



European Commission



Information Society

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# **Financial Statements**

**Training Seminar**

**Brussels**

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# Introduction

## Principles of cost reimbursement

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### ➤ CONCEPT OF ELIGIBLE COSTS

- ↪ **Actual, economic and necessary**
- ↪ **In accordance with the usual accounting principles of the contractor**
- ↪ **During the duration of the project ... except ... drawing up the final reports ... which may be incurred during the period of up to 45 days after the end of the project**
- ↪ **Recorded in the accounts ...**
- ↪ **In case of contributions made by third parties ... be recorded in the accounts of the third party**

# Introduction

## Principles of cost reimbursement

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### ➤ CONCEPT OF NON-ELIGIBLE COSTS.

- ↪ **Any identifiable indirect taxes, including VAT or duties;**
- ↪ **Interest owed;**
- ↪ **Provisions for possible future losses or charges;**
- ↪ **Exchange losses;**
- ↪ **Costs declared, incurred or reimbursed in respect of another Community project;**
- ↪ **Costs related to the return on capital;**
- ↪ **Debt and debt related charges;**
- ↪ **Excessive or reckless expenditure;**
- ↪ **Any cost which does not meet the conditions established in Article II.19.1**

# Introduction

## Principles of costs reimbursement

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- Reimbursement of eligible costs claimed by contractors
- **In accordance with the cost reporting models used by each contractor**
- **Maximum reimbursement rates of eligible costs per type of activity**
- Approval of requested periodic reports
- Subject – if required in the contract - to the submission of an audit certificate
- **Taking into account the receipts of the project**
- Limits of public funding established by international regulations and in particular by the Community framework for State aid for research and **development for certain activities**



# **Introduction**

## **Renewal of pre-financing – settled payments**

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- **Pre-financing is calculated as % of the estimated Community financial contribution corresponding to the first/subsequent reporting period and the 6 months of the subsequent reporting period as indicated in the table of estimated breakdown of costs**
- **Pre-financing is normally renewed at each reporting period**
- **In case audit certificates are submitted a payment is made which settles the amounts justified and accepted during the reporting period**
- **In case no audit certificates are submitted the amount justified and accepted is taking into account in calculating the pre-financing**

# Introduction

## Renewal of pre-financing – settled payment

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### ➤ Art. 8.2

The Community financial contribution shall be paid in accordance with the provisions of Article II.28 and the following:

.....

b) Within 45 days following approval by the Commission of the reports related to each reporting period

.....

e) Where no comments, changes or substantial corrections to any of the project activity reports or financial statements are required or where the Commission approves the reports more than 45 days after reception, the Commission shall make the appropriate payment within 90 days of receipt of the project activity reports and associated financial statements.

Where substantial comments, changes, further information or adjustments are requested by the Commission within this period, the delay is suspended upon notification by the Commission. The remainder of the 90 day payment period begins again only after submission by the contractors of the required information.



# **Introduction**

## **Timing and approval of financial reports**

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### ➤ **Art. II.7 – Reports and Deliverables**

**All reports and deliverables shall be submitted within 45 days following the end of the respective reporting periods**

### ➤ **Art. II.8 – Evaluation and approval of Reports and Deliverables**

**The Commission undertakes to evaluate all other reports (i.e. periodic management reports) within 45 days of receipt. The absence of a response from the Commission within 45 days of receipt of these reports shall not imply approval by the Commission. The Commission may reject these reports even after the time limit for payment.**



# Introduction

## Example

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- 'grant to the budget'
- a 3 year project with a yearly reporting period
- each financial statement is submitted with an audit certificate
- total Community contribution is 1,100,000 Euro split as follows:
  - ↪ 380,000 Euro for the first year,
  - ↪ 420,000 Euro for the second year (of which 210,000 year for the first six months of the second year)
  - ↪ 300,000 Euro for the third year (of which 150,000 Euro for the first six months).
- 80% pre-financing has been decided.
- t0 refers to the start of the project, t1 is after 1 year and t2 is after 2 years.

# Introduction Example

## ➤ At t0:

### ↪ Calculation:

☞ Pre-financing: 80% (year 1 + 6 months of year 2) i.e. 80% of (380,000 + 210,000) = 472,000 Euro.

### ↪ Payment and accounting:

☞ Payment: 472,000 Euro,  
☞ Pre-financing at t0: 472,000 Euro,  
☞ 'Settled' pre-financing: 0 Euro.

## ➤ At t1:

↪ Accepted funding: 350,000 Euro

### ↪ Calculation:

☞ Renewal of the pre-financing: 80% of (year 2 + 6 months year 3), i.e. 80% of (420,000 + 150,000) = 456,000 Euro  
☞ + take account of difference amount justified and accepted and pre-financing,  
☞ i.e. renewal pre-financing + (accepted – pre-financing) or 456,000 Euro + (350,000 – 472,000) = 334,000 Euro.

### ↪ Payment and accounting:

☞ Payment: 334,000 Euro,  
☞ Pre-financing: 456,000 Euro,  
☞ 'Settled' pre-financing: 350,000 Euro.



# Introduction Example

## ➤ At t2

↪ Accepted funding:       **400,000 Euro**

↪ Calculation:

☞ **Renewal of the pre-financing: 80% of (year 3 + 6 months year 4), i.e. 80% of (300,000 + 0) = 240,000 Euro**

☞ **+ take into account difference amount justified and accepted and pre-financing,**

☞ **i.e. renewal of pre-financing + (accepted – pre-financing) or 240,000 Euro + (400,000 – 456,000) = 184,000 Euro.**

↪ Payment and accounting:

↪ **Payment:**                               **184,000Euro,**

↪ **Pre-financing:**                       **240,000 Euro,**

↪ **'Settled' pre-financing:**       **750,000 Euro**



# New concepts -reminder

## Cost reporting models

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- **FC: actual direct and indirect costs**
  - ↪ all instruments, however in case of Co-ordination Actions and Specific Support Actions flat rate for indirect costs (20% of direct costs minus subcontracting) reimbursed
  
- **FCF (variant of FC): actual direct costs + flat rate for indirect costs (20% of direct costs minus subcontracting)**
  - ↪ all instruments
  
- **AC: actual additional non-recurring direct costs + flat rate for indirect costs (20% of direct costs minus subcontracting)**
  - ↪ all instruments

# **New concepts**

## **Cost reporting models - reminder**

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### **➤ Direct costs for contractors using the Additional Cost model**

**↪ direct costs of personnel shall be limited to the actual costs of the personnel assigned to the project where the contractor has concluded with the personnel**

- ☞ a temporary contract for working on Community RTD projects**
- ☞ a temporary contract for completing a doctorate**
- ☞ a contract which depends, in full or in part, upon external funding additional to the normal recurring funding of the contractor. In that case, the costs charged to this contract must exclude any costs borne by the normal recurring funding**

# **New concepts**

## **Cost reporting models - reminder**

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- **Partners using the AC cost reporting model will have to identify all the resources employed in the project and provide a global estimate of all their costs - not only additional eligible costs**
- **Partners using the AC cost reporting model - exclude any direct additional costs specifically covered by contributions from third parties**
- **Partners using the AC cost reporting model may charge permanent personnel under Management Activities under certain conditions – however for these costs no indirect costs can be claimed**

# New concepts

## Third party costs - reminder

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- Resources made available by third parties on the basis of **prior agreement** are eligible as costs for the project
- The **tasks and their execution** by such third parties are **clearly identified** in the Annex I
- **Costs** will have to be **recorded in the accounts of this third party** - to be covered by **audit certificates**
- Contractors shall ensure that third parties whose resources are made available to the project are informed on the use of their resources



# New concepts

## Receipts - reminder

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### ➤ Three kinds of receipts

- ☞ financial transfers or their equivalent to the contractor from third parties, contributions in kind from third parties, income generated by the project

### ➤ Financial transfers or contributions in kind

- ☞ These endowments are considered as receipts of the project if the third party has provided them specifically to be used in the project
- ☞ If these endowments are at the discretion of the contractor they are not to be considered as receipts.

### ➤ Income generated by the project

- ☞ General rule: any income generated by the project itself, including the sale of assets bought for the project, are considered as income to the project
- ☞ Derogation: income generated by the use of the knowledge resulting from the project is not considered as a receipt



# **New concepts**

## **Interests - reminder**

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### ➤ **Article II.24.5**

↪ **The Community contribution shall be offset by any interest or equivalent benefits yielded by the pre-financing of the project, as referred to in Article II.27**

### ➤ **Article II.27**

↪ **In accordance with the provisions of the Financial Regulation, pre-financing granted to the coordinator on behalf of the consortium remains the property of the Community**

↪ **The coordinator shall inform the Commission of the amount of any interest or equivalent benefits yielded by the pre-financing it has received from the Commission.**

...

# New concepts

## Maximum reimbursement rates of eligible costs per instrument, activity and cost model

Maximum reimbursement rates of eligible costs	Research and technological development or innovation activities	Demonstration activities	Training activities	Management of the consortium activities	Other specific activities (*)
Network of excellence				100% (up to 7% of the contribution) (AC : eligible direct costs)	100%
Integrated project	FC/FCF : 50% AC : 100%	FC/FCF : 35% AC : 100%	100%	100% (up to 7% of the contribution) (AC : eligible direct costs)	
Specific targeted research or innovation project	FC/FCF : 50% AC : 100%	FC/FCF : 35% AC : 100%		100% (up to 7% of the contribution) (AC : eligible direct costs)	
Specific research project for SMEs	FC/FCF : 50% AC : 100%		100% (for collective research only)	100% (up to 7% of the contribution) (AC : eligible direct costs)	
Integrated infrastructures initiative	FC/FCF : 50% AC : 100%	FC/FCF : 35% AC : 100%		100% (up to 7% of the contribution) (AC : eligible direct costs)	100%
Coordination action			100% (FC indirect costs : flat rate(**))	100% (up to 7% of the contribution) (AC : eligible direct costs) (FC indirect costs : flat rate(**))	100% (FC indirect costs : flat rate(**))
Specific support action				100% (up to 7% of the contribution) (AC : eligible direct costs) (FC indirect costs : flat rate(**))	100% (FC indirect costs : flat rate(**))

(\*) : Other specific activities means:

- for Network of Excellence : Joint Programme of Activities, except management of the consortium activities.
- for Integrated infrastructures initiative: any "specific activity" covered by Annex I, including transnational access to infrastructures
- for Coordination Action: Coordination activities, except management of the consortium activities
- for Specific support action: any "specific activity" covered by Annex I, including transnational access to infrastructures

(\*\*): Flat rate for FC indirect costs : 20% of all their eligible direct costs minus the eligible direct costs of sub-contracts.

# Submission of financial statements reports

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## ➤ Article II.7.2(b)

- **A periodic management including**
  - i. A justification of the resources deployed by each contractor, linking them to activities implemented and justifying their necessity;**
  - ii. The Form C Financial statement set out in Annex VI, provided by each contractor for that period**
  - iii. A summary financial report consolidating the claimed costs of all the contractors in an aggregate form, based on the information provided in Form C.**

## ➤ Article II.7.2(c)

- **A report on the distribution between contractors made during that period of the Community financial contribution.**

# Submission of financial statements reports

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## ➤ Article II.7.3

**The consortium shall submit the audit certificates provided by each contractor ... for each period for which the audit certificate is required. Even though an audit certificate is not required for a specific period, an audit certificate must be provided by each contractor where the Community financial contribution requested by the contractor exceeds € 750,000 for that period.**

# Submission of financial statements Form C

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## Overview

- 1. Resources (Third party(ies))**
- 2. Declaration of eligible costs (in €)**
- 3. Declaration of receipts (in €)**
- 4. Declaration of interest generated by the pre-financing (in €) – to be completed only by the coordinator**
- 5. Request of FP6 Financial contribution (in €)**
- 6. Audit certificates**
- 7. Conversion rates**
- 8. Contractor's Certificate**

# Submission of financial statement Form C

## 2- Declaration of eligible costs (in €)

Please complete only the activity covered by the relevant instrument (and type of action) indicated above and as mentioned in Article II.25 and/or in Annexes I and III of the contract.

If you are a contractor using the additional cost model (AC):

- indicate only your additional eligible costs, except for Management of the Consortium Activity for which you may indicate your full eligible costs;

- do not declare eligible direct additional costs specifically covered by contributions from third parties as mentioned in Articles II.20 and II.23.a and b of the contract.

If you are a contractor using a full cost model (FC/FCF), indicate your full eligible costs.

The costs declared should distinguish between direct and indirect costs.

If necessary, adjustments to previous period(s) may be included where appropriate.

	Type of Activity													
	Research and Technological Development / Innovation (A)		Demonstration (B)		Management of the Consortium (C)		Other Specific Activities: Coordination / Networking (D)		Other Specific Activities: Transnational Access / Connectivity (E)		Other Specific Activities (F)		Total (G) = (A)+(B)+(C)+(D)+(E)+(F)	
	Contractor	Third Party(ies)	Contractor	Third Party(ies)	Contractor	Third Party(ies)	Contractor	Third Party(ies)	Contractor	Third Party(ies)	Contractor	Third Party(ies)	Contractor	Third Party(ies)
Direct costs														
Of which subcontracting														
Indirect costs														
Adjustments to previous period(s)														
Total costs														

# Submission of financial statement Form C

## 8- Contractor's Certificate

We certify that:

- the costs declared above are directly related to the resources used to reach the objectives of the project ;
- the receipts declared above are directly related to the resources used to reach the objectives of the project ;
- the costs declared above fall within the definition of eligible costs specified in Articles II.19, II.20, II.21, II.22 and II.25 of the contract, and, if relevant, in Annex III and Article 9 (special clauses) of the contract ;
- the receipts declared above fall within the definition of receipts specified in Article II.23 of the contract ;
- the interest generated by the pre-financing declared above falls within the definition of Article II.27 of the contract ;
- the necessary adjustments, especially to costs reported in previous Financial Statement(s) per Activity, have been incorporated in the above Statement ;
- the above information declared is complete and true ;
- there is full supporting documentation to justify the information hereby declared. It will be made available at the request of the Commission and in the event of an audit by the Commission and/or by the Court of Auditors and/or their authorised representatives.

Contractor's Stamp	Name of the Person responsible for the work	Name of the duly authorised Financial Officer
	Date	Date
	Signature	Signature

# Submission of financial statements Audit Certificates

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- **Provided by an external auditor – or in the case of a public body it may be provided by a competent public officer**
  - ↪ **External auditor must be independent**
  - ↪ **Be qualified to carry out statutory audits**
  
- **At least one audit certificate per contractor covering the whole duration must be provided**
  - ↪ **Periodicity defined in the core of the contract**
  
- **Each contractor continues to be responsible to the Commission for the costs claimed**



# Submission of the financial statements

## Audit certificates

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- **An audit certificate certifies that**
  - **The amount of the total eligible costs**
    - are actual and answers to the economic environment
    - ....
    - use of correct reporting model
    - ....
  - **The total amounts of receipts, interest, ....**
- **An audit certificate must refer to the**
  - **audit carried out in accordance with generally accepted auditing standards**
  - **test carried out in order to obtain reasonable assurance**
- **An audit certificate must be signed and dated. The organisation providing the certificate must clearly identified.**
- **It is strongly recommended that the external audit or public competent officer use the model prepared by the Commission – see financial guidelines.**

# Submission of the financial statements

## Audit certificates

### 6.7- ANNEX 7: PROPOSED MODEL FOR AN AUDIT CERTIFICATE

Proposed model for an audit certificate provided by an external auditor

#### **Option 1: one contractor / no third party(ies) => one single audit certificate**

##### Addressed to

*[full name and the address of the contractor concerned<sup>315</sup>]*

We *[legal name of the audit firm]*, established in *[full address/city/state/province/country]* represented for signature of this audit certificate by *[name and function of an authorised representative]*, hereby certify that:

- we have conducted an audit relating to some information declared in your Financial Statement(s) per Activity attached to this audit certificate and presented to the Commission of the European Communities under contract *[EC contract reference: title, acronym, number]* for the following period(s) *[insert period(s) covered by the Financial Statement(s) per Activity]*.

# **Submission of the financial statements**

## **Justification of costs/Financial Statements**

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- **a brief description of the work performed by each contractor**
- **explanatory note or any major cost items**
- **a tabular overview of budgeted costs and actual costs, by contractor and by major cost item including personnel**
- **for AC contractors, a tabular overview of all resources employed on the project and a global estimate of all costs**
- **a tabular overview of budgeted person-months and actual person-months, by contractor and by work package**
- **for AC contractors in addition estimate the number of person-months of permanent staff working on the project**
- **a summary explanation of the impact of major deviation from cost budget and from person-month budget**



# Follow up

## Liquidated damages

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### Art. II.30 – Liquidated damages

**Without prejudice to any other measures provided for in this contract, the contractors agree that the Community, with the aim of protecting its financial interests, is entitled to claim liquidated damages from a contractor who is found to have overstated expenditure and who has consequently received an unjustified financial contribution from the Community.**

**Liquidated damages are due in addition to the recovery of the unjustified financial contribution from the contractor.**



# Follow up

## Liquidated damages

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### Example:

Suppose an FC contractor claimed eligible costs of 130.000 Euro – and after assessment – 100.000 Euro is considered to be eligible.

In this case the unjustified contribution is 15.000 Euro, i.e. 50% of (130.000 Euro – 100.000 Euro). The overstated expenditure is 30.000 Euro (130.000 Euro – 100.000 Euro) and the total claimed is 130.000 Euro.

Liquidated damage =  $15.000 * (30.000 / 130.000) = 3.461$  Euro or 23 %.

This amount on top of the 15.000 Euro – unjustified financial contribution – will have to be recovered – in case it is decided to apply liquidated damages.

# Follow up Control and Audits

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## **Art. II.29.1**

**The Commission may, at any time during the contract and up to five years after the end of the project, arrange for audits to be carried out, either by outside scientific or technological reviewers or auditors, or by the Commission departments themselves including OLAF.**

**Such audits may cover scientific, financial, technological and other aspects (such as accounting and management principles) relating to the proper execution of the project and the contract.**

**Any such audit shall be carried out on a confidential basis.**

**Any amounts due to the Commission as a result of the findings of any such audit may be the subject of a recovery.**



# Closing remarks

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- **For co-ordination action / specific support action**  
**Use of flat rate for FC indirect costs: 20 % of all the eligible direct costs minus the eligible direct costs for subcontracts**
  
- **Payment for the grant for integration on condition**
  - ↪ .....,
  - ↪ **that the eligible costs, incurred in implementing the joint programme of activities for the period, calculated in accordance with Part B of Annex II, are at least equal to the Community financial contribution for that period.**
  
- **Art. 8.2.d**  
**Where less than 70 % of a pre-financing has been used at the end of a reporting period, and notwithstanding the approval by the Commission of the related reports, subsequent intermediate prefinancing may be paid only:**
  - ↪ **If an audit certificate is provided for that reporting period; or**
  - ↪ **On the basis of a complementary periodic management report**
  - ...