



**EUROPEAID**  
CO-OPERATION OFFICE

EUROPEAN COMMISSION  
EuropeAid Co-operation Office

Latin America  
Financial and contract management

# PRESENTATION OF FINANCIAL REPORTS UNDER GRANT CONTRACTS

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➤ **Introduction to the financial system (eligible costs, etc.)**

Eligibility relates to the types of expenditure which may be financed.

Basically, expenditure must have actually been incurred and be necessary for the project's execution.

Only costs specified in the project budget, laid out in accordance with Annex III, will be considered eligible.

The Commission will check the eligibility all the costs of the operation specified in Article 3(1) of the special conditions, regardless of the source of financing. That is to say it will check not only the eligibility of the Community contribution but that of the beneficiary and any third parties.

⇒ The following direct costs are inherently eligible:

- Personnel (unit cost per day of work on the project). These costs may include other expenses relating to the use of human resources, provided they are specified in the call for proposals. Personnel costs may neither exceed the wage and other costs normally borne by the applicant nor be lower than the accepted minimum wage on the relevant market.
- Per diems (board and lodging, meals, gratuities, dry cleaning, toiletries, public transport and taxis). These lump sums may in no circumstances exceed the figure given on the EuropeAid website for the day of travel:  
  

[http://europa.eu.int/comm/europeaid/perdiem/liste1\\_en.htm](http://europa.eu.int/comm/europeaid/perdiem/liste1_en.htm).
- Travel costs. The price of an economy-class air ticket will be refunded.
- Equipment, consumables and supplies (new or second-hand). These costs must reflect the normal practice on the market and be essential to the successful completion of the operation. The costs of financial services may be covered in certain circumstances.
- Costs of disseminating information



- *Other services* resulting from obligations under the aid agreement (audits, evaluations specific to the operation, reports, translations, certificates, deposits, etc.).
- *A contingency reserve* of no more than 5% of the eligible direct costs. This amount may not be used without the prior authorisation of the Commission.
- *Indirect costs* (Administrative costs): Depending on the nature and objectives of the operation, the department granting the aid may, on the basis of criteria laid down in the call for proposals, fix lump sums for eligible overheads. The maximum admissible is 7% of the eligible total direct costs minus the contingency reserve.

⇒ The following costs are ineligible:

1. *Fixed capital costs*
2. *General provisions* for losses, future liabilities, etc.
3. *Debts*
4. *Interest payments*
5. *Doubtful loans*
6. *Exchange-rate losses*
7. *Extravagant expenses*
8. *Contributions in kind*
9. *VAT*: Taxes paid in the context of a Commission-financed grant contract may be considered eligible costs on two conditions:
  - the country's legislation does not allow the beneficiary to recover the tax paid;
  - the cost of the tax must have been included in the project budget.

⇒ Period of eligibility

- The eligibility of costs is confined to the operation's duration of execution. Costs incurred before or after that period are not eligible.



- The date determining whether a cost is eligible is that on which it was incurred, not the date on which the accounting documents were drawn up.

➤ **Breakdown of financial costs under Annex III (project budget). Units, unit costs, overall amounts**

⇒ **Breakdown of financial costs, units, unit costs, overall amounts**

- The structure of the cost breakdown must reflect the distribution of costs laid down in the financial provisions and refer clearly to the relevant budget headings (Annex III to the contract):
  1. The amount for each budget item must be expressed in euros and be clearly identified, as laid down in Annex III to the contract.
  2. The actual unit price and the number of units used must be broken down by budget item.
  3. There must be a numbered list of substantiating documents with clear references to the budget item justifying the expenditure. The list must include the amount in both local currency and euros.
  4. Actual costs will be converted into euros at the rate published by the European Central Bank in the “C” series of the Official Journal on the first working day of the month in which the expenses were incurred. These exchange rates are also published on the following webpage:  
  
<http://www.europa.eu.int/comm/budget/inforeuro/en/index.htm>
  5. The sum specified in Annex III for each budget item is not a lump sum (save for administrative costs and per diems).
  6. The sum to be refunded will be calculated on the basis of the actual eligible costs.
- The maximum sum that may be refunded under any budget item will be calculated on the basis of the unit cost and the number of units provided for in Annex III (if 3 units are eligible under a budget item which provided for 5, the maximum payable will be the cost of 3 units at the budgeted unit price).



- The number of units provided for in each budget item is a fixed maximum. Accordingly, even if the actual unit price is lower than that budgeted, units in excess of the number provided for in the budget will not be eligible.

⇒ Calculating the amount of the aid

- Where a project generates no income, the percentage Community contribution figuring in Article 3(2) of the special conditions will not be applied when calculating the total eligible cost of the operation.
- Where a project does generate income, the percentage Community cooperation figuring in Article 3(2) of the special conditions will apply to the total eligible cost of the operation minus the income generated.
- In no circumstances may the total eligible cost of the operation exceed the estimated sum figuring in Article 3(1) of the special conditions of the contract.
- In no circumstances may a surplus in one budget item be used to make up a shortfall in another, save where otherwise provided in Article 9 of the general conditions (Annex II).
- The amount of the aid is not finalised until the project has been carried out and the final reports have been presented to, and approved by, the relevant Commission departments.

➤ Outline of the content of financial reports, amendments, etc.

- The financial report will be drafted in accordance with the provisions of the general conditions and the budget (Annexes II and III to the contract). It will be drawn up in the language of the contract.
- The financial report must clearly mention the project's references and the period in question:
  - URB-AL Programme
  - Beneficiary
  - Contract number
  - Title



- Period covered by the financial report.

- As well as breaking down the expenses and listing the substantiating documents, the financial report must give a detailed explanation of any discrepancy between actual expenditure and the budget specified in Annex III.

⇒ Minor budget amendments not requiring a rider (Article 9(2) of the general conditions (Annex II))

- Minor amendments to the budget are:
  1. a transfer within a single budget heading,
  2. or a transfer between budget headings involving a variation of less than 10% of the amount originally entered under a heading.
- Minor amendments must be immediately reported to the Commission. Such notification must include a budget indicating the amendments made to the initial budget.
- Minor amendments may not affect the specific objective of the operation.
- No minor amendments may be made to the headings “administrative costs” and “contingency reserve”.

⇒ Budget amendments requiring a rider (Article 9(1) of the general conditions (Annex II))

- Any amendment to the budget (Annex III) must be set out in a rider to the contract. Riders require the Commission's prior approval and must be signed by the contracting parties.
- Amendments will not always be approved by the Commission: they must be clearly justified and closely related to the nature of the project. The Commission will examine the reasons given and reject insufficiently or poorly justified requests.
- Amendments to a grant contract may only be formulated during the period of execution of the contract and may not be retroactive. Thus, expenditure prior to the date on which the rider is signed is covered by the initial budget for the contract.



- Any rider amending the budget must include a replacement budget indicating the amendments made by that rider and any previous rider which may have altered the breakdown of the budget in the initial grant contract.

⇒ The effect of changes in the budget when drafting the financial report

- To permit comparison with the budgeted expenditure, the breakdown of expenditure in the financial report will distinguish actual expenditure prior to the signing of the rider from actual expenditure subsequent to the signing of the rider.

➤ Annual audits: Why? Who may be an auditor? (case of the Financial Controller?)

- The beneficiary must keep accurate and regular records and separate and transparent accounts of the implementation of the project (Article 16(1) of the general conditions).

⇒ When is an audit report needed?

- *Article 16(4) of the general conditions:*

“If the size of the grant is EUR 100 000 or more, a final audit will be carried out when the Operation ends, for the auditor to certify the accounts of the Operation. If, furthermore, the Operation’s duration of execution exceeds 18 months, an annual audit will be carried out for every 12-month period of implementation after the start of the Operation; the final audit serving as annual audit for the last period.”

- *Article 3(2) of the special conditions:*

“The Community undertakes to finance a maximum of EUR [...], ...”

- Even if the total eligible for Community funding in the financial report is less than EUR 100 000.00, a final audit is compulsory whenever the size



of the grant referred to in Article 3(2) of the special conditions is EUR 100 000 or more.

- If the operation's duration of execution exceeds 18 months, the final audit will replace the audit for the final 12-month period.

⇒ When are audit reports to be presented?

- The final audit report must be presented with the final report.
- In the case of contracts for operations with a duration of execution exceeding 18 months, the audits for each 12-month period must be presented with the corresponding intermediate reports. Intermediate payment will be conditional on presentation of the audit report.

⇒ Appointment of an auditor by the beneficiary

- Auditors must be independent, but they may be public or private:
  1. Public-law bodies: the audit report may be drawn up by public supervisory bodies presumed to be independent of day-to-day management.
  2. Private-law bodies: the audit report will be carried out by an independent external auditor (audit firms, certified accountants, etc.). The report must be accompanied by proof of the auditor's accreditation to exercise that activity.

⇒ Change of auditor

- The beneficiary may notify the Commission of a change in auditor simply by writing to it, although this does not affect the Commission's option to oppose the beneficiary's choice of auditor.

⇒ What the audit report must include

Article 16(4) of the general conditions reads:

“  
...  
The audit report must cover in particular:  
- Analysis and checking of the nature, legality and regularity of expenditure;



- Checking of the utilisation of advances;
- Audit of third-party accounts;
- Reconciliation of expenditure with the dedicated accounts referred to in Article 16(1) above and with the Budget for the Operation;
- Checking of the project's income (including Community advances, interest on advances, cofinancing and other income generated by the project);
- Information on the precise physical location of the original documentary evidence for use in the event of checks by the Commission and Court of Auditors.

The auditor, by sampling, will in addition carry out physical spot-checks (existence, conformity) of the Operation.

Without prejudice to the terms of Article 11(3), the audit must not interrupt the implementation of the Operation. It must be carried out in accordance with international standards in this field.”

⇒ Audits carried out by the Commission

- Any project financed by the European Communities may be audited at any moment, whether during the award process, in the course of execution or after completion.
- The beneficiary must keep accurate and regular records and separate and transparent accounts of the implementation of the operation (Article 16(1) of the general conditions). Contracting authorities must keep all documents relating to selection and contracting for a period of five years from the date of a project's completion. That documentation must be available for inspection by the European Commission and the Court of Auditors.

➤ How does the Commission make payments? What information must be presented?

⇒ Payments

The beneficiary will be paid an advance:

- of 80% of the grant if the operation does not exceed 12 months' duration or involves Community financing of less than EUR 100 000;



- of 80% of the forecast budget for the operation's first 12 months (Article 15(1) of the general conditions) if an operation exceeds 12 months' duration and involves Community financing of EUR 100 000 or more; subsequent intermediate payments may be made on condition that the beneficiary presents, and the Commission approves, the intermediate report and a work plan and provisional budget for the following period (see Article 15(1) of the general conditions).

⇒ Invoicing

- The beneficiary sends a request for payment to the Commission's financial departments. The standard request for payment for grant contracts constitutes Annex V to the contract.
- The beneficiary may notify the contracting authority in writing of changes of address, changes of bank account and changes of auditor, although this does not affect the contracting authority's right to oppose the beneficiary's choice of bank account or auditor. Notification of changes in a bank account must be accompanied by a new financial identification form.

⇒ Eligibility of the invoice

- The financial departments responsible for payment will check that:
  1. the technical and financial reports have been approved by the relevant Commission departments;
  2. the services invoiced tally with the provisions of the contract, including its annexes;
  3. the sum requested reflects the services provided and the prices specified in the contract;
  4. the request for payment has been sent to the Commission within the period specified in the contract and conforms to the official model specified in the contract;
  5. the account number on the invoice matches that on the financial identification sheet or that any other information is an error;



6. the presence of any audit report required;
7. the invoice has been signed by the person responsible, in accordance with the contract;
8. the method of payment specified in the contract has been observed, etc.

⇒ Payment deadlines

- The European Commission undertakes to make payment within 60 days of receiving the invoice. The 60-day period begins the day the European Commission records receipt of the invoice and ends on the value date on which the bank makes the transfer to the beneficiary.
- The 60-day period will be suspended if the invoice is found to be ineligible and the beneficiary duly notified of that fact.
- The beneficiary then has 30 days in which to provide the additional information requested. If that information (new invoice, corrections, etc.) is not provided, the invoice will be cancelled.

⇒ Late-payment interest

- If the Commission has not settled the invoice by the above deadline, the beneficiary may claim late-payment interest.
- The claim for late-payment interest must be lodged within two months of the deadline for payment.
- The claim must include the references of the invoice in question, the amount of the initial invoice, the amount paid by the Commission and the date of receipt of payment.

The rate applied will be:

- either that for the month in which the invoice was considered eligible. The rate used will be that applied by the European Central Bank and published on the first working day of every month in the "C" series of the Official Journal plus one and a half percentage points.

- or the rate applied on the beneficiary country's interbank market to local currency transactions.



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⇒ *Formula*

$\text{Amount owed} * (\text{number of days overdue}/365) * (\text{rate applicable}/100)$