



Communication campaign

How to avoid financial errors in FP7

Welcome

Brussels, 19 March 2012

Agenda for today

- *Value for money in research funding: balancing science and financial accountability*
- *10 Most recurrent errors in FP7 research grants*
- *Communication campaign: How to avoid financial errors in FP7*



Value for money in research funding: balancing science and financial accountability

Brussels, 19 March 2012
Wolfgang Burtscher



The 10 Most Recurrent Financial Errors in FP7

Brussels, 19 March 2012

Marc Bellens

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Consequences of errors

Beneficiaries:

- *Non-optimal use of funding available*
- *Delayed payments*
- *Recoveries*
- *Liquidated damages*
- *Extrapolation*

European Commission:

- *Scrutiny of the Budgetary Authority and ECA*
- *Increased error rate*
- *Increased ex post audit efforts*
- *Corrective measures*



Legal background

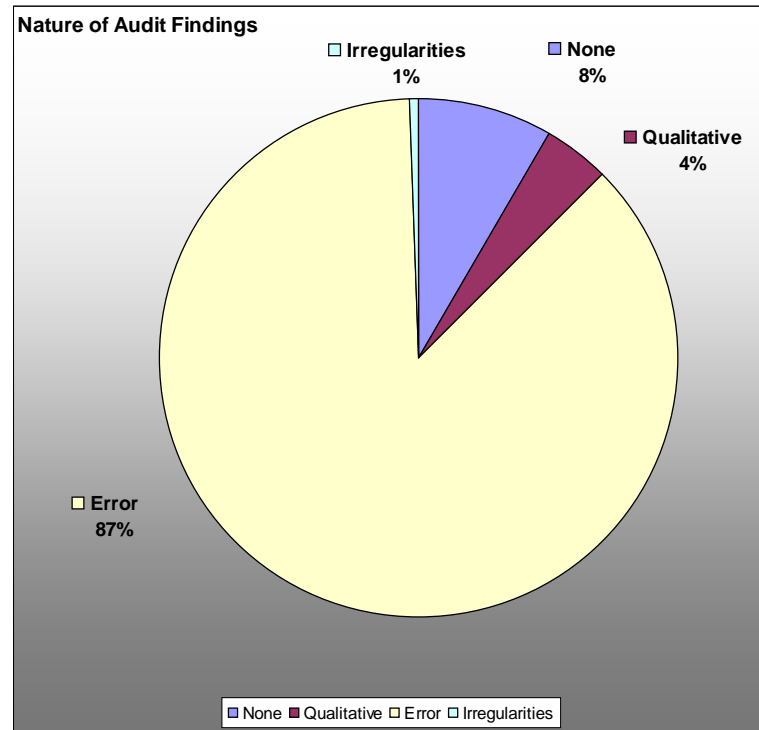
The model Grant Agreement for the 7th Framework Programme (Annex II, Article 22.1) states that:

*"The Commission may, at any time during the implementation of the project and up to five years after the end of the project, arrange for **financial audits** to be carried out, by external auditors, or by the Commission services themselves including OLAF".*

.....

*"Such audits may cover **financial, systemic and other aspects** (such as accounting and management principles) relating to the proper execution of the grant agreement."*

Audit findings



87% of audit findings are the result of errors

How to avoid common errors identified in FP7 cost claims

To help you we have prepared a document containing the 10 most recurrent errors you will find it in your welcome pack and it will be published on CORDIS

Most of these errors occur due to:

- *misunderstanding of the rules; or*
- *lack of attention to the detail of the provisions of the FP7 grant agreement.*

1. Costs claimed not linked to project and not substantiated

All costs claimed should be based on the actual costs incurred:

- *They must be supported by proper documentation*
- *They must be linked to the funded project*
- *Neither budgeted, nor estimated amounts*

2. Sub-contracting

The use of sub-contractors should be identified in the Description of the Work as defined in Annex I of the Grant Agreement:

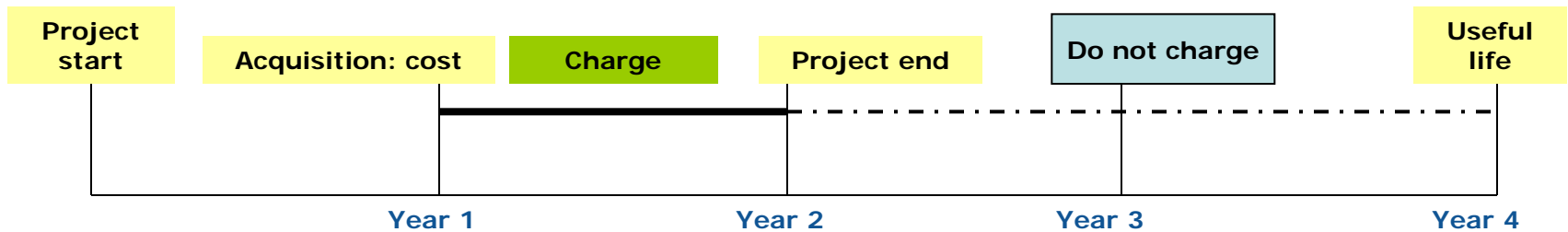
- *If this is not the case then send an amendment request to the Commission*
- *Subcontracting between partners of the consortium is not allowed*

3. Depreciation

Do not charge the full cost of equipment at acquisition:

- *Depreciate durable equipment over its useful life*
- *Spread the cost over the duration of the project*
- *Do not charge any residual values*

3. Depreciation



4. Indirect Cost Model

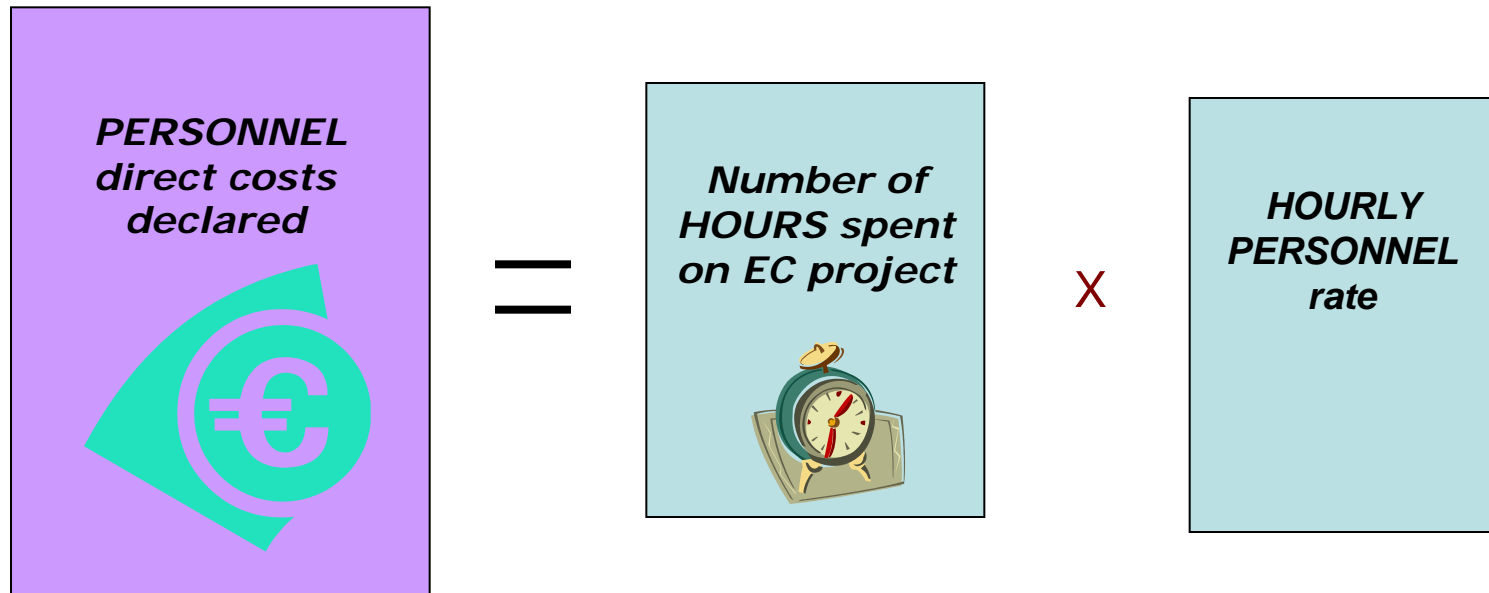
- *If a full cost accounting system is used then indirect costs claimed must be actual (neither estimated nor budgeted) and linked to the project*
- *If the actual indirect costs can not be established then use a flat rate for charging indirect costs to the project (20% or 60% depending on the status of the organisation)*

5. Indirect Costs - Ineligible items

- *Remove any ineligible items from the pool of indirect costs*

- *Examples of ineligible items:*
 - *Marketing & sales costs*
 - *Financing costs*
 - *Exchange rate losses*
 - *Costs with no relationship to the project*

6. Personnel costs: Establish a correct hourly rate



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$$\begin{array}{l} \text{HOURLY} \\ \text{PERSONNEL} \\ \text{Rate} \end{array} = \frac{\text{Total Annual Personnel Costs of an employee}}{\text{Total Annual Productive hours of an employee}}$$

6. Example of annual productive hours

| Productive hours calculation | |
|-------------------------------------|--------------|
| Total days in a year | 365 |
| Less: Weekends | 104 |
| Subtotal | 261 |
| Less: Annual Holidays | 21 |
| Less: Statutory Holidays | 15 |
| Less: Illness & Others | 15 |
| Productive days per year | 210 |
| Hours per day | 8,0 |
| Productive hours per year | 1.680 |

If actual productive hours exceed the standard, use actual hours. Do not use billable (commercial hours) as they do not represent the total productive time of the personnel

7. Hours charged to the project

Time charged to the project:

- *Ensure a reliable time-recording for all employees charged to FP7*
- *List hours charged by activities: RTD, Management, Demonstration, Others*
- *Sign and have the time charged approved*

Do not charge time when:

- *The person is on leave*
- *Attending conferences unrelated to the project*

8. Use of average personnel cost

- *It is now permitted to use average personnel costs for the calculation of staff costs under the condition that:*
- *They reflect the usual cost accounting practice **declared by the beneficiary***
 - ***They are based on** actual personnel costs as registered in the statutory accounts **(without estimated or budgeted elements)***
 - *They exclude ineligible cost items **and any costs claimed under other cost categories (to avoid double funding of the same costs)***
 - ***The number of** productive hours **corresponds to usual management practice***

If the criteria for the use of average personnel costs can not be met, then actual costs should be declared.

9. SME owners

SME owners may choose to:

Pay themselves a salary

For their research work



**Claim the salary as a cost
under the FP7 project**

No salary



**Charge Marie Curie flat rates to
the FP7 project**

10. VAT

- *VAT, whether recoverable or not, is ineligible*
- *Please ensure that VAT is always excluded from all cost claims*

ADDITIONAL INFORMATION



How to avoid common errors identified in cost claims

In the welcome pack and soon on CORDIS



Guide to FP7 Financial Issues

http://cordis.europa.eu/europa.eu/pub/fp7/docs/financialguide_en.pdf



And in case of doubts, do not forget: **RESEARCH HELPDESK**

<http://ec.europa.eu/research/enquiries>

Thank you very much for your attention!

Questions?

