

News and selected aspects related to the financial monitoring

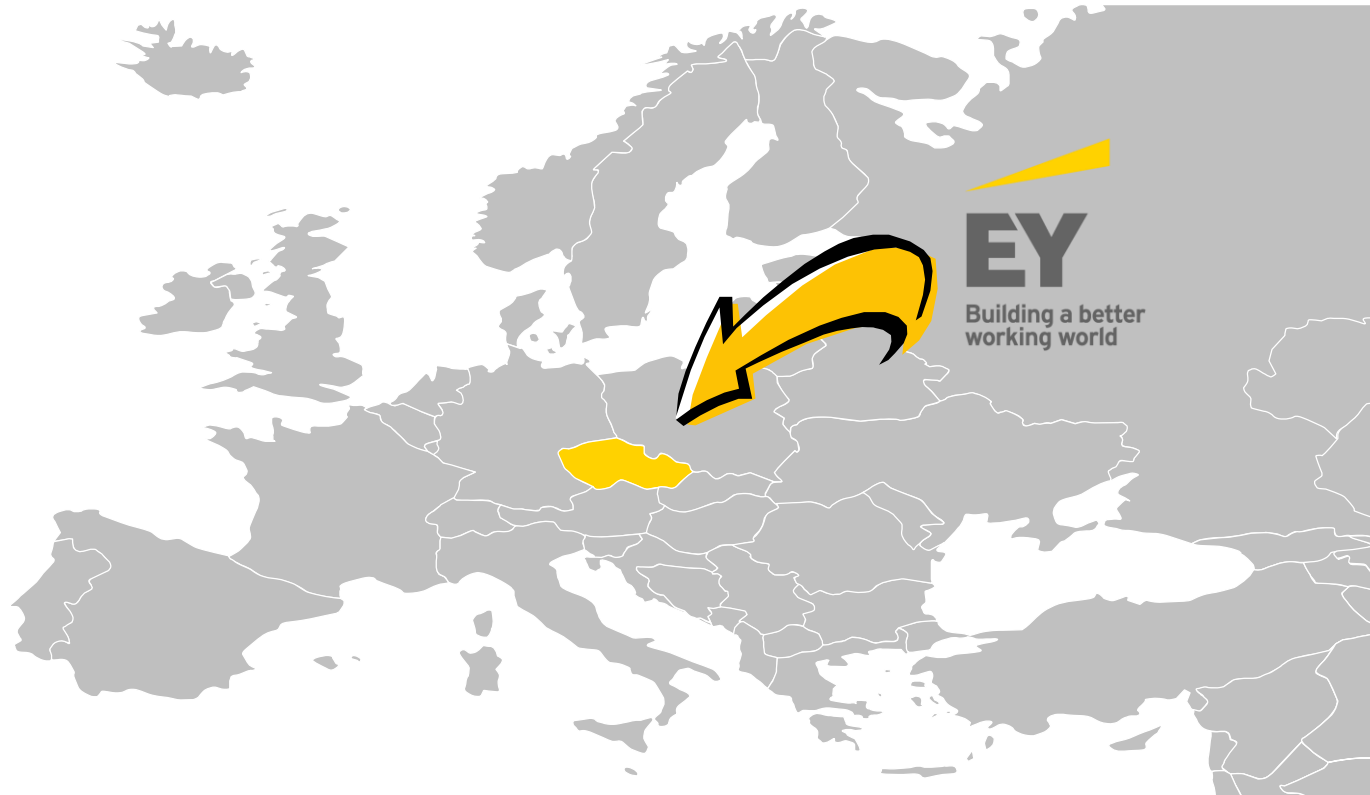
Nordic Platform meeting - Tønder, 12 September 2019

Lucie Jezlová - financial monitor Ernst & Young



Financial monitoring

EY = Ernst & Young = sub-contractor of the NEEMO consortium responsible for the financial monitoring of the LIFE projects

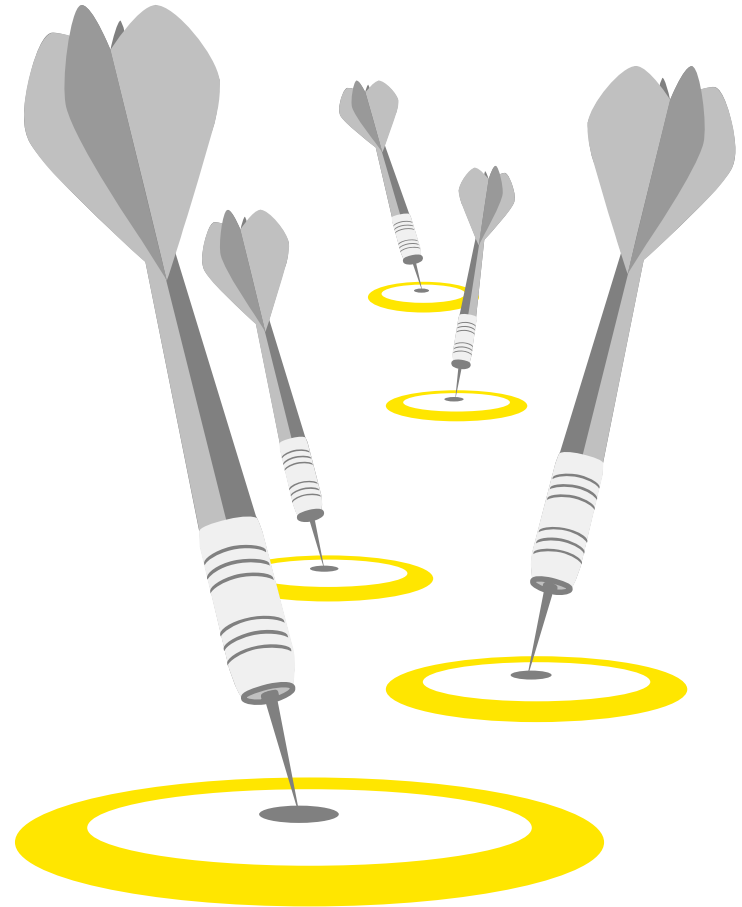


Role of the financial monitors

- ▶ Evaluating reports with a payment request
- ▶ Providing financial guidance and assistance to the technical monitors
- ▶ Providing assistance to the beneficiaries (via the coordinating beneficiary)
- ▶ Participating in monitoring visits
- ▶ Platform meetings

The main purpose of this presentation

- ▶ Inform you about **recent changes** in approach to LIFE14 projects
- ▶ Highlight the most important **financial topics**
- ▶ Remind you about the **most common mistakes**
- ▶ Share **knowledge** and our **experience**
- ▶ Answer **your questions**



Agenda

1. Recent changes in LIFE14 projects
2. Selected problematic issues, the most common mistakes
3. Tips & Tricks
4. Your questions
5. Your feedback and further Q&A

Recent changes in LIFE14



New LIFE website

- ▶ <https://ec.europa.eu/easme/en/life> (LIFE14 projects)
 - ▶ <https://ec.europa.eu/easme/en/section/life/life-reporting> (LIFE+ projects)
- ▶ Contractual & financial aspects (<https://ec.europa.eu/easme/en/section/life/life-contract-financial-aspects>)
 - ▶ Guidelines for amendments to the GA
 - ▶ Actual financial and administrative guideline (Annex X to the GA)
 - ▶ Model Grant Agreement, partnership agreements
- ▶ Reporting (<https://ec.europa.eu/easme/en/section/life/life-reporting>)
 - ▶ Financial reporting templates
 - ▶ MtR/FR templates
 - ▶ 20% rule guidance
 - ▶ Terms of reference for the certificate on the financial statements

Certificate on the financial statements

- ▶ Must be submitted with the request for payment of the balance
- ▶ External auditor has to certify only financial statements of those beneficiaries for which the **budgeted EC contribution exceeds €750,000** and the requested **contribution in the payment request is higher than €325,000**
 - ▶ *For LIFE14-16 projects, the relating Amendments to the GA were issued*
- ▶ Audit reports can be provided per project (all relevant beneficiaries) OR separately for each relevant beneficiary
 - ▶ *Annex X - For practical reasons, an audit report for an individual associated beneficiary may be issued separately and by a different auditor, as long as the auditor of the CB includes and refers to any separate individual audits in the conclusions of the main audit report. (ADVICE but not an OBLIGATION)*
- ▶ Model terms of reference for the certificate on the financial statements available on LIFE websites (<https://ec.europa.eu/easme/en/section/life/life-reporting>)

Budget transfers (LIFE14)

Reporting of non-substantial budget changes

- ▶ GC Art II.22 – transfers between budget categories up to a limit of 20% of the eligible costs are allowed without an amendment
- ▶ Transfers between beneficiaries DO NOT count into the limit
- ▶ Transfers must be clearly indicated in the consolidated cost statement (Cost Summary sheet) at the FR stage
- ▶ Guideline is available on LIFE website (<https://ec.europa.eu/easme/en/section/life/life-reporting>)



Budget transfers (LIFE14)

Practical guidance

European Commission		COSTS SUMMARY (in €) - PAYMENT OF THE BALANCE - LIFEXX XXX/XX/XXXXXX - ACRONYM											LIFE				
Annex III estimated budget versus Final budget (incl. budget transfers) versus Declared costs		PERIOD	From:	00.01.1900	To:	00.01.1900											
Participant No.	Participant's short name	Legal status of participant	Costs category	DIRECT eligible costs with non-recoverable VAT (in €)										Sub-total direct eligible costs	OVERHEADS with non-recoverable VAT (in €)	Total ELIGIBLE costs with non-recoverable VAT	TOTAL COSTS with non-recoverable VAT
				PERSONNEL	TRAVEL	EXTERNAL ASSISTANCE	INFRASTRUCTURE	EQUIPMENT	PROTOTYPES	LAND PURCHASE /LEASE /ONE-OFF Compensation	CONSUMABLES	OTHER direct costs					
1	AB	Public body	Declared costs	160,000.00	15,000.00	250,000.00	0.00	0.00	0.00	0.00	25,500.00	0.00	450,500.00	315,350.00	765,850.00		
2	BC	Private commercial	Declared costs	120,000.00	5,000.00	0.00	0.00	50,000.00	0.00	0.00	1,500.00	20,000.00	196,500.00	13,755.00	210,255.00		
3	DE	Private NON-commercial	Declared costs	120,000.00	5,000.00	25,000.00	0.00	0.00	0.00	0.00	12,000.00	5,000.00	167,000.00	11,690.00	178,690.00		
4			Declared costs										0.00		0.00		
5			Declared costs										0.00		0.00		
TOTAL Contractual Budget				450,000.00	35,000.00	225,000.00	0.00	60,000.00	0.00	0.00	30,000.00	24,000.00	824,000.00	57,680.00	881,680.00		
TOTAL Final Budget				400,000.00	35,000.00	275,000.00	0.00	50,000.00	0.00	0.00	39,000.00	25,000.00	824,000.00	57,680.00	881,680.00		
Variance				-	-	50,000.00	-	-	-	-	9,000.00	1,000.00	60,000.00	-	60,000.00		
TOTAL Declared costs				400,000.00	25,000.00	275,000.00	0.00	50,000.00	0.00	0.00	39,000.00	25,000.00	814,000.00	340,795.00	1,154,795.00	0.00	

Complete costs declared per beneficiary

7% Ok -> budget shift under 20%

- ▶ The Coordinating beneficiary must fill in the Total Final Budget to finance the declared costs.
- ▶ If some categories are overspent, the beneficiary can optimize the budget while respecting the 20% flexibility.
- ▶ The sheet automatically calculates the variance between the Total Contractual Budget and the Total Final Budget.
- ▶ In case of general overspending (total declared costs > total contractual budget), not all costs can be financed. The CB will decide on the amount of the Final Budget to be allocated to each of the cost categories.
- ▶ **Maximum EC contribution cannot be exceeded.**

Subcontracting

- ▶ Threshold for open tender procedure increased for LIFE17 projects:
 - ▶ LIFE14-16: **130,000 EUR**
 - ▶ LIFE17+: **135,000 EUR**
- ▶ Where the value of a contract exceeds the threshold, all beneficiaries shall use an **open tendering procedure**, including a publication of the call for tender(s) in the **relevant media** such as e.g. **the official journal, newspapers** (focuses on the concerned area, works/services)



Selected tricky issues



Exchange rates (LIFE14)

For LIFE+ the rules remain the same

Beneficiaries with general accounts in **non-EUR** currency (2 options):

- ▶ Monthly accounting rate applicable on **the day when the cost was incurred** (date of invoice)
- ▶ Monthly accounting rate applicable on the **first working day of the month following the period covered** by the financial statement concerned (example: end of period 31/8/2019 => first working day of September)

Beneficiaries with general accounts in **EUR**:

- ▶ Conversion of costs in other currency according to their usual accounting practices

Name of person	Job title	Role in the project (according to budget form F1 or as justified)	For Public beneficiaries + Additional / non_additional	FROM	TO (if no end date in contract, leave open)	Year of expense	Contract type (full time, part-time)	% of time allocated to the project (ONLY if fixed % N/A if not fixed)	Daily working hours	TOTAL number of hours worked per year => use total working hours ACTUAL HOURS	Number of hours worked on the per year (OR per month if
AAA	BB	CCC	NON_additional	1.1.2015		1/2015	full-time	40%	8.00	1720.00	#VALUE!
AAA	BB	CCC	NON_additional	1.1.2015		2/2015	full-time	40%	8.00	1720.00	57.33
AAA	BB	CCC	NON_additional	1.1.2015		3/2015	full-time	40%	8.00	1720.00	57.33
AAA	BB	CCC	NON_additional	1.1.2015		4/2015	full-time	40%	8.00	1720.00	57.33
AAA	BB	CCC	NON_additional	1.1.2015		5/2015	full-time	40%	8.00	1720.00	57.33
AAA	BB	CCC	NON_additional	1.1.2015		6/2015	full-time	40%	8.00	1720.00	57.33
AAA	BB	CCC	NON_additional	1.1.2015		7/2015	full-time	40%	8.00	1720.00	57.33
AAA	BB	CCC	NON_additional	1.1.2015		8/2015	full-time	40%	8.00	1720.00	57.33
AAA	BB	CCC	NON_additional	1.1.2015		9/2015	full-time	40%	8.00	1720.00	57.33
AAA	BB	CCC	NON_additional	1.1.2015		10/2015	full-time	40%	8.00	1720.00	57.33
AAA	BB	CCC	NON_additional	1.1.2015		11/2015	full-time	40%	8.00	1720.00	57.33
AAA	BB	CCC	NON_additional	1.1.2015		12/2015	full-time	40%	8.00	1720.00	57.33

Please note that this is only a simple example of the actual figures. The cases when

Reporting of personnel costs in incomplete years

KEY OBJECTIVE:

Reporting in incomplete years should not lead to significantly different hourly rates compared to other years!

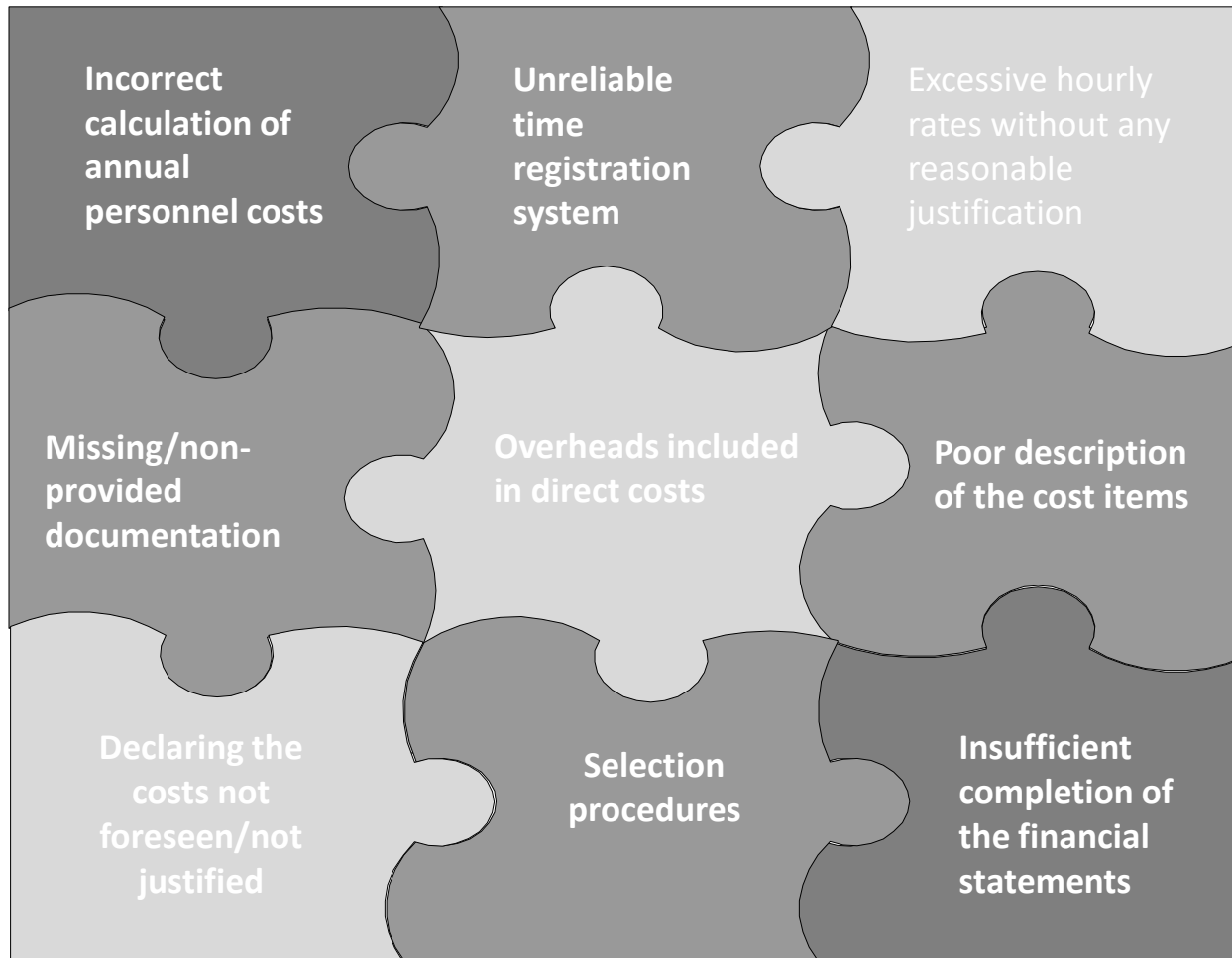
- ▶ First incomplete year of the project implementation
 - ▶ The reporting of figures covering only the incomplete period (09-12/2018) when the daily rates declared are not significantly higher than those reported in the next complete year (2019).
 - ▶ Use the annual values of both annual productive hours and annual personnel costs provided that you are able to support the figures by records from a reliable system.
- ▶ Last incomplete year of the project implementation
 - ▶ The reporting of figures covering only the incomplete period (e.g. 01-06/2019)
 - ▶ The reporting of annual values (personnel costs, productive hours) of the previous complete year

Fixed % of time allocated to the project

When to fill in column D3 in the financial statement?

- ▶ Only in case it is defined in the contract/secondment letter and you use **Method 2** (*gross salary*) as defined in Annex X to calculate the annual personnel costs. However, the percentage shall be consistent throughout the whole duration of the project.
 - ▶ **Indicate 1,720 hours as the annual productive time**
 - ▶ The project hours per year are calculated as follows:
1,720 hours * fixed % OR 1,720 hours/12 * fixed % (in case that you use monthly exchange rates)
- ▶ If you fill in timesheets and use **Method 1** (hourly rate based on actual values) as defined in Annex X for annual personnel costs calculation, **DO NOT** complete column D3.

The most common mistakes





More specific tips & tricks



The better the question. The better the answer.
The better the world works.

How to be prepared for the monitoring visit?

- ▶ Staff responsible for reporting/financial management should participate in the monitoring visit at least for the coordinating beneficiary.
- ▶ **The most updated financial statements should be available to the TMO/FMO.**
 - ▶ Verify internally that the financial statements are filled in properly.
 - ▶ All supporting documentation (requested before or during the monitoring visit) is sent to the external monitoring team within agreed deadlines.
- ▶ Prepare your responses to the issues raised in the previous EASME letter
- ▶ Ensure that all supporting documents requested in the previous EASME letter (especially following the MTR) are available:
 - ▶ Personnel documentation (timesheets, salary slips, contracts, secondment letters) + justification of calculation methods (annual personnel costs – salary components, annual productive hours)
 - ▶ Tendering documents (description of the procedure, supporting documents)
 - ▶ Invoices and payment proofs
- ▶ Ask the TMO in case of doubts
 - ▶ TMO will discuss it with the FMO

Top six tips to avoid problems

1

Fill in all the cells within the statements, complete all the information.

4

Describe/justify all the changes in a timely manner.

2

Always pay attention to the last letter received after project visit/report.

5

Discuss all the potential problems/irregularities with the monitoring team.

3

Gather all the project documentation and annex it to the report once requested.

6

Be transparent and trustworthy as much as possible.

Q&A



Funding sheet, Payment Request, Income Summary, Funds Distribution

Question: How to fill in these documents and when?

- ▶ **Union Contribution** = payment received or to be received from EASME/Coordinating beneficiary to co-fund the eligible costs declared in the financial statement. In fact the amount should be equal to the declared eligible costs multiplied by the contractual agreed % of Union contribution.
- ▶ **Co-financer's Contribution/Direct Income** = The amount received until now from co-financers as well as the direct income that was already generated from the project.
- ▶ **Own Contribution** = Total amount of eligible costs declared – Co-financer's amount – Direct income of project amount – Union contribution.

THE OBJECTIVE ➡ **The total costs = total income of the project**

- ▶ Article II.22 – *“Should beneficiaries want to modify the value of the contribution that each of them is entitled to, the coordinating beneficiary shall request an amendment in accordance to Article II.12.”*
- ▶ **When?** These documents should be enclosed with 2nd and 3rd pre-financing and payment of the balance

Non-substantial changes

Question: Is it possible to employ additional person without prior agreement with EASME, i.e. instead of two persons foreseen in the budget allocate three persons, in case the total number of hours allocated for these positions remain the same?

- ▶ You do not have to ask for official approval of EASME in case that the total budgeted costs/person days do not significantly increase. In case of an increased involvement of a project role communicate it to the TMO and justify in the MtR/FR. The involvement should be reasonable and technically justified.

Question: What is the threshold to perform purchases without prior agreement with EASME, which are not foreseen within the approved project application, however are necessary for implementation of the project?

- ▶ Purchases not foreseen in the budget should be technically justified and should be discussed with the TMO.
- ▶ No specific threshold is set up.
- ▶ The relation and necessity for the project have to be clear and justified.

Non-substantial changes

Question: Can we announce the winner of public procurement procedure without prior agreement with EASME in the below described situation: the grouped purchase is performed and in one budget line we have savings, while another exceeds the amount foreseen in the budget. How much we can exceed (% or EUR) separate budget lines (services, goods) without prior agreement with EASME?

- ▶ See the budget transfers above (for LIFE14 projects).

Question: What documentation is needed to document that a bill (ex a personal outlay) is paid by Næstved Municipality? Normal we use a note from the bank (stating that Næstved Municipality has paid xx to xx person), but if the bill was paid more than 6 month ago, we can't get the note from the bank for free. Will an account statement from the person responsibly for the outlay be sufficient?

- ▶ Within the standard controls we usually do not check the proofs of salary payment. These documentation can be exceptionally requested for a particular employee.
- ▶ However, these type of checks can be a part of ex-post audit and on request you should be able to prove that salary is paid to each employee. Consequently, a statement of an account is not sufficient.

Contact details

Ing. Lucie Jezlová

Ernst & Young, s.r.o.

Na Florenci 2116/15, 110 00 Praha 1 – Nové Město, Czech Republic

Mobile: +420 733 626 180 | Lucie.Jezlova@cz.ey.com

Website: <http://www.ey.com>

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization and may refer to one or more of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2015 Ernst & Young, s.r.o. | Ernst & Young Audit, s.r.o. | E & Y Valuations s.r.o.
All Rights Reserved.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com