



Certificates on Financial Statements (CFS) for H2020 projects

**BESTPRAC Training School:
"Finance for Beginners"**

**Per Inge Andresen
Senior adviser**

Norwegian University of Science and Technology



Agenda

- What is a CFS?
- When must a CFS be delivered? When is it required?
- Exceptions
- Be prepared before the project starts
- The auditors
- The procedure
- The CFS documents
- The check lists
- Work with your auditor
- Conclusions



What is a CFS?

- CFS - certificate on the financial statements
- Independent report concerning reported costs
- Agreed-upon Procedures regarding Financial Information (ISRS 4400)
 - not an audit opinion or statement of assurance
- The EC has defined the procedures to be followed by the auditor
- Annex 5 to the GA (Grant Agreement) defines the:
 - Procedure
 - Format
 - Data and documentation to be investigated



When must a CFS delivered?

- At the end of the project
- To be delivered with the Financial Statement for the last reporting period
- Must include all reported costs for all reporting periods



When is a CFS required?

- If the total requested reimbursement of the following types of costs \geq € 325 000:
 1. actual costs
 2. unit costs calculated by the beneficiary/linked 3rd party in accordance with its usual cost accounting practices
 - unit costs for personnel
 - internally invoiced goods and services



Example 1 – is a CFS required?

| Type of cost | Direct personnel costs | Subcontracting costs | Other direct costs | Indirect costs | Costs relevant for CFS | Requested grant | CFS required? |
|--------------------------|------------------------|----------------------|--------------------|----------------|------------------------|-----------------|---------------|
| Costs | 300 000 | 50 000 | 100 000 | 100 000 | | 550 000 | |
| Costs covered by the CFS | 300 000 | 50 000 | 100 000 | - | 450 000 | | Yes |



Example 2 – is a CFS required?

| Type of cost | Direct personnel costs | Subcontracting costs | Other direct costs | Indirect costs | Total costs covered by the CFS | Requested grant | CFS required? |
|---------------------------------|------------------------|----------------------|--------------------|----------------|--------------------------------|-----------------|---------------|
| Costs | 200 000 | 50 000 | 70 000 | 67 500 | | 387 500 | |
| Costs covered by the CFS | 200 000 | 50 000 | 70 000 | - | 320 000 | | No |



Exceptions

- CFS not required for H2020 MCSA
 - Because all EU funding is based on unit costs for researcher months
 - This is a change from FP7 Marie Curie Actions
- No CFS for lump sum funded projects



Are the costs for the CFS eligible costs?

- Yes, if the CFS is required
- Only for 1 (one) CFS at the end of the project
- If a CFS for each period has been produced:
 - Costs that are significantly higher than for one CFS for all periods will not be accepted



Be prepared before the project starts

- Is this your organisation's first H2020 project?
 - Learn the H2020 rules on **eligible costs**
 - Learn the H2020 **documentation** requirements
- Not the first H2020 project?
 - Check if this is a new kind of project with different rules
 - If so, define the necessary internal procedures to comply with the rules
 - Implement and communicate the new internal procedures
- Startup / kick-off activities for every project:
 - Communicate the relevant internal procedures to the project team members
 - Inform relevant support staff about the new project



The auditors

- Must be a qualified auditor
 - Qualified in accordance with national legislation implementing Directive 2006/43/EC
- Must be independent
 - As defined by the "Code of Ethics for Professional Accountants" (published by IESBA)
- Must be an external auditor
- Exception for public bodies
 - May use an independent public officer with formal competence to audit
- Many projects that need a CFS?
 - Consider issuing a public tender for a framework contract for CFS services
 - Public bodies must comply with national public procurement legislation in this regard



The procedure

- Plan ahead – insert time buffers to allow for unexpected issues/events
- Signed contract with the auditor
 - either a framework contract
 - or a contract for one single CFS
- Book time with your auditor for the job
- Agree on a procedure, timeline and deadlines
 - internally with the people involved
 - with your auditor
- Perform all your preparations for the periodic report
- Prepare the draft Financial Statement for the final period
- Make available to the auditor:
 - the Financial Statements for all periods
 - all underlying data and documentation
- Respond to all questions, comments and follow-up from the auditor



The CFS documents

- Annex 5 to the GA (Grant Agreement) provides the template for these documents
- Terms of Reference (ToR)
 - Contract signed by authorised representatives of the beneficiary/linked 3rd party and the auditor
- Independent Report of Factual Findings
 - Report completed by the auditor
 - Including a table of specific details to be investigated as instructed by the EC



The check lists – selected highlights (1)

- Direct personnel costs
 - Employment status
 - Costs recorded in the accounts
 - Payslips
 - Salary level in line with beneficiary's usual policy
 - Taxes and social costs in compliance with legislation
 - "Additional remuneration" in line with H2020 rules?



The check lists – selected highlights (2)

- Productive hours
 - In compliance with one of the 3 allowed options?
- Hourly personnel rates
 - Unit costs (per group/category of personnel)?
 - CoMUC (Certificate on Methodology to calculate unit costs)?
 - Verify that the certified methodology has been followed
 - No CoMuC?
 - Review of documentation and recalculate unit costs
 - Actual / Individual costs?
 - Review of documentation and recalculate hourly rates



The check lists – selected highlights (3)

- Time recording system
 - System description
 - System implementation
 - Timesheet signatures and approvals
 - No hours declared during absences
 - Personnel costs matching timesheets
- No timesheets , "working exclusively for the action"?
 - Verify that the person actually did work exclusively for the project
 - Verify that a declaration to this effect has been signed by the beneficiary



The check lists – selected highlights (4)

- Subcontracting (direct costs)
 - Specified in Annex 1?
 - Reported as subcontracting costs?
 - Documentation of selection procedure
 - Realised best value for money?
 - Public body beneficiary?
 - Public procurement legislation followed?
 - Other beneficiaries
 - Usual procurement procedures followed?
 - Subcontracting another beneficiary (consortium member)?
 - Subcontracted services actually provided?



The check lists – selected highlights (5)

- Other direct costs
 - Travel and subsistence costs
 - Usual travel policy followed?
 - Supporting documentation confirming link to project?
 - Depreciation costs (equipment, other assets)
 - Assets acquired in accordance with internal procedures?
 - Correctly recorded in the accounts?
 - Use for the project confirmed by documentation?
 - Other goods and services
 - Correctly recorded in the accounts?
 - Not recorded as durable equipment?
 - Acquired in accordance with applicable procurement procedures?
 - Internally invoiced goods and services
 - Review cost calculation methodology
 - Consistent use of the methodology?
 - Underlying costs confirmed by audit evidence and accounts?



The check lists – selected highlights (6)

- Exchange rates

- Beneficiaries with accounts not established in Euros

- Correct average exchange rate for the reporting period?

- Source:

- <https://www.ecb.int/stats/exchange/eurofxref/html/index.en.html>

- If your currency is not included in the above source, use:

- http://ec.europa.eu/budget/contracts_grants/info_contracts/inforeuro/inforeuro_en.cfm

- Other beneficiaries (Euro-based accounts)

- Usual beneficiary accounting practise regarding currency conversions followed?



Work with your auditor

- Make sure they have comprehensive knowledge of the H2020 rules and guidelines
- Update procedures – Are they "up to speed"?
- Agree on practical procedures and a system for the exchange of data and information
- Benefit from their knowledge – learn from them

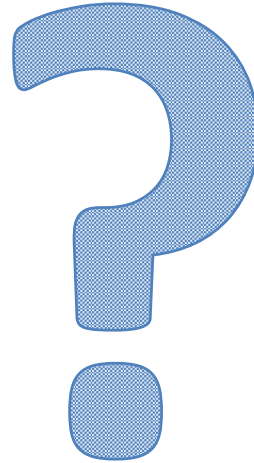


Conclusions

- A CFS may be required, depending on the amount of costs being reimbursed by the EU
- Be prepared when the project starts
- It comes at the end of project
- It covers costs for all reporting periods
- The procedures and contents are defined in detail by the EC
- See Annex 5 to the GA (Grant Agreement) for details



Any questions?



Thank you very much for your
attention!