

Certification on the Methodology (CoM)

Our experience

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CoM, why?

When
working for
FP7

- You need a Certificate on the Financial Statements (CFS) to be submitted for each interim payment exceeding EUR 375.000 when cumulated with all previous payments for which a Certificate on the Financial Statements has not been submitted (except if the project duration is less than two years; in that case, only at the end).
- This procedure can be simplified using the Certification on the Methodology (CoM)

According to
the
Commission,
CoM has
advantages

- ✓ Promote the use of correct methodologies when calculating personnel and indirect costs, reducing the number of detected errors.
- ✓ Waiving of interim CFS.
- ✓ 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)
- ✓ Light Certificate on the Financial Statement for the final payment.

The starting point

http://cordis.europa.eu/fp7/find-doc_en.html

Guidance documents:

- [Short guideline on proposal submission and negotiation with third country participants](#) [PDF]
- [Practical Guide to EU funding opportunities for Research and Innovation](#) [PDF]
- [Flat rates subsistence](#) [PDF]
- [Wiki on FP7 Periodic Report and NEF \(Forms C on-line tool for Information Society and Media DG projects\)](#) [HTML]
- [Presentation of FORCE \(Forms C on-line tool for Research DG projects\)](#) [PDF]
- [Amendments Guide for FP7 Grant Agreements](#) [PDF] Version: 2008-05-05
- [Guidance notes for beneficiaries and auditors on certificates issued by external auditors](#) [PDF] Version: 2009-09-03
- [Guide for beneficiaries](#) [PDF] Version: 2008-03-11
- [Guide to Financial Issues](#) [PDF] Version 2: 2009-04-02
- [Guide to IPR](#) [PDF] Version 2: 2009-02-13 (the main changes to the first version appear in blue)
- [Checklist for the Consortium Agreement](#) [PDF] Version: 2007-06-28



CERTIFICATES ISSUED BY EXTERNAL AUDITORS
GUIDANCE NOTES FOR BENEFICIARIES AND AUDITORS

MATERIALS PREPARED BY
THE WORKING GROUP ON CERTIFICATE ON THE METHODOLOGY UNDER FP7:
DG RESEARCH
DG INFORMATION SOCIETY AND MEDIA
DG ENERGY AND TRANSPORT
DG ENTERPRISE AND INDUSTRY
DG BUDGET

VERSION 3 SEPTEMBER 2009

ftp://ftp.cordis.europa.eu/pub/fp7/docs/guidelines-audit-certification_en.pdf

But there is more documentation

- Lots of documents on the Internet (check Google):



http://www.swisscore.org/sitecollectiondocuments/sc_sem_2008_romani_dimitrova.pdf

Do I meet the criteria?

- ✓ FP6 eligibility criteria : at least 8 participations in FP6 contracts with an EC contribution equal or above EUR 375 000,

OR

- ✓ Either at least 4 participations in FP7 Grant Agreements signed before the 1st January 2010 with an EC contribution equal or above EUR 375 000
- ✓ Or, at least 8 participations in FP7 Grant Agreements with an EC contribution equal or above EUR 375 000 at anytime during the implementation of the FP7.

Procedure

Request to the EC

- Beneficiaries who consider to meet the criteria may send a request to the EC, at any time during the lifetime of FP7
- Acceptance/rejection of the request by the EC within 30 calendar days (possible extension of time-limit).

Submission of the Certificate

- The CoM is an independent report of factual findings, produced by an external auditor, based on statements made by the beneficiary.
- As foreseen in the Grant Agreement (Annex VII to the Grant Agreement, Form E).
- Acceptance/rejection of the certificate by the EC within 60 calendar days (possible extension of time-limit)
- 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.

Costs



- The costs for a Certificate on the Methodology for personnel and indirect costs will be eligible once the CoM is approved.



- The costs for rejected certificates will not be eligible.

To take into account



- ✓ The submission of a Certificate on the Financial Statements or on the Methodology does not waive the right of the Commission or the European Court of Auditors to carry out their own audits.
- ✓ CoM valid if the methodology does not change or if an audit or other control performed by the Commission services or on its behalf demonstrates that the methodology certified can no longer be maintained in its present form.

Until the acceptance of the amended methodology, the requirement to provide intermediate CFS will not be waived.

Statements to be made by the beneficiary

Statement to be made by Beneficiary	Procedure to be carried out by the Auditor & factual findings
<p>The methodology described below has been in use since [date].</p> <p>The next planned alteration to the methodology used by the Beneficiary will be from [date]</p>	<p>Procedure: The Auditor has inspected records and documents which support the date given by the Beneficiary.</p> <p>Finding: The dates given by the Beneficiary are consistent with the management information provided by the Beneficiary.</p>
Statement to be made by Beneficiary	Procedure to be carried out by the Auditor & factual findings
<p>Personnel</p> <p>1. Time recording exists, with authorisation, which enables all personnel hours to be allocated to project work, management and administrative time, holidays, etc.</p> <p>The time recording enables the time of employees working on multiple projects to be allocated to those projects, and includes a check to prevent double charging of time.</p> <p>'Productive hours' represent the (average) number of hours made available by the employee in a year after the deduction of holiday, sick leave and other entitlements. This calculation should be provided by the Beneficiary, based on the period(s) corresponding to the Financial Statement (s) or to the last closed financial year (whichever is used by the beneficiary).</p>	<p>Procedure: For 10 employees selected at random, the Auditor checked: That the employee had recorded management and administrative tasks separately from project time; That an authorisation check exists which checks, inter alia, double-charging of time;</p> <p>Finding: For the items checked, the time recording includes separation of time as specified above, and an authorisation including a check for double charging of time. For the most recent full calendar year: The average productive hours for the 10 employees was _____ The average productive hours per employee for the organisation as a whole, as recorded by the Beneficiary's time-records was _____.</p>

Main challenges

- ✓ EC mayor concern: full time recording per person is required. This is a time-sheet example fulfilling the requirements for the Certification of the Methodology.

YEAR MONTH

Indicate the time in hours Only the yellow cells are writeable

Date	1	2	3	4	5	6	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	Total	Notes				
Day	Sun	Mo	Tue	Wed	Thu	Fri	Sat	Sun	Mo	Tue	Wed	Thu	Fri	Sat	Sun	Mo	Tue	Wed	Thu	Fri	Sat	Sun	Mo	Tue	Wed	Thu	Fri	Sat	Sun	Mo						
EU-Projects																																				
R&D Activities																																				
Project x			3	4	7	8							3,5				3	2	8	9	4										7	58,5	WP3			
Project y			5	5		5,5																											15,5	WP8		
Project z																																	0			
Total RTD	0	8	9	7	8	5,5	0	0	0	0	0	0	3,5	0	0	3	2	8	9	4	0	0	0	0	0	0	0	0	0	0	7	74				
Demonstration																																				
Project x																																	0			
Project y																																		0		
Project z																																		0		
Total Demonstration	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0			
Management																																				
Project x												8	3,5				5			1													17,5	WP1		
Project y																																		0		
Project z																																		0		
Total Management	0	0	0	0	0	0	0	0	0	0	0	8	3,5	0	0	0	5	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	17,5			
Other Activities																																				
Project x							3								5																			8	WP7	
Project y																																		0		
Project z																																			0	
Total Other	0	0	0	0	0	0	3	0	0	0	0	0	0	0	5	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	8			
Internal activities and National Projects																																				
Teaching						2,5											6	1			3													12,5		
Training																																			0	
National Projects																																			0	
(...)																																			0	
Total	0	0	0	0	0	2,5	0	0	0	0	0	0	0	0	0	6	1	0	0	3	0	0	0	0	0	0	0	0	0	0	0	0	0	12,5		
Absences																																				
Annual Leave																								8	8	8	8							32		
Special Leave						0																													0	
Illness										8	8	8																							24	
Total Absences	0	0	0	0	0	0	0	0	0	8	8	8	0	0	0	0	0	0	0	0	0	0	0	8	8	8	8	0	0	0	0	0	0	56		
Total productive hours	0	8	9	7	8	8	3	0	0	0	0	8	7	0	5	9	8	8	9	8	0	0	0	0	0	0	0	0	0	0	0	7	112			
Total hours																																168				



Signed:

Approved:

Productive hours per project:	Project x	84
	Project y	15,5
	Project z	0

Statements to be made by the beneficiary

Statement to be made by Beneficiary	Procedure to be carried out by the Auditor & factual findings
Personnel	
<p>2. Personnel costs of the employees only include standard salaries, employer's costs, etc. and no special conditions exist for employees on EC projects, unless they are explicitly foreseen in the Grant Agreement.</p>	<p>Procedure: The Auditor reconciled the personnel costs used in the average personnel cost calculation to the payroll system and accounting records.</p> <p>Finding: The amounts used in the costs calculation and those in the accounting records were the same. The costs consisted of standard salaries and statutory employers' costs, and did not include bonuses and confirmation was obtained from the Beneficiary that no special conditions exist for employees on EC projects.</p>

Statements to be made by the beneficiary

Statement to be made by Beneficiary	Procedure to be carried out by the Auditor & factual findings
Personnel	
<p>3. Hourly rates are correctly calculated using one of the following possibilities [choose one]:</p> <ul style="list-style-type: none"> • Actual personnel costs <i>per person</i> divided by actual productive hours <i>per person</i>; • Actual personnel costs <i>per person</i> divided by <i>average/ standard</i> productive hours; • <i>Average</i> personnel costs <i>per person</i> divided by <i>average/ standard</i> productive hours. <p>For the average costing approach, the Beneficiary should state:</p> <ul style="list-style-type: none"> - How employees are grouped into categories (how many categories, under what criteria); - The pay range in each category from lowest to highest, average and median; - The upper and lower percentage variation within each category from the average; - The upper and lower percentage variation for productive hours from the average (if known); - A list of average rates charged in each category for the prior years (an indication only, of the expected range of rates for the period of the agreement). 	<p>Procedure:</p> <p>The Auditor reviewed the calculation and confirmed that hourly rates are calculated as specified by the Beneficiary.</p> <p>Where average costs are charged, the Auditor compared the following information with the accounting system of the Beneficiary:</p> <ul style="list-style-type: none"> • The number of categories; • The pay range, median and average of each category; • The upper and lower percentage variation from the average (denominator is the average); • The upper and lower percentage variation for productive hours from the average (if known); • A list of average rates charged in each category for the prior years (an indication only, of the expected range of rates for the period of the agreement). <p>The Auditor multiplied the average rate for each category by the total productive hours for each category for the period of the Financial Statement(s) or to the last closed financial year (whichever is used by the beneficiary) and reconciled the result to the accounting records ('chargeable' personnel costs).</p> <p>Finding:</p> <p>No differences arose from the comparisons listed above.</p> <p>The result of the above recomputation ('chargeable' personnel costs) in all cases did not exceed the actual costs as recorded in the accounting records.</p>

Statements to be made by the beneficiary

Statement to be made by Beneficiary	Procedure to be carried out by the Auditor & factual findings
Overheads/ Indirect costs	
<p>4. The Beneficiary confirms the following:</p> <p>Indirect costs only include those costs which cannot be allocated to specific projects and support the functioning of the organisation as a whole.</p> <p>The indirect costs do not include costs which relate exclusively to non-research parts of the organisation.</p> <p>If the organisation carries out activities other than research (e.g., manufacturing, education etc), these indirect costs are transparently separated via cost accounting and do not form part of the claim.</p>	<p>Procedure: The Auditor obtained the calculation of hourly overhead rates (indirect costs), including a detailed breakdown of the indirect costs to be allocated to research activity;</p> <p>Finding: This breakdown did not contain costs relating to direct project activity, such as the cost of research personnel, project consumables and expenses; This breakdown does not contain costs relating to education or manufacturing, or other non-research activities of the Beneficiary; The breakdown of indirect costs used to calculate overhead rates was reconciled to the accounting records.</p>

Main challenges



- ✓ The concern is that by including non-research related costs in the indirect cost calculation, the beneficiary ends up having parts of its non-research activity funded out of the FP7 budget.

Separate and identify costs related to non-research activities: teaching, marketing, sales, manufacturing...

- ✓ The beneficiary needs to provide a detailed breakdown of the components of the overhead cost, together with a sufficient narrative description of the individually accounting elements.

Distinguish overhead costs that are wholly relevant to research, mixed, or other activities.

The beneficiary should also describe "mixed-use", where the overhead costs will have to be allocated to the different activities, using a basis such as the staff to student ratio, or the ratio of research staff to sales staff.

Allocation method must be included in the statement.

Demonstrate how the figures can be linked to the accounting records.

Statements to be made by the beneficiary

Statement to be made by Beneficiary	Procedure to be carried out by the Auditor & factual findings
Overheads/ Indirect costs	
<p>5. The accounting system provides for fully traceable elimination of:</p> <ul style="list-style-type: none"> a) identifiable indirect taxes including value added tax, b) duties, c) interest owed, d) provisions for possible future losses or charges, e) exchange losses, cost related to return on capital, f) costs declared or incurred, or reimbursed in respect of another Community project, g) debt and debt service charges, excessive or reckless expenditures. <p>With regard to excessive or reckless expenditure, the Beneficiary confirms that purchases are made according to the principles of best value for money (best price-quality ratio), transparency and equal treatment between Community funded grant agreement and any other agreement or convention that the Beneficiary may have.</p> <p>Where the Beneficiary is allocating shared costs, they should provide a list of allocation methods used (usage records, floor space, activity-based-costing, headcount, etc.)</p>	<p>Procedure:</p> <p>The Auditor inspected the accounting records and chart of accounts.</p> <p>The Auditor reviewed the breakdown provided by the Beneficiary in order to check that the ineligible items specified were eliminated.</p> <p>The Auditor also checked (if necessary also via a written declaration/ representation of the Beneficiary) that no implicit interest was included, e.g., by finance leasing or other credit arrangements.</p> <p>Finding:</p> <p>The Auditor was able to obtain confirmation that no implicit interest was included, and did not find costs which explicitly relate to any of the items specified.</p> <p>For each allocation method used by the Beneficiary, the Auditor reconciled the amount to be allocated to the accounting records, and reconciled the allocation basis to the relevant management accounting information (usage records, floor space, activity-based-costing, headcount, etc.)</p> <p>Only the types of excessive and reckless expenditure listed in the Commission's guidance should be considered, the Auditor is not required to exercise professional judgement or provide assurance in this matter.</p>

Main challenges



- ✓ Remove VAT.
- ✓ Servicing of loans, interest, and also the interest element of finance leases are also examples of ineligible indirect costs which beneficiaries often fail to exclude.
- ✓ The Commission is interested in the existence of the allocation method, but reserves the right to independently assess whether the method is a fair allocation of costs to FP7 project work.

Statements to be made by the beneficiary

Statement to be made by Beneficiary	Procedure to be carried out by the Auditor & factual findings
Overheads/ Indirect costs	
<p>7. Allocation of indirect costs to the project is via</p> <ul style="list-style-type: none"> - a percentage of personnel costs; - a fixed personnel hourly rate; - another cost driver to be specified by the Beneficiary 	<p>Procedure: The Auditor checked that the allocation of indirect costs to the project corresponds with the methodology specified by the Beneficiary;</p> <p>Finding: The allocation of indirect costs to the project corresponds with the methodology specified by the Beneficiary; Where percentages are used the Auditor found that, the 'chargeable' personnel costs (defined above) multiplied by the overhead percentage does not exceed the total indirect costs to be allocated defined above; Where a fixed hourly rate is used, the productive hours figures used to distribute indirect costs and personnel were found to be the same. Where another cost driver not based on personnel is used, the Auditor found that the result of its application does not exceed the total amount of indirect costs to be allocated.</p>

CoM, summarizing



- ✓ Most problems come from explained challenges. But they are easy to solve.
- ✓ CoM have **real advantages**.
- ✓ It **reduces costs** for the whole certification system.
- ✓ It **simplifies** of **administrative** burden both for **beneficiaries** and EC operational services (less number of certificates to provide/process)
- ✓ Light final Certificate on the Financial Statement. No real experience now, but it is envisaged.