GUIDELINES TO FINANCIAL REPORTING

for Coordinators and Beneficiaries of the COSME Grant Agreements (2014-2020)

February 2016

Disclaimer
This document is aimed at assisting the beneficiaries who have signed the grant agreement. It is provided for information purposes only and its content is not intended to replace consultation of any applicable legal sources or the necessary advice of a legal expert, where appropriate. Neither the Commission, nor the Executive Agency for Small and Medium-sized Enterprises, nor any person acting on its behalf can be held responsible for the use made of these guidance notes.
**Introduction**

The Financial Guidelines have been prepared to help coordinators and beneficiaries (hereafter referred to as “the beneficiaries”) to understand the financial provisions of the grant agreements awarded and signed following the Call for Proposals related to the COSME Programme (2014-2020). Beneficiaries should read the guidelines carefully together with their signed grant agreement and its general terms and conditions.

The purpose of this document is to help beneficiaries understand and interpret the financial and legal provisions of the grant agreement (GA) they have signed. To this end, the text in the Financial Guidelines seeks to explain the definition of the technical vocabulary used whilst providing the reader with practical advices.

This guide concentrates mainly on the different aspects of costs incurred during the action of the GA, types of costs, i.e. eligible versus ineligible costs, and the different eligible cost categories, whilst providing explanation for each of the aspects mentioned above. The objective is to provide the beneficiaries with a reference to the different situations that may arise when dealing with costs allocation.

If the present guidelines conflict with the provisions of the grant agreement, the latter shall prevail.

**A short word on accounting practices**

All beneficiaries must keep proper accounts and supporting documents to justify each single cost incurred and generated by the action. Original documents and records must be kept in an appropriate medium that safeguards its integrity for five years after the date of payment of the balance of the European Union contribution. Evidence of costs, explanations and justifications must be readily available for inspection by the EASME and/or the European Commission and their authorised representatives, as well as by the European Anti-fraud Office (OLAF) and the European Court of Auditors.
An overview of cost reimbursement

Funding is based on cost-sharing grant agreements. This means that for each project, the EASME contributes up to a certain percentage of the total eligible costs incurred by the beneficiaries for the implementation of the action as defined in Annex 1 of the GA.

The common types of costs, as defined below, are Direct Costs and Indirect Costs. The direct costs are identifiable as specific costs directly linked to performance of the action and belong exclusively to the cost categories defined below in the heading "Eligible Direct Costs".

The indirect costs incurred in carrying out an action are eligible, if they are declared on the basis of the flat rate of 7% of the eligible direct costs of the GA, from which financial support to Third Parties is excluded. The indirect costs do not need to be supported by accounting documents.

1. What are eligible costs?

To be eligible for European Union funding, costs must satisfy the following criteria.

For Actual Costs:
- they must be actually incurred by the beneficiaries
- they must be incurred in the period set out in Article 3 of the GA, with the exception of costs relating to the submission of the final report (see Articles 6.1(a)(ii) and 15 of the GA);
- they must be indicated in the estimated budget set out in Annex 2 to the GA;
- they must be incurred in connection with the action as described in Annex 1 to the GA and necessary for its implementation;
- they must be identifiable and verifiable, in particular recorded in the beneficiary’s accounts in accordance with the accounting standards applicable in the country where the beneficiary is established and with the beneficiary’s usual cost accounting practices (see Article 6.1(a)(v) of the GA)
- they must comply with the applicable national law on taxes, labour and social security, and
- they must be reasonable, justified and must comply with the principle of sound financial management, in particular regarding economy and efficiency;

For Flat-rate Costs:
- they must be calculated by applying the flat-rate set out in Annex 2 to the GA, and
- the costs (actual costs or unit costs) to which the flat-rate is applied must comply with the conditions for eligibility set out in the GA.

For Unit Costs (if applicable):
- they must be calculated as follows:
{amounts per unit set out in Annex 2a to the GA or calculated by the beneficiary in accordance with its usual cost accounting practices (see Article 6.1, point b)}

multiplied by

the number of actual units;}

- the number of actual units must comply with the following conditions:
  - the units must be actually used or produced in the period set out in Article 3 of the GA;
  - the units must be necessary for implementing the specific action or produced by it, and
  - the number of units must be identifiable and verifiable, in particular supported by records and documentation (see Article 6.1(b) of the GA);

**Actual costs as opposed to budgeted costs**

The estimated eligible costs foreseen in Annex 2 are used to establish a budget proposal, and therefore for fixing the maximum grant amount, but they are or may be different from actual/real costs. Once the project has started, **only actual incurred costs** can be declared as eligible costs and claimed for reimbursement. Differences between actual and budgeted costs will be indicated in the final financial statement as a variance between budgeted costs and the actual costs in the relevant cost category.

**Eligible cost categories**

Eligible costs must be split in direct and indirect costs. For financial reporting purpose, the financial statements template must be used. They have to be allocated to the cost categories as follows:

<table>
<thead>
<tr>
<th>Direct Costs</th>
<th>Indirect Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel (or Staff) Costs</td>
<td>Eligible indirect costs</td>
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<td>Subcontracting</td>
<td>Eligible indirect costs</td>
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<tr>
<td>Other Direct Costs (including travel, depreciation)</td>
<td>Eligible indirect costs</td>
</tr>
<tr>
<td>Financial Support to Third Parties</td>
<td><strong>Non eligible</strong> indirect costs</td>
</tr>
</tbody>
</table>

**2. What are not eligible costs?**

Any costs that do not satisfy one of the criteria listed above for eligible costs.
In addition, the following costs are specifically not eligible:

- Costs related to return on capital;
- Debt and debt service charges;
- Provision for future losses or debts;
- Interest owed;
- Doubtful debts;
- Currency exchange losses;
- Deductible VAT;
- Costs declared by a beneficiary under another EU or Euratom grant (including grants awarded by a Member State and financed from the EU or Euratom budget and grants awarded by other bodies than the Agency for the purpose of implementing the EU or Euratom budget); in particular, indirect costs if the beneficiary already receives an operating grant financed from the EU or Euratom budget during the same period;
- Excessive or reckless expenditure;
- Costs incurred during suspension of the implementation of the action (see Article 33 GA);
- Bank costs charged by the beneficiary’s bank for transfers from the Agency;
- In-kind contributions provided by third parties;
- Costs for staff of a national (or local) administration, for activities that are part of the administration’s normal activities (i.e. not undertaken only because of the grant);
- Costs (especially travel and subsistence costs) for staff or representatives of EU institutions, bodies or agencies.

3. Eligible Direct Costs

3.1. PERSONNEL

3.1.1. Definition

Personnel costs are eligible, if they are related to personnel working for the beneficiary under a written employment contract (or equivalent appointing act) and assigned to the action (‘costs for employees (or equivalent)’). They must be limited to salaries (including during parental leave), social security contributions, taxes and other costs included in the remuneration, if they arise from national law or the employment contract (or equivalent appointing act).

Beneficiaries may also declare as personnel costs additional remuneration for personnel assigned to the action (including payments on the basis of supplementary contracts regardless of their nature), if:
(a) it is part of the beneficiary’s usual remuneration practices and is paid in a consistent manner whenever the same kind of work or expertise is required;
(b) the criteria used to calculate the supplementary payments are objective and generally applied by the beneficiary, regardless of the source of funding used.

By definition, personnel include permanent and temporary staff registered in the payroll system of a beneficiary whose costs are accounted for as staff costs.

Such persons must be:
- directly employed by the beneficiary in accordance with its national law;
- under the beneficiary’s sole technical supervision (in essence the technical output must belong to the beneficiary);
- remunerated in accordance with the normal practices of the beneficiary;

The costs for **natural persons working under a direct contract** with the beneficiary other than an employment contract or **seconded by a third party against payment**¹ are eligible personnel costs, if:
(a) the person works under the beneficiary’s instructions and, unless otherwise agreed with the beneficiary, on the beneficiary’s premises;
(b) the result of the work carried out belongs to the beneficiary, and
(c) the costs are not significantly different from those for personnel performing similar tasks under an employment contract with the beneficiary.

A person employed under a contract with a third intermediary party (e.g. interim, project employment, consultancy’s company) is not considered as personnel of the beneficiary. These are people hired for a limited period who are employed by a third party. The costs borne by the beneficiary must be categorised under subcontracting.

The costs related to trainees (their recruitment and remuneration) are eligible under Other Direct Costs. As the trainees are not in the staff/pay list of the beneficiaries, the prior approval of EASME is necessary so that their costs could be included in the reporting.

### 3.1.2. Timesheets

In order to substantiate the time worked on an existing project (and therefore the eligible costs declared as personnel costs), the beneficiary must show the actual hours worked, with reliable time records (i.e. time-sheets) either on paper or in a computer-based time recording system.

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¹ This category covers the situation whereby an employee or a group of employees is assigned on a temporary basis to work for another organisation different of their current employer.
Time records must be dated and signed at least monthly by the person working for the action and his/her supervisor.

If the time-recording system is computer-based, the signatures may be electronic (i.e. linking the electronic identity data (e.g. a password and user name) to the electronic validation data, with a documented and secure process for managing user rights and an auditable log of all electronic transactions).

Time records should include:
- the title and number of the action, as specified in the GA;
- the beneficiary’s full name, as specified in the GA;
- the full name, date and signature of the person working for the action;
- the number of hours worked/daily for the action in the period covered by the time record;
- the supervisor’s full name and signature;
- a reference to the action tasks or work package described in Annex 1 to the GA, to easily verify that the work carried out matches the work assigned and the person-months reported to the action;
- a brief description of the activities carried out, to understand and show what work was carried out.

Information included in timesheets must match records of annual and sick leave taken, and work-related travel.


As an exception, for persons working exclusively on the action, there is no need to keep time records if the beneficiary signs a declaration confirming that the persons concerned have worked exclusively on the action.

### 3.1.3. Calculations

Personnel costs for employees or equivalent (i.e. persons working for the beneficiary on the basis of an employment contract or equivalent appointing act) cover:

- the basic remuneration (i.e. basic salary and complements) and
- the additional remuneration

for personnel that worked on the action.

What is ‘basic remuneration’ and ‘additional remuneration’ and how to distinguish them?

Basic remuneration refers to the ‘basic salary’ of the employee plus ‘complements’ that fulfil the eligibility conditions explained in point 3.1.3.2.

The basic salary includes (and is limited to):

- the gross salary stated on the beneficiary’s payroll (except for any part of that salary which must be considered as ‘additional remuneration’, even if it that part is also registered in the payroll);
✓ social security contributions (mandatory parts to be paid by the employee and the beneficiary that employs him/her) — except any part included in additional remuneration;

✓ taxes included in the remuneration (e.g. income tax to be paid by the employee retained by the beneficiary who employs him/her) — except any part included in additional remuneration;

✓ other costs included in the remuneration (e.g. a fee paid by the beneficiary for a complementary health insurance scheme for the employee) — except any part included in additional remuneration.

The complements may include:

✓ mandatory complements to the basic salary resulting from national law, collective labour agreement or the employment contract;

Example (mandatory complement): a 13th month payment; complement for hazardous work or night shifts; transportation allowance, etc.

✓ variable complements if they fulfil the eligibility conditions set out in point 3.1.3.1.

By contrast, **additional remuneration** refers to payments made on top of the employee’s usual remuneration, which result in a higher hourly rate.

In order to be eligible, additional remuneration must meet the following specific conditions:

- it is part of the beneficiary’s usual remuneration and is paid in a consistent manner whenever the same kind of work or expertise is required; and

- the criteria used to calculate the supplementary payments are objective and generally applied by the beneficiary, regardless the source of funding used.

Additional remuneration includes not only the extra salary, but also the social security contributions, taxes and other costs included in the remuneration that result from that extra salary.

Example (additional remuneration): a ‘bonus’ for participating in a project; an additional contract for specific tasks with a salary higher than the one under the main contract.

Example (not additional remuneration, but basic remuneration): additional salary paid to the employee for additional hours worked on its standard work or expertise as defined in the employment contract (e.g. overtime or additional contract for those additional hours), if the additional hours are remunerated according to the **standard salary conditions of the employee** (i.e. do not result in a higher hourly rate). Note that the standard salary conditions may provide for a mandatory complement for those additional hours (e.g. overtime).

Thus, the two main features that help characterising a remuneration component as basic or additional are:

- hourly rate (no change to hourly rate would indicate basic remuneration, while a higher hourly rate would indicate generally additional remuneration) and

- kind of work or expertise (usual kind of work or expertise according to the contract or different/additional work or expertise).
In case of doubt, the classification will be made also taking into account the classification of the component under national tax law (i.e. if the tax authorities explicitly consider it as part of the basic remuneration of the employee or as additional remuneration).

3.1.3.1 Costs for employees (or equivalent) must be declared on the basis of:
- either the individual actual personnel costs of each employee participating in the action (the most common case) or
- on the basis of unit costs (if applicable).

It is the basic remuneration that must be used to calculate the hourly rate (see below).

3.1.3.2 The costs for employees (or equivalent) must comply with the following conditions for eligibility:

For basic salary and mandatory complements:
✓ fulfill the general conditions for costs to be eligible (i.e. incurred during the action duration, necessary, etc.; see Article 6.1(a) and (b) of the GA).

Payments of dividends to employees (profit distribution) are ineligible under Article 6.4(a)(i) of the GA. In this respect, any operation related to the earnings or profits of a beneficiary (e.g. allocation of net income to reserves, distribution of dividends) do not entail any costs; dividends are not expenses or costs (thus they will not appear on the profit and loss account), even where distributed to employees. Thus they do not result in any eligible cost.

(However, complements based on the overall financial performance of the organisation (e.g. profitability or surplus) may be accepted as variable complements, if they fulfil the conditions set out below.)

Examples (acceptable):
If the profit of the company at the end of the year is more than X € (or more than X %), each employee will receive a complement of z % of his/her basic remuneration (or a fixed complement of x € more as part of the gross salary).

Examples (not acceptable):
If the profit of the company at the end of the year is more than X € (or more than X %), z % of that profit will be distributed to employees through extra remuneration.
Example (not eligible because linked to fund raising target): A premium paid as a reward for having obtained a specific grant is not eligible.

- be fixed (conditions and amount or percentage) and mandatory according to national law, collective labour agreements or the employment contract.

Example: The employment contract between the entity and the person fixes a gross salary of EUR 3,000 per month plus a transportation allowance of EUR 5 per working day.

- be paid to the employee (or benefit to him/her) for his/her usual work, duties or tasks (as defined in the employment contract/equivalent appointing act). Therefore, they can NOT depend on the participation in a specific action/project.

A ‘payment linked to a specific action/project’ is a payment the employee would not have received if s/he had not participated in the work of the action/project (i.e. the triggering event is the participation in the action/project (e.g. an EU action), not the performance of the tasks defined in the employment contract/equivalent appointing act).

Any part of the remuneration linked to tasks other than those covered by the basic remuneration, in particular amounts triggered by the participation in a specific action/project, are NOT eligible as part of the basic remuneration. (They may however still be eligible as additional remuneration, see below.)

ONLY costs for personnel assigned to the action (i.e. working for the action according to internal written instructions, organisation chart or other documented management decision) can be eligible.

For variable complements (in addition to the first and third conditions above):

- the variable complement is authorised by national law, collective labour agreement or the employment contract/equivalent appointing act.

Examples:

1. The collective labour agreement establishes that all employees may receive a complement between EUR 100 and EUR 200 per month based on their seniority.

2. The national law authorises public organisations to pay a complement based on merit of the employees.

- the amount to be actually paid as variable complement is determined on the basis of objective conditions which are, at least, established and documented in the internal regulations of the beneficiary.

Example: Based on the provisions of the collective labour agreement (see first example above), the internal regulations of the employer provide that: all researchers with seniority between 3 and 5 years will receive a complement of EUR 150 and all researchers with seniority above 5 years will receive a complement of EUR 180.

The variable complement must NOT be paid to the employee at the sole discretion of the manager (arbitrary complement). The decision to grant the complement must be based on objective conditions, which should be documented in a procedure and be verifiable.

Specific cases (direct personnel costs for employees or equivalent):

**Telexworking** — Remuneration costs of employees (or equivalent) not working on the premises of the beneficiary (i.e. teleworking) may be accepted as eligible if it
is the beneficiary's usual practice (i.e. if clear rules are available). The system in place must make it possible to both identify and record the hours worked for the action.

**Benefits in kind** — Costs of benefits in-kind provided by the beneficiary to its personnel (e.g. costs of a company car made available to certain categories of employees for their own use) or of benefits equivalent to financial ones (e.g. costs of lunch vouchers) may be accepted as eligible if they are justified and registered as personnel costs in conformity with the beneficiary's usual remuneration practices. Like all costs, they must fulfil the eligibility conditions set out in Article 6 of the GA.

**Parental leave** — Salaries and social security contributions paid during parental leave (either maternity leave or parental leave) are eligible as part of the basic salary only if:

- they are mandatory under national law, under the relevant collective labour agreement (e.g. statutory maternity pay) or under the employment contract;
- the beneficiary has actually incurred them;
- they are not reimbursed by national (central, regional or local) authorities (i.e. only the net amounts paid by the beneficiary are eligible)

AND

- the employee worked for the action during the financial year used for calculating the personnel costs.

**Costs related to public officials** — For public bodies, the costs related to public officials paid directly from central, regional or local government budgets may be considered eligible, if they relate to the costs of activities which the relevant public authority would not carry out if it did not participate in the project in question, and if they fulfil the conditions set out in Article 6 of the GA (applied to the central, regional or local government employing the public officials).

**Supplementary contracts** — Supplementary contracts (whatever their form, i.e. a contract additional to the main contract between a beneficiary and its employee) for carrying out tasks for specific actions (e.g. international projects) are acceptable, if it is the beneficiary's usual practice and it is authorised under national law. However, the difference between the remuneration paid in the additional contract and the standard remuneration package (basic remuneration) in the first non-action-related contract is considered ‘additional remuneration’. As such it is subject to the specific cost eligibility conditions explained above for additional remuneration.

3.1.3.3 Annual productive hours

The annual personnel costs may include only eligible personnel costs and must exclude eligible additional remuneration (since that will be added at the end).

For calculating the annual productive hours, the beneficiary must use one of the following three options:

- 1 720 hours for persons working full time (or corresponding pro-rata for persons not working full time) (‘1720 fixed hours’);
- the total number of hours worked by the person in the year for the beneficiary (‘individual annual productive hours’);
the ‘standard number of annual hours’ generally applied by the beneficiary for its personnel in accordance with its usual cost accounting practices (‘standard annual productive hours’). This number must be at least 90% of the standard annual workable hours.

The option must be applied not only to the person for whom the beneficiary declares costs, but per group of personnel employed under similar conditions.

Productive hours must be calculated on the basis of all working activities; using only ‘billable hours’ is NOT acceptable.

3.1.3.4. Personnel costs on the basis of the usual cost accounting practices

For personnel costs declared on the basis of the beneficiary's usual cost accounting practices (i.e. ‘average personnel costs’), the hourly rate must be calculated in accordance with the beneficiary's usual cost accounting practices for determining the hourly rates of its personnel.

The GA sets the following conditions:
- the cost accounting practices used must be applied in a consistent manner, based on objective criteria, regardless of the source of funding. The beneficiary must consistently apply its usual cost accounting practices, based on objective criteria that must be verifiable if there is an audit. It must do this no matter who is funding the action.

This does not mean that cost accounting practices must be the same for all types of employees, departments or cost centres of the beneficiary. If, for instance, the beneficiary's usual cost accounting practices include different calculation methods for permanent personnel and temporary personnel, this is acceptable. However, the beneficiary cannot use different methods for specific research actions or projects on an ad-hoc basis.

Example (acceptable usual cost accounting practices): Individual (actual) personnel costs are used for researchers, average personnel costs (unit costs calculated in accordance with the beneficiary's usual cost accounting practices) are used for technical support staff (as long as the cost for this kind of staff is not covered by the indirect costs).

Example (unacceptable usual cost accounting practices): Average personnel costs are used to calculate costs in externally-funded projects only.

- the hourly rate must be calculated using the actual personnel costs recorded in the beneficiary’s accounts, excluding any ineligible cost or costs already included in other budget categories.

Any cost considered ineligible by the Agency but included in the beneficiary’s usual accounting practices must be excluded when calculating the personnel costs for the action.

and

- the hourly rate is calculated using the number of annual productive hours (see above).

3.1.3.5. Direct personnel costs: Costs for natural persons working under a direct contract
This budget category covers typically the costs for in-house consultants and similar persons that worked on the action (i.e. self-employed natural persons working part-time or full-time for the action under a contract which is not governed by labour law; this does not apply to contract with companies).

The costs must comply with the following conditions for eligibility:

- fulfil the general conditions for costs to be eligible (i.e. incurred/used during the action duration, necessary, linked to the action, etc.; see Article 6.1(a) and (b) of the GA);
- there must be a direct contract between the natural person (individual) and the beneficiary.
- the person must work under the beneficiary's instructions and, unless otherwise agreed with the beneficiary through a teleworking agreement, on the beneficiary's premises;
- It must be the beneficiary who decides on, designs and supervises all work. The consultant must report to the beneficiary;
- the result of the work carried out must belong to the beneficiary.
- not be significantly different from costs for personnel performing similar tasks under an employment contract with the beneficiary.

The remuneration must be based on working hours, rather than on delivering specific outputs/products. This implies that the beneficiary must keep records of the hours worked by the person concerned for the action (e.g. time-sheets).

Cost of natural persons working under a direct contract for a beneficiary must be calculated according to the same formula as the one explained above (i.e. hourly rate multiplied by the number of actual hours worked on the action).

However, the hourly rate is calculated differently (since it is not based on the annual personnel costs as registered on the payroll).

For the hourly rate, the beneficiary must use one of the following options:
- if the contract specifies an hourly rate: this hourly rate must be used;
- if the contract states a fixed amount for the services of the natural person and the number of hours to be worked: this global amount must be divided by the number of hours to be worked for the beneficiary under that contract.

If the contract fixes only a global amount and does not specify the time to be worked, the costs can NOT be declared as personnel costs, but may be eligible as purchase of a service (see Article 9 of the GA) or a subcontract (see Article 10 of the GA).

3.1.3.6. Direct personnel costs: Costs for persons seconded by a third party against payment

This budget category covers the costs of persons that worked on the action and that were seconded by a third party.

The costs must comply with the following conditions for eligibility:

- fulfil the general conditions for costs to be eligible (i.e. incurred/used during the action duration, necessary to the action, etc.; see Article 6.1(a) and (b) of the GA)
- the person must be seconded.

‘Seconded’ means the temporary transfer of personnel from a third party to the beneficiary. The seconded person is still paid and employed by the third party, but works for the beneficiary. S/he is at the disposal of the beneficiary.

A secondment does not necessarily require the seconded person to work at the beneficiary's premises, although this is what usually happens.

- the beneficiary must reimburse the real costs incurred by the third party (i.e. not with profit).

### 3.2. SUBCONTRACTING

The procedure concerning the award of subcontracts is described in the Art. 10 of the GA.

If necessary to implement the action, the beneficiaries may award subcontracts covering the implementation of certain tasks described in the Annex 1 to the GA, ensuring the best value for money or, if appropriate, the lowest price. In doing so, they must avoid any conflict of interests.

The tasks to be implemented and the estimated cost for each subcontract must be set out in Annex 1 to the GA and the total estimated costs of subcontracting per beneficiary must be set out in Annex 2 to the GA. The Agency may however approve subcontracts not set out in Annexes 1 and 2 to the GA without amendment (see Article 10 of the GA), if:

- they are specifically justified in the final technical report, and
- they do not entail changes to the GA which would call into question the decision awarding the specific grant or breach the principle of equal treatment of applicants.

Approval will NOT be granted if the subcontract risks to substantially change the nature of the project (i.e. there is a doubt whether the project is still (in substance) the same as the one that was selected or whether the beneficiary has still the operational capacity to carry out the action).

If costs related to subcontracting are charged to the project, the beneficiary should be able to prove that the principles of procurements have been respected when awarding the contract: namely transparency, equal treatment and best value for money.

Before awarding any subcontracting that was not foreseen in the GA, EASME Project Officer/Advisor needs to be consulted.

#### 3.2.1 Characteristics of subcontracting

- Based on 'business conditions': This means that the subcontractor charges a price, which usually includes a profit;

- Subcontractor works without the direct supervision of the beneficiary and is not hierarchically subordinate to the beneficiary;

- Subcontractor's motivation is pecuniary. The subcontractor is paid by the beneficiary in exchange for its work;

- Responsibility towards the EU for the subcontracted work lies fully with the beneficiary;
The beneficiary remains responsible for all its rights and obligations under the GA, including the tasks carried out by a subcontractor.

Subcontracts should in particular foresee that intellectual property generated by a subcontractor reverts to the beneficiary (so that it can meet its obligations towards the other beneficiaries in the GA and respect the other obligations of the GA).

- Subcontractor has no rights or obligations towards the Commission/Agency (except what is detailed in sections 3.2.4 and 3.2.5 below) or the other beneficiaries (it has no contractual relation with them);

Only limited parts of the action may be subcontracted.

### 3.2.2 Additional eligibility condition: Best value-for-money or lowest price

The beneficiaries must base their subcontracts on the ‘best value-for-money’ considering the quality of the service proposed (also called ‘best price-quality ratio’) or on the lowest price.

This requirement is the mere application of the general cost eligibility condition set out in Article 6.1(a)(vii) of the GA (i.e. that costs must be reasonable and comply with the principle of sound financial management).

The best value-for-money principle does not require competitive selection procedures in all cases. (However, if a beneficiary did not request several offers, it must demonstrate how best value-for-money was ensured.)

For the best price-quality ratio, price is an essential aspect (together with quality criteria, such as technical quality, etc.), but it is not automatically necessary to select the offer with the lowest price. (Selecting the lowest price may however be appropriate for automatic award procedures where the subcontract is awarded to the company that meets the conditions and quotes the lowest price).

In order to provide a good analysis of the price-quality ratio, the criteria defining ‘quality’ must be clear and coherent with the purposes of the action task that is subcontracted.

### 3.2.3 Additional eligibility condition: Tasks set out in Annex 1 — Total estimated costs of subcontracting set out in Annex 2

The tasks to be implemented and the estimated cost for each subcontract must be set out in Annex 1 to the GA.

It is the work (i.e. the action tasks) to be performed by a subcontractor that must be identified in Annex 1 to the GA.

Moreover, it should explain the need for a subcontract, taking into account the specific characteristics of the action.

Additionally, the total estimated costs for subcontracting per beneficiary must appear in the table of estimated costs of Annex 2 to the GA.

New subcontracts — if the need for a subcontract is not foreseen at the moment of the signature of the GA, the coordinator must request an amendment of the GA in order to introduce it in Annexes 1 and 2 to the GA. Approval will NOT be granted if the subcontract risks to substantially change the nature of the project.
3.2.4 Additional eligibility condition: Controls on the subcontractor (by the Commission/Agency, ECA and OLAF) — Evaluation of the impact of the action

The beneficiaries must ensure that the Agency, the Commission, the European Court of Auditors (ECA) and the European Anti-Fraud Office (OLAF) can exercise their rights under Article 17 of the GA also towards their subcontractors. It is the beneficiary's responsibility to ensure that these obligations are accepted by the subcontractor (for example, if they refuse access and the Commission/Agency cannot verify the eligibility of the costs, it will reject them).

They must also ensure that the Commission/Agency has the right to make an evaluation of the impact of the action under Article 18 of the GA.

3.2.5 Other obligation’: Extension of obligations under the GA to subcontractors

The beneficiaries must ensure that the subcontractors comply with certain obligations under the GA.

Obligations that must be extended to subcontractors:
- Avoiding conflicts of interest (see Article 20 of the GA);
- Maintaining confidentiality (see Article 21 of the GA);
- Promoting the action and give visibility to the EU funding (see Article 22 of the GA);
- Liability for damages (see Article 30 of the GA).

Best practice: In order to be able to fulfil this obligation, the beneficiaries should impose contractual arrangements to the subcontractor.

3.2.6 Other obligation’: Compliance with national procurement rules

Beneficiaries that are a ‘contracting authority’ within the meaning of Directive 2004/18/EC (or 2014/24/EU) or ‘contracting entity’ within the meaning of Directive 2004/17/EC (or 2014/25/EU) must comply with the applicable national law on public procurement.

3.3. OTHER DIRECT COSTS

‘Direct costs’ are costs that are directly linked to the action implementation and can therefore be attributed to it directly. They must not include any indirect costs.

3.3.1 Travel costs and related subsistence allowances

Under this heading EASME understands travel and subsistence allowances for staff assigned to the action, provided that they are in line with the beneficiary's usual practices on travel costs.

The travel costs must be in line with the usual travel policy of the beneficiary.
Travel and subsistence costs of subcontractors (including consultants and persons employed under a temporary staffing agreement), if applicable, are to be included in the subcontract.

Travel and subsistence costs of trainees, if applicable, are to be included in the other direct costs.

Travel and subsistence costs of people not belonging to beneficiaries but planned in the GA or approved by Agency Project Officer/Advisor are to be included in the other direct costs.

3.3.2 Depreciation costs

The depreciation costs for equipment, infrastructure or other assets (new or second-hand) as recorded in the beneficiary’s accounts are eligible, if they were purchased in accordance with Article 9.1 of the GA and written off in accordance with international accounting standards and the beneficiary’s usual accounting practices.

Only the part of the equipment’s ‘full capacity’ actually used for the action may be declared (i.e. time used for the action and, in case of shared use, the percentage of actual use for the action).

The costs of renting or leasing equipment, infrastructure or other assets (including related duties, taxes and charges such as non-deductible value added tax (VAT) paid by the beneficiary) are also eligible, if they do not exceed the depreciation costs of similar equipment, infrastructure or assets and do not include any financing fees.

3.3.3 Costs for other goods and services

Costs for other goods and services are eligible, if they are purchased specifically for the action and in accordance with Article 9.1 GA.

Such goods and services include, for instance, consumables and supplies, dissemination (including open access), protection of results, certificates on the financial statements (if they are required by the GA), cost of financial guarantee, translations and publications.

3.4 FINANCIAL SUPPORT TO THIRD PARTIES

This heading is applicable for Erasmus for Young Entrepreneurs actions only.

As defined in the Erasmus for Young Entrepreneurs Implementation Manual for Intermediary Organizations (Quality Manual), new entrepreneurs are paid monthly lump sums for their stay abroad during the relationship with the experienced entrepreneur. A lump sum is defined in Annex 2a to the GA as a global amount deemed to cover all necessary expenses, such as travel, accommodation and subsistence. This amount is paid without any further justification by the new entrepreneur of actual costs incurred.

The new entrepreneur’s Intermediary Organization should gather sufficient evidence that the relationship has taken place and keep a proof of payment of the financial support.
4. Indirect Costs

‘Indirect costs’ are costs that cannot be identified as specific costs directly linked to the performance of the action.

In practice, they are costs whose link to the action cannot be (or has not been) measured directly, but only by means of cost drivers or a proxy (i.e. parameters that apportion the total indirect costs (overheads) among the different activities of the beneficiary).

This budget category covers all costs for the action that are not directly linked to it (see Article 6.2.E of GA).

Indirect costs must be declared on the basis of a flat-rate (see Article 5.2(e) of the GA). In practice, the indirect costs are automatically calculated by the IT system (on the basis of the direct costs).

The costs must comply with the following conditions for eligibility:

➢ fulfil the general conditions for flat-rate costs to be eligible (i.e. costs to which the flat-rate is applied must be eligible, correct calculation etc.; see Article 6.1(c) GA).

They must be calculated by applying a 7% flat-rate to the beneficiary’s eligible direct costs (deducting the financial support to third parties).

However, beneficiaries that receive an operating grant financed by the EU or Euratom budget can NOT declare any indirect costs for the reporting period(s) covered by the operating grant.

Best practice: The beneficiary must inform both the coordinator and the Agency during grant preparation and before submitting financial statements (via ‘My Area’ in the Beneficiary Portal) on the existence of an operating grant covering the reporting period.

‘Operating grants’ are (normally annual) grants given by a separate grant agreement to finance the operation and running costs of an entity (e.g. call COMM-C2/01-2013 under the ‘Europe for Citizens’ programme).

5. Conversion of costs into Euro

According to Art. 15.6 of the GA, for beneficiaries with accounting records in a currency other than the euro, conversion of costs recorded in their accounts should apply one of the following method:

% Daily euro exchange rate is published in the C series of the Official Journal of the European Union for the currency in question: using the average of the daily exchange rates published over the corresponding reporting period.

To calculate this rate, the beneficiaries may use the editable charts on the ECB website http://www.ecb.europa.eu/stats/exchange/eurofxref/html/index.en.html.

Procedure for calculating the rate on the ECB website:

Step 1 — Go to the ECB website.

Step 2 — Click on the chart icon [ ] for the currency.
Step 3 — Choose the ‘HTML5 version’ which appears under the name of the currency in the top-left corner.

Step 4 — Insert the starting date of the reporting period in the field ‘from’ and the end date of the reporting period in the field ‘to’. The average for the period will appear above the chart.

Example: A Romanian organisation with accounting in New Romanian Leu (RON) is the beneficiary of a GA with one reporting period, from 24.1.2013 to 23.1.2014. The costs incurred in RON during this period are RON 500 000. The organisation will convert its costs into euros at the average rate of RON 4.4274 for EUR 1 (established following the steps mentioned above). The organisation will report costs of EUR 112 933, 10 (RON 500 000 / RON 4.4274 * EUR 1).

if NO daily euro exchange rate is published: using the average of the monthly accounting rates over the corresponding reporting period, using the currency converter on the Commission’s website http://ec.europa.eu/budget/contracts_grants/info_contracts/inforeuro/inforeuro_en.cfm.

Example: A Moldovan company with accounting in Moldovan Lei (MDL) is the beneficiary of a GA with one reporting period, from 24.01.2013 to 23.01.2014. The costs incurred in MDL during this period are MDL 500 000. The company will calculate the average of the 13 monthly exchange rates (January 2013 until January 2014) published on the Commission’s website. This average rate is MDL 16.7531 for EUR 1. The company will report costs of EUR 29 845, 22 (MDL 500 000 / MDL 16.7531 * EUR 1).

6. Budget transfers

The budget for the actions is set out in Annex 2 to the GA. The budget in Annex 2 to the GA is an estimation. Therefore at the time of reporting, beneficiaries may declare costs that are different from the estimated eligible costs in the budget.

The estimated budget breakdown indicated in Annex 2 to the GA may be adjusted by transfers of amounts between beneficiaries or between budget categories (or both). This does not require an amendment according to Art.4.2 of the GA.

However the maximum grant amount (see Article 5.3.2 of the GA) can NEVER be increased.

What can be transferred?

If the incurred eligible costs are lower than the estimated eligible costs, the difference can be allocated to another beneficiary or another budget category. The amount reimbursed for the other beneficiary (by application of its reimbursement rate) or for the other budget category (to which the budget transfer is intended) may thus be higher than planned.

Unit costs — If the GA foresees unit costs, transferring amounts declared as unit costs to other categories or other beneficiaries is possible if the actual number of units used (or produced) by the beneficiary is less than the number estimated in Annex 2 to the GA. The cost per unit cannot be changed.

What not?
The GA allows transfers of budget, not of tasks. A beneficiary cannot transfer budget to a form of costs that has not been foreseen in Annex 2 to the GA.

Example: A beneficiary declares all its direct personnel costs as 'actual costs' in the estimated budget (column A (a) of Annex 2 to the GA). However, at the end of the first reporting period, the beneficiary declares its direct personnel costs as 'unit costs determined according to its usual cost accounting practices’ (average personnel costs, in column A (b) of Annex 2 to the GA). This is not acceptable without a prior amendment of the GA to modify the form of direct personnel costs.

If the budget transfer is due to a significant change in Annex 1 to the GA, an amendment to the GA is needed. A significant change is a change that affects the technical work (the ‘tasks’ of the action) of Annex 1 to the GA.

Best practice: The coordinator can contact the Agency to ask whether the transfer of budget reflects a significant change in Annex 1 to the GA which requires an amendment.

New subcontracts — The transfer of budget intended to increase the eligible costs for ‘subcontracting’ may be considered to reflect a significant change in Annex 1 to the GA which requires an amendment.

7. Financial guarantees

Where required by the provisions of Article 16.2 of the GA, the beneficiary concerned is requested to submit a financial guarantee issued by a bank or a recognised financial institution.

The financial guarantee must include the text and comply with the conditions as stipulated in the model letter of guarantee provided by EASME, and shall remain in force until the Agency proceeds with the payment of the balance of the grant, in accordance with Article 16.4 of the GA. The Agency shall release the guarantee within 60 days from that date.

The amount of the financial guarantee for each beneficiary concerned is equivalent to the amount of the pre-financing. The payment of the pre-financing will be conditional on receipt of financial guarantee(s) covering the full amount subject to such guarantee as indicated in Article 16.2 of the GA.

Financial guarantees should be issued individually on behalf of the beneficiary(ies) concerned. The cost of obtaining a financial guarantee is an eligible cost and must be reported under the category “other direct costs”.

The submission of the financial guarantee is done by the coordinator of the project. Once the coordinator has received the duly completed and original financial guarantees from one or all the consortium beneficiaries, he/she will submit them to the EASME.

At the request of the beneficiary, the guarantee may be replaced by a joint and several guarantees from a third party or by an irrevocable and unconditional joint guarantee from the beneficiaries of the action, after acceptance by the EASME. In addition, the conditions listed below are to be met:

- The proposed organisation, i.e. the guarantor, must submit certified copies of its bylaws, trade registration, balance sheet and profit and loss statement for the last two years, in order to allow the EASME to undertake a thorough analysis of the financial capacity of that organisation and assessing the value of the guarantee;
• The proposed organisation must also fill in and submit a Legal Entity Form;
• The financial guarantee must include the text and comply with the conditions as stipulated in the model letter of guarantee provided by EASME.

Please note that the financial guarantee shall be governed by the law applicable to the grant agreement. If this is modified, it will result in the rejection of the financial guarantee.

8. Certificates on the financial statements

As stipulated in Article 15 of the GA, submission of an audit certificate at the request for interim and final payment is required for each beneficiary, if:

- it requests a total contribution of EUR 325,000 or more as reimbursement of actual costs and
- the maximum grant amount indicated, for that beneficiary, in the estimated budget as reimbursement of actual costs is EUR 750,000 or more.

Such a certificate is needed if the beneficiary requests a total financial contribution of EUR 325,000 (or more) as reimbursement for actual costs and personnel costs declared on the basis of unit costs calculated according to its usual accounting practices (i.e. ‘average personnel costs’). This means that costs based on lump sums, flat-rates (e.g. indirect costs) or unit costs (other than those for personnel costs calculated according to the beneficiary’s usual cost accounting practices) are not counted for the EUR 325,000 threshold (and do not need to be covered by the certificate).

The cost of obtaining an audit certificate is an eligible cost (excluding VAT when applicable) only when incurred by the beneficiary within a maximum period of two months following the completion of the action and must be classified under the category “other direct costs”.

The certificate must be issued by an external auditor. Only qualified auditors may issue a certificate.

‘Qualified’ means qualified in accordance with national legislation implementing Directive 2006/43/EC (or any EU legislation that replaces this Directive).

The auditor must certify that the costs declared in the financial statement are accurately recorded in the beneficiary’s accounting system and eligible and that all receipts have been declared.

If the auditor cannot confirm (for any reason), s/he must explain this in detail in the certificate. The Agency will consider the explanation in light of the facts provided by the auditor, and decide on steps to take.

The audit certificate must be drawn up in accordance with Annex 5 of the GA. With a view to avoiding delays in the submission of external audit certificates, beneficiaries should select and contract the external auditor well before the final financial statement is due.

Specific cases:

Public bodies — for public bodies, the certificate may be issued by an independent public officer with formal competence to audit the beneficiary (instead of by an external auditor).
International organisations — for international organisations, it can be an internal or external auditor that is appointed in accordance with the internal financial regulations and procedures of the organisation.

Beneficiaries from a third country — beneficiaries established in a third country must provide a certificate that complies with national regulations in the field. Auditors qualified in the EU may provide certificates for beneficiaries established in third countries, if they are familiar with the relevant national regulations (national accounting rules) and comply with them when preparing the certification.

9. Revenues

Since the grant amount may not have the purpose or effect of producing a profit for the beneficiaries (see Art. 5.3.3 of the GA), the total funding requested + receipts is capped at the total eligible costs; the grant amount plus receipts cannot exceed the approved costs.

If grant amount + receipts > total eligible costs ➔ reduction of grant amount

Profit is assessed at the level of the action, NOT at the level of the individual beneficiaries.

The grant amount, receipts and eligible costs taken into account are the consolidated grant amount, the consolidated receipts and the consolidated approved costs.

The receipts that must be taken into account are receipts that, during the action duration, are:
- established (i.e. revenue that has been collected AND entered in the accounts);
- generated (i.e. revenue that has not yet been collected, but which has been generated) or
- confirmed (i.e. revenue that has not yet been collected, but for which the beneficiary has a commitment or written confirmation).

According to the Art. 5.3.3 of the GA, the following are considered ‘receipts’:
- income generated by the action (i.e. any income generated by the action itself, including the sale of assets bought for the action and sold during the action duration).

Examples: admission fee to a conference organised by the consortium; sale of equipment bought for the action.

- financial contributions given by third parties specifically to be used for the action (i.e. money given as a donation by a third party (a donor) to a beneficiary specifically for the action covered by the GA.

The following are NOT considered ‘receipts’:
- income generated by exploiting the results of the project (e.g. the IPR) is not considered a receipt since successfully exploiting the results is one of the main objectives of the action;
- financial contributions given by a third party (a donor) specifically to be used for the action if they may be used according to the donor’s rules to cover costs other than the eligible costs;

Example: currency exchange losses

- financial contributions given by a third party (a donor) specifically to be used for the action — if the donor did not set the obligation to repay any unused amount at the end of the action;

In this case, the full amount of the financial contribution is considered not a receipt (not only the unused amount).

Example: A university professor whose costs are charged by the university in the GA, but whose salary is paid by the Ministry and not reimbursed by the university: This in-kind contribution from a third party (the Ministry) is not to be considered a receipt, unless the professor has been specifically seconded by the Ministry to the university to work for the action in question. In other words, if the university is free to decide the allocation of the professor’s work, then his/her contribution is assimilated to an ‘own resource’ of the university and it is not a receipt.

- financial contributions made by one beneficiary to another within the same action are also not considered receipts either, since receipts are only contributions from third parties. (Conversely, such a financial contribution cannot either be declared as cost for the action.)

Example: Beneficiary A (big company) in a project (i.e. funded at 75%) decides to subsidise a small specialised SME by funding an additional 10% of the SME’s costs in order to encourage it to participate in the action.

Receipts will be taken into account by the Agency only at the moment of the payment of the balance (i.e. the final payment at the end of the action).

They must be declared in the final report (although beneficiaries are free to do so also in the periodic reports).

In many cases they will not affect the grant amount since they do not lead to a profit (at the level of the action). However they may have an impact and cause a reduction.