

ANNEX I

GUIDELINES and CHECKLIST for assessing ACTION BUDGETs

Introduction

This document includes guidance and a checklist for the Contracting Authority to assess action budgets (further referred to as 'Action Budget' or 'Budget') for grant contracts for external actions of the European Union¹ ('grant contracts') at the stage of proposal.

The Action Budget is attached as Annex III to the grant contract. It includes inter alia a mandatory justification worksheet ('Justification Sheet') to be completed by the beneficiary. This worksheet is a key document and will be further referred to as 'Justification Sheet'.

Expertise France (through its contract with the European Union) will be the 'Contracting Authority'. The term Contracting Authority ('CA') is used throughout this document and it usually refers to CA staff who are charged with assessing the Action Budget.

The guide and checklist can be used to assess the plausibility and reasonableness of Action Budgets.

Section I of this document sets out **general and guiding principles** for assessing the plausibility and reasonableness of Action Budgets at proposal stage. Section II is a **checklist** which describes the procedures and checks that CA staff can perform for assessing common expenditure categories as well as common and major expenditure items in these categories. It is structured around the expenditure categories in the template for Action Budgets.

The checklist is not comprehensive and the specific circumstances and context of the Action should be taken into account on a case-by-case basis.

ATTENTION

- This document is **not a formal approval document**. It is a supporting tool to determine whether an Action Budget for a Grant Contract proposed by a Beneficiary is plausible and reasonable. Consequently the checklist serves as a basis for a decision to be taken by the CA whether the Action Budget is acceptable.
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¹ Including PA Grant Agreements, where relevant

I General and Guiding Principles

Budget – definitions

The Budget for a grant contract should be a realistic plan for the future expressed in quantitative terms. The budget should be based on the objectives and activities set out in the grant contract and it constitutes an essential part of it. The Budget should be based on a combination of financial, quantitative and qualitative information. The Budget is an essential part of the financial report for the action financed by the grant contract.

- The Budget is a **planning** tool. An organisation with objectives and activities in the form of a budget will be able to plan and make better decisions.
- The Budget is a **control** tool. A budget helps an organisation to control expenditure by setting cost guidelines, benchmarks, estimates and criteria. The Budget must reflect all expenditure in line with the planned activities.
- The Budget is a tool for **financial compliance**. The contractually agreed budget categories and lines are overall spending limits.
- The Budget **mirrors the financial report**. Actual expenditure incurred will be presented in the financial report and be compared with budgeted expenditure.

Responsibilities of the beneficiary(ies)

Beneficiaries of Grant Contracts should:

- Draw up a reliable, plausible, transparent and realistic Action Budget in line with the objectives, activities and time period defined for the action.
- Explain in the justification sheet the assumptions used to draw up the Budget and the methods and sources used to:
 - quantify the project inputs (e.g. number of assets to be acquired, staff numbers to be employed / allocated and time period).
 - value action inputs (e.g. prices of assets to be acquired, salaries of staff, fees of consultants)

The beneficiary(ies) should be able to provide – on request of the CA and in addition to the Budget and the justification sheet – further explanations, documents and sources used to draw up the Budget. Failure to do so casts doubt on the reliability and plausibility of the Budget.

Moreover, applicants must in the second column of the justification sheet and for each corresponding budget item or heading:

- describe the information and methods used to establish the amounts of unit costs, lump sums and/or flat-rates for the costs to which these refer, etc.
- explain the formulas for calculation of the final eligible amount

Responsibilities of the Contracting Authority ('CA')

The CA (i.e. its staff dealing with assessing the Action Budget) should assess the plausibility and reasonableness of the Action Budget and its underlying assumptions and principles.

Tips for reviewing a budget

- The justification sheet of the Budget should describe how the Budget has been established. The CA should review whether assumptions and principles used by the beneficiary(ies) to draw up the Budget are plausible and realistic. Hence it is essential to have or obtain a good understanding of the objectives and activities of the action. The first step is to identify the activities. Next resources and inputs should be listed in order to review qualitative, quantitative and financial data.
- The Budget should be clear, transparent and comprehensive.
- The Budget should be realistic. Rough estimates and amounts which are not explained cast doubt on the reliability of the Budget. This involves a high risk of over- and underestimates.
- Quantitative and qualitative data should be clear and plausible taken into account action objectives and activities. *Examples:* type and number of assets / items to be acquired (e.g. vehicles, equipment), qualifications and number of staff and time required (hours, weeks, months), types, units and measures of materials to be acquired (e.g. weight, distance, content etc.).
- Cost and price data should be plausible and verifiable with appropriate supporting documents and other sources, both internal (beneficiary(ies)) and external.
- Budgeted expenditure should be properly classified to avoid overruns which may result in ineligible expenditure.
- Budgetary principles - in particular cost allocation principles and keys- should be coherent with existing accounting policies (if applicable) and be based on plausible assumptions.
- The arithmetical accuracy of the Budget should be checked.
- Budgeted expenditure should be eligible in accordance with applicable contractual conditions.

Tips for reviewing source information and documents

- A proper justification sheet in the Budget is a minimum requirement. Supporting evidence in documentary form, whether paper, electronic or other medium should be obtained – where appropriate on a sample basis - for major expenditure items.
- Evidence directly obtained from independent external sources (outside the beneficiary(ies)) is stronger than evidence obtained from the beneficiary(ies). *Examples:* quotes for computer equipment obtained directly from the supplier or from the internet.
- Information and documents generated internally are more reliable if they have been subject to control and approval. Large organisations usually have strong internal controls and established and formal rules and procedures as opposed to small and medium sized organisations. *Examples:* official salary scales used by a Ministry or a large international NGO are good evidence whereas the (informal) salary policies of a small local NGO are not so good evidence as this information

can be easily manipulated. In the latter case a reality check with external benchmarks is advisable.

- Original documents are stronger evidence than photocopies or facsimiles. An original suppliers invoice or contract is more reliable than an internally approved receipt note.
- Actual information obtained by CA staff independent from the beneficiary(ies) is in principle the most reliable source of supporting information for budgeted costs.
- Historical information obtained by CA staff from the beneficiary(ies) may be less reliable but can constitute appropriate supporting information for budgeted costs.
- Article 14 of the General Conditions applicable to European Union-financed grant contracts for external Actions provides the criteria for eligible costs. Budgeted costs should be reviewed for eligibility with these contractual conditions.
- Article 16 of these General Conditions provides criteria and examples of the type of documents, records and information that beneficiaries should keep. This Article provides useful guidance for evaluating the costs in the Action Budget.

Quantitative, qualitative and costing aspects

An assessment of budgeted costs involves an examination of underlying quantitative, qualitative and costing aspects.

Quantitative aspects

In most cases quantitative aspects must be examined. *Examples:* number of items to be acquired, number of staff required, number of consultants, timing aspects (hours, days, months etc), measures (weight, distance etc.) and allocation keys (percentages, numbers). Quantitative aspects should be examined for plausibility by taking into account activities and information in the justification sheet and contractual documents.

Qualitative aspects

The importance of qualitative aspects varies with the nature of expenditure and can have a substantial impact on the costs.

Examples:

For capital expenditure (e.g. computer equipment, vehicles) the main technical specifications and requirements have a substantial impact on costs and prices. For computer equipment memory sizes have a direct and substantial impact on the purchase price.

Staff salaries and consultancy fees. Qualifications, expertise, experience and sometimes specific requirements have a direct and substantial impact on salary cost. The same is true for fees charged by technical assistants, consultants and experts.

Costs

Costs, prices, fees, unit costs, cost rates etc. must be checked for plausibility and reasonableness. Depending on the nature and magnitude more time may have to be spent on the examination of costs.

Examples:

For capital expenditure the price / costing aspect is very important. The purchase prices of computer and technical equipment (e.g. medical equipment) have a direct and substantial impact on the budget. Hence a proper examination should involve obtaining reliable price information or confirming prices in documents provided by the beneficiary(ies) with external sources (e.g. obtaining quotes from suppliers)

The same is often true for salaries of project staff. In some cases a check with copies of salary records provided by the beneficiary(ies) may not be considered sufficient and an additional check with benchmarks external to the beneficiary(ies) may be necessary (e.g. salary scales of a ministry or of large NGOs).

Generally speaking it is not necessary to carry out a complete and comprehensive review of all cost headings and of all sub-categories. The following should be considered on a case-by-case basis:

- the use of sample checks within cost categories;
- a focus on high or unusual costs or cost items;
- quality of the Action Budget. If Action Budgets are transparent and explained in a clear justification sheet, a limited review based on a number of key and sample checks may be sufficient to accept the entire Budget as being plausible. Action Budgets which are not clear and founded will require more work and possibly a full review. In some cases the quality of a Budget may be so poor that it may be necessary to ask the beneficiary(ies) to redo the work and provide a new Action Budget.

II CHECKLIST

The checklist is composed of procedures and checks that apply to

- **each** cost category / subcategory
- **specific** cost categories: *human resources, travel, equipment and supplies, office costs and other costs and services.*

ALL Action budget cost categories : sub categories		
1	Verify the arithmetical accuracy of the figures in the cost budget and supporting schedules, if necessary / appropriate on a sample basis.	Specific cost budget and supporting schedules, tables and breakdowns of costs. It is a good and common practice to include these schedules in annexes to the budget and/or to integrate them in the justification sheet
2	Contact the beneficiary(ies) to obtain clarification and/or additional information if necessary / appropriate.	
3	Lump sums (if applicable) Lump sums for financing the cost budget or parts of it can be accepted if : <ul style="list-style-type: none"> - total budgeted costs concerned are plausible; - activities and resources financed by lump sums are clearly defined 	When budgeted costs are used as a basis for lump sums, unit costs or flat rates this means that actual costs incurred (and related to these budgeted costs) will not be made subject to verification. In this case budgeted costs should be (more) critically reviewed.
4	Unit costs (if applicable) Unit costs for financing the cost budget or parts of it can be accepted if : <ul style="list-style-type: none"> - total budgeted costs concerned are plausible; - quantitative data concerned are plausible; - unit costs are properly and consistently calculated; and - activities and resources financed by unit costs are clearly defined 	
5	Flat rates (if applicable) Flat rates (e.g. percentage rates) for financing the cost budget or parts of it can be accepted if : <ul style="list-style-type: none"> - total budgeted costs concerned are plausible; - quantitative data concerned are plausible; - Flat rates (%) are properly and consistently calculated; and - activities and resources financed by flat rates are clearly defined 	

Action Budget cost category: HUMAN RESOURCES ('HR')		
Objectives: - to assess the plausibility of the total budgeted costs for human resources ;		
#	Procedures and checks	Sources / documents / examples
1	Is qualitative information plausible / in line with project activities? - qualifications, experience, special skills required - local staff and/or international staff, expats - tasks: managerial, financial, administrative, operational, technical, support..	Project description and justification sheet <i>In particular:</i> detailed description of profiles / requirements for staff to perform project tasks
2	Is quantitative information plausible / in line with project activities? - numbers of staff for the various tasks (see # 1) - part-time or full-time - time period during which staff should be employed / allocated to the project (weeks, months, years)	Project description and justification sheet <i>In particular:</i> description of assumptions / principles used to quantify staff numbers and to define time periods
3	Are gross salaries : - based on regular pay/salary policies of the beneficiary, - based on official, generally applicable pay/salary scales - in line with relevant standards / criteria / benchmarks (country, sector..)	Current, ongoing employment contracts of the beneficiary(ies) Salary and payroll data of the BEN Official pay scales (ministry, sector, large NGOs...) Past project information in Commission archives, knowledge Commission staff. <i>Examples:</i> employment contracts, pay slips, information in project financial reports and in audit and evaluation reports. Country / sector benchmarks. <i>Examples:</i> employment offices (public sector) and employment / recruitment agencies (private sector), internet
4	Are social security charges : - properly computed on the basis of applicable rules (% of salary / salary components; fixed amounts...) - based on official, generally applicable rules and regulations?	Public / government / employment office / sector publications, guides, brochures
5	Are salary related costs : - properly computed on the basis of applicable rules (% of salary / salary components; fixed amounts...) - based on internal policies and rules - based on official, generally applicable rules and regulations	Beneficiary internal policies and rules (HR / management memo's, guidelines) Government / tax / employment office communications (internet, brochures...) Sector rules and policies (e.g. health, agriculture, transport) in official brochures, internet <i>Examples:</i> sickness insurance and pension schemes, allowances (representation, meals, phone...), reimbursement of expenses for training.

6	<p>Are per diems:</p> <ul style="list-style-type: none"> - properly computed on the basis of applicable rules? - based on internal policies and rules? - based on official, generally applicable rules and regulations? - based on plausible, realistic numbers of days charged to the project? 	<p>Beneficiary internal policies and rules (HR / management memo's, guidelines) Government / tax / employment office communications (internet, brochures..) Same as for 5 and Commission rules / rates in contractual conditions, PRAG.</p>
<p align="center">Action Budget cost category: TRAVEL</p>		
<p>Objectives:</p> <ul style="list-style-type: none"> - to assess the plausibility of the total budgeted costs for travel; 		
#	Procedures and checks	Sources / documents / examples
1	<p>Is qualitative information plausible / in line with project activities?</p> <ul style="list-style-type: none"> - necessity of international and local travel for the project - type and frequency of travel: air, train, bus, sea, other; local, international costs per trip, subscriptions public transport (weekly, monthly) 	<p>Project description and justification sheet <i>In particular:</i> necessity of international travel (higher costs)</p>
2	<p>Is quantitative information plausible / in line with project activities?</p> <ul style="list-style-type: none"> - number of trips (local and international) needed to attend seminars and meetings, for on-site visits.. - timing (e.g. start of project, mid-term, end) and time periods (weeks, months) 	<p>Project description and justification sheet <i>In particular:</i> description of assumptions / principles used to quantify data.</p>
3	<p>Are travel costs:</p> <ul style="list-style-type: none"> - based on regular policies of the beneficiary? - based on official, generally applicable policies and rules - based on reliable and appropriate information? - in line with relevant standards / criteria / benchmarks 	<p>Beneficiary internal policies and rules (HR / Management memo's, guidelines) Government / NGO policies and rules (internal guidelines, memo's, brochures.....) Information for other projects in project financial reports and in audit and evaluation reports. Knowledge CA staff Internet: rates national / international flight, train and bus tickets Quotes from travel agencies <i>Examples:</i> reimbursement of subscription local transport</p>

Action Budget cost category: EQUIPMENT AND SUPPLIES		
Objectives: - to assess the plausibility of the total budgeted costs for equipment and supplies;		
#	Procedures and checks	Sources / documents / examples
	Definition: equipment relates to a broad category which is usually called fixed assets with following characteristics: - substantial / very high acquisition costs - costs are capitalised and written off in an organisations accounting records (capital expenditure) - used for a period of time which usually exceeds one year - assets usually acquired through a procurement process	<i>Examples:</i> <i>Vehicles:</i> cars, lorries, forklifts, ambulances, motorbikes <i>IT equipment:</i> computers, servers, printers, software and licenses <i>Equipment</i> (including special / technical equipment): test and measurement, laboratory, cleaning and storage equipment and systems <i>Machinery:</i> forestry machines and healthcare machines <i>Office equipment:</i> photocopiers, faxes, scanners, data projectors <i>Various:</i> refrigerators, mobile and smart phones, specific devices
	Definition: supplies relates to a broad category of tangible assets with following characteristics: - moderate / low acquisition costs (compared to typical fixed assets). - accounted for as expenditure in organisations accounting records (not capitalised and written off); - used for a period of time which may or may not exceed one year - can be but do not always have to be acquired through a procurement process	<i>Examples:</i> Spare parts and components for machinery, equipment, vehicles Tools including specific technical tools Materials: wood, stone, plastic materials of various types and nature for project activities; chemical products ...
Purchase of equipment and supplies		
1	Is qualitative information for equipment / supplies plausible / in line with project activities? - necessity of equipment / supplies for the project - technical requirements and specifications - use of specific, technical expertise (internal / external) required - do procurement and origin rules apply?	Action description and justification sheet <i>In particular:</i> specific technical requirements and use of technical expertise

2	<p>Is quantitative information for equipment / supplies plausible / in line with the project activities?</p> <ul style="list-style-type: none"> - number and type of items required for the project (see # 1) - timing and time periods (weeks, months) 	<p>Action description and justification sheet</p> <p><i>In particular:</i> a proper estimation of number of items, units may require the use of special, technical expertise</p>
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Action Budget cost category: EQUIPMENT AND SUPPLIES (continued)		
3	<p>Are budgeted unit costs for equipment and supplies:</p> <ul style="list-style-type: none"> - properly explained for each item in the justification sheet (basis, sources used)? - broken down into relevant parts where applicable (e.g. additional charges / costs may apply for transport, insurance and for specific additional features and options) - in line with relevant standards / criteria / benchmarks 	<p>Information provided by the beneficiary(ies) (e.g. quotes and offers)</p> <p>Cost and price info directly obtained by CA staff (e.g. quotes from suppliers, internet)</p> <p>Cost and price info in past project files kept by the CA (tender and procurement files, invoices, project financial reports, audit reports..)</p> <p><i>Examples:</i> prices and technical specs for computer equipment can be easily checked on websites of major computer suppliers</p> <p>The costs of purchasing specific medical equipment (e.g. an x-ray machine) can be checked with offers / quotes obtained from suppliers of specialized medical equipment or by inquiry at e.g. hospitals, medical centres, ministries (standards and guidelines), umbrella organisations in the health and medical care sector....</p>
4	<p>Are total budgeted costs for equipment & supplies:</p> <ul style="list-style-type: none"> - properly computed on the basis of appropriate and reliable quantitative and financial information? - inclusive of, where applicable, additional charges and costs? 	See # 1 to 3 above
<i>Renting of equipment</i>		
5	Are considerations for renting or buying (e.g. cost benefit) properly explained in the justification sheet for the Action?	
6	<p>Are rental costs:</p> <ul style="list-style-type: none"> - properly explained for each item / group of items in the justification sheet? (basis, sources used)? - properly documented (if rental costs are substantial)? - properly computed (number of items and time period covered) 	<p>On-going contracts of the beneficiary(ies) for rental / leasing of equipment</p> <p>Information on rental costs:</p> <ul style="list-style-type: none"> - directly obtained by CA staff (e.g. quotes from service providers, internet) - kept by the CA: information on rental costs in project financial reports or audit reports.. <p><i>Examples:</i> rental costs for vehicles (e.g. cars) or for medical or technical equipment</p>

Action Budget cost category: OFFICE COSTS		
Objectives: - to assess the plausibility of the total budgeted office costs ;		
Note: the procedures and checks set out below relate to the most common types of office cost. The same or similar procedures and checks may be used for other types of office costs.		
#	Procedures and checks	Sources / documents / examples
1	Is qualitative information plausible / in line with project activities? - type of office and related costs necessary for the project? - tasks: managerial, financial, administrative, operational, technical, support.. to be performed inside / outside the office	Project description and Justification Sheet <i>For example</i> specific requirements e.g. minimum surface / office space in m2,
2	Is quantitative information plausible / in line with project activities? - time period for which office costs will be incurred - number of items where applicable (e.g. consumables), measures (m2 for rental costs)	Project description and justification sheet <i>In particular:</i> description of assumptions / principles used to quantify and estimate costs.
3	Are budgeted office costs : - based on plausible and realistic estimates? - properly explained in the justification sheet? - properly documented where necessary / appropriate (e.g. office rental contract) - based on appropriate allocation keys (building owned or <u>part</u> of a rented or owned building used for the project) - in line with adequate historical data of the beneficiary? - in line with historical data for office costs of other project beneficiaries with comparable offices (type, location, surface..)	Beneficiary historical costs info (financial reports, general ledger and trial balance cost accounts...) Detailed cost info in supporting schedules and documents provided by the beneficiary Office costs in past project files kept by the CA (project financial reports, audit reports..)
Typical and common office costs - procedures and checks in addition to the ones set out at # 3 above		
4a	Office rental costs. - based on rental contract and proper allocation keys where applicable - based on current / historical office costs and proper allocation keys if offices are owned - in line with relevant standards / criteria / benchmarks	As at # 3 above and: - rental contract provided by the beneficiary. - benchmarks: rental prices per m2 (country, city) on the internet or obtained from real estate agencies
4b	Consumables and office supplies - based on a proper breakdown, supporting schedule - focus on high value items	As at # 3 above and: cost / price information supplied by the beneficiary (e.g. quotes, invoices, order forms, offers received)
4c	Utility costs (electricity, water, gas, fuel) and taxes and levies (e.g. sewer and solid waste charges) - based on appropriate historical data - based on ongoing contracts - in line with relevant standards / criteria / benchmarks	As at # 3 above and: - cost / price information supplied by the beneficiary (e.g. contracts, invoices) - publicly available cost / price information on websites of utility service providers

4d	Maintenance and cleaning	As at # 3 and 4c above
4e	Communication (telephone, fax, internet..)	As at # 3 and 4c above

Action Budget cost category: OTHER COSTS AND SERVICES		
Objectives: - to assess the plausibility of the total budgeted costs for other costs and services;		
#	Procedures and checks	Sources / documents / examples
1	Is qualitative information plausible / in line with project activities? - type and nature of other costs and services necessary for the project? - use of external services providers (requirements, qualifications, profiles...) - qualifications, experience and expertise of staff of service providers	Project description and justification sheet <i>In particular:</i> profiles of and key requirements for service providers
2	Is quantitative information plausible / in line with the project activities? - timing (e.g. start of project, mid-term, end) and estimated time charged by service providers (hours, man days....) - number of items where applicable (e.g. brochures, publications)	Project description and justification sheet <i>In particular:</i> description of assumptions / principles used to quantify and estimate costs.
3	Are budgeted unit costs, rates, fees for services: - properly explained for each item in the justification sheet (basis, sources used)? - based on plausible and realistic source information? - supported by appropriate documents where applicable - in line with relevant standards / criteria / benchmarks	Information supplied by the beneficiary(ies) : - quotes from suppliers (e.g. for brochures) and service providers for unit prices / costs, rates, fees - past and on-going contracts for technical assistance, evaluation, audit / verification (invoices..) Information obtained by CA staff: - same info as above supplied by the beneficiary(ies) - knowledge project managers with regard to costs of similar services procured for past and on-going Actions - database consultants, technical assistants (e.g. fee rates), other contractors - past project files: tender and procurement documents, invoices of service providers, audit and verification reports
4	Are total budgeted other costs and costs of services properly computed on the basis of appropriate and reliable quantitative and financial information?	See # 1 to 3 above

Action Budget cost category: OTHER COSTS AND SERVICES (continued)		
<i>Typical and common office costs - procedures and checks in addition to the ones set out at # 3 above</i>		
5a	Publications.	As at # 1 to 4 above and a detailed description of sorts and numbers of publications needed
5b	Studies and research	As at # 1 to 4 above and: - a detailed description of the expected output (e.g. report) - if possible / applicable the (draft) terms of reference for the engagement - details of the time required (e.g. mandays) and expert qualifications, expertise and experience
5c	Expenditure verification (by external auditor)	As at 5b
5d	Evaluation	As at 5b
5e	Translation and interpretation	As at 5b
5f	Financial services (bank guarantee costs)	Information supplied by the beneficiary(ies) - evidence of bank charges on bank statements and other official bank documents such as contracts, bank brochures / leaflets
		Information obtained by CA staff: - same info as above supplied by the beneficiary(ies) - bank charges / rates on bank websites
5g	Conferences and seminars	As at 5b and, where appropriate, supporting schedules and detailed breakdowns of budgeted conference and seminar costs
5h	Visibility Actions. These include for example: - materials: publication boards, brochures, business cards representation gadgets (pens, key rings, stickers etc.) - advertising and publicity in media (TV, radio, internet).. - presentations	As at 5b

Action Budget cost category: HUMAN RESOURCES AND LOCAL OFFICE (case of Field Office)		
<i>Checks to be performed in case of capitalised and operating costs linked to a Field Office to be declared on the basis of a simplified method of allocation (apportionment)</i>		
	Procedures and checks	Sources/ documents/ examples
1	Format of the description of the methodology	The description is attached to the budget, on a separate sheet
2	Verify the methodology has been appropriately described and include the relevant information	Relevant information are: -Description of the method of allocation -Confirmation that the method is established in accordance with the entity's accounting practices -Explanations on how the allocation key is objective, fair and reliable.
3	Assessment of the allocation key (objectiveness, fairness, reliability)	Examples of allocation keys are: -pro-rata the number of staff assigned to the action in the country of implementation compared to the total number of staff in the country of implementation -pro-rata the time spent on the action (compared to the total availability time of the Field Office) -pro-rata the weight of the EU contribution to the action (compared to the total funding of the projects implemented through the Field Office) -pro-rata the space occupied for the purpose of the action (compared to the total space available in the Field Office).