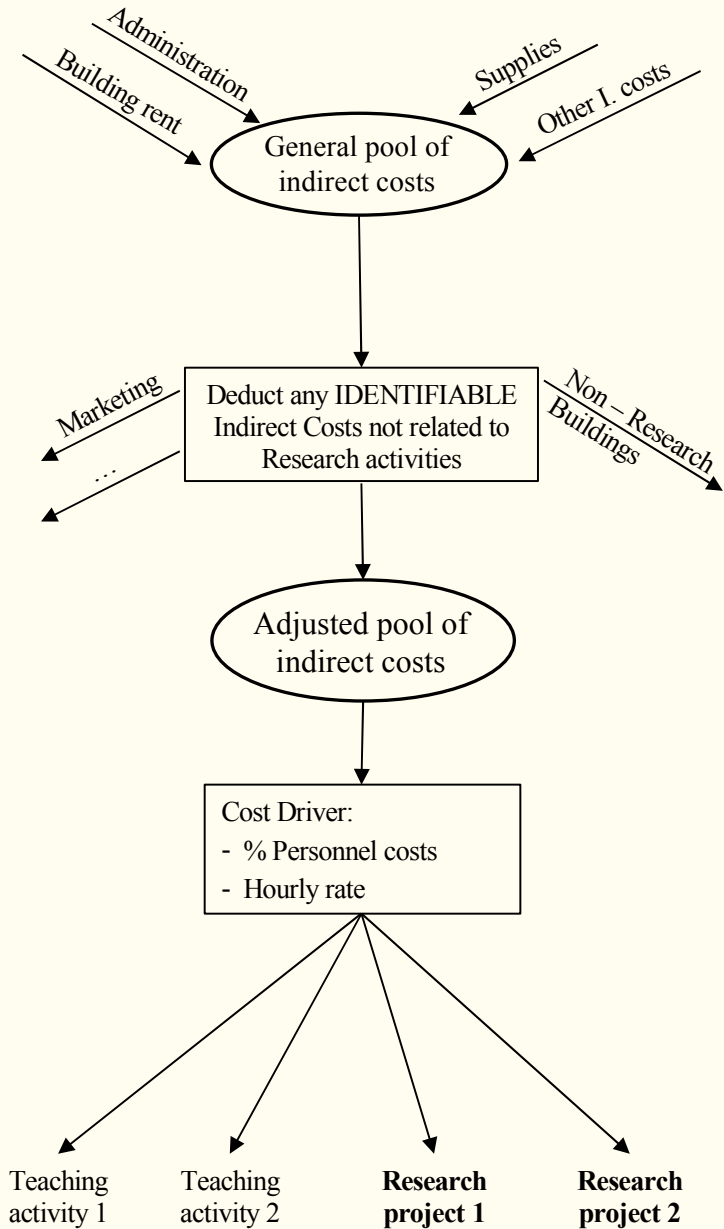


Which indirect cost method ?

		Real Indirect Costs		Flat Rate	
		Normal	Simplified	20%	60% *
Do I have an analytical accounting system allowing to determine with certainty the indirect cost related to research activities ?	YES	✓		✓	
IF THE ANSWER IS NO , THEN:					
Do I have an accounting system allowing to identify all my indirect costs and a reliable cost driver to allocate them?	YES	▪	✓	✓	✓
	NO	▪	▪	✓	✓

* Only applicable to Non-profit public bodies, Secondary and higher education establishments, Research organisations and SMEs

Simplified Method



Analytical system

