Certificate (CFS) issued by external auditors

IMI Guidance notes
for beneficiaries and auditors

IMI 1 Projects

Annex I to the SOP on preparation submission and assessment of CFS of IMI1 projects - Document reference: IMI2/INT/2015-03776

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Contents

Introduction

These guidance notes have been compiled to guide IMI beneficiaries and external auditors in the preparation of Certificates on the Financial Statements for projects funded under the so-called IMI1[1] legal framework (hereafter IMI1).

In particular, the document considers the following topics and related issues:

- IMI1 model Grant Agreement;
- IMI1 Financial Guidelines

The objective of these guidance notes is to give an overview of the requirements and provisions which are of importance in claiming costs for reimbursement and hence in the Certification on the Financial Statements.

The text of this document may be updated if necessary to reflect developments in the Certificate on the Financial Statements as they occur.

This document is composed of Part I dealing with the Certificates on the Financial Statements and Part II which is a glossary.

[1] The Innovative Medicines Initiative Joint Undertaking (IMI JU) was established by the Council Regulation (EC) No 73/2008 of 20 December 2007.

Between 2008 and 2013, the IMI JU launched 11 calls for proposals.

PART I. CFS- CERTIFICATE ON THE FINANCIAL STATEMENTS

1 Procedures to be carried out by the auditor regarding Form D

The procedures listed on the left hand side of Form D are to be carried out **unaltered** by the auditor. IMI has designed these procedures in order to obtain standardised and comparable reports from all auditors, who are expected to carry out the procedures without adaptation for the particular circumstances of the beneficiary.

In particular the minimal sample sizes should always be respected, and all procedures should be carried out in full.

2 When can the auditor change the model answer and when should he report an exception?

Where the auditor's factual findings are not consistent with the "Standard factual finding" given on the right hand side of the Form D, then an exception should be noted. For each standard finding, non-exhaustive examples where IMI expects exceptions to be noted is indicated in bold under the corresponding factual findings.

In general, if the auditor is not able to establish whether the information provided by the beneficiary matches the standard finding defined by the IMI, this should be reported as an exception. If the auditor comes across issues that are not explicitly described in Form D but could affect the reliability of the Financial Statement, these issues should nevertheless be reported and duly described under point 1.9 "Exceptions".

3 Will all exceptions result in a rejection of costs by the IMI?

IMI will consider each exception in the context of the report as a whole and other evidence at its disposal. It will therefore make eligibility decisions on a case-by-case basis using the evidence provided. The more detail the auditor provides regarding exceptions, the easier it will be to assess the situation and come to a reasoned decision on the claim under consideration. The auditor should report the findings as fully as possible to facilitate this process.

4 Procedures for Certificates on the Financial Statements according to Annex VI – Form D

When a Certificate on the Methodology of the EC Model Grant Agreement has been **approved by the European Commission**, the auditor will only have to focus on checking compliance with the certified methodology and systems. In this context, some aspects of the procedures included in the Annex VI- Form D will not have to be performed by the auditor:

- **For beneficiaries having a Certificate on the Methodology approved by the European Commission for average personnel costs (CoMAv)** only, the auditor will have to perform all procedures foreseen in the Form D except for procedure 1 where the auditor will be requested to check only the part related to productive hours.

- **For beneficiaries having a Certificate on the Methodology approved by the European Commission covering average personnel costs and indirect costs (CoM)**, the auditor will have to perform all procedures foreseen in the Form D except for procedure 1 where the auditor will be requested to check only the part related to productive hours and for procedure 10 where the auditor will not be requested to recalculate the indirect costs rate.

The table below indicates the procedures to be performed by auditors in different situations.

Procedures to be performed by the auditor for establishing the CFS

Category of costs	**Calculation method used by the beneficiary**	**With approved CoM[2]**	**With approved CoMAv[3]**	**Without Certificate**
Personnel	Individual costs (per employee[4])	1, 2, 3	Not applicable	1, 2, 3
	Average rates	1[5],2, 3, 4	1[8],2, 3, 4	1,2,3,4
Subcontracting	All cases	5, 6		
Other Direct Costs	All cases	7, 8, 9		
Indirect Costs	Actual Indirect Costs	10[6]	10	10
	Simplified Method	10, 11	10, 11	10, 11
	Flat-rate	None	None	None
Exchange rates, receipts and interest yielded	All cases	12, 13, 14		

2 Certificate on the Methodology (Form E) of the EC FP7 Model Grant Agreement approved by the European Commission

3 Certificate on Average Personnel Costs (Form E only covering average personnel costs) of the EC FP7 Model Grant Agreement approved by the European Commission.

4 Employee means researcher or research-related person or person with certain coordinating tasks (when there is a project coordinator).

5 The auditor is requested to check only the part related to productive hours since the auditor performs the procedure n°4 related to average personnel costs.

6 The auditor is not requested to recalculate the indirect costs rate.

4.1 Procedures 1,2, 3, 4 - Personnel costs

Procedure n°1	**Standard factual findings and basis for exception reporting**
Personnel costs	
1. a) Recalculate hourly personnel and overhead rates for personnel (full coverage if less than 20 employees, otherwise a sample of minimum 20, or 20% of employees, whichever is the greater), b) Indicate the number of productive hours used and hourly rates. Where sampling is used, selection should be random with a view to producing a representative sample. **'Productive hours'** represent the (average) number of hours made available by the employee in a year after the deduction of holiday, sick leave and other entitlements. The auditor obtained the calculation of the productive hours after inspecting all necessary records, national legislation, labour agreements, contracts and any other relevant documentation. The calculation should be based on the period(s) corresponding to the Financial Statement(s) or on the last closed financial year (whichever is used by the beneficiary).	The auditor sampled______employees out of the total of ________employees. a) For each employee in the sample of___, the Auditor obtained the personnel costs (salary and employer's costs) from the payroll system together with the productive hours from the time records of each employee. For each employee selected, the Auditor recomputed the hourly rate by dividing the actual personnel costs by the actual productive hours, which was then compared to the hourly rate charged by the Beneficiary. No exceptions were noted. The average number of productive hours for the employees selected was_. The productive hours calculation corresponds to the usual accounting practice of the beneficiary. **If the productive hours or costs of personnel cannot be identified, they should be listed (together with the amounts) as exceptions in the main report.** **If the productive hours calculation does not correspond to the usual accounting practice of the beneficiary, this should be listed as an exception in the main report.**

What is the objective of this procedure?

The objective of this check is to verify that the hourly rates being charged have been correctly calculated from the actual underlying cost information for the period in question, namely the costs to the employer (salary / wages including benefits and other employment costs), divided by the productive hours[7] with a reconciliation of the payroll information for the selected employees to the accounting records and payments.

A complementary objective is to specifically check whether the calculation of productive hours (either individual hours or standard hours) has been consistent with the usual accounting practice of the beneficiary.

Which documents should the beneficiary prepare for the auditor?

The actual payroll information for the period in question (base salary, benefits of all kinds, pension contributions, employers' payroll taxes, etc.) and productive hours figures (see Glossary in Part II of the present guidance notes for a description of productive hours) used to calculate the hourly rates. The beneficiary should also provide a reconciliation/calculation showing how the hourly rates were calculated from the payroll information.

The auditor may ask the beneficiary for additional documentation including relevant legislation on productive time, labour agreements to justify working hours, relevant employment contracts defining the working arrangements, as well as any other proof that the calculation of productive hours is in accordance with the usual accounting practice of the beneficiary.

The documents provided by the beneficiary should give the auditor both full understanding of the methodology used by the beneficiary and evidence of the proper application of this methodology. Thus, the penultimate sentence of the right-hand column should be read as follows "if the productive hours or costs of personnel cannot be identified *or justified by the beneficiary*, they should be listed (together with the amounts) as exceptions in the main report".

What if the beneficiary already has a certificate on the methodology under Form E of the European Commission FP7 Model Grant Agreement?

Where there is a Form E approved by the European Commission **on average personnel costs**, the individual calculations and re-computations foreseen under procedure 1 are not applicable since the auditor is just expected to check the general compliance with the methodology. The auditor is therefore requested to check only the part related to productive hours in this procedure.

Where individual actual costs have been used and the methodology certified approved by the Commission, the entire procedure has to be performed by the auditor (including recalculations).

What employment costs are not considered eligible or should be regarded as exceptions?

Generally all employment costs which are part of the normal remuneration policy of the beneficiary are accepted. The costs which have been charged and which relate specifically to involvement in European projects, and are not part of these normal remuneration and/or accounting principles should be noted as exceptions.

How should sampling be carried out?

The size of the sample proposed in this procedure is based on the population of researchers or research-related persons involved in the project. In this context, the size of the sample has to respect the following:

– if the population of researchers or research-related persons involved in the project is less

[7] Actual productive hours (or standard productive hours if it corresponds to the usual practice of the beneficiary).

than 20 employees, full coverage,

- if the population of researchers or research-related persons involved in the project is equal or greater than 20 employees,
  - a minimum of 20 employees,
  - or 20 % of the employees (whichever is the greater).

If the sample drawn in line with the guidelines above would not be representative for the audited organisation, then this sample should be expanded to also include research personnel not working on the EU project.

What procedure does the auditor perform in the case of SME owners/natural persons receiving a flat-rate financing for personnel costs **without an approved CoMAv**?

The detailed procedure has been added in this respect in Form D, procedure 4c. It is based on the Commission Decision C(2011)174 of 24.01.2011. Accordingly, it refers to the calculation of flat-rate financing for SME owners / natural persons who do not receive a salary by reference to the allowances available under the 'People' work programme and to the pre-defined amount of standard productive hours (see also Article II.13.3 of IMI Grant agreement).

Procedure n°2	**Standard factual findings and basis for exception reporting**
Personnel costs	
2. For the same selection examine and describe time recording of employees (paper/ computer, daily/weekly/ monthly, signed, authorised).	Employees record their time on a daily/ weekly/ monthly basis using a paper/computer-based system. The time-records selected were authorised by the project manager or other superior. **If no time records are available which fit the above description, this should be listed as an exception in the main report.**

What is the objective of this procedure?

This procedure will provide to IMI the information it needs to assess whether the recording of project time is in line with the requirements of the Grant Agreement. Normally, time recording should be carried out regularly and authorised by the project manager to ensure that the time worked on the project can be traced and charged correctly. For the employees selected, the hours charged to the project should have been accurately recorded in the time recording system. Any discrepancies between the amount charged to the project and the amount in the time sheets (or if time sheets are absent) should be recorded as an exception.

Which documents should the beneficiary prepare for the auditor?

The beneficiary should provide a description of the time-recording system and, for the employees selected for testing, make available all the time sheets or provide full access to the computer system which records the time of the employees. The auditor should be able to trace the time charged for the sample selected to the time records of each individual employee.

Procedure n°3	Standard factual findings and basis for exception reporting
Personnel costs	
3. **Employment status** and employment conditions of personnel. The Auditor should obtain the employment contracts of the employees selected and compare with the standard employment contract used by the *beneficiary*. Differences which are not foreseen by the *grant agreement* should be noted as exceptions.	For the employees selected, the Auditor inspected their employment contracts and found that they were: - directly hired by the Beneficiary in accordance with its national legislation, - under the sole technical supervision and responsibility of the latter, and - remunerated in accordance with the normal practices of the beneficiary. **Personnel who do not meet all three conditions should be listed (together with the amounts) as exceptions in the main report.**

<u>What is the objective of this procedure?</u>

IMI seeks to ensure that personnel costs do in fact relate to employees of the beneficiary carrying out the research, and to identify cases where this component may have been effectively "outsourced" to a different entity, where this has not been foreseen in the Grant Agreement with IMI. IMI also seeks to ensure that no special employment conditions are applied to employees working in the project which are not normally applied within normal company practices.

<u>Which documents should the beneficiary prepare for the auditor?</u>

Specific employment contracts for the researchers in question, as well as standard employment contracts in use for personnel who perform a variety of work for the beneficiary (i.e. are not exclusively devoted to EU / IMI research work).

<u>What kind of information would give rise to exceptions?</u>

Article 14 of Annex II of the IMI JU model Grant Agreement foresees that with regard to personnel costs, the persons directly carrying out work under the project must:

- be directly hired by the *participant* in accordance with its national legislation;
- work under the sole technical supervision and responsibility of the latter, and
- be remunerated in accordance with the normal practices of the *participant*.

Any difference to the above principles should be highlighted by the auditor as an exception. Below are some non-exhaustive examples.

- **Directly hired**: Exceptions should be raised if there are indications in the contract that the employee is hired by a different legal entity, including a legal entity within the same group (e.g. if the beneficiary is XYZ Research Limited and the contract is with XYZ holdings or XYZ registered in a different country). Another example giving rise to an exception is if the employee's services are being charged via a service company or other consulting type arrangement.

- **Sole technical supervision:** An exception should be raised if it is stipulated in the contract that its objective and participation focuses on a specific deliverable or piece of work rather than on the employee's services. This includes indications that the work is not been carried out at the beneficiary's premises[8] but has more of the characteristics of an external or subcontract. Again, the use of a service company indicates that the beneficiary is not directly supervising the technical work and should give rise to an exception.

- **Remunerated in accordance with the normal practices of the beneficiary:** Typical examples which should give rise to an exception are being remunerated in a 'lump sum' instead of via a salary arrangement, or any other form of payment/ charging (such as travel expenses) which does not take place within the normal accounting practice of the beneficiary.

Procedure n°4	**Standard factual findings and basis for exception reporting**
4. Use of **average personnel costs** [9] [10] **a) With an approved certified methodology including average personnel costs:**	a) The Auditor found that the personnel costs charged to the financial statement: - are calculated using average costs in accordance with the methodology as specified in the Report of findings on the methodology dated ________ in accordance with article II.13.2; - have been calculated using amounts derived from the relevant period which can be reconciled to the accounting records of the relevant period. Where categories are used, the Auditor verified that the researcher (or research-related person) had been correctly classified. The Auditor obtained confirmation from the *beneficiary* that the rates used were not budgeted or estimated amounts. **If amounts cannot be reconciled, or if estimates or budgeted amounts were used, this should be reported as an exception in the main report.**
b) Without an approved certified methodology (not applicable to SME owners and natural persons not receiving a salary): • The auditor reviewed all relevant manuals and/or internal guidance describing the methodology used to calculate average personnel costs. • The auditor obtained a list of all average personnel rates calculated by the beneficiary in accordance with the methodology used. • The auditor verified that the	b) The auditor found: - no discrepancies between the method described in the relevant documents and the method used by the *beneficiary*; - the methodology used to calculate the average personnel hourly rate(s) represent(s) the usual cost accounting practice of the organisation; - no differences arose from the numerical reconciliation.

[8] Tele-working may be accepted if there is a system that allows the identification of the productive hours worked for the project

[9] Procedure n°4 does not apply if the *beneficiary* does not use averages for the calculation of personnel costs

[10] Apply 4a, 4b or 4c according to the existence or not of a certified methodology approved by the European Commission within the Seventh Framework Programme (CoMAv, or CoM if it concerns average personnel costs).

calculation of the average personnel costs excludes ineligible items as defined in article II.13.6, or any costs claimed under other cost categories. • The auditor obtained a list of all relevant employees (working on EU-funded projects + not working on EU-funded projects) based on which the average personnel rate(s) are calculated. • The auditor reviewed the allocation of employees to the relevant group and verified the correctness of the Full Time Equivalent (FTE). • The auditor performed a numerical reconciliation between the total amount of personnel costs taken into consideration for the calculation of the average personnel rate and the total amount of personnel costs recorded in the statutory accounts. • The auditor verified on a sample basis that the appropriate average hourly rate was used for the personnel costs claimed on the audited project. **c) Without an approved certified methodology – applicable only for SME owners and natural persons not receiving a salary:** • The auditor reviewed payroll and accounting records, contracts and other relevant legal documents in order to verify that the SME owners and the natural persons concerned do not receive any salary. • The auditor obtained documents (such as employment records, CVs, diplomas and other relevant documents) proving professional experience of the persons concerned and supporting determination of appropriate research category in line with 'People' Work Programme of the Seventh Framework Programme. • The auditor verified that the annual living allowance corresponds to the reference year of the publication of the call under which the project was selected for funding and that the beneficiary applied the	The Auditor confirms that the rates used for the calculation of the average personnel costs were not based on budgeted or estimated amounts. **If amounts cannot be reconciled, or if estimates or budgeted amounts were used, this should be reported as an exception in the main report.** **If the usual accounting practice differs from the one described, this should be reported as an exception in the main report.** c) SME owners and natural persons charging personnel costs based on a flat rate, do not receive salary. **If they receive any salary, it should be listed as an exception in the main report.** - Time spent on projects was duly recorded by the persons whose personal work costs are charged on the basis of a flat rate. These time-records have been verified by a superior or another person involved in the project. In the absence of any superior or other person working closely with such persons, the Auditor confirms that documentation is available to ascertain the reliability of the time records. **If no time records are available, this should be listed as an exception in the main report.** - The hourly rates applicable to all SME owners and natural persons who do not receive a salary are correctly calculated. - The total number of hours claimed for the IMI project in a year is in line with their time-sheets but is not higher than the standard number of productive hours per SME owner or natural person (1575). **If the calculation is not correct, this should be listed as an exception in the main report.**

appropriate country coefficient correction as published in the above mentioned 'People' Work Programme of the year of publication of the call. • The auditor recomputed the hourly rate by dividing the applicable living allowance corresponding to the appropriate research category by the standard number of productive hours (1575) and by multiplying it by the appropriate country correction coefficient. • The auditor reviewed the time-sheets completed by the persons whose personal work costs are claimed on a flat rate basis.	

Which documents should the beneficiary prepare for the auditor?

Where applicable, the beneficiary should prepare the most up-to-date classification grid, together with the criteria for classification of employees (based on experience, qualifications, salary, department, etc.). The information should be sufficient to unambiguously categorise each of the researchers in the sample, and to verify that the rates used were those applicable for the period to which the claim refers. Thus, it may be necessary to consult the payroll/human resources system in detail, and the beneficiary should be able to extract this information.

What is the objective of procedure 4a)?

The procedure to be performed by the auditor in the left-hand column should be as described below.

The auditor is requested to perform a limited check that the methodology which was already approved is in fact being implemented in accordance with the Certificate on the Methodology (FORM E) of the European Commission FP7 Model Grant Agreement that was approved by the Commission. Thus, rather than tracing the costs of the individual researchers back to the payroll records of each individual employee, the auditor simply verifies that the researcher was charged using a rate corresponding to the rate for that employee's category. For example, the auditor checks that for a researcher belonging to category III according to the beneficiary's classification system, the rate for the category III was used to charge his/her time.

How should the auditor check the reconciliation?

The beneficiary should be able to show via the calculation of average rates, where the data in the calculation was extracted from the accounts, and in doing so demonstrate that the correct relevant period and accounting information has been used.

What is the objective of procedure 4b)?

The auditor is requested to review the beneficiary's average personnel costing methodology in the light of the 4 criteria set forth in the Commission decision C(2011)714 on the simplification introducing the new acceptability criteria for average personnel costs.

As a result of carrying out these procedures, the auditor should fully understand and obtain the details of the personnel cost calculation method(s) used by the beneficiary.

- *Criteria 1 and 4*

  The average costs methodology shall be the one declared by the beneficiary as its usual cost accounting practice (…)

  The number of productive hours used to calculate the average hourly rates shall correspond to the usual management practice of the beneficiary provided that it reflects the actual working standards of the beneficiary, in compliance with applicable national legislation, collective labour agreements and contracts and that it is based on auditable data.

  These criteria are addressed in procedure 4b bullet points 1, 2, 4, 5 and 7. Also, the auditor should base his work on the results of procedure 1 concerning calculation of standard productive hours.

  The auditor should review the methodology/ies used to calculate the average hourly rates, and obtain reasonable assurance that it/they represent(s) the beneficiary's usual cost accounting practice. The auditor is expected to verify the number of productive hours used for the calculation of the average hourly rate. The auditor should obtain manuals and internal guidance documents describing the methodology used to calculate the average hourly rates to see whether average the hourly rates are based on standard or individual productive hours.

  - In the case of standard productive hours, the auditor is requested to:

    (1) obtain the description of the underlying calculation method;

    (2) obtain a detailed substantiation of the assumptions leading to the assessment of productive and non-productive time;

  - In the case of individual (actual) productive hours or average of individual (actual) productive hours the auditor should

    (1) obtain the actual number of productive hours used by the beneficiary for each person in the group (employees working on EU projects + employees not working on EU projects). The actual number of hours must be duly substantiated with appropriate evidence.

- *Criterion 2*

  The methodology shall be based on the actual personnel costs of the beneficiary as registered in its statutory accounts, without estimated or budgeted elements.

  By performing procedure 4b) bullet point 6, the auditor should verify whether the total amount of personnel costs taken into consideration in the average hourly rate formula(s) corresponds with the total amount of personnel costs recorded in the statutory accounts.

  The auditor should verify that the rates used do not include budgeted or estimated amounts. There may be an exception to this finding for periods in which the annual accounts have not been closed and the actual figures are not yet available. Procedures by the beneficiary should be foreseen in these cases to ensure that at the time the actual figures are available the costs are adjusted accordingly. These procedures need to be detailed and confirmed by the auditor.

- *Criterion 3*

  The methodology shall exclude from the average personnel rates any ineligible costs item (…) and any costs claimed under the other costs categories in order to avoid double funding of the same costs.

  The auditor should perform procedure b bullet 3 in order to exclude ineligible items, even if they are a component of a usual cost accounting of the beneficiary. Such costs may include, e.g., special bonuses which are payable exclusively in relation to work on EU projects.

  Furthermore, the auditor should review all elements of the calculation of the average personnel rate in order to identify the elements which could be eligible but they can be claimed under other cost categories.

  This procedure is particularly important for methodologies based on cost centers or similar. Cost center personnel rates may often include indirect cost components. The auditor must make sure that such costs are claimed just once. Consequently, if they are built-in into the personnel rates, they cannot be claimed under the 'indirect costs' category.

  In the case of beneficiaries applying the 20% flat-rate indirect cost method, the personnel cost cannot include any indirect cost elements as these are covered by the flat- rate.

<u>How should the auditor check the reconciliation?</u>

The beneficiary should be able to show via the calculation of average rates, where the data in the calculation was extracted from the accounts, and in doing so demonstrate that the correct relevant period and accounting information has been used.

<u>What is the objective of procedure 4c)?</u>

Essentially, the auditor is requested to verify two elements: eligibility of SME owners or natural persons to receive the flat-rate financing in accordance with the Commission decision C(2011) 174 and the detailed calculation of this flat-rate financing.

The first element is addressed in procedure c) bullet point 1. The auditor must obtain appropriate evidence that the SME owners / natural persons do not receive a salary (i.e. remuneration for their work). If any payments to the SME owners / natural person are identified (corresponding to personnel or other costs), the auditor should identify the legal basis for the payment and assess whether such a payment can or cannot be treated as a salary.

The remaining procedures concern the detailed calculation of the flat-rate financing and are strictly following the calculation methodology set forth in Article 7 of the Commission decision C(2011) 174.

4.2 Procedures 5 and 6 – third party and Subcontracting

Procedure n°5	Standard factual findings and basis for exception reporting
Subcontracting	
5. Obtain a written description from the *beneficiary* regarding *third party* resources used and compare with Annex 1 to the *grant agreement*.	The Auditor compared the description of the *third party* resources provided by the *beneficiary* to the specification in Annex 1 to the *grant agreement*, and found them to be the same **If the descriptions do not clearly match, this should be reported as an exception in the main report.**

What is the objective of this procedure?

IMI seeks to ensure that the beneficiaries have honoured the structure of the Grant Agreement as originally agreed. In particular, IMI normally carefully negotiates to which extent third party resources can be used by the beneficiary to ensure that the grant supports its policy objectives. Any discrepancy from this original agreement is therefore of interest to IMI, and having the auditor report on this information adds value in identifying possible breaches of the Grant Agreement. The final decision on action to take is up to IMI, depending on how significant the variations from the original Grant Agreement commitments might be.

Which documents should the beneficiary prepare for the auditor?

The check includes a documented comparison between the third party resources foreseen in the grant agreement (Annex 1 – Description of Work) and the resources actually contracted between the beneficiary and the third party. The beneficiary should therefore provide the contracts signed with third parties and is expected to show how these fulfil their commitments under the Grant Agreement. In essence the third party contracting should match these commitments in terms of the type and quantity of the products and services, as well as the supplier, where this is specified in the Grant Agreement. In these cases the auditor is not expected to provide an analysis of the services, but to note differences, which can be subsequently analysed by IMI.

Procedures	Standard factual findings and basis for exception reporting
Subcontracting	
6. Inspect documents and obtain confirmations that subcontracts are awarded according to a procedure including an analysis of best value for money (best price- quality ratio), transparency and equal treatment. Full coverage if less than 20 items, otherwise a sample of minimum 20, or 20% of the items, whichever is the greater.	The Auditor obtained tendering documents for each subcontract entered into and found that the tendering process was followed and that a written analysis of value-for-money had been prepared by the *beneficiary* in support of the final choice of subcontractor, or that the contract had been awarded as part of an existing framework contract entered into prior to the beginning of the project. **If the Auditor is not provided with evidence of either of the above situations, the amount of the subcontract should be listed as an exception in the main report.**

What is the objective of this procedure?

In order to ensure that research funds are efficiently spent, IMI expects subcontracts to be awarded according to the principle of best value for money, transparency and equal treatment. The objective of this procedure is to verify that these principles have been respected (in particular it may be the case that the beneficiary is unable to provide evidence of fair tendering). The model Grant Agreement also permits contracts to be awarded under existing framework contracts in the interests of efficiency, if in accordance with the beneficiary's usual management principles. In this case the objective is simply to confirm the existence of such a framework contract prior to the beginning of the project.

Which documents should the beneficiary prepare for the auditor?

The auditor should be provided with a report which describes how the offers from subcontractors were obtained and assessed, including an explanation on the criteria used, and showing that the tender was awarded to the contractor who best fulfilled these criteria. The auditor is not expected to analyse the judgmental decisions taken by the beneficiary, but rather to report on the existence of documentation fitting this description for the subcontracts in question.

Please note that the last sentence of the left-hand column "full coverage if less than 20 items, otherwise (…) is the greater" refers to the size of the sample.

The size of the sample proposed in this procedure has to respect the following:

- if the population is less than 20 items, full coverage
- if the population is equal or greater than 20 items
  - a minimum of 20 items
  - or 20 % of the items (whichever is the greater).

What is the most frequent error in this context?

Insufficient documentation to prove the existence of fair procurement procedures[11] 13 (e.g. no offers from other parties) or the existence of a framework contract with the supplier in addition to the specific contract connected with the project.

[11] For details on procurement procedures, refer to IMI financial guidelines

4.3 Procedures 7, 8, 9 - Other direct costs

Procedure n°7	**Standard factual findings and basis for exception reporting**
Other Direct Costs	
7. Allocation of **equipment** subject to depreciation is correctly identified and allocated to the *project*. Full coverage if less than 20 items, otherwise a sample of minimum 20, or 20% of the items, whichever is the greater.	The Auditor traced the equipment charged to the project to the accounting records and the underlying invoices. The *beneficiary* has documented the link with the project on the invoice and purchase documentation, and, where relevant, the *project* accounting. The asset value was agreed to the invoice and no VAT or other identifiable indirect taxes were charged. The depreciation method used to charge the equipment to the project was compared to the *beneficiary* 's normal accounting policy and found to be the same. **If assets have been charged which do not comply with the above, they should be listed (together with the amounts) as exceptions in the main report.**

What is the objective of this procedure?

Beneficiaries are permitted to charge assets to IMI research Grant Agreements in line with their normal accounting policy. The objective of this procedure is to ensure that the individual fixed assets have been charged according to the normal accounting policy using amounts which can be traced from the accounting records and using the related depreciation rate.

Which documents should the beneficiary prepare for the auditor?

The documents relate to the invoices of the assets concerned and to the extracts from the accounting records showing the relevant entries, as well as the relevant policies for depreciation of the assets (period, straight line or reducing balance, etc.).

Please note that the last sentence of the left-hand column "full coverage if less than 20 items, otherwise (…) is the greater" refers to the size of the sample.

The size of the sample proposed in this procedure has to respect the following:

- if the population is less than 20 items, full coverage
- if the population is equal or greater than 20 items
    - a minimum of 20 items
    - or 20 % of the items (whichever is the greater).

What is the most frequent error in this context?

Beneficiaries, having incurred the cash outflow to acquire the asset, try to charge the entire amount in the first period, despite the fact that the asset may be depreciated in their accounts through a number of years. In this case, only the depreciation relevant to the period in question (the period of the cost statement under consideration) can be charged. Another common error is the charging of VAT.

Procedures 8 and 9	Standard factual findings and basis for exception reporting
Other Direct Costs	
8. Travel costs correctly identified and allocated to the project (and in line with Beneficiary's normal policy for non-EU work regarding first-class travel, etc.) Full coverage if less than 20 items, otherwise a sample of minimum 20, or 20% of the items, whichever is the greater. The Beneficiary should provide written evidence of its normal policy for travel costs (e.g. use of first class tickets) to enable the Auditor to compare the travel charged with this policy.	The Auditor inspected the sample and found that the Beneficiary had allocated travel costs to the project by marking of invoices and purchase orders with the project reference, resulting in traceable allocation in the project accounts. The costs charged were compared to the invoices and found to be the same. No VAT or other identifiable indirect taxes were charged. The use of first class travel was in line with the written policy provided by the Beneficiary. **Costs which are not allocated to project accounts and do not have a clear attribution (normally by writing the project number on the original invoice) should be listed (together with the amounts) as exceptions in the main report.**
9. Consumables correctly identified and allocated to the project. Full coverage if less than 20 items, otherwise a sample of minimum 20, or 20% of the items, whichever is the greater.	The Auditor inspected the sample and found that the Beneficiary had allocated consumable costs to the project by marking of invoices and purchase orders with the project reference, resulting in traceable allocation in the project accounts. The costs charged were compared to the invoices and found to be the same. No VAT or other identifiable indirect taxes were charged. **Costs which are not allocated to project accounts and do not have a clear attribution (normally by writing the project number on the original invoice) should be listed (together with the amounts) as exceptions in the main report.**

The wording "project accounts" in the above procedure is defined in Part II, Glossary of the present guidance notes.

What is the objective of this procedure?

To ensure that travel and consumable costs are accurately charged to the project without any identifiable indirect taxes (including VAT) and that only those costs relevant to the project are charged.

Which documents should the beneficiary prepare for the auditor?

Extracts from the accounting records together with the relevant original invoices are the basis for performing this procedure. The company policy on travel costs should be made available where first class or business class travel has been used. Only when a policy is in place in general terms and not being used exclusively for EU / IMI projects, the costs can be considered.

Otherwise, an exception should be noted. The auditor is not expected to make an assessment of project relevance in the absence of information provided by the beneficiary. Invoices should have a clear designation as relating to the project, and the burden of sufficient documentation is on the beneficiary. The auditors are expected to report their findings based on the documentary evidence, and should not take into account supplementary explanations by the beneficiary when these are not supported by the relevant documentation.

Please note that the last sentence of the left-hand column "full coverage if less than 20 items, otherwise (…) is the greater" refers to the size of the sample.

The size of the sample proposed in this procedure has to respect the following:

- if the population is less than 20 items, full coverage
- if the population is equal or greater than 20 items
  - a minimum of 20 items
  - or 20 % of the items (whichever is the greater).

What is the most frequent error in this context?

For travel, the most frequent error is failing to deduct ineligible VAT (for example from hotel & transport costs incurred in other countries). VAT should be deducted in all cases, whether it is recoverable by the beneficiary or not, and whether it relates to the VAT regime applying to the beneficiary or not.

For consumables, failing to make a clear link to the project is a common error, assuming VAT has been deducted. The IMI requires a sufficient audit trail which unambiguously ties an invoice to the project, and is thus not able to accept costs which were not linked to the project at the time of processing.

4.4 Procedure 10 - Indirect costs

Indirect costs[12,13]	
10. Obtain and review a detailed breakdown of indirect costs (reconciled to the accounting records) and confirm that the following costs are not present: a) identifiable indirect taxes including value added tax, b) duties, c) interest owed, d) provisions for possible future losses or charges, e) exchange losses, cost related to return on capital, f) costs declared or incurred, or reimbursed in respect of another Union or Euratom project, g) debt and debt service charges, excessive or reckless expenditure. The above does not apply to *beneficiaries* using a flat rate to claim indirect costs in accordance with Annex II of the *IMI JU grant agreement* being reviewed. In such case the procedure to apply is: - The auditor confirmed that the flat rate applied on the Financial Statement(s) is consistent with the one provided in Annex II of the *IMI JU grant agreement*. - The auditor recalculated the indirect costs claimed on the basis of the flat rate for <u>arithmetical accuracy</u>.	The Auditor obtained the total overhead amount which was allocated and reconciled this to the accounting records for the period in question. The Auditor recalculated the ratio of indirect costs **[as a percentage of personnel costs/ as a fixed personnel hourly rate / as another cost driver specified by the *beneficiary*]** and agreed it to the rate used in the Financial Statement(s). The Auditor obtained a detailed breakdown from the accounting system of the indirect costs which have been charged to the *project*, and reconciled the individual amounts to the general ledger of the *beneficiary*. The Auditor found that costs for the non-research activities of the *beneficiary*, such as manufacturing, education, marketing of products or services, etc., had not been included in the calculation. For each element of the breakdown, the Auditor obtained the *beneficiary's* confirmation that it contained none of the ineligible costs specified (typical examples are leasing costs, loan charges, provisions for doubtful debt (but not normal accruals), local business and property taxes, customs duties, exchange losses from billing in a foreign currency). **Amounts which do not meet the above criteria or where the Auditor is not provided with sufficient information in order to inspect and compare the types of cost should be listed (together with the amounts) as exceptions in the main report.** **Only for *beneficiaries* using a flat rate to claim indirect costs:** The auditor found: - that the flat rate has been charged in accordance with Annex II of the *IMI JU grant agreement* and computed on direct eligible costs excluding costs for sub-contracting and the costs of resources made available by third parties which are not used on the premises of the *beneficiary*; - that n<u>o differences arose from the numerical reconciliation.</u>

<u>What is the objective of this procedure?</u>

The first part of this procedure does not apply if the 20% flat-rate[14] on eligible direct costs is used for the calculation of overheads/indirect costs. Nevertheless, when the 20% flat-rate is used for the calculation of indirect costs, the auditor should also check, in accordance with the Annex II of the IMI Model Grant Agreement, that the flat-rate has been calculated on the basis of the direct eligible costs excluding the direct eligible costs for sub- contracting and

[12] The auditor does not need to check indirect costs if they are reported with the 20% flat rate of direct eligible costs.

[13] Procedure n°12 applies only to *beneficiaries* using the simplified method (as stipulated in Article II.14.2.a) of the *grant agreement*).

[14] As stipulated in article II.14 of the IMI JU Grant Agreement

the cost of resources made available by third parties which are not used on the premises of the beneficiary.

In addition to the procedure 10 described in the left-hand column where the auditor checks that all the specific types of costs defined as ineligible in the Grant Agreement have in fact been excluded from indirect costs, the auditor will have to check that :

- a list of allocation methods was provided where the beneficiary is allocating shared costs;
- the costs supported under IMI project have been incurred by the beneficiary in its research activity. The concern is that by including non-research related costs in the indirect cost calculation, the beneficiary might include elements related to its non-research activity. This most frequently occurs with universities, which may have educational activities, or companies which have trading businesses where they supply goods and services other than research (e.g. a company that carries out applied research but also sells hardware and software to customers and therefore incurs costs supporting the manufacturing, sales and marketing of these products).

The auditor is requested to recalculate the ratio of indirect costs (as a percentage of personnel costs/ as an hourly personnel rate/ as another cost driver specified by the beneficiary). When the cost driver chosen for the indirect costs allocation is not based on personnel, the auditor is invited to provide a description of the allocation method in the factual findings.

<u>What if the beneficiary already has a Certificate under on the Methodology (Form E) of the FP7 Model Grant Agreement approved by the European Commission?</u>

Where a Certificate on the Methodology has been approved by the Commission, the auditor will not have to recalculate the ratio of indirect costs but will have to perform the other checks of this procedure to ensure that the certified methodology has been correctly applied.

<u>Which documents should the beneficiary prepare for the auditor?</u>

The beneficiary needs to provide a detailed breakdown of the components of the overhead cost, together with a sufficient narrative description of the individually accounting elements (chart of accounts) to enable the auditor to identify the nature of the cost, and to be able to distinguish costs that are wholly relevant to research, mixed, or not relevant to research. In order to ensure completeness of this breakdown, the reconciliation to the accounts should be provided in order to link the information provided to the annual accounts of the beneficiary.

For the allocation methods, the beneficiary should provide the appropriate management information. For example, for allocating library costs, the beneficiary is expected to have at its disposal internal management information with staff and student numbers, if this is the basis used. For a company, an analysis of the headcount in the research vs. the trading part of the business could be supplied to support the distribution of the costs of the personnel department.

<u>What should the beneficiary consider when evaluating the existence of ineligible items in indirect costs?</u>

Final responsibility for the correct calculation of indirect costs – especially the exclusion of ineligible costs – lies with the beneficiary. This means the beneficiary must examine each indirect cost component to identify whether it is wholly or partially ineligible.

<u>How can the beneficiary distinguish indirect costs which are related to research from non-research items?</u>

Some cases are clear cut, for example the rent and energy costs of building devoted wholly to the research activity of a beneficiary (research laboratory) can be designated as a research costs that can be 100% allocated across the productive time of the researchers.

Similarly, the trading part of a business (e.g. the manufacturing plant, marketing and sales departments), should be 100% excluded from the indirect cost calculation.

The beneficiary should also describe "mixed-use" cases such as libraries in universities, accounting & personnel departments in trading companies, where the costs will have to be allocated to the different activities using a basis such as the staff to student ratio, or the ratio of research staff to staff working in the business side of the organisation. Beneficiaries should use allocation methods that are easy to compute and understand, and take a conservative approach when allocating 'borderline' costs to research.

How is the auditor expected to identify exceptions in the types of costs charged?

The auditor will rely on the detailed breakdown provided by the beneficiary and the detailed description of each cost element. The auditor should identify as exceptions, any items that should normally be charged as direct costs (e.g. direct time of researchers, consumables used on projects, etc.). Identification of "education" or "business" expenses is limited to an analysis of the accounting descriptions (e.g. an account clearly designated as relating to sales, or support to teaching staff, should be identified as an exception).

What is meant by "reconciled to the accounts"?

The auditor is not required to perform a sample check of the indirect costs but is required to perform a reconciliation of the data on the basis of the accounting records. The individual cost items should be traceable to the beneficiary's accounting records. If the source of the data is not linked to accounting records but for example to analytical accounting records or management information documents, the beneficiary should provide a reconciliation demonstrating how the figures can be linked to the accounting records.

What kind of costs do beneficiaries often fail to exclude?

Many beneficiaries fail to remove the irrecoverable VAT elements of indirect costs where they can be identified (for example, making a percentage reduction to certain lines, such as travel or energy consumption, where a known VAT rate is included in the costs).

Servicing of loans, interest, and also the interest element of finance leases are also common examples of ineligible indirect costs which beneficiaries fail to exclude.

What kinds of indirect taxes are concerned by this procedure?

In most cases, the key indirect tax is VAT. Other national duties should be raised as exceptions if they are identified as not being excluded.

What is meant by excessive or reckless expenditure?

The auditor will have to rely on a written declaration by the beneficiary as to the absence of excessive or reckless expenditure.

Excessive expenditure should be understood as paying significantly more for products, services or personnel than the prevailing market rates, resulting in an avoidable financial loss to the project. Reckless expenditure means failing to exercise care in the selection of products, services or personnel resulting in an avoidable financial loss to the project.

Should the auditor give an opinion whether the cost allocations are reasonable?

No. As this is an agreed upon procedures assignment, IMI is interested in the existence of the allocation method, but reserves the right to independently assess whether the method is a fair allocation of costs to IMI project work.

4.5 Procedure 11 - Indirect costs – simplified method

Procedure n°11	**Standard factual findings and basis for exception reporting**
Indirect costs	
11. Assess use of a simplified method of calculation of overheads at the level of the legal entity. The Beneficiary may use a simplified method of calculation (either due to the lack of analytical accounting or legal requirement to use a form of cash-based accounting). This does not permit the use of a generalised estimate, or the use of a 'standard' rate that is not derived from the accounting records of the period in question. Thus the rate (but not the methodology) should be updated for each accounting period.	The beneficiary's accounting system does not permit indirect costs to be separately identified for the individual departments. **[and/ or]** The beneficiary's accounting system is cash-based and year- end adjustments are made using accounting estimates in order to charge certain accrued costs. The Auditor obtained the breakdown of overhead costs and the adjusting entries together with the source of the relevant accounting entries. The Beneficiary provided the Auditor with underlying calculations showing the basis for additional accounting entries. The Auditor agreed these calculations to the relevant sources of management information. **Any elements of a simplified calculation which represent percentage estimates and which cannot be compared to underlying data should be listed (together with the amounts) as exceptions in the main report.**

What is the objective of this procedure?

The procedure "to assess" should mean the following: when performing **simplified calculations of indirect costs**, the beneficiary may not benefit from an analytical accounting system which can separate costs of different types as described in the prior procedures. Effectively, it will not be possible to identify or separate certain research costs from those related to other activities such as education. The IMI thus wishes to verify that the beneficiary has carried out a procedure to ensure that the indirect costs charged in the simplified method are not significantly larger than they would be if the true analytical data was known.

Which documents should the beneficiary prepare for the auditor?

As above, the beneficiary should provide the appropriate management information. In the case of the simplified method, this can be expected to be based on information from a variety of sources.

What is meant by 'relevant sources of management information'?

Beneficiaries using the simplified method should be using the best information available, but which sometimes is not very detailed. For example, the only data the beneficiary may have in order to allocate power consumption is the floor space of the relevant buildings, even though power consumption may in reality be concentrated in certain locations (e.g. the computer research center). In the absence of real data on consumption, the beneficiary should choose a conservative but objective measure (floor space can be verified by reference to the relevant management information).

What kind of allocation method should give rise to an exception?

Taking the example of the computer center above, if the beneficiary allocated (say) 30% of its power consumption without having any factual basis, this should be raised as an exception by the auditor. For IMI the concept of the simplified method does not extend to estimates which do not have a verifiable basis. Thus if the beneficiary cannot demonstrate to the auditor how the 30% was calculated, it should be raised as an exception.

4.6 Procedure 12 - Exchange rates used

Procedure n°12	**Standard factual findings and basis for exception reporting**
Exchange rates	
Other[15],	
12.Inspect and compare exchange rates into Euros.	The Auditor compared the exchange rates used for conversion with the applicable official exchange rates established by the European Central Bank and the *beneficiary* used **[choose one / delete option which is not applicable]** **[*Option 1*]** the conversion rate of the date where the actual costs were incurred **[*Option 2*]** the rate applicable on the first day of the month following the end of reporting period **Where rates cannot be agreed, an exception should be noted, (together with the amount) in the main report.**

What is the objective of this procedure?

As a reminder, Article II.6.4 of the IMI JU model Grant Agreement foresees that costs shall be reported in Euro. Beneficiaries with accounts in currencies other than Euros shall report in Euros on the basis of the exchange rate that have applied either on the date that the actual costs were incurred or on the basis of the rate applicable on the first day of the month following the end of the reporting period. Beneficiaries with accounts in Euros shall convert costs incurred in other currencies according to their usual accounting practices. For beneficiaries with accounts in currencies other than Euros, the auditor is expected to

[15] Procedure n°12 does not apply to *beneficiaries* with accounts in EUR and costs incurred in other currencies.

compare the rates used for foreign currency conversion to the official rates established by the European Central Bank so that the IMI can confirm that they were accurately calculated.

It is imperative that costs be reported in Euros in the Financial Statements and that beneficiaries with accounts in currencies other than Euros report in Euros on the basis of the exchange rate published by the European Central Bank that would have applied either:

- on the date that the actual costs were incurred or
- on the basis of the rate applicable on the first day of the month following the end of the reporting period.

The auditor should therefore check that the exchange rate used in the Financial Statements conforms to one of the two above-proposed options, the European Central Bank website being the official source for the exchange rate to be applied: **www.ecb.eu/stats/exchange/eurofxref/html/index.en.html**.

If the exchange rate chosen by the beneficiary does not correspond to one of the two above options, the auditor should report an exception on the exchange rate used as a reference. It is expected from the auditor to quantify and report the differences between the exchange rate used by the beneficiary and one of the two options.

Does this procedure apply to beneficiaries with accounts in Euro performing transactions incurred in other currencies?

As mentioned above, Article II.6.4 of the IMI JU model Grant Agreement states that for beneficiaries using the euro as its accounting currency, but who have incurred expenses in another currency, the rule is not to apply the ECB rates, but their usual accounting practice. **Therefore procedure n°12 does not apply to beneficiaries with accounts in Euros and costs incurred in other currencies**. The certifying auditor should indicate the reason for not performing this procedure (i.e. beneficiary with accounts in EUR and costs incurred in other currencies) and this should not be considered as an exception.

4.7 Procesure 13 - Identification of receipts

Procedure n°13	**Standard factual findings and basis for exception reporting**
Receipts	
13. Identification of receipts (EFPIA and other receipts). The beneficiary is obliged to declare in its claim any receipts (EFPIA and other receipts) related to the project (income from events, rebates from suppliers, etc.)	The Auditor examined the relevant project accounts and obtained representations from the Beneficiary that the amounts listed represent a complete record of the sources of income connected with the project. The amount included in the claim regarding receipts is the same as the amount recorded in the project accounting. **Any discrepancies in the receipts noted in the accounts and those reported by the Beneficiary should be noted (together with the amount) as exceptions in the main report.**

What is the objective of this procedure?

The objective is to ensure that the receipts related to the project have been correctly declared. The wording "Project accounting" in the procedure means the entire process to establish the project accounts.

Which documents should the beneficiary prepare for the auditor?

Extracts from the project accounting should be made available showing all income entries. In addition to this, a declaration from the beneficiary should be obtained that receipts reported to IMI are complete and the beneficiary has taken sufficient steps to ensure their completeness according to its normal accounting practices.

4.8 Procedure 14 - Identification of interest yielded

Procedure n°14	**Standard factual findings and basis for exception reporting**
Interests yielded	
14. Identification of interest yielded on pre-financing. The *beneficiary*, when it is the managing entity of the IMI JU funding, is obliged to declare interest yielded on prefinancing.	The Auditor compared the relevant project accounts with the interest shown in the bank statements and found them to be the same. **Any discrepancies in the interest noted in the accounts and those reported by the Beneficiary should be noted (together with the amount) as exceptions in the main report.**

Procedure n°14 applies only to the Managing Entity of the IMI JU funding.

What is the objective of this procedure?

The objective is to ensure that all interest yielded on pre-financing has been correctly declared in the claim for the IMI.

Which documents should the beneficiary prepare for the auditor?

Extracts from the project accounting and the relevant bank statements should be made available showing all interest income entries. In addition to this, a declaration from the beneficiary should be obtained that interest income reported to IMI is complete.

PART II: GLOSSARY

1 Accounting records

Refer to the accounting entries and the documents supporting the statutory financial statements and/or reporting requirements, as well as, the internal procedures, reports or other documents necessary to understand the accounting system of the beneficiary.

The accounting records include, among others:

The accounting records include, among others:

- Accounting entries:
  - Accounting journal
  - General ledger
  - Cash book
  - Inventory register / Fixed assets register
- Supporting documents
  - Sales and purchase invoices
  - Delivery notes, in particular for fixed assets
  - Credit notes
  - Salary slips
  - Bank statements
- Other documents
  - Rules applied for depreciation
  - Method of allocation of indirect costs
  - Internal rules for reimbursement of travel expenses

- Other documents
  - Rules applied for depreciation
  - Method of allocation of indirect costs
  - Internal rules for reimbursement of travel expenses

2 Excessive or reckless expenditure

The auditor will have to rely on a written representation by the beneficiary as to the absence of reckless or excessive expenditure.

Excessive expenditure should be understood as paying significantly more for products, services or personnel than the prevailing market rates, resulting in an avoidable financial loss/charge to the project. Reckless expenditure means failing to exercise care in the selection of products, services or personnel resulting in an avoidable financial loss/charge to the project

3 Exception

In the context of the Certificate on Financial Statement (Form D) of the IMI JU Model Grant Agreement and Certificate on the Methodology (FORM E) of the European Commission FP7 Model Grant Agreement, matters to be reported by the auditor in his report under the caption "Exceptions" include the following:

- Error or exception: Any fact detected by the auditor while performing a procedure which prevents him from using the standard text of the findings proposed in the model Form. Therefore, whenever the standard text of the findings needs to be modified by the auditor following the application of the procedure, this should be reported as an *exception*.[16]

- Scope limitation: Any fact or event which impedes the auditor to perform any of the procedures. This includes any modification made by the beneficiary in the standard model statements of the model Form to reflect the real situation which would prevent the auditor from carrying out the corresponding procedure.

  For instance in procedure 1 of the table of statements and procedures of the Certificate on the Methodology (Form E), the standard statement by the beneficiary reads:

  "Time recording exists, with authorisations, which enables all personnel […]"

  If the beneficiary states that there is no time recording, the related procedure described in the right-hand column (verification of the time recorded) cannot be carried out. Therefore this scope limitation should be reported as an exception in the auditor's report.

  An *exception* should also be raised if auditors decide to carry out alternative procedures on findings due to the specific circumstances related to the beneficiary (such as the lack of time recording but existence of other related evidence). The auditor should explain under "Exceptions" the reasons why he could not carry out the standard procedure(s) and describe the alternative procedure(s) and related findings.

4 Financial statement (Form C)

Refers solely to Form C (Annex V to the IMI Grant Agreement) whereby the Beneficiary declares costs to the IMI in the frame of the Grant Agreement. In this context, Financial Statements are not the beneficiary's statutory financial statements (or equivalent).

Models of Form C can be found at:

http://www.imi.europa.eu/sites/default/files/uploads/documents/Rev_Grant_Agreement_2011/IMI_Grant_Agrement_rev2012_Annex_V.xls

It corresponds to the double-entry accounting in which the financial movements are recorded at the level of each individual account. It presents the chart of accounts of the beneficiary and provides the information on the debit and credit entries made in the

[16] Please note that the Form D uses several examples of findings which trigger an *exception*. However, this does not mean that only these findings should be reported as *exceptions*.

individual accounts. The general ledger is the primary source from which the statutory financial statements (or equivalent) are prepared.

5 Indirect taxes

Identifiable[17] indirect taxes[18] including value added tax (either recoverable or not by the beneficiary) are not eligible according to the Grant Agreement provisions. An identifiable indirect tax is a tax charged on the cost of a good or service and paid by the purchaser in the form of an increase of the price.

However, indirect taxes will be allowed when not identifiable. This may be for example the case with foreign invoices where the price indicated is gross without identifying the value added tax. In any case, the beneficiary should be able to justify this in the event of an audit.

6 Normal accounting policy

Standards and criteria used by the beneficiary to prepare its statutory financial statements (or equivalent). The accounting policy applied by the beneficiary for the IMI JU Grant Agreements should not differ from its normal accounting policy. Whenever adjusting entries are necessary to comply with the eligibility criteria of the Grant Agreement, these should be duly documented[19] and reconciled to the accounting records.

The normal accounting policy can never be adapted ad-hoc in order to overcharge the IMI Grant Agreement compared with the normal practices of the beneficiary.

- ***Example for depreciation***:

  The term "normal accounting policy" is referred in procedure 7 of the Certificate on Financial Statement (Form D) concerning the depreciation of the equipment. In this procedure it is explicitly demanded that the depreciation method applied for the assets charged to the Grant Agreement should be the same as the depreciation method normally applied by the beneficiary.

  Situations as the following are, therefore, <u>not permitted</u>:

  Beneficiary X applies an annual depreciation of 25 % for IT equipment.

  Two new computers for a total of EUR 3.000 are purchased to be used exclusively for the IMI Grant Agreement "Y". The project covered by this Grant Agreement has duration 2 years.

  The beneficiary decides to apply yearly depreciation of 50 % in order to charge the full cost of the equipment to the project.

  Annual depreciation according to the "normal accounting policy" = 3.000 * 25 % = 750
  Total depreciation charged to the Grant Agreement = 750 * 2 years = **1.500**

  Annual depreciation according to the ad-hoc accounting policy = 3.000 * 50 % = 1.500

[17] Identifiable means explicitly indicated on the purchase invoice.

[18] For additional details on the subject, refer to IMI Financial guidelines and to Article II.13.6 of GA – Non-eligible costs.

[19] Adjusting entries refer to the corrections aimed at eliminating costs included in the indirect costs but which are ineligible under IMI grant agreement (e.g. provisions for future losses, exchange losses, interest owed, etc).

Total depreciation charged to the Grant Agreement = 1.500 * 2 years = **3.000**

The concept of "**normal policy**" can be extended to other areas of costs, for instance travel costs, meaning that no internal rule for allocation of expenses should be modified in order to overcharge the IMI Grant Agreement.

- ***Example for travel costs:***

  The internal policy of Beneficiary X concerning the flight tickets is that all its researchers should travel in economy class.

  However, Beneficiary X realises that they have overestimated the budget necessary for travels for the IMI Grant Agreement in which it is participating.

  Beneficiary X decides then to accept its researchers travelling in business class because the costs will be charged to the Grant Agreement. In addition, they decide that the daily allowance generally paid to the researchers will be increased by 10 % for these trips since there will be sufficient budget.

  This kind of derogation from the internal rules is **not** permitted.

Please note, however, that "**normal accounting policy**" cannot override IMI rules. Therefore, if there is a contradiction between the normal accounting policy and the IMI rules, for the purposes of the preparation of the costs statement the beneficiary should abide to the IMI rules. For example, if under the normal practice the calculation of overheads includes marketing costs, they should be removed as non-eligible under the IMI1 eligibility rules irrespective of how they are "normally" accounted for by the beneficiary.

7 Normal employment costs

Refers to all costs components related to personnel. These include the basic salary, sickness, pension and social contributions as well as any kind of allowances or benefits granted to the employees. The notion of "normal" implies that those are the standards commonly applied by the beneficiary.

8 Productive time

The productive time for an employee is the time actually spent on direct work. Productive hours have to be clearly justified and should match the underlying time records.

The productive time should exclude annual leave, public holidays, training and sick leave. Productive hours must be calculated according to the beneficiary's normal practices and will vary depending on the personnel category, industry sector, unions, contracts and national legislation.

A figure of 210 working days per year could be considered representative in most cases.

Example:	
Total days in a year	365
Weekends -	-104
Annual holidays	-21
Statutory holidays	-15
Illness/Others	-15
Workable days in a year	210
210 x 8 working hours/day = 1.680 *Productive hours*	

If the productive hours actually worked (as supported by the time-records) are greater than the productive hours budgeted, the first shall be used for the calculation of the personnel costs.

9 Project accounts

Normally project accounts for IMI projects are management account codes allocated solely to individual IMI projects which are integrated in the double entry accounting system of the beneficiary. This integration with the double entry system reduces the likelihood of double counting and makes it easier to reconcile the costs with the accounting records. Thus the invoices (say for travel) which are allocated to the project are posted via double entry to the individual project accounts, so that the travel costs incurred for a particular project in a particular period can be correctly identified. Other forms of recording project expenditure (e.g. spreadsheets) are not considered as reliable as management accounting directly linked to the double-entry accounting system.

10 Representation letter

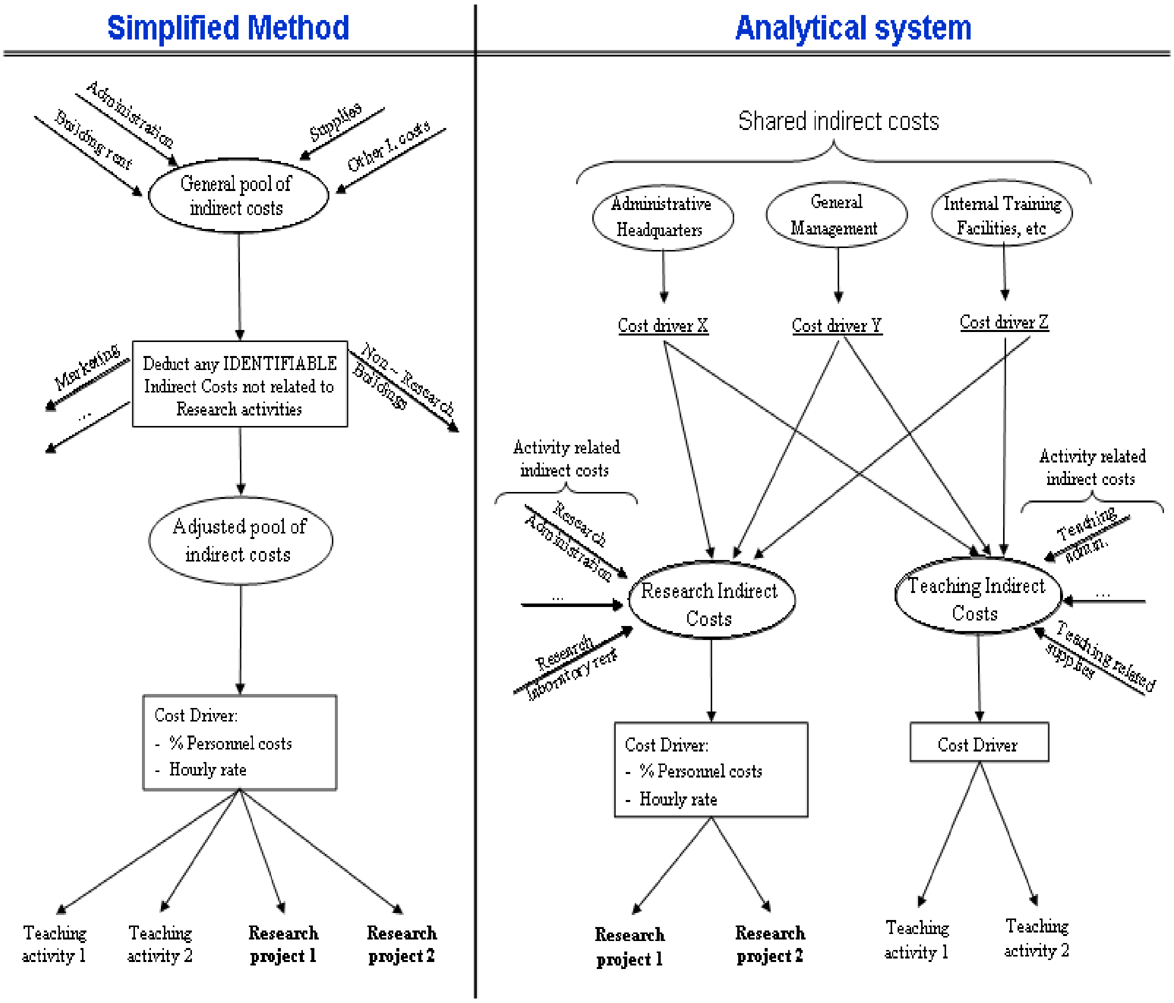
The representation letter is a document clearly dated in which the Beneficiary confirms in writing all representations made to the Auditor during the course of the procedures specified. The purpose of this letter is to document the responsibility of the Beneficiary with regard to the information presented during the procedures.

Example:
An example of Representation Letter is given in the Annex to this glossary

11 Simplified method

The simplified method is a way of declaring indirect costs applicable to organisations which cannot provide an analysis of their indirect costs at a **detailed level** (i.e. by activity), but can aggregate their indirect costs **at least at the level of the legal entity**.

This requires that the beneficiary has an accounting system enabling it to determine the total indirect costs (overheads) of the entity as a whole. However, the same system would not permit the share of the indirect costs generated by the research activities to be fully identified separately from the other indirect costs. Therefore, the indirect costs of the beneficiary should be treated altogether and allocated using a cost driver which accounts for all the productive hours of the entity and not only for the research productive hours.



12 Underlying Management Information

Accounting policies, internal accounting procedures and supporting documents (working papers, details on calculations, etc.) constitute the basis for the normal calculation of the indirect costs for the beneficiary[20].

The beneficiary must provide the auditor with the additional information and underlying calculations enabling the reconciliation between the normal calculation and the basis of calculation of the amounts charged to the Grant Agreement. The adjusting entries applied by the beneficiary must be substantiated by the underlying calculations which are to be agreed by the auditor to the relevant sources of management information.

[20] In the context of the simplified indirect cots calculation

Annexes

Annex 1 - Letter of Representation

(Beneficiary letterhead)
(Date-same as date of the factual findings report)
(Addressed to the Audit firm)

Dear Madam, Dear Sir,

Taking into consideration our responsibility, as mentioned in Article 1.1 of Annex VI - Form D of the IMI Grant Agreement N° xxxxx (Project Title Acronym) with IMI and in connection with your engagement to perform agreed-upon procedures regarding the Financial Statement (Form D) covering the period from [date] to [date] (the "Financial Statement"), we hereby confirm the following representations made to you during your engagement:

- We are responsible for the preparation of the Financial Statement covering the period starting (date) and ending (date) in accordance with the Grant Agreement and for their accuracy and completeness.
- We have made available to you all records, documents, statements and information that we believe are relevant for the purpose of the agreed-upon-procedures you have performed.
- (*if applicable)* We have complied with the conditions of the consortium agreement.
- Personnel costs:
  - (Option 1) Personnel costs reported in the Financial Statement are not based on budgeted or estimated amounts. They are calculated using rates based on actual costs, and reflect the time actually worked on the [ ] project during the period covered by the Financial Statement. OR
  - (Option 2) Personnel costs reported in the Financial Statement are not based on budgeted or estimated amounts. They are calculated using average rates which are compliant with the acceptability criteria adopted by the Commission in its Decision C(2011)174 and reflect the time actually worked on the [ ] project during the period covered by the Financial Statement.
- Subcontracts and contracts to suppliers of goods and services are awarded in accordance with a procedure including an analysis of best value for money (best price-quality ratio), transparency and equal treatment.
- Indirect costs reported in the Financial Statement do not include any of the following costs:
  - Identifiable indirect taxes including value added tax (for instance local business and property taxes);
  - Duties (for instance customs duties);
  - Interest owed;
  - Provisions for possible future losses or charges (for instance provisions for doubtful debt (but not normal accruals);
  - Exchange losses, cost related to return on capital (for instance exchange losses from billing in a foreign currency);
  - Costs declared or incurred, or reimbursed in respect of another

Union/Euratom project;
    - Debt and debt service charges,
    - Excessive or reckless expenditure (for instance loan charges);
    - Implicit interest (leasing costs or other credit arrangements);
    - Costs attributable to activities other than the research activities covered by the [ ] project, such as manufacturing, education, marketing of products or services, etc.

- Purchases in connection with the [ ] project are made according to the principles of best value for money (best price-quality ratio), transparency and equal treatment. No excessive or reckless expenditure is included in the Financial Statement.

- The receipts declared in the Financial Statement represent a complete record of the sources of income connected with the IMI funded project (for example, EFPIA Direct Financial Contributions, income from events, rebates from suppliers…), and have been recorded in accordance with our normal accounting practices.

- (*if applicable)* All interest yielded on pre-financing of the [ ] project during the period covered by the Financial Statement has been reported in the Financial Statement.

- No event has occurred after [ending last day of the period covered by the Financial Statement], which would have an impact upon the Financial Statement.

- Nothing has come to our attention during the period under review, including management actions and/or other matters of importance that might be considered to represent financial irregularities, fraud or an illegal act which would have an impact on the Financial Statement OR the following financial irregularities, fraud or illegal acts which have an impact on the Financial Statement have occurred: […] and sufficient measures have been taken to correct them and to prevent repetition and they have all been fully disclosed to you.

- [Other matters, as applicable].

(Name of the Beneficiary)

(Stamp and Signature)

Annex 2 – Template model for calculation of hourly personnel rate

Calculation of hourly personnel rate				
Salary details per person or category		**Gross salary (1)**	**Employer's social charge (2)**	**Others (3)**
Month 1				
Month 2				
Month 3				
Month 4				
Month 5				
Month 6				
Month 7				
Month 8				
Month 9				
Month 10				
Month 11				
Month 12				
Month 13, 14 or other (4)				
Month 13, 14 or other (4)				
Sub-totals		**0**	**0**	**0**
Total salary + Social charges + Others	A			**0**
Productive hours details				
Number of working hours per week (5)				
Number of weeks during the period (6)				
Sub-total Working hours for the period	B			**0**
Deduction for : (in days)				
Annual holidays (7)				
Statutory holidays (8)				
Illness/others (9)				
sub-total absence for the period (days)				0
Average numbers of working hours per day (10)				
Total absence in hours	C			**0**
Total Productive hours for the 12 months period	D=B-C			**0**
Hourly personnel rate	A/D			**0**

(1) The gross salary as shown on the salary slip for the month
(2) Social charge paid by employer as required by law
(3) Other components of the salary not included in the gross salary but declared to the Tax Authorities.
Please explain what it is e.g. company car, company contribution to pension scheme, lunch vouchers.
(4) Please add here holiday pay, 13th month, bonus, etc.. **Use one line per item and describe the nature of the salary component**
(5) Following the working contract or the normal practice of the company
(6) Standard 52 weeks for a year
(7) As per contract, including seniority, etc. **Please explain** the number of holidays based on the normal practice of your company. The relevant information to report is the number of days of holidays for which the right was generated during the period covered by the salary, not the days actually taken during the period.
(8) As per law, at country, region or sector level. **Please explain** of the statutory holidays according to your company
(9) The **average** number of days of illness that can be considered as **normal** for your company Days for specific training in the context of the project should **not** be deducted here
(10) Following the labour contract or the **normal practice** of the company

Annex 3 – Example of time-recording

In the context of the Certification on the Methodology, full time recording per person is required. Please find below a time-sheet example fulfilling the requirements of the Certification on the Methodology.

innovative medicines initiative

Timesheet

Person : **Name** Number of hours envisaged i.e. according to the employment contract: **xx hours/week**

YEAR **MONTH**

Indicate the time in hours Only the yellow cells are writeable

Date	1	2	3	4	5	6	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	Total	Notes
Day	**Sun**	Mo	Tue	Wed	Thu	Fri	**Sat**	**Sun**	Mo	Tue	Wed	Thu	Fri	**Sat**	**Sun**	Mo	Tue	Wed	Thu	Fri	**Sat**	**Sun**	**Mo**	Tue	Wed	Thu	Fri	**Sat**	**Sun**	Mo		
EU-Projects																																
R&D Activities																																
Projectx		3	4	7	8								3.5			3	2	8	9	4										7	58.5	WP3
Projecty		5	5			5.5																									15.5	WP8
Projectz																															0	
Total RTD	0	8	9	7	8	5.5	0	0	0	0	0	0	3.5	0	0	3	2	8	9	4	0	0	0	0	0	0	0	0	0	7	74	
Demonstration																																
Projectx																															0	
Projecty																															0	
Projectz																															0	
Total Demonstration	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Management																																
Projectx												8	3.5				5			1											17.5	WP1
Projecty																															0	
Projectz																															0	
Total Management	0	0	0	0	0	0	0	0	0	0	0	8	3.5	0	0	0	5	0	0	1	0	0	0	0	0	0	0	0	0	0	17.5	
Other Activities																																
Projectx							3								5																8	WP7
Projecty																															0	
Projectz																															0	
Total Other	0	0	0	0	0	0	3	0	0	0	0	0	0	0	5	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	8	
Internal activities and National Projects																																
Teaching						2.5										6	1			3											12.5	
Training																																
National Projects																																
(...)																															0	
Total	0	0	0	0	0	2.5	0	0	0	0	0	0	0	0	0	6	1	0	0	3	0	0	0	0	0	0	0	0	0	0	12.5	
Absences																																
Annual Leave																								8	8	8	8				32	
Special Leave						0																									0	
Illness									8	8	8																				24	
Total Absences	0	0	0	0	0	0	0	0	8	8	8	0	0	0	0	0	0	0	0	0	0	0	0	8	8	8	8	0	0	0	56	
Total productive hours	0	8	9	7	8	8	3	0	0	0	0	8	7	0	5	9	8	8	9	8	0	0	0	0	0	0	0	0	0	7	**112**	
Total hours																															168	

Signed:

Approved:

Productive hours per project:		
	Projectx	84
	Projecty	15.5
	Projectz	0

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