Participating in the 7th Framework Programme
- Maximise your chances of success

Negotiations, preparation of the Grant Agreement, financial aspects

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Contract negotiations

- Negotiations with the Commission
- Negotiation on Annex 1
- Grant Preparation Forms
- Financial Viability and Capability
- Preparation of contracts

Contract negotiations – scope of negotiations

- Technical content of project / individual workpackages (most important aspect: proposal part B becomes Annex I to the Grant agreement)
- Project start date (date to be fixed by consortium or depending on date of grant agreement signature) and duration
- Budget (no room to negotiate)
- Reporting periods
Contract negotiations – relevant documentation

- Overall legal basis:
  - Standard Model Grant Agreement
  - Consortium agreement
- Administrative forms: Grant Preparation Forms
- Financial rules: Guide to Financial Issues
- IPR issues: Guide to Intellectual Property Rights for FP7 Projects
- Negotiation procedure: Negotiation Guidance Notes

Contract negotiations – time-frame

- Evaluation/Hearings
- Invitation to negotiation
- First version of docs
- Nego meeting with COM
- Further revision of docs
- Signature of GPFs
- End of negotiations
- Preparation and Signature of grant agreement
- 2 – 3 months
- A few weeks to months
- 3 - x months
- End of negotiations
- Preparation and Signature of grant agreement

Contract negotiations - procedure

- Invitation to contract negotiations:
  - Max. funding available
  - Name and contact details of project officer
  - Deadline for the submission of the first version of Annex I and the „Grant Preparation Forms“ (GPFs)
  - Date for negotiation meeting in Brussels or Luxembourg if requested
  - Possibly deadline for the finalisation of contract negotiations
Contract negotiation – start

To do before the first negotiation meeting (between the consortium partners):

- Define roles of all partners and coordination structure
- Agree on start date
- Clarify need for subcontracts and inclusion of new beneficiaries at a later stage
- Elaborate draft consortium agreement and other agreements that might be needed during implementation
- Clarify method for cost calculation of all beneficiaries (coordinator should provide background information to the consortium)
- Provide partners with relevant financial and legal information (depending on COM requirements as laid down in the guidelines)

Checklist – Start of negotiations

To do before the first negotiation meeting (consortium – Commission via the coordinator):

- Compile first draft of Annex I (including Annexes if any)
- Compile first draft of GPFs
- Send Annex I and GPFs to project officer

Checklist – negotiation meeting

- Discussion of draft Annex I based on:
  - Comments stated in ESR
  - Questions arising in connection with the guidelines
  - Questions relating to individual parts of Annex I
- Clarification of financial and legal aspects:
  - Financial basis und cost calculation methods of individual partners
  - Additional documentation to be provided
  - Details of Grant Preparation Forms
  - Questions relating to subcontracts etc.
- Project start date and reporting periods
- Information on subsequent deadlines and schedule (updates of Annex I and GPFs; more meetings)

COM sends meeting minutes to coordinator
2. DESCRIPTION OF WORK (DOW OR ANNEX I)

The Annex I is not a copy and paste of the proposal part B.
- The Annex I should focus on describing the work to be done.
- The Annex I should be concise, as little verbiage and as little redundant as possible.
- The Annex I should contain quantifiable progress measures and evaluation schemes.
- The deliverables/milestones described in the Annex I should provide clear progress indicators in synchronization with the milestones and the review processes.
- The availability (and expertise) of the relevant key personnel should be established.
- The draft version provided on 29/06/2007 is a good attempt to address issues raised in the negotiation mandate and follows the Annex I contractual structure.

Checklist – Project start date

The start date of project can be defined by the consortium (also retroactively)
- If you agree on a retroactive start date, which is independent of the signature of the Grant agreement, keep in mind that:
  - Hiring of personnel will take some time
  - Many institutions require the Grant Agreement to be signed, before any related working contracts can be signed
  - There will be no pre-financing before the Grant Agreement is signed
- This can lead to delays in starting the project work

Legal Financial Viability check

- Check is carried out at the beginning of the contract negotiations
- Commission rules on the verification of existence, legal status and financial capacity of participants to be adopted
- Legal validation of all participants
- Information if legal data is needed:
- Information if financial data is needed:
Legal Financial Viability check

Contract negotiations

Grant Preparation Forms (GPF) - overview

- A1 – Project summary Coordinator
- A2.1 – Who we are: legal entity data All partners
- A2.2 – Who we are: type of organisation All partners
- A2.3 – Authorised representatives All partners
- A2.4 – How to contact us All partners
- A2.5 – Our commitment Coordinator
- A2.6 – Data protection & coordination role Coordinator
- A3.1 – What it costs - Budget per partner All partners
- A3.2 – What it costs - Overall budget Automatic
- A4 – Bank account: details of coordinating institution Coordinator
- A5 – Reporting periods: Budget per reporting period Coordinator

Grant Preparation Forms (GPF) - editors

- Use of two different electronic tools for projects resulting from the first calls in FP7:
  - NEF
    - GPF editor (very similar to CPF editor used under FP6)
    - NEF will be the standard tool in the future in combination with EPSS
    - NEF editor was used by the ICT unit for the first call only
    - So far NEF displays shortcomings (no export/import function), whereas the GPF editor works smoothly
    - Minor deviations in level of detail of requested information
Project officer sends pre-filled GPF file or login data to coordinator.
Coordinator is responsible for the collection of partner information.
Processing of data depends on tool:
- GPF editor: Automated import of administrative data; manual input of financial data.
- NEF: Both administrative and financial to be inserted manually.
As soon as the admin information is correct and complete and the budget distribution is considered final, all partners sign their A2.5 forms; the coordinator signs also A4 and A2.6 forms.
The coordinator sends the documentation to the Commission.
Contract negotiations

- Revise Annex I carefully and make sure that your partners have understood and accepted the contents (scheduling of deliverables, budget plan…)
- Establish a good relationship to your project officer from the very start (stay in contact, ask questions)
- Use the negotiation meeting in order to clarify unclear or open issues – important decisions should be documented in the meeting minutes (these are provided by the COM)
- Use the contract negotiations for teambuilding in the consortium – develop and consolidate work flows and relationships
- Make sure your partners are aware of all relevant rules (general participation rules, IPR, cost calculation…)

Contract negotiations best practice for partners

- Check the different versions of Annex I thoroughly and make sure that your share of work and budget share are correct
- Submit any requested information and documentation to the coordinator within the specified time-frame and in good quality
- Make sure that your role in the consortium is clear and adequate – if not, clarify with the coordinator and other partners concerned
- Set up an internal budget plan covering the whole project period, possibly with the help of your financial department
- Make yourself familiar with the rules of participation – ask questions to the coordinator
Contract negotiations – general legal framework

- EC Treaty
- Decision 1982/2006/EC
- FP7
- Regulation 1906/2006 = Rules for Participation
- EC Model Grant Agreement
- Consortium Agreement
- Financial guidelines
- IPR guidelines

Contract negotiations – preparation of contracts

- Model Grant Agreement
  - Concluded between Commission and Coordinator
  - Beneficiaries accede to the Grant Agreement by signing Form A
  - Only project-related parts of the Grant Agreement can be negotiated (e.g. start date)
- Consortium agreement
  - Between the beneficiaries of a consortium
  - Recommended for all projects, compulsory for many areas
  - Signed usually before signature of the Grant Agreement or shortly afterwards (depending on Commission requirements)
  - In general: the sooner, the better
  - Consortium partners agree on individual provisions

Model Grant Agreement - integral parts

- The core text of the model grant agreement
- Annex I - Description of Work
- Annex II - General conditions
- Annex III - Special conditions, per funding scheme
- Annex IV - Form A – Accession of beneficiaries to the grant agreement
- Annex V - Form B – Request for accession of a new beneficiary to the grant agreement
- Annex VI - Form C – Financial statement (declaration of costs) per funding scheme
- Annex VII - Form D – Terms of reference for the certificate on the financial statements - report of the auditor (external or internal) on the certification of the costs (audit certificate)
- Form E - Terms of reference for the certificate on the methodology;
Model Grant Agreement – reference documentation

- Annex II – General Conditions
  - Contains detailed provisions relating to the implementation of projects (eligibility of costs, reporting, payment schedule)
  - Answers many questions partners usually have during the implementation of a project
  - The Commission is also bound by the provisions
- Annex I – Technical Annex
  - Work programme of the project, which is developed on the basis of proposal part B during the contract negotiations
  - The consortium commits itself to the contents and has to fulfil the described tasks accordingly (Deliverables)
  - A well-structured and sound TA is the basis for a successful project implementation

Model Grant Agreement – accession form

- Partners have to accede to the Grant Agreement according to the following provisions:

Article 1 - Accession to the grant agreement of the other beneficiaries

1. The consortium shall endeavour to ensure that each legal entity identified below accedes to the grant agreement as a beneficiary, assuming the rights and obligations established by the grant agreement with effect from the date on which the grant agreement enters into force, by signing Form A in three original copies attached by the coordinator.

- Make sure that only the mentioned signatories sign the Accession forms!
- Don’t forget to stamp the three originals

Model Grant Agreement – accession form

- [Text continues]
Consortium agreement - general

- Additional agreement which details the more general rules of the EC Grant Agreement
- The conclusion of a CA is compulsory for the majority of collaborative projects
- Legal basis:
  - Grant Agreement (+ Annexes)
  - Rules of participation
- CA must not be contradictory to the provisions of the Grant Agreement
- There is no mandatory model provided by the Commission, but only a checklist:
- The coordinator of a project is supposed to provide a draft agreement and to coordinate the negotiation and signature of the agreement

Consortium agreement – available models

- Different sector interest groups of industry, academia and research organisations have developed several models (based on FP6 models):
  - DESCa by academia, research organisations and interest groups of industry
    - http://www.earto.org/DESCa/descahome.htm
  - IPCA by ICT and Telecom industries (EICTA)
  - EU-Car by the automotive industries
  - IMG by the aerospace industries

Consortium agreement – contents

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<th>Title</th>
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<td>List of Third Parties, List of Third Parties to which transfer of Foregone assets without prior notice to the other Beneficiaries</td>
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<td>Agreement for the Transfer of Material</td>
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Consortium agreement – tips for coordinators

- Use the document as an instrument to shape and control your project.
- Level of detail should be appropriate, i.e. over-regulation vs. loopholes.
- The interests and rights of both universities and companies should be taken into account in an adequate manner.
- Agree on the model to be used at an early stage and adapt the management structure to your project.
- Be careful when modifying the model used – changes in individual provisions may lead to inconsistencies.
- Mark changes in the draft.

Consortium agreement – tips for partners

- Scientific project leaders should read the consortium agreement, as individual provisions may be acceptable from a legal point of view, but potentially lead to organisational problems.
- Scientific project leaders should forward the consortium agreement drafts to their legal departments immediately.

Some relevant legal aspects

Important legal aspects of an EU project:
- IPR issues
- Liability
IPR issues – when to deal with them?

At all stages!
- Defining project-related know-how
- Defining IP-protected areas
- Negotiating a CA
- Proposal preparation, incl. PUDK – Plan for the Use and Dissemination of Foreground

Before project start
- Strategy for protection & management of foreground
- Granting of access rights

During project implementation
- Dissemination & Exploitation of results
- Protection of generated IP

After project end

IPR issues – definitions

Background
- Information, databases, copyright and related IPR that is held by participants prior to joining the grant agreement
- Information & IPR which is needed for carrying out the indirect action or for using the results of the indirect action
- Remains the property of the owner

Foreground
- All results, information, material, knowledge generated in EC-funded project
- Includes unprotected know-how (e.g. confidential material)
- Foreground is owned by the participant who generated it
- Sole Ownership
- Important: Keep laboratory notebooks to prove ownership
- Clarification of whether or not the employees’ invention will become applicable

IPR issues – Basic Access rights in FP7

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<td>Unless otherwise agreed</td>
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<td>Before acceding to the grant agreement</td>
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<tr>
<td>For use purposes (exploitation + further research)</td>
<td>Either royalty-free, or on fair and reasonable conditions to be agreed</td>
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**IPR issues – Basic Access rights in FP7**

**Access rights to foreground**

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**Liability – general rules & guarantee fund**

- In FP7 beneficiaries have only technical liability
- Financial liability - Guarantee fund: Commission retains certain amount for non-recoverable debts caused by beneficiaries
  - Participant contribution of 5% is retained for ALL projects
  - Upon completion of the projects the money is returned to the participants – depending on the performance of all projects
- No more bank guarantee requests by the Commission!
- The interest generated from the guarantee fund is used to cover debts
  - If the interest generated is not sufficient to cover the debts, 1% of the EC contribution from participants other than public bodies will be retained

**Liability – guarantee fund**

- EC retains 5% of the EC contribution from all consortia
- 5% of funding retained is returned to all entities
- Project complete
- Cover defaulting partners
- Sufficient interest generated
- Guarantee fund
- Interest
Liability – guarantee fund

- EC retains 5% of the EC contribution from all consortia
- 4% to companies
- Up to 1% is used to cover debts

Project complete

Cover defaulting partners

Insufficient Interest generated

Guarantee fund

Interest

Financial Regulations – recap and update

Contents
- Basic principles
- Eligible costs / Reimbursement rates
- Full cost calculation / overhead calculation
- Other funding schemes
- Payments
- Auditing
- Financial management

Financial Regulations – basic principles

- Co-financing principle
- Introduction of Full Cost Accounting for all participating institutions/annulment of cost models:
  - Each participant can charge all of their direct and indirect costs to the project (including permanent staff)
  - Indirect costs: choice between actual indirect costs and lump-sum
  - Research activities at universities will no longer be funded at 100%
- Forms of financial aid:
  - Reimbursement of eligible costs (preferred)
  - Lump-sum amounts
  - Flat-rate financing
Abolition of the Additional Cost (AC) model

- AC model was considered as interim solution already in FP6.
- Was based on the hypothesis that the so-called additional costs correspond to ±50% of the direct eligible project costs.
- Caused inequality between participants and concealed the actual costs of R&D activities.
- Commission was forced by EU subsidy regulations to abolish this kind of funding scheme.

Dr. Sebastian Winkler - DG Research/EC, German Workshop on FP7, Bonn, 19.11.07

Allocation of costs for activities

- Determine reimbursement rates.
- RTD – Research and technological development.
- Management:
  - Costs for audit certificates.
  - Management of legal, ethical, administrative and financial aspects at the consortium level.
  - Calls for additional participants.
  - The scientific-technical coordination of the project is usually classified as RTD activity.
- Other activities:
  - Training.
  - Networking.
  - Dissemination activities (including publications).
- Demonstration activities – Proof of the commercial feasibility of new technologies, e.g. tests of prototypes that are close to market introduction.

Reimbursement rates

<table>
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<tr>
<th>Category</th>
<th>Non-profit public bodies, higher education establishments, research organisations SME</th>
<th>Large companies and other organisations</th>
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<tbody>
<tr>
<td>Research and technological development or innovation activities</td>
<td>75%</td>
<td>50%</td>
</tr>
<tr>
<td>Demonstration activities</td>
<td>75%</td>
<td>50%</td>
</tr>
<tr>
<td>Training Activities, THC-Issues</td>
<td>75%</td>
<td>50%</td>
</tr>
<tr>
<td>Management activities</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Coordination and support actions</td>
<td>50%</td>
<td>50%</td>
</tr>
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</table>
Eligible costs
The following costs are deemed eligible:

- Actual
- Incurred during the project
- Determined according to usual accounting and management practices, consistent with the principles of efficiency and effectiveness
- Directly linked to the objectives of the project and the execution of the work as defined in the grant agreement
- Recorded in the accounts of the beneficiary and verifiable

Eligible costs - explanations
- “actual costs” – actually incurred, no estimations, budgeted or average costs
  
  Exception: Average costs for personnel
- “incurred during the project” – Costs which are generated before the start date or after the end date of the project are not eligible
  
  Exception: depreciation costs for equipment purchased before the start of the project
- Costs for the set-up of the final report (until 60 days after the end of the project)
- “determined according to usual accounting practices of the participant” – no regulations specially „invented“ for EU-projects
- “economic and used for the sole purpose of achieving the objectives of the project” – necessary for the project implementation and justifiable on the basis of the workplan

Types of costs

- Differentiation between Direct Costs and Indirect Costs (Overhead)
- Direct costs: all documented financial expenditures that can be directly linked to the project, for example:
  - Personnel costs
  - Travel costs/attending conferences/organising project meetings
  - Consumables (software, among others)
  - Equipment/investments
  - Printing costs for project brochures, etc.
  - Patent research
  - Subcontracts
  - Organisation of workshops

- Indirect costs: the following costs are deemed ineligible:
  - Identifiable indirect taxes including VAT (except airport taxes)
  - Debts or interest from debts
  - Exchange losses and other losses
  - Costs declared, incurred or reimbursed with respect to another Community project
  - Debt service charges
  - Excessive or reckless expenditures

Financial Regulations
Types of costs – indirect costs

- Expenditures that are not directly attributable to the work in the project but are necessary to support it (e.g. rent, power and heating, telephone and copying costs, etc.)
- Reimbursement options
  - Actual indirect costs (or Simplified method)
  - Lump-sum - 20% of all direct costs excluding subcontracting (available for all participants)

Reimbursement options

- Actual indirect costs (or Simplified method)
- Lump-sum - 20% of all direct costs excluding subcontracting (available for all participants)

Special Transitional Flatrate

- An interim solution for higher education institutions, research organisations and SME which are unable to define with certainty their indirect costs
- 60% of all indirect costs (except costs for subcontracting)
- This percentage is only valid for projects resulting from calls dated before 2009. For calls from 2010 a reduced percentage will be fixed by the EC (probably 40%)

Implementation of analytical accounting / full cost calculation *

- No single definition from the academic point of view. As far as FP7 rules are concerned, at least these two elements must be present:
  - The system can identify and group their indirect costs (pool of costs) in accordance with the eligibility criteria (e.g. exclude non-eligible costs)
  - A fair and reliable cost driver to allocate indirect cost from the pool of costs into the different projects.
- Whatever the method of calculation is, it must be in accordance with normal accounting practices and should be extracted from or reconciled with the official accounts
- Current situation in Croatia: ongoing discussion among Science Managers

* taken from a presentation of Jennifer Mary Kursan - Legal & Finance NCP for Croatia
Definition of actual indirect costs – Simplified Method

Participants can apply „simplified method“ to calculate its indirect costs (in accordance with its usual accounting and management practices).

- Provided above all for participants without full analytical accounting system
- Is meant to facilitate transition towards full cost calculation.
- Simplified ≠ simple...
  - Accounting system allows to identify and group the indirect costs in accordance with the eligibility criteria (e.g. exclude non-eligible costs)
  - A fair and reliable cost driver is used for allocation of indirect cost
  - „Simplified“ implies (inter alia) that calculation of indirect costs is done on institution level (instead of each department/faculty)

Æ The exact requirements for this method are not fully clear yet

Other funding schemes - Coordination and Support Actions

- No funding for R&D activities
- Conferences, series of workshops, studies
- Eligible costs can be funded at 100% by the EC
- Indirect costs (OV) can only claimed as a lump-sum of 7% of all direct costs (except subcontracting)

Other funding schemes – People Programme - MarieCurie-Networks

- Eligible expenses for the activities carried out by the young researchers
  - Monthly allowances (living and mobility)
  - Annual travel allowance
  - Career exploratory allowance (one-off)
  - Contribution to cover the costs related to the activities of the researchers, e.g. lab costs (managed by the host institution)
- Eligible expenses for the activities carried out by the host institution
  - Flat-rate for training and networking activities
  - Flat-rate for the organisation of international workshops, conferences or similar events
  - Reimbursement of costs for management activities (up to 7% of the total funding budget)
- Max. 10% overhead on direct costs
Payments – Cash flow

- **Pre-financing:**
  - 45 days after the entry into force of the grant agreement, as soon as a certain number of partners have acceded to the agreement
  - Amount should correspond to 160% of the average EU-funding per reporting period, can also be discussed during contract negotiations
  - Is fixed in Art. 6 of the grant agreement
- **Interim payments,** based on the amount of accepted costs of the past reporting period
- Before the end of the project pre-financing and interim payment taken together must not exceed 90% of the total max. funding for the project (“ceiling”)
- **Final payment:** after acceptance of final report / at least 15% of total funding (10% retention due to ceiling + 5% contribution to guarantee fund)

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Payments – Cash flow - Example

- **Funding:** EUR 3,000,000 / Project duration: 3 Years
  - Max. Payments during project (90%) 2.700.000
  - Pre-financing (theoretical) 1.600.000
  - Contribution to guarantee fund (5%) 150.000
  - Pre-financing (actual) 1.450.000
  - Funding accepted by EC for the 1st reporting period 900.000
  - 1st Interim payment 900.000
  - Funding accepted by EC for the 2nd reporting period 900.000
  - 2nd Interim payment (considering “ceiling”)
    - (2.700.000 - (1.600.000 + 900.000)) 200.000
  - Funding accepted by EC for the 3rd reporting period 1.200.000
  - Final payment 300.000
  - (3.000.000 - (1.600.000 + 900.000 + 200.000))
  - Return guarantee fund 150.000

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Auditing – certification of financial reports

- “Certificate on the financial statements (CFS)” – see Annex VII to the grant agreement
- Certifies the eligibility of submitted costs
- Created by an external auditor or internal auditing unit
- Is required only for funding to the amount of at least €375,000 that has yet to be certified
- Total funding equalling less than €375,000 must be not certified!
- Projects lasting 2 years or less only require an audit certificate at the end of the project (if total funding equals €375,000 or more)
- Individual regulations may be agreed upon for single projects and will be discussed during contract negotiations
Auditing – EC policy

- Complementing the certification of submitted costs EC can also initiate external audits
- Number of these audits will increase in FP7 (from 10% to 40% of the funding budget paid out)
- Who will be audited?
  - Large organisations (participants receiving the largest amounts of grants)
  - Other institutions, selected at random, according to representative factors
  - Some potentially high-risk organisations (selected on a risk-based sample, based on indications and/or suspicions from the Commission’s Project Officers).
- 400 audits are planned for 2008 (mostly FP6 project)
- Additionally, also the European Court of Auditors can initiate audits and will do so more often in the future

see http://cordis.europa.eu/audit-certification/home_en.html

Financial management – some practical advice for project partners

- Project account/budget records for the project should always be up to date
- Time records have to correspond to personnel costs booked on the project, and they should be
  - updated up monthly,
  - organised centrally for the department.
- Transferring budget between cost categories, project partners and reporting periods is possible!
- In case major budget shifts are required inform the coordinator and provide him/her with updated budget plan and justifications
- In case of doubts with regard to eligibility of costs, ask the coordinator or the EC project officer (via the coordinator)
- Get them to provide you with a written confirmation of the eligibility of these costs and keep that with your budget documentation

Thanks For Your Attention!

Further Information
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