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# Full-Cost Accounting and Certification Modalities in FP7

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# Overview of presentation

Accountability context

FP7 Accounting modalities

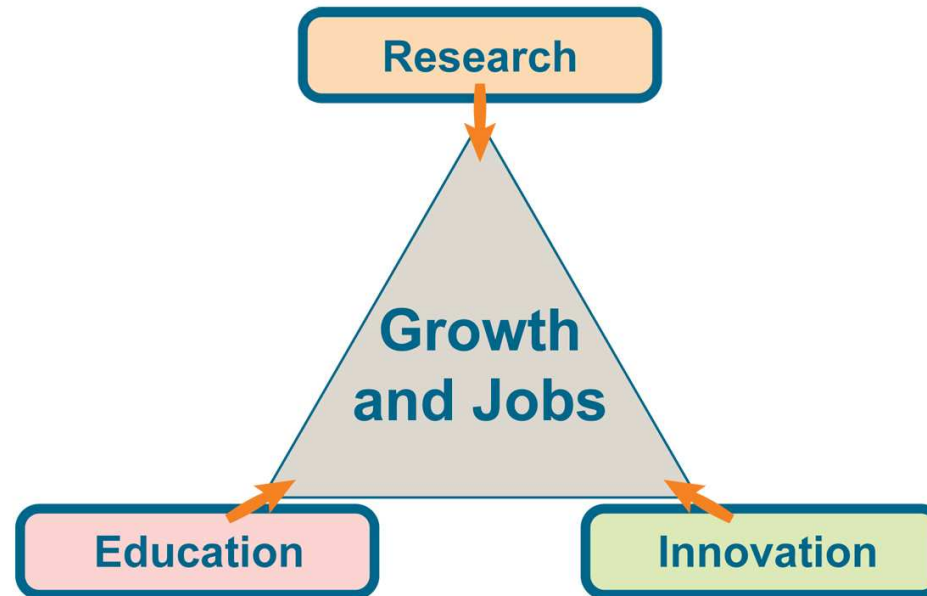
FP7 Methodology Certification

Personnel Costs

Indirect Costs



# Research Policy as part of the Lisbon strategy



S&T contribute to the **Lisbon objectives**:  
Economic growth, jobs, quality of life,  
social challenges (fight poverty, improve human health),  
environmental protection



# Accountability context - Inherent risks

- **Multi-annual** FP with specific financial and legal provisions, covering **various** topics in the EU 27 and even beyond.
- Large **number** and **variety of participants** (+/-15,000), each operating with their own internal control and accounting systems. Difficulty to capture all accounting practices and rules.
- Grant payments based on **“actual eligible costs”** - can be problematic for some items (personnel, indirect costs, taxes, ...).
- **Risk of overstatements of costs not subsequently detected and corrected** by the Commission - Reimbursement of irregular costs which are non-eligible, incorrectly calculated, without adequate supporting documents, incurred outside the eligibility period, not actual (budgeted), or even fraudulently claimed costs.



## New accounting modalities

- **Objectives**

- Simplification
- Uniform and fair rules for all
- Incentives for improved financial management (full cost accounting)
- Smooth transition

- **Main new modalities**

- No additional cost model in FP7
- FP7 transitional flat rate 60% of direct eligible costs (revised by 1/1/2010)
- Ex-ante audit certification



## New accounting modalities

### Additional Cost Model → Full Cost Model

- University funding rate 100% → 75%
- Overheads 20% → max. 60% (transitional flat rate)
- FP6: additional staff eligible → FP7: all staff eligible
- EU contribution under FP7 rules  $\geq$  FP6 rules



# FP7 – Certification

## HOW?

- In addition to the certification of periodic grant payment requests, introduction of the Certificates on Methodology
- External auditors provide a “report on factual findings”
- Mandatory format with defined Terms of Reference (Grant agreement, Annex VII ) – “Agreed upon procedures” approach

## WHY?

- Early detection and correction of possible methodological errors (“fix the future”)
- Simplification and legal assurance

## Advantages:

- Waives the obligation to submit Certificates on Financial Statements for interim payments
- Valid for the duration of FP7
- Lightened ex-post audit procedures (compliance to methodology vs. audit tests)



# FP7 Certificates at a glance

CFS

## Certificate on Financial Statements

- Mandatory
- Covers the costs declared in the Forms C
- To be submitted only when cumulative EC contribution is  $\geq$  € 375,000
- Replaces FP6 Audit Certificates

CoMAv

## Certificate on Average Personnel Costs

- Mandatory for beneficiaries intending to charge average personnel costs
- Covers personnel costs methodology only
- The methodology described in the certificate is analysed by the Commission which decides on the acceptance / rejection for the FP7 costs declarations

CoM

## Certificate on the Methodology

- Optional for the beneficiaries fulfilling the eligibility criteria (\*)
- Covers the methodology used to calculate the personnel costs (real or averages) and the indirect costs (analytical, simplified or flat-rate)
- Waives the obligation to submit interim CFS

(\*) At least 8 participations in FP6 contracts with an EC contribution for each of them  $\geq$  375000 € OR at least 4 FP7 Grant Agreements signed before 01/01/2010 with an EC contribution for each of them  $\geq$  375000 € OR at least 8 FP7 Grant Agreements signed with an EC contribution for each of them  $\geq$  375000 € at anytime during FP7.



# Personnel Costs

## Time-recording

### Basic Principles:

- **Art II.15.1 of the FP7 model Grant Agreement:**  
“With regard to personnel costs, only the costs of the **actual hours** worked by the persons directly carrying out work under the project may be charged.”
- **FP7 Guide to Financial Issues:**
  - Employees have to record their time on a daily\*, weekly, or monthly basis using a paper or a computer-based system
  - The time-records have to be authorised by the project manager or other supervisor
  - The complete time recording system should enable reconciliation of total hours in cases where personnel work on several projects
  - There must be some system allowing the beneficiary to indicate the activity to which the hours have been attributed

An example of timesheet is included in the FP7 Guidance Notes on Audit Certification (version 27/11/2008)



## Requirement for the Certificate on the Methodology

### Person-based full time-recording system

Time recording per researcher/employee working on EC research projects with, at least, the next characteristics:

- Covering all productive hours of the researcher/employee
- Differentiating time by activities
  - EC projects: research, demonstration, management, others
  - Non-EC: projects, administration, teaching, training, sickness, holidays,...
- Covering the full year
- Recording actual data; no estimations
- Duly authorized

**Example of daily full time-recording (per person)**

Due to fact that different activities have different reimbursement rates, work on EU projects is to be recorded not only differentiating by individual EU project but also by activities (further details as for instance the work-package are advisable)

The level of detail of this section is to be defined by the beneficiary. The Commission requests at least time-records grouped by main activities

Absences are necessary to verify the accuracy of the annual productive hours used to calculate the hourly rates

Date	Mon 02/02	Tue 03/02	Wed 04/02
<b>EU-Projects</b>			
R&D Activities			
Project x		3	4
Project y		5	5
Demonstration			
Project x			
Project y			
Management			
Project x			
Project y			
Other Activities			
Project x			
Project y			
<b>Other research projects and Internal activities</b>			
Teaching			
Training			
National Projects			
(...)			
<b>Absences</b>			
Annual Leave			
Special Leave	8		
Illness			
Total hours	8	8	9





## What if I do not have full time-recording?

**A reliable and auditable project-based time-recording is the minimum requirement for the eligibility of the costs**

Researchers/employees must record all the hours worked on EC projects differentiating by activities. The time-records should be authorised by the project manager or other supervisor and the time-recording system must be able to provide an annual summary of all hours worked by any researcher/employee on EC research projects.

### **HOWEVER...**

Information and, therefore, cost declared based on a project-based time-recording could be questioned at the time of an audit (no sufficient audit evidence on annual productive hours, absence of control preventing double-charging, etc)



## About Averages...

### Legal basis:

- Article 31.3 of the FP7 Rules of Participation Regulation (EC) No 1906/2006
- Article II.14.1 of the FP7 model Grant Agreement

**Two conditions** are to be fulfilled by an average personnel costs methodology to be approved by the Commission:

The very well known:

It should be the usual accounting practice of the beneficiary

...and the sometimes forgotten:

It can not lead to significant deviations vis-à-vis the actual costs



## Methodological requirements for Averages...

In order to give **reasonable ex-ante assurance** that **average** costs charged will **not significantly differ from the actual costs** if calculated “per person”, the next conditions are to be fulfilled:

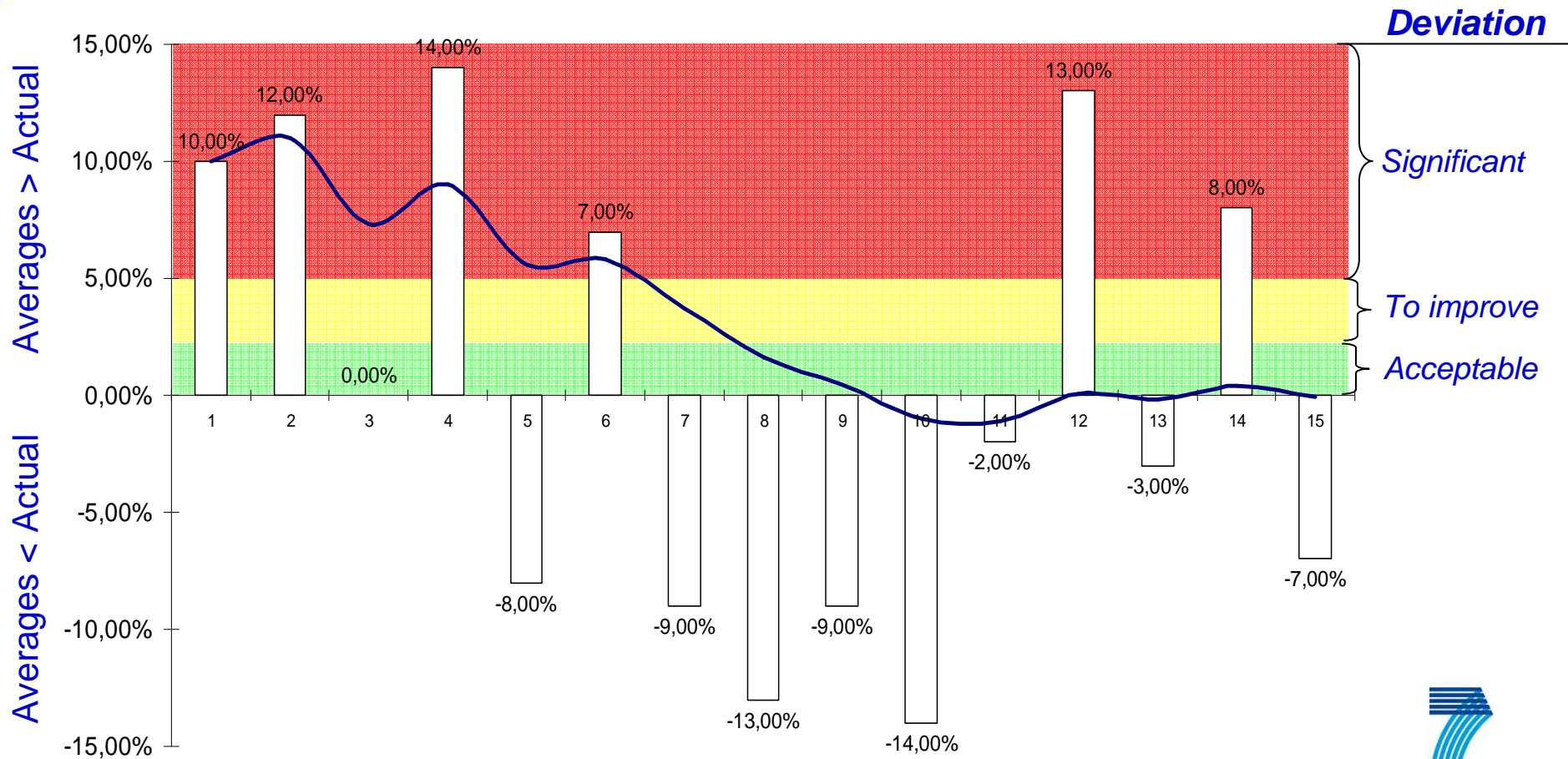
- The **costs used** to calculate the average rates must be **actual** and not budgeted or estimated figures
- There must be a **sufficient** number of personnel **categories** (the fewer categories the higher the risk of deviations)
- The methodology must be applied in a **fair** manner (i.e. not selecting the researchers working on EC projects using « financial » criteria)
- There should be a **sufficient** number of **researchers** working on EC projects as to give reasonable assurance on the level-out of the individual deviations



# In practice...

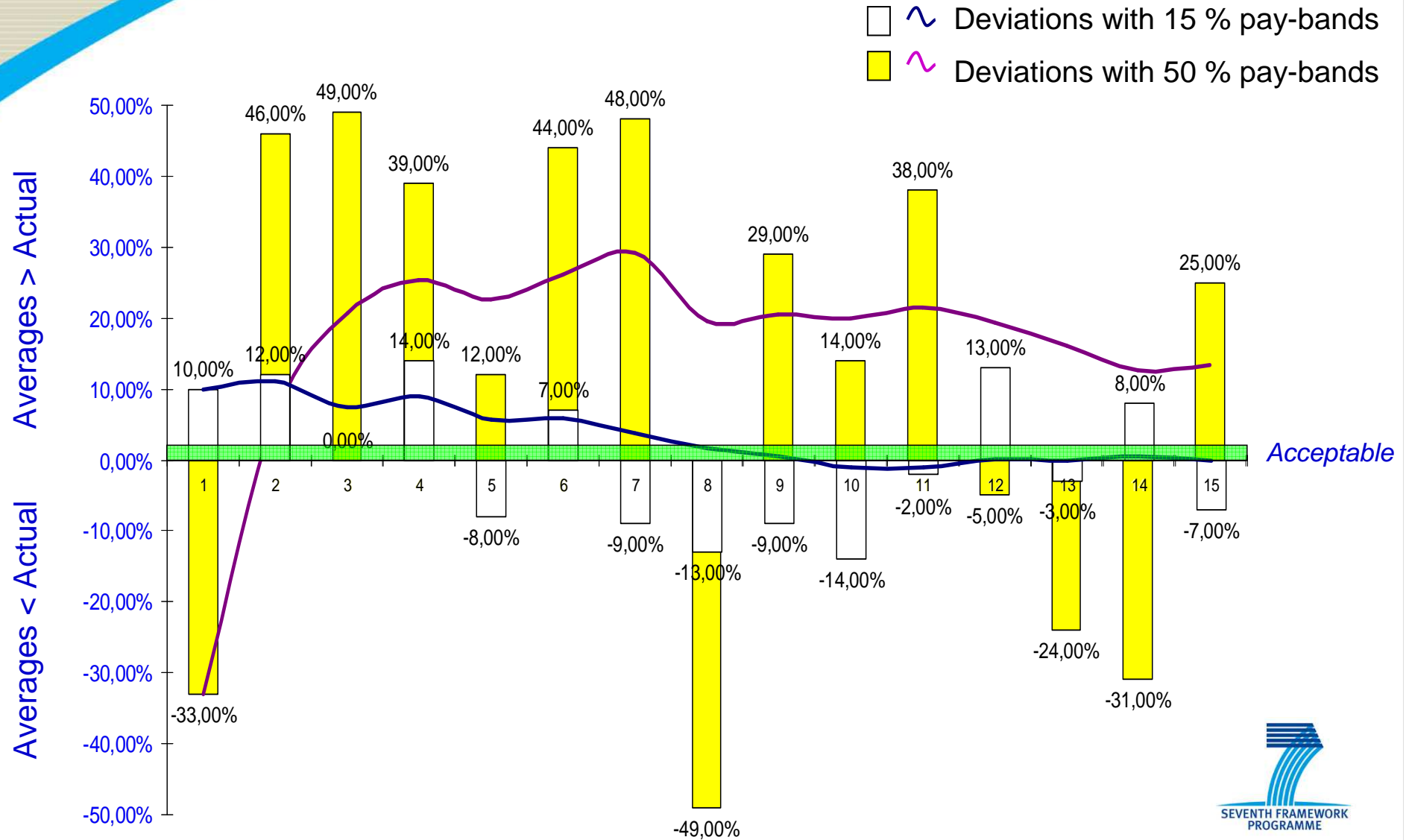
□ The white columns represent deviations in a single project

~ The blue line represents the accumulated deviation





# The wider the pay-band the higher the risk





# FP7 Ex-ante Certification on the Methodology Indirect Costs

## FP7 Calculation Methods

- **Based on actual Indirect Costs:** as registered in the accounts of the beneficiary according to its usual accounting and management practices adjusted, when necessary, in order to eliminate all ineligible costs
  - 'Normal' (analytical accounting system)
  - Simplified (at entity level)
- **Flat-rates on direct costs:** to be calculated on the direct eligible costs excluding subcontracting and costs of resources made available by third parties which are not used on the premises of the beneficiary
  - Flat rate 20% (general)
  - Flat rate 60% (for funding with RTD and for certain types of entities (non-profit public bodies, research organisations, universities, SMEs))
  - Transitional rate of 60% until 31/12/2009



# Which method in FP7?

*About 84 % of Universities are currently using flat-rates<sup>2</sup>*

		Real Indirect Costs		Flat Rate	
		Normal	Simplified	20%	60% <sup>1</sup>
Do I have an analytical accounting system allowing to determine with certitude the indirect cost related to research activities ?	YES	✓		✓	
IF THE ANSWER IS <b>NO</b> , THEN:					
Do I have an accounting system allowing to identify all my indirect costs and a reliable cost driver to allocate them?	YES		✓	✓	✓
	NO			✓	✓

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

*2 October 2008 data*



## Flat-Rates: FP6 vs. FP7

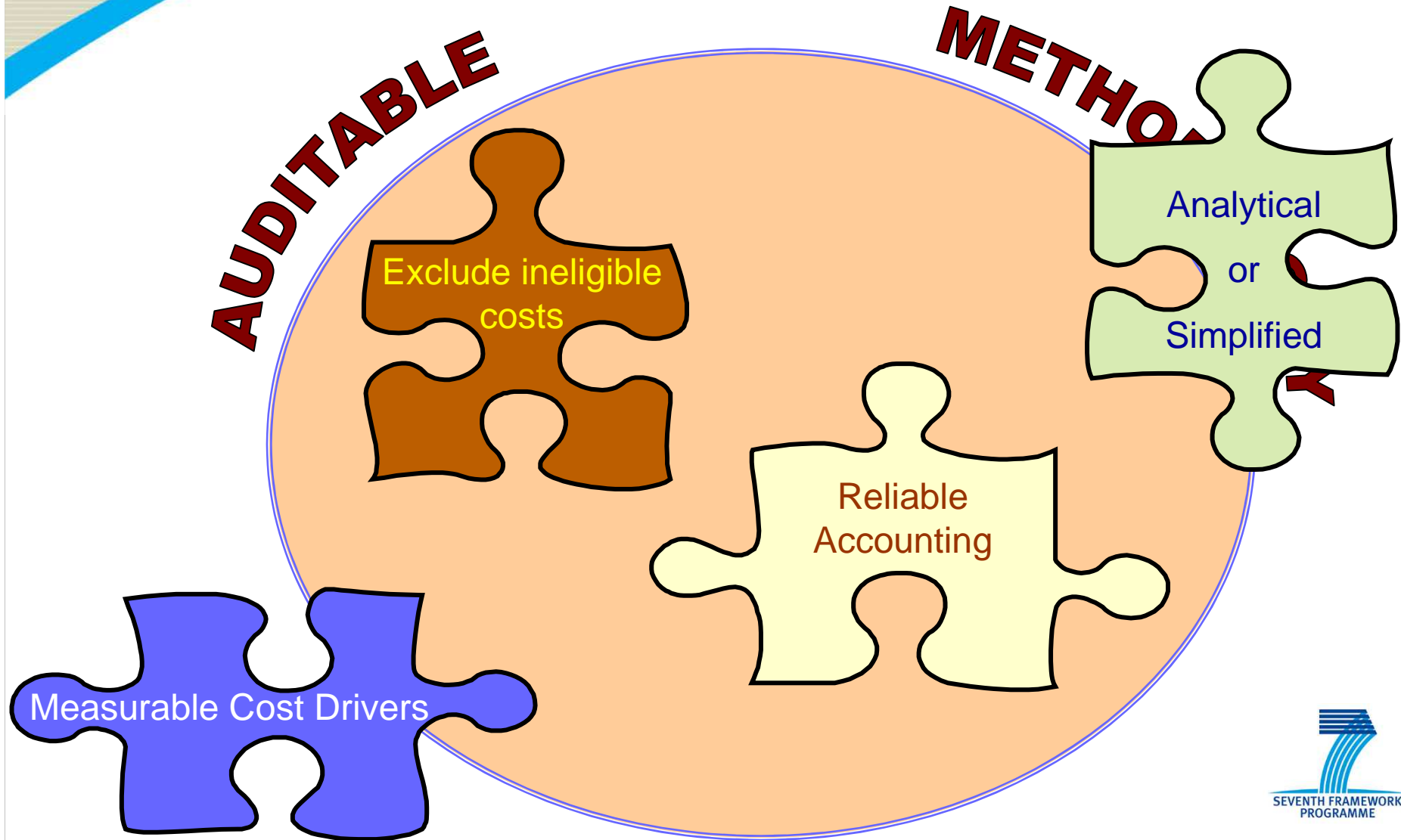
	Direct costs	Indirect costs	Total costs	% EC contribution	Contribution
<b>FP6 AC Cost model</b>	100	20	120	100%	<b>120</b>
<b>FP7 Trans. Flat-rate (60 %)</b>	100	60	160	75%	<b>120</b>
<b>Transitional rate of 60% until 31/12/2009</b> (Process of revision: art 32.5 FP7 EC Rules for participation, ongoing consultations - NCP, Member states, Experts Groups – <b>minimum 40 %</b> )					
<b>If fixed at minimum (40%)</b>	100	40	140	75%	105
However, in FP7 flat-rate beneficiaries have to right to declare also the costs of permanent personnel (not eligible in FP6 Additional Cost model)					
<b>If fixed at minimum (40%)</b>	115	46	161	75%	<b>120,75</b>
Even in the worst possible scenario, a participation of permanent personnel in the project representing about 13 % (15 / 115 ) of the total direct costs would result on an EC contribution at the same level than FP6					



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## Actual Indirect Costs Methodologies Minimum requirements for FP7

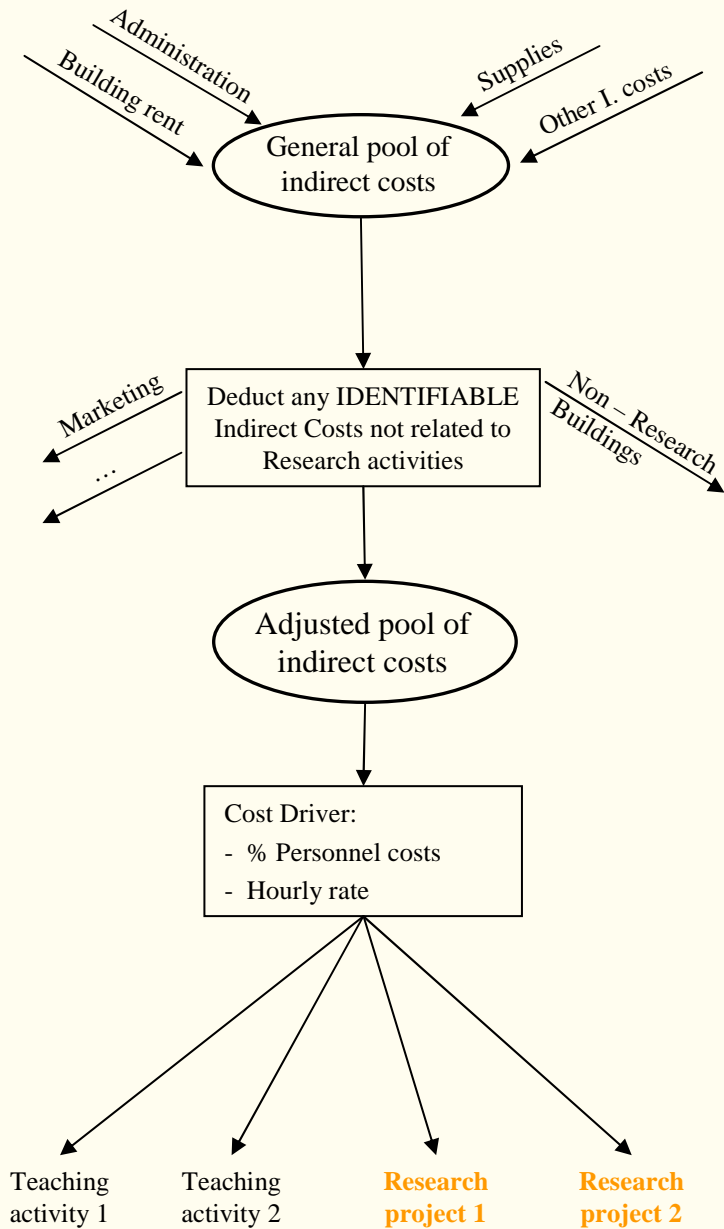




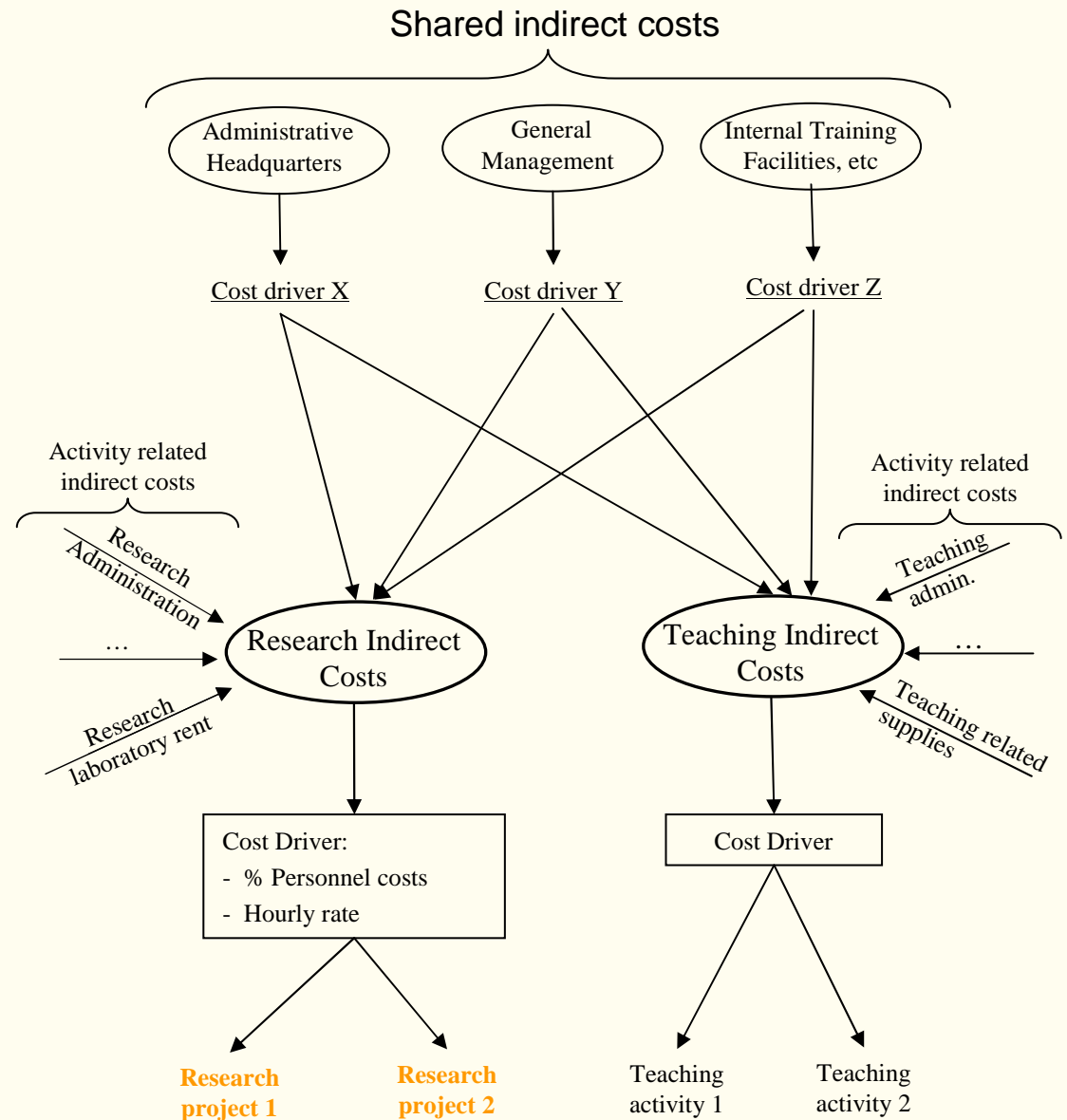
## Simplified Method

- The use of this method is optional, however “Simplified” does not mean “Simple”
  - accounting system which enables to identify all eligible indirect costs
  - a reliable cost driver to allocate the indirect costs
  - facilitate the transition from AC to full cost project accounting
- Is called ‘Simplified’ because the calculation is done at ‘entity’ level (i.e. not by departments, activities, etc).
- Foreseen for beneficiaries who do not aggregate their indirect costs at a detailed level but at entity level (e.g. beneficiaries without analytical accounting system).

## Simplified Method



## Analytical system





## Indirect costs - Common errors

- Cost driver used for allocating indirect costs is an unsubstantiated estimation
- Identifiable indirect costs not related to research charged to the projects.
- For flat-rate beneficiaries: indirect costs are also applied on subcontracting and resources made available by third parties not used on the premises of the beneficiary
- Only research hours (and not all productive hours) are used for the allocation of the indirect costs to the projects (calculation of overhead rate)



## ADDITIONAL INFO



Guidance note on FP7 audit certification

[http://cordis.europa.eu/fp7/find-doc\\_en.html#guidance](http://cordis.europa.eu/fp7/find-doc_en.html#guidance)



FP6 / FP7 Audit certification policy website

[http://cordis.europa.eu/audit-certification/home\\_en.html](http://cordis.europa.eu/audit-certification/home_en.html)



FP7 Certification FAQs

[ftp://ftp.cordis.europa.eu/pub/fp7/docs/faq-certification\\_en.pdf](ftp://ftp.cordis.europa.eu/pub/fp7/docs/faq-certification_en.pdf)



And in case of doubts:

**RESEARCH HELPDISK**

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



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# Thank you very much for your attention!

