

FP7 Financial Audits

Certificate on Financial Statement

The timing and number of Certificates on Financial Statement in FP7 projects, when required, depends on individual beneficiaries requested funding levels as per their Form Cs:

1. Beneficiary (partner) with funding under Euro 375,000 – no audit needed for beneficiary
2. Beneficiary with over Euro 375,000 only when funding reaches Euro 375,000 on cumulative reporting period basis
3. Once a beneficiary supplies a financial audit report, the funding level for calculating for that beneficiary reverts to zero and only if and when funding reaches Euro 375,000 again on cumulative reporting period basis, will a Certificate on Financial Statement be needed.

The following table demonstrates the point:

period	EXAMPLE 1			EXAMPLE 2			EXAMPLE 3		
	Single beneficiary's Funding for reporting period	Cumulative funding-since last audit	Audit – yes/no	Single beneficiary's Funding for reporting period	Cumulative funding-since last audit	Audit – yes/no	Single beneficiary's Funding for reporting period	Cumulative funding-since last audit	Audit – yes/no
1	100,000	100,000	No	380,000	380,000	Yes	300,000	300,000	No
2	200,000	300,000	No	360,000	360,000	No	200,000	500,000	Yes – 2 periods
3	50,000	350,000	No	100,000	460,000	Yes – 2 periods	100,000	100,000	No
4	10,000	360,000	No	350,000	350,000	No – never audited	280,000	380,000	Yes – 2 periods

Please note that if the project duration is 24 months or less, and the beneficiary passes the 375,000 Euro funding level, then only one Certificate on Financial Statement will be required at the end of the project.

Certificates of Methodology

Organisations who have had a number of projects in the past (at least 8 in FP6) may apply to have a Certificate of Methodology for calculation of overheads. The procedure for application and audit are laid down in the “Guide to financial issues” and “Certificates issued by external auditors - guidance notes for beneficiaries and auditors”. Once issued, a single financial audit report will be required for the whole duration (again none required if funding for the beneficiary is less than Euro 375,000) after the EC has accepted the Certificate of Methodology.

Only in recent months has the EC been accepting applications for Certificates of Methodology. Once the request is accepted by EC, then the auditor can issue his certificate of methodology, which may or may not be accepted by EC. If accepted, it will apply to all future reporting periods for all projects.

The cost of the audit for a certificate should be budgeted in a single project (although it applies to all projects) as “other”/“management” costs and is 100% funded by EC.

This certificate can be requested **only** by electronic mail to the following functional mailbox: RTD-FP7-Cost-Methodology-Certification@ec.europa.eu

The timetable envisaged is

- EC agrees (or rejects) with 30 days of request from organisation to submit Certificate of Methodology
- Auditors prepare detailed report for submission to EC (see requirements within “certificates issued by external auditors - guidance notes for beneficiaries and auditors”)

- EC agrees (or rejects) within 60 days of submission of certificate of methodology

Once the certificate is accepted, it will be valid for all subsequent financial statements submitted by the same beneficiary under the Seventh Framework Programme unless the beneficiary's methodology changes 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. In these cases, the beneficiary has to submit another certificate on the methodology. Until the acceptance of this new certificate, the requirement to provide Intermediate CFS would not be waived.

- The beneficiary has to declare any change in its methodology.
- A beneficiary that has been found guilty of making false declarations or has seriously failed to meet its obligations under this grant agreement shall be liable to financial penalties according Article II.

Consequences of the rejection of Certificate of Methodology by the Commission:

In case the certificate cannot (yet) be accepted, 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. Until the acceptance of the certificate on the methodology, the requirement to provide intermediate certificates on the financial statements is not waived.

Note that under certificate of methodology rules, overheads calculations can only be calculated on personnel costs or hours of work.

We expect that most educational and research establishments with multiple projects and who are currently using the 60% derogation method for calculating overheads, will want to apply for a Certificate of Methodology for overheads. Many of these organisations have no standard or reliable way of calculating overheads and before submitting a request for a certificate of methodology, they will have to examine their reporting procedures and develop a standard form of calculation of overheads. The cost of this work may be considerable and involve outside financial consultants (as well as the auditors) and prove to be time-consuming and a lengthy process. On the other hand the financial benefits may be considerable. Therefore, anyone who believes they may be eligible for a Certificate of Methodology for overheads should therefore be taking action to develop the required procedures and not wait for projects where the derogation model has overheads reduced to 40% of direct costs. Actual overheads are likely to far exceed this figure (and they probably exceed the 60% of direct costs currently granted under the derogation model).

Disclaimer

The aim and purpose of this and other leaflets is to raise awareness of the framework program financial issues, and not to give legally binding advice. It is intended to provide relevant information which may be of assistance to anyone with financial queries or concerns. This leaflet has been jointly produced by the Finance Helpdesk which was started by the EU IST Finance-NMS-IST project Contract Number:015481, and by EFPCConsulting Ltd. Both the Finance Helpdesk and EFPCConsulting Ltd. endeavour to deliver a high level service for this purpose. Notwithstanding this, no guarantee can be given on the correctness or completeness of the information provided and neither the European Commission, the project partners, nor EFPCConsulting are responsible or may be held accountable for any loss suffered as a result of this leaflet. Any information given does not necessarily reflect the official position of the European Commission. In this regard, it should be noted that the information provided is considered to be of a first line assistance and users should contact the competent authorities, organisations, or private firms for more detailed information or for advice on any course of action.

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Revision: V1.0

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