

EUROPEAN DEFENCE FUND

The tutorial video relating to these slides is accessible from the [EDF webpage](#)

Actual Indirect Costs

Tutorial

DG DEFIS Unit R2 – Financial
management & internal control

INDIRECT COSTS

Art. 15
EDF Regulation



2 Options

Option 1: 25% flat rate

Art. 15(1) EDF Regulation

1. By way of derogation from Article 181(6) of the Financial Regulation, indirect eligible costs shall be determined by applying a flat rate of 25 % of the total direct eligible costs of the action, excluding direct eligible costs of subcontracting and support to third parties and any unit costs or lump sums which include indirect costs.

- ✓ Always accepted
- ✓ Do not require supporting documents neither for the proposal, nor during the reporting phase

Flat rate
25%



On direct eligible costs excluding:

- Subcontracting
- Support to third parties
- Unit costs / Lump sums including indirect costs

Option 2: actual indirect costs

Art. 15(2) EDF Regulation

2. As an alternative, indirect eligible costs may be determined in accordance with the recipient's usual cost accounting practices on the basis of actual indirect costs provided that those cost accounting practices are accepted by national authorities for comparable activities in the defence domain, in accordance with Article 185 of the Financial Regulation, and that they have been communicated to the Commission by the recipient.

- ✓ Actual indirect costs determined in accordance with the recipient's usual cost accounting practices might be accepted only when two conditions are satisfied:

1 The methodology is **communicated** to the Commission by the beneficiary

2 The methodology is **accepted** by a national authority for **comparable activities** in the defence domain

- ✓ Supporting documents might be requested to the beneficiary either during the eligibility checks or during ex-ante controls / ex-post audits

INDIRECT COSTS

Art. 15
EDF Regulation



2 Options

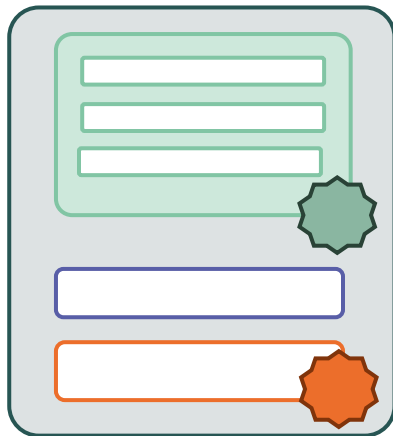
Following an **audit**, to allow the use of the usual accounting practice for national defence-related agreements.

Usual accounting practice **consistently used in the national context** for projects linked to the defence domain.

ACTUAL INDIRECT COSTS (AIC) IN EDF

An **applicant** selecting the calculation of their indirect costs for an EDF project according to their usual accounting practices needs to include in the proposal a specific declaration:

The AIC methodology declaration



1. Filling in the AIC methodology declaration

2. Checks performed on the AIC and the AIC declaration

3. Common errors in the AIC declaration

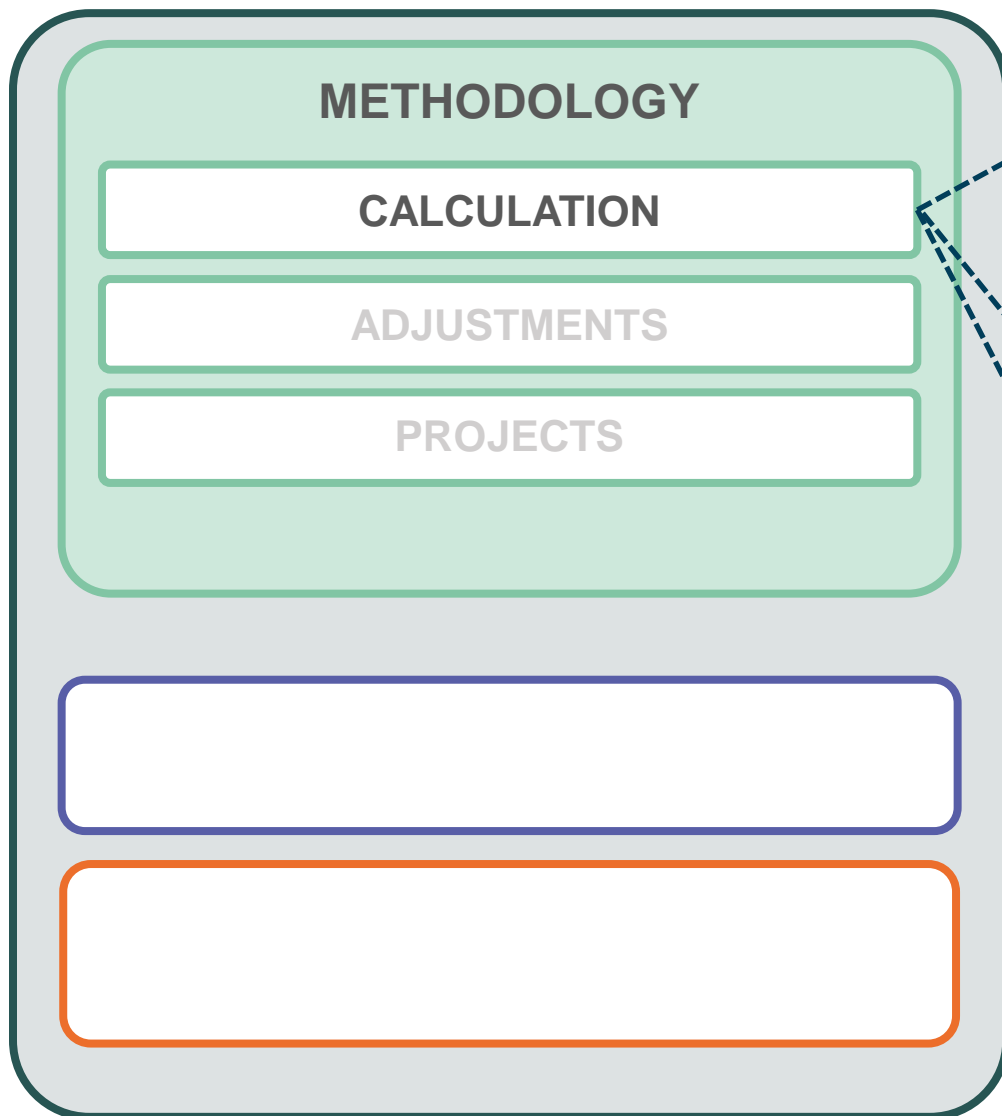


The AIC amount approved in this declaration will have to be reported in the *Detailed budget table*, where this amount will be distributed on the various activities (e.g. studies, design, etc.) covered by your proposal, pro-rata of your estimated eligible direct costs* for each of these activities.

Since the AIC amount may affect the calculation of the maximum EU contribution, **you should not wait for the last moment to get the AIC methodology filled in and approved**. It is recommended to proceed swiftly after you have estimated your direct costs for the project.

* Excluding subcontracting costs, financial support to third parties, internally invoiced goods and services and PCP costs

1. Filling in the AIC methodology declaration (1/9)



1

Detailed description of the methodology applied, with references to the national legislations followed (if applicable)

The communication of the methodology will be considered not provided when it contains only:

- General reference to national legislations
- General reference to the use of a specific ERP system

2

Cost elements used for the calculation

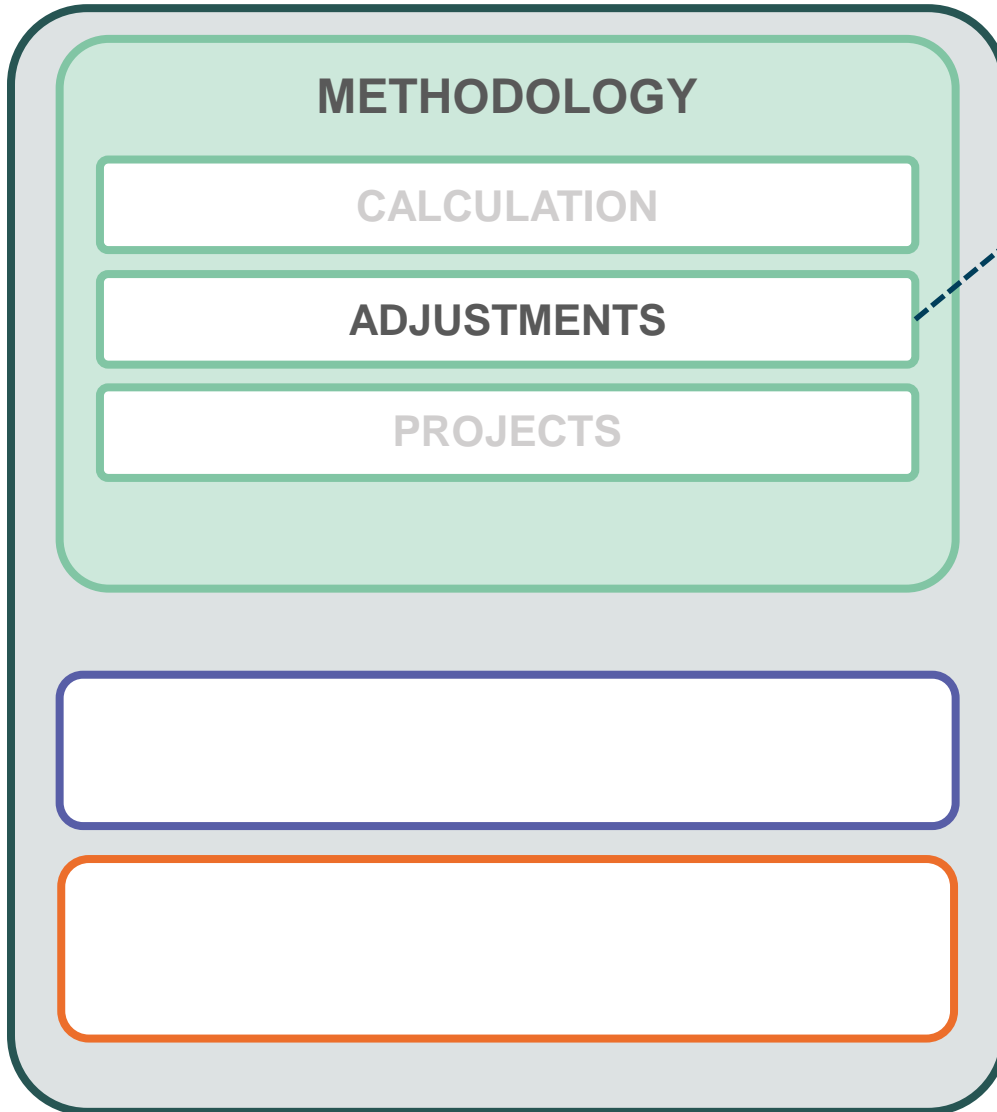
Detailed list of general ledgers considered in the methodology

3

Calculation method used to determine the AIC

- Different steps followed
- Description of the method used to separate direct costs from indirect costs
- Reference to the type of system used to run the calculation
- Type of apportionment rates and bases used
- Clear description on how the apportionment rates and bases are calculated

1. Filling in the AIC methodology declaration (2/9)



Detailed description of the adjustments to adapt your usual accounting practice to the EDF requirements

- Type of cost adjusted
- Type of adjustment (costs included in the direct budget, ineligible costs according to art. 6.3 of the GA, etc.)
- Source used (estimation, accounts extract, drivers, etc)



Only negative adjustments

Adjustment increasing the indirect costs compared to the version accepted by the national authority will not be considered eligible.

1. Filling in the AIC methodology declaration (3/9)

METHODOLOGY

CALCULATION

ADJUSTMENTS

PROJECTS

Provide two examples of **comparable national projects in the defence sector** for which your national authority has already accepted your usual accounting practice to calculate indirect costs

- Name
- Starting / end date
- Budget
- Brief description



When you cannot provide 2 examples...

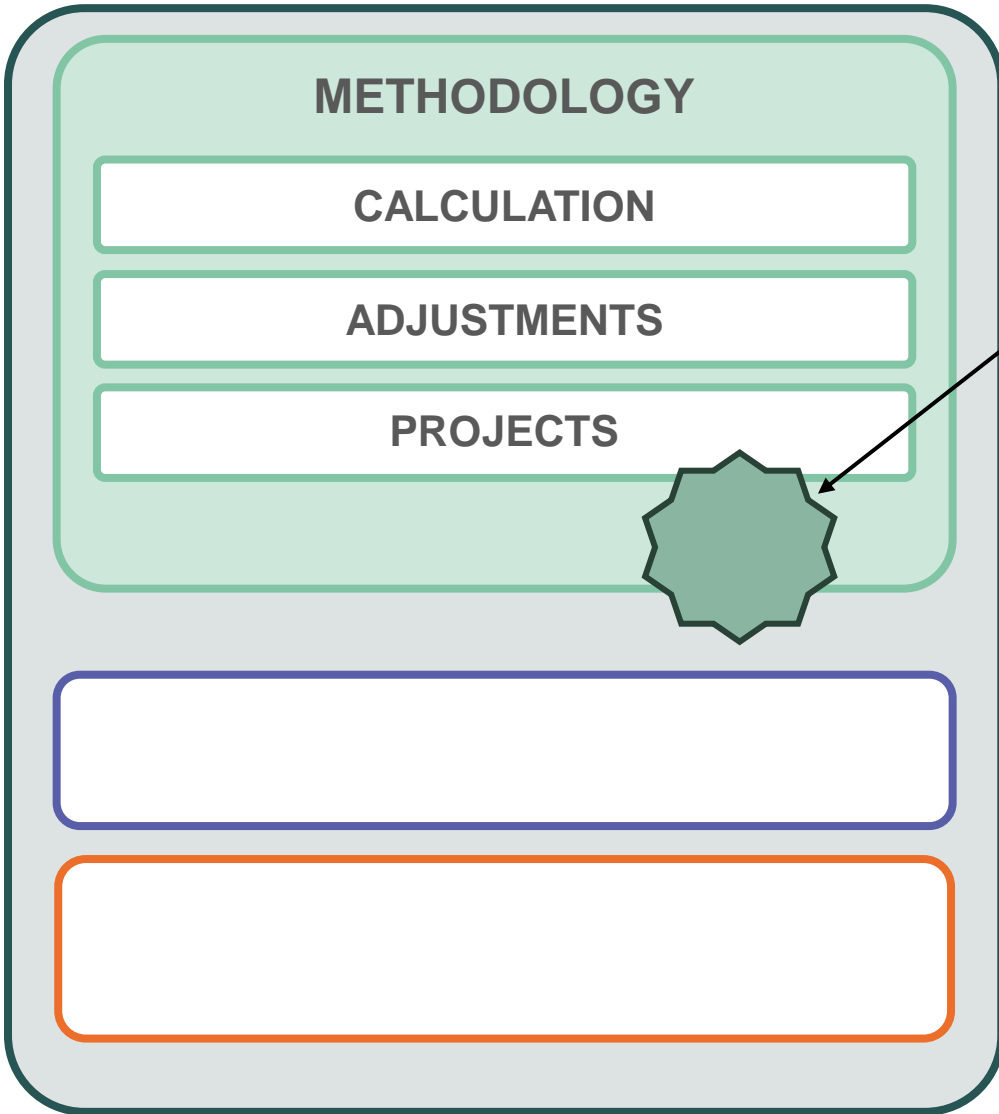
You are allowed to mention only the project for which the approval of your usual accounting practice has been recently authorised.



The authorisation **cannot be requested specifically for the participation to EDF**. The methodology must be consistently accepted by the national authority as applicable in every national defence-related agreement.

A declaration in the comments section by the national authority is in this case required.

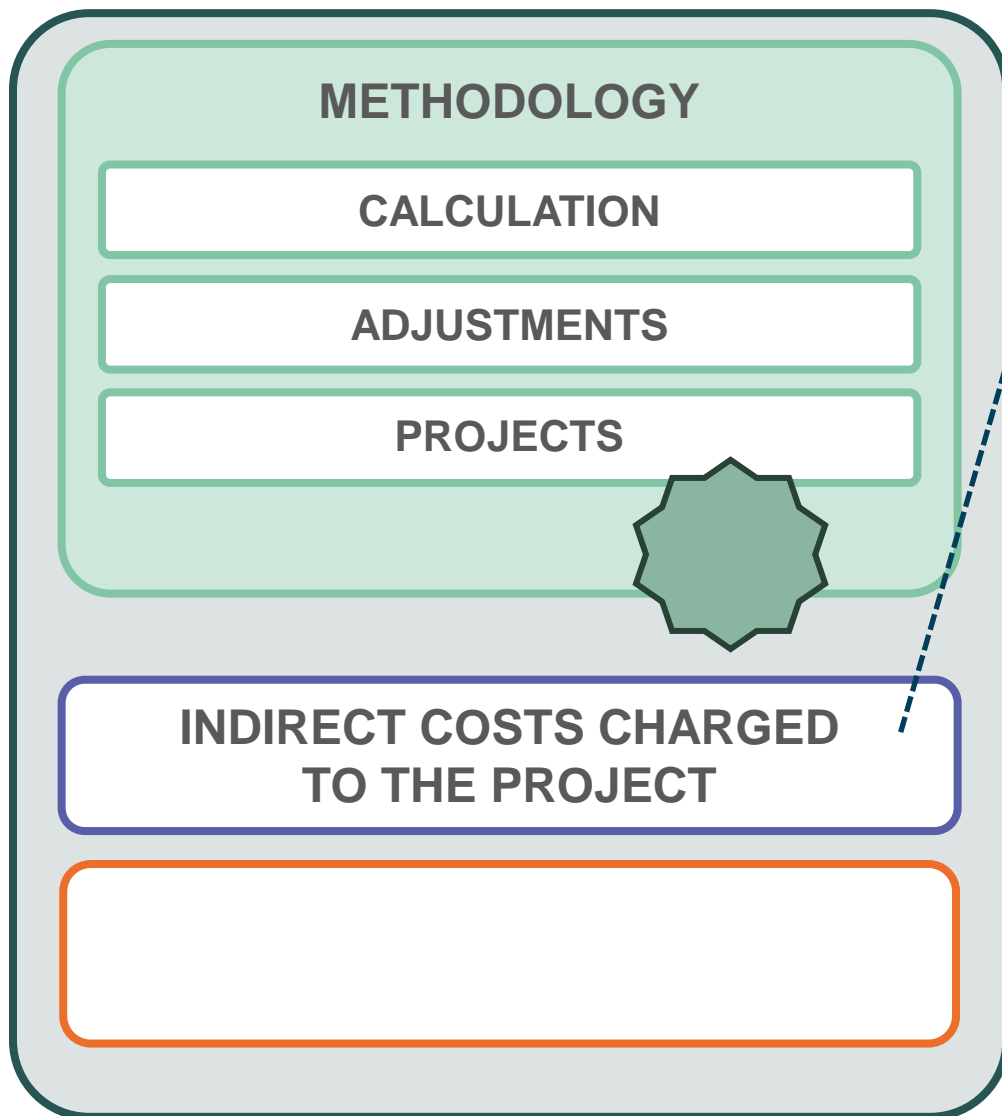
1. Filling in the AIC methodology declaration (4/9)



Applicant's authorised person signature

DECLARATION	
We hereby confirm that the indirect costs charged by our organisation:	
1) have been calculated following the organisation's usual indirect cost accounting practices accepted by our national authorities for comparable activities in the defence <u>domain</u>	
2) have been entered into the estimated budget of the action in accordance with the rules set out in the Grant Agreement	
3) do not include any ineligible costs.	
SIGNATURE OF THE AUTHORISED PERSON	
Name and function:	[name NAME], [function]
Date of signature:	[date]
Signature and stamp:	[signature and stamp]

1. Filling in the AIC methodology declaration (5/9)



1st Step: Usual accounting practice following the national rules

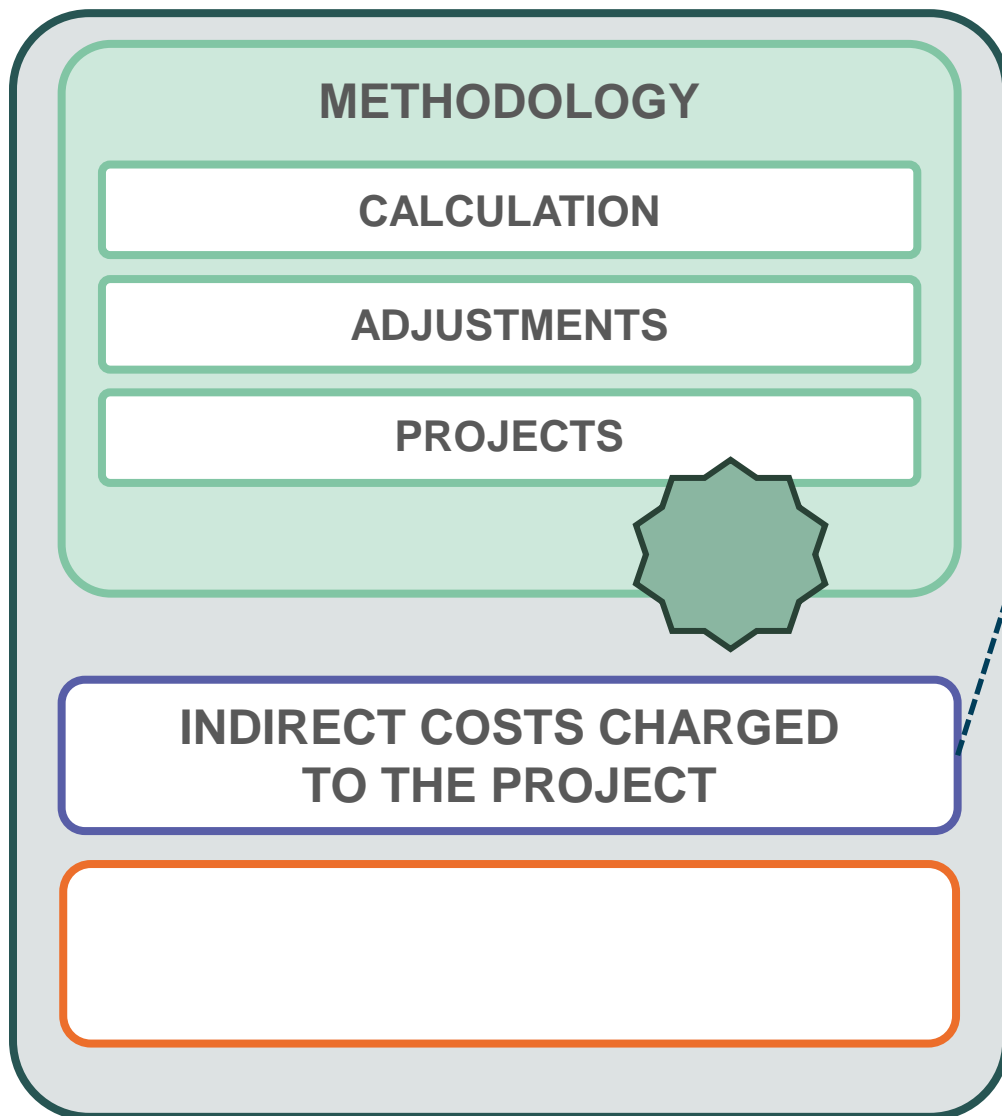
- ✓ The calculation should be recognisable by your national authority
- ✓ The structure of the table can be adapted, but the compulsory elements must be maintained:

- 1 **Indirect costs categories** (with detailed evaluation for each category)
- 2 **Apportionment method used** (hourly rates, % incidence, driver, etc)
- 3 **Apportionment rate** (hourly rate approved, % indirect cost, driver, etc)
- 4 **Apportionment base** (hours considered for the project, direct costs, etc)
- 5 **Result of the calculation** (indirect costs that would have been charged to the project if it were delivered in the national context).

1. Filling in the AIC methodology declaration (6/9)

INDIRECT COSTS CHARGED TO THE PROJECT based on the beneficiary's standard accounting methodology ³				
Type of indirect cost	Apportionment method (description) ¹	Apportionment rate	Apportionment base <i>(amount to which the rate was applied)</i>	Amount of indirect costs charged to the project according to the usual accounting practices (EUR)
a	b	c	d	e = c x d
E.1 Indirect costs linked to the project	<i>example: euro/direct man hour</i>	<i>example: 12</i>	<i>example: 1000</i>	<i>example: 12000</i>
<i>.../... provide the maximum detail in terms of cost categories, according to the methodology certified by your national authority</i>				
<i>.../...</i>				
Subtotal Indirect costs linked to the project				A
E.2 General and administrative expenses				
<i>.../... provide the maximum detail in terms of cost categories, according to the methodology certified by your national authority</i>				
<i>.../...</i>				
Subtotal General and administrative expenses (G&A)				B
E.3 Other indirect costs²				
<i>.../... provide the maximum detail in terms of cost categories, according to the methodology certified by your national authority</i>				
<i>.../...</i>				
Subtotal Other indirect costs				C
Total indirect costs resulting from the application of the beneficiary's usual accounting practices				(A+B+C)

1. Filling in the AIC methodology declaration (7/9)



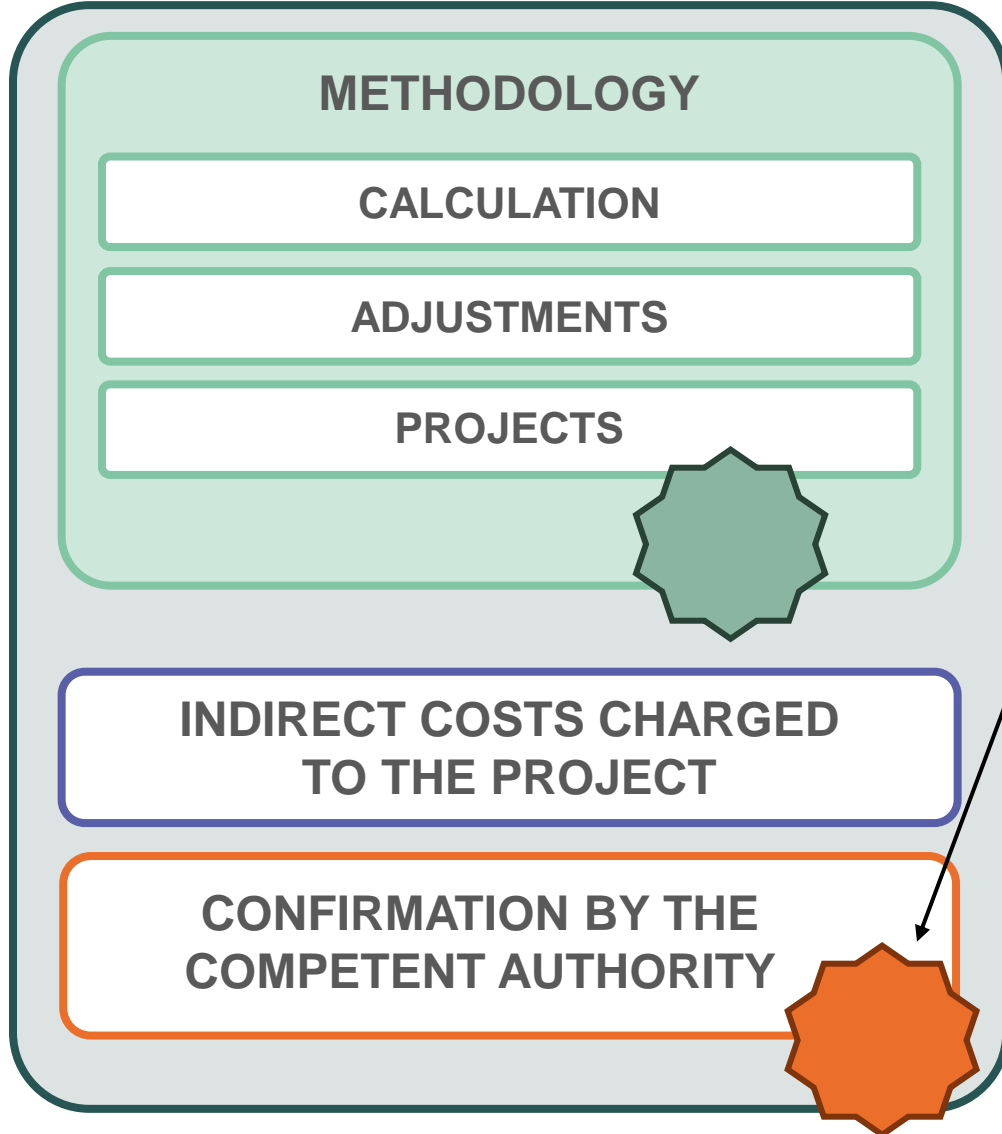
2nd Step: Adjustments in application to the EDF rules to determine the indirect costs charged to the project

- ✓ Open list of possible adjustments (art. 6.3 GA)
- ✓ The structure should follow the columns used in the first table to understand in detail how the adjustment has been calculated

1. Filling in the AIC methodology declaration (8/9)

ADJUSTMENTS / INDIRECT COSTS CHARGED TO THE PROJECT ³				
Total indirect costs resulting from the application of the beneficiary's usual accounting practices				(A+B+C)
E.4 Adjustments	Apportionment rate	Apportionment base	(Or) Direct attribution (accounts extract)	Total adjusted EUR
<i>Costs related to return on capital and dividends paid by a beneficiary</i>				
<i>Bonuses, lay-offs (re-organisation)</i>				
<i>Substitution of standard hours with billable hours</i>				
<i>Surplus / mark-ups / profits</i>				
<i>Debt and debt service charges / interest owed</i>				
<i>Provisions for future losses or debts</i>				
<i>Currency exchange losses</i>				
<i>Bank costs charged by the beneficiary's bank for transfers from the granting authority</i>				
<i>Excessive or reckless expenditure</i>				
<i>Deductible or refundable VAT (including VAT paid by public bodies acting as public authority)</i>				
<i>In-kind contributions by third parties</i>				
<i>Other adjustments (please specify the content for each new adjustment considered)</i>				
<i>.../...</i>				
Total adjustments				D
Total eligible indirect costs charged to the project				[(A+B+C)-D]

1. Filling in the AIC methodology declaration (9/9)



Declarations and signature by a national authority authorised person

- ✓ The indirect costs of the project are calculated in accordance with the usual cost accounting practices of the applicant
- ✓ These accounting practices are accepted by the national authority services, following a complete audit, for comparable activities of the applicant in the defence domain
- NEW** ✓ The cost categories listed in the adjustments table are:
 - not eligible also under the national regulation, or
 - an adjustment has been considered by the applicant for the cost category eligible in the national context

2. Checks on the AIC and the AIC declaration (1/5)

ALL
projects

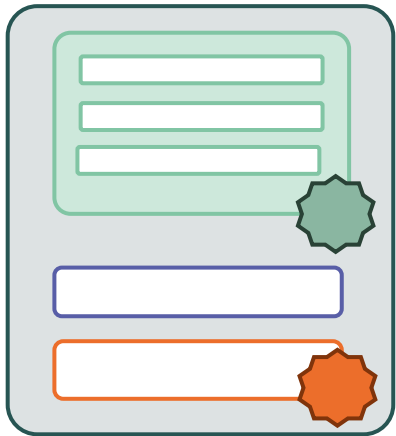


Request to coordinator: re-submit **within a short timeframe** the AIC declaration (or missing parts) from the applicant(s) concerned



ADMISSIBILITY CHECKS
(by the Commission):

- All sections are complete
- Calculation methodology described
- Comparable projects included
- Tables with the application of the methodology and the adjustments to determine the AIC of the project
- Signatures from the applicant's and the national authority authorised persons in their corresponding sections



AIC



Flat rate
25% ⚠

GAP

⚠ NB → Reduction of the amount awarded after evaluation

2. Checks on the AIC and the AIC declaration (2/5)

LUMP SUMS
projects

EVALUATION

Request to the coordinator: submit
complementary information from the
applicant(s) concerned

PROJECT
IMPLEMENTAION

ASSESSMENT by the Commission
supported by EXPERTS:

- Assessment of the Calculation methodology
- Application of the methodology to the project
- Coherence with budget of the proposal (*Detailed budget table*)
- Request for supporting documents, whenever necessary

NB → Beneficiaries might be requested to provide the data on which the methodology is based.



AIC

with or without
adjustments



Flat rate

25% ⚠

GAP



NB → Reduction of the amount awarded after evaluation

2. Checks on the AIC and the AIC declaration (3/5)

ACTUAL COSTS
projects

EVALUATION

Request to the coordinator: submit
complementary information from the
applicant(s) concerned

PROJECT
IMPLEMENTAION

CHECKS by EC:

- Coherence with budget of the proposal (*Detailed budget table*)
- Assessment on the reasonableness of the methodology presented



AIC

with or without
adjustments



Flat rate

25% ⚠️

GAP

⚠️ NB → Reduction of the amount awarded after evaluation

2. Checks on the AIC and the AIC declaration (4/5)

**ACTUAL COSTS
projects**

EVALUATION

- EX-ANTE CHECKS (performed by the Commission before each payment):
- Clarification on possible deviations vs proposed budget
 - Request for supporting documents
 - Application of the methodology to the project
 - Potential impact of corrections of direct costs

**PROJECT
IMPLEMENTATION**

Request to the coordinator: submit complementary information and supporting documents of the beneficiaries concerned



Rejection of ineligible and incorrect indirect costs

GAP

2. Checks on the AIC and the AIC declaration (5/5)

**ACTUAL COSTS
projects**

EVALUATION

- EX-POST AUDITS (performed by the Commission or external auditors **up to 5 years after the final payment**):
- Assessment of the Calculation methodology
 - Application of the methodology to the project
 - Costs actually incurred
 - Potential impact of corrections of direct costs

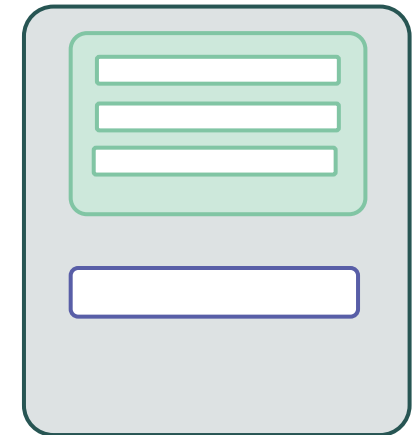
**PROJECT
IMPLEMENTATION**

Request to **BENEFICIARY**: supporting documents, accounting extracts and/or complementary information. Audits might be performed either remotely or on the spot



Rejection of ineligible and incorrect indirect costs

GAP



3. Common errors in the AIC declaration

EVALUATION

- Illegible documents (usually bad quality scanned copies)
- Description of the calculation methodology is not complete
- Calculation / adjustments applied are not complete
- The description refers to annexes that have not been submitted
- No comparable defence projects are listed
- Missing signature(s)
- Confirmation by the national authority does not indicate YES/NO



The coordinator is requested to submit the missing or incomplete parts in a short timeframe, otherwise the declaration is not admissible and the standard 25% will be applied

GAP

- Inclusion of EDF ineligible costs in the calculation
- Calculation / adjustments applied are not clear or understandable
- The amount of the indirect costs presented in the table is not matching with the amount reported in the *Detailed budget table* (and used for the calculation of the Max EU contribution).



The applicant is requested to make adjustments to the indirect costs applied to the project, otherwise the 25% flat rate will be considered.



**EUROPEAN
DEFENCE
FUND**

**MANY
THANKS
FOR YOUR
ATTENTION**

