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FP7 CERTIFICATION MODALITIES

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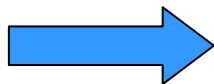
Overview of presentation

- Background to FP7 certification system
- Types of FP7 Certificates
- Practical issues (certification process, main challenges, personnel costs, time recording, indirect costs, etc.)
- State of play
- Questions & Answers



FP7 Audit Certification Background

- Research FP implemented by multi-annual work programmes with specific financial and legal provisions, covering various topics (health, energy,...) in the EU Member States and even beyond
- ... implying a large number and variety of participants (15.000+), each operating with their own internal control and accounting systems
- EC contribution to the projects is based on cost-sharing (% of the costs incurred). The reimbursement is based on “actual eligible costs” which can be problematic for some items (personnel and indirect costs, VAT, ...)
- Commission’s cost reimbursement model did not capture all national accounting rules
- There is a risk of overstatements of the costs declared by the beneficiary to the Commission and not subsequently detected and corrected: reimbursement of irregular costs which are not-eligible, incorrectly calculated, without adequate supporting documents, incurred outside the eligibility period, not actual (budgeted), or even fraudulently claimed costs



Inherent risks for errors



FP7 Audit Certification Background

- **Problems** noted by Commission auditors and European Court of Auditors when re-auditing certified **FP6** projects (80% of errors in personnel and indirect costs). Need for tighter control over work carried out by beneficiaries' auditors.
- Decision to adopt “**Agreed Upon Procedures**” rather than certificates based on an “assurance opinion” as of **FP7**
- In addition to the certification of periodic grant payment requests (Certificates on the Financial Statements), introduction of the Certificates on the Methodology



Reduce risk of errors – Stimulate transparent accounting



FP7 Certificates at a glance

CFS

CoMAv

CoM

Certificate on the Financial Statements

- Replaces FP6 Audit Certificates
- Verification of costs and receipts (compulsory Form D of Annex VII of model Grant Agreement)
- Covers the costs declared in the Forms C
- To be submitted only when cumulative EC contribution is ≥ 375.000 € (exception : if project duration ≤ 2 years, only at the end of the project)



FP7 Certificates at a glance

CFS

CoMAv

Certificate on the Methodology for Average Personnel Costs

- Verification of systems (compulsory Form E – Annex VII of model Grant Agreement)
- Mandatory for beneficiaries intending to charge average personnel costs
- Covers only the average personnel costs calculation methodology
- The methodology described in the certificate is analysed by the Commission who decides on its acceptance/non-acceptance for the FP7 costs declarations



FP7 Certificates at a glance

CFS

CoMAv

CoM

Certificate on the Methodology for Personnel and Indirect Costs

- Verification of systems (compulsory Form E – Annex VII of model Grant Agreement)
- Optional for the beneficiaries fulfilling the eligibility criteria
 - At least 8 participations in FP6 contracts with an EC contribution for each ≥ 375.000 € OR
 - At least 4 FP7 Grant Agreements signed before 01/01/2010 with an EC contribution for each ≥ 375.000 € OR
 - At least 8 FP7 Grant Agreements signed with an EC contribution for each ≥ 375.000 € anytime during FP7
- Covers the methodology used to calculate the personnel costs (actual or averages) and the indirect costs (analytical, simplified or flat-rate)



FP7 Certificates at a glance

CFS

CoMAv

CoM

CoM for Personnel and Indirect Costs – Advantages

- **Waives the obligation to submit Certificates on the Financial Statements for interim payments** (only a CFS at the end of the project when EC contribution \geq 375.000 €)
- Once accepted, the CoM is valid for the duration of FP7 (unless change of methodology)
- Gives assurance to beneficiaries that the methodology used to calculate personnel and indirect costs conforms to FP7 requirements (early detection and correction of possible methodological errors)
- Contributes to reduce :
 - audit scope for the certifying auditor in CFS and for ex-post auditors (compliance to methodology versus audit tests / individual recalculations)
 - administrative burden (beneficiaries participating in many projects will have to submit less CFS)
 - costs for the whole certification system (less funds spent on certificates)



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Who delivers the certificates ?

- Free choice of auditor
- **Competent public officer** (research organisation, public bodies, secondary and higher education establishments)
- **Auditors must be: Independent & Qualified** (Directive 2006/43/CE replacing 8th Council Directive)
- Auditors will provide a report on factual findings according to a compulsory format defined via agreed-upon-procedures (model Grant Agreement, Annex VII, Forms D and/or E)



Submission of the Certificates on the Methodology (CoM/CoMAv)

CoM

CoMAv

Eligibility request

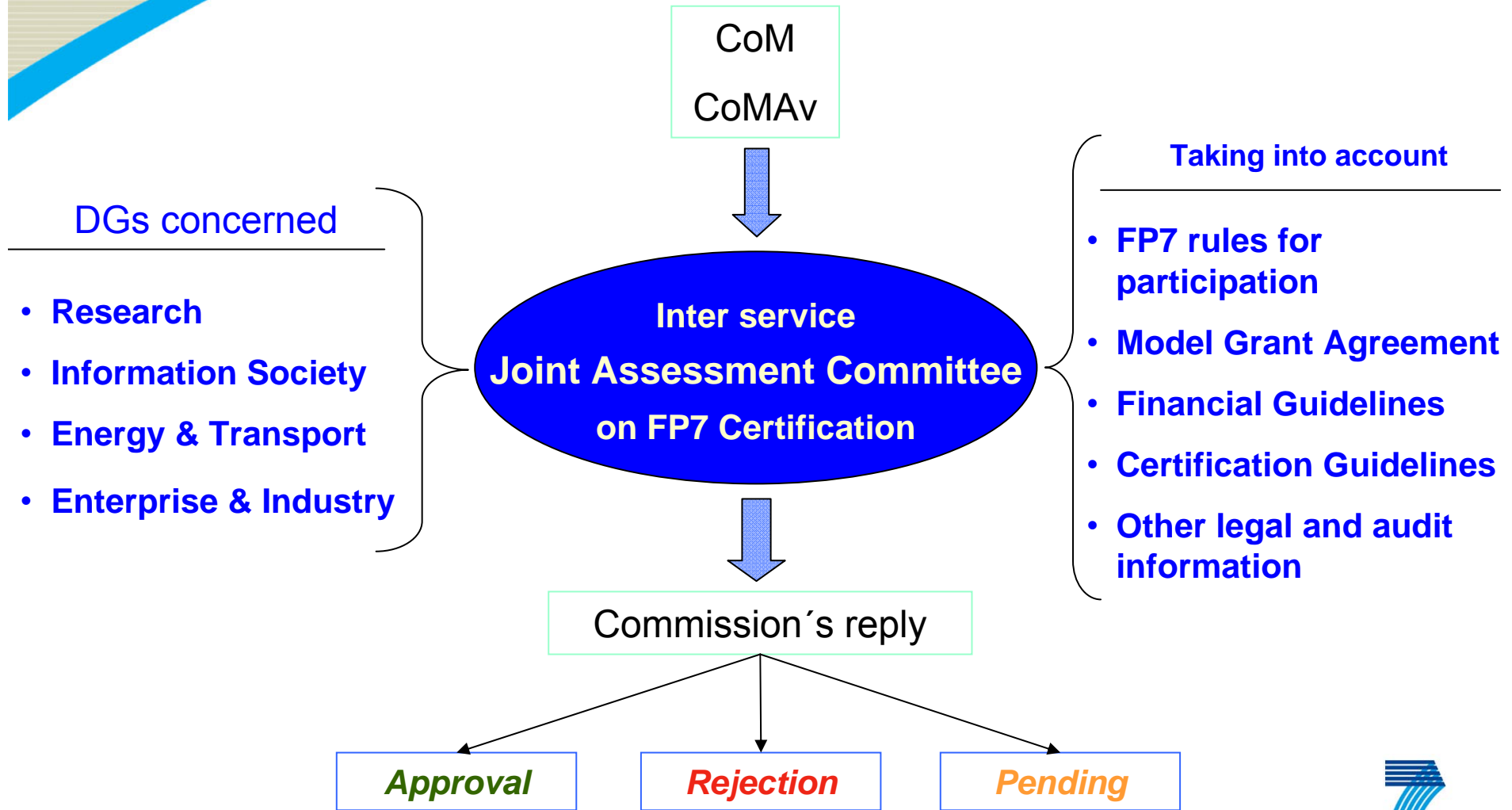
- 1) Request for eligibility submitted to the Commission by the beneficiary (via functional mailbox) at any time during FP7
- 2) Acceptance/Rejection by the EC within 30 calendar days

Submission process

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



Commission Certification Process...





Main challenges encountered with submitted CoM and CoMAv

- Mandatory Form E is not respected
- Terms of Reference are missing (sections 1.1 to 1.8 of Form E, Annex VII)
- Procedures are not performed on a signed FP7 Grant Agreement
- Agreed-upon-procedures are performed partially
- Benchmarks and support documents are missing to enable proper evaluation of the average personnel costing methodology (Form E, procedure 3)
- Long delays in responding to the additional information requested by the EC



Personnel costs & 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 indirect costs allocation (personnel-based driver being the most common 'cost driver')



Personnel costs & Time-recording

Person-based full time-recording system* = Requirement for the Certificate on the Methodology (Form E)

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, training, sickness, holidays, etc
- Covering the full year
- Recording actual data; no estimations
- Duly authorized

* Project-based time-recording system = Minimum requirement for Form D (CFS)



Personnel costs & Averages

Legal basis:

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



Significant deviation ...

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:

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



NEW

ACCEPTABILITY CRITERIA

Adopted by Commission Decision on 23 June 2009

- ⇒ Methodologies in which, for each personnel category, the difference between the average rate and the extreme values (upper and lower rates) is $\leq 5\%$: the methodology is acceptable.
- ⇒ Methodologies in which, for any personnel category, the difference between the average rate and the extreme values (upper and lower rates) $> 25\%$: the methodology is not acceptable.
- ⇒ Methodologies not fulfilling the first criterion and in which, for each personnel category, the difference between the average rate and the extreme values (upper and lower rates) $\leq 25\%$: only methodologies applied by beneficiaries having participated in at least 4 FP6 projects with an EC contribution¹ in each of them equal or above EUR 375.000 or 4 FP7 projects with an EC contribution in each of them equal or above EUR 375.000 are acceptable.

¹ In this context, EC contribution is defined as the Community financial contribution allocated to the beneficiary in the estimated breakdown of the budget



PRACTICAL EXAMPLE

The following table presents the different categories of an hypothetical methodology along with the data requested in Form E regarding the personnel costs -

	Category	Number of employees	Lowest pay	Highest pay	Average	Median	Lower % variation with the average	Upper % variation with the average	Annual Prod. hours	Average rates
Heads of department	1	6	163.317,24	187.623,18	176.231,46	177.331,19	-7,33%	6,46%	1600	110,14
	2	12	96.230,09	108.878,16	103.452,78	104.487,42	-6,98%	5,24%	1600	64,66
Senior Researchers	3	27	85.051,33	132.725,16	99.332,67	95.574,42	-14,38%	33,62%	1650	60,20
	4	45	75.171,21	85.051,33	80.813,27	81.621,49	-6,98%	5,24%	1650	48,98
Junior Researchers	5	3	66.438,77	85.051,33	75.266,26	74.659,01	-11,73%	13,00%	1680	44,80
	6	30	58.720,81	75.171,21	66.522,82	65.986,08	-11,73%	13,00%	1680	39,60
	7	75	51.899,37	66.438,77	58.795,06	58.320,70	-11,73%	13,00%	1680	35,00
Technicians	8	30	46.900,00	51.192,14	49.339,30	49.806,42	-4,94%	3,76%	1680	29,37
	9	18	40.541,79	51.899,37	45.928,40	45.557,86	-11,73%	13,00%	1680	27,34
	10	66	27.325,00	45.870,42	39.529,65	40.265,55	-30,87%	16,04%	1680	23,53
	11	12	31.669,67	40.541,79	35.877,47	35.587,99	-11,73%	13,00%	1680	21,36
Assistants	12	7	27.990,70	35.832,14	31.709,70	31.453,88	-11,73%	13,00%	1680	18,87
	13	30	24.739,12	31.669,67	28.026,10	27.799,99	-11,73%	13,00%	1680	16,68
	14	3	21.865,26	32.450,00	25.327,79	24.570,52	-13,67%	28,12%	1680	15,08
Trainees	15	15	19.325,23	24.739,12	21.892,88	21.716,27	-11,73%	13,00%	1680	13,03
	16	6	17.500,00	19.100,00	18.401,15	18.545,86	-4,90%	3,80%	1680	10,95



Indirect costs 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 eligible 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 in 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, secondary and higher education establishments, SMEs))

NEW

* Commission decided on 15 June 2009 to maintain the flat-rate for indirect costs at 60%



Indirect Costs & Most common errors encountered

- **Cost driver** used for allocating indirect costs is an **unsubstantiated estimation** (cost driver must be set up on factual basis and easy to reconcile with the accounts)
- Identifiable indirect costs **not related to research** are charged to the project
- For beneficiaries using **flat-rates** : indirect costs are also applied on subcontracting and on resources made available by third parties not used on the premises of the beneficiary



State of Play on FP7 ex-ante certification (as of 24 June 2009)

Certificates on the Methodology for Personnel & Indirect Costs (CoM)

- eligibility requests received : 66 (out of which 44 are eligible)
- CoM submitted : 15
- CoM approved : 1
- CoM rejected : 4
- CoM being currently analysed : 10 (out of which 8 cover average personnel costs and indirect costs and 2 cover actual personnel costs and indirect costs)

Certificates on the Methodology for Average Personnel Costs (CoMAv)

- CoMAv received : 17
- CoMAv approved : 1
- CoMAv rejected : 3
- CoMAv being currently analysed : 13



ADDITIONAL INFORMATION



Guidance notes on FP7 audit certification

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



FP7 Certification FAQs

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



And in case of doubts, don't forget: **RESEARCH HELPDESK**

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



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

