The attached Financial Regulations (ESA/REG/005, rev.3) constitute together with Annex II to the Convention the basic legal instrument for the Agency’s financial framework, including planning and funding, treasury and cost management, accounting, controlling and internal and external auditing.

These Financial Regulations were adopted on 19 November 2012 by the Council Resolution ESA/C/CCXXXIII/Res.1 (Final) and entered into force on 1 January 2013. They were amended on:
- 18 December 2014 by the Council Resolution ESA/C/CCXLVIII/Res.2 (Final) with effect as from 1 January 2015;
- 14 December 2016 by the Council Resolution ESA/C/CCLXV/Res.2 (Final) with effect as from 1 January 2017;
- 13 December 2017 by the Council Resolution ESA/C/CCLXX/Res.5 (Final) with effect as from 1 January 2018.

FINANCIAL REGULATIONS

OF THE EUROPEAN SPACE AGENCY
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I - SCOPE AND RESPONSIBILITIES

ARTICLE 1 - Purpose

1. The Convention creating the European Space Agency establishes a number of financial principles and, in some cases, expressly requires those principles to be developed in the Financial Regulations.

2. The purpose of the Agency Financial Regulations is to develop the principles and to define the rules arising from the financial provisions of the Convention.

3. These Regulations, including the attached Annexes which are an integral part thereof, shall govern the financial management of the European Space Agency.

ARTICLE 2 - Director General

1. The Director General is responsible to Council for the sound financial management of the Agency. He shall ensure the efficient administration of the Agency and the economic use of the resources entrusted to him. He may delegate to other staff of the Agency such authority as he considers necessary to this end.

2. The Director General shall establish and issue financial instructions to assist in the implementation of these Regulations. The financial instructions and their updates shall be made available to Contributors.

ARTICLE 3 - Roles and Responsibilities

The financial management of the Agency is entrusted to:

- Council or any subordinate body to which it delegates its powers;

- the Administrative and Finance Committee, as stipulated in the provisions of these Financial Regulations and in accordance with the terms of reference assigned to it by Council;

- the Director General, assisted by the staff of the Agency acting in accordance with the powers delegated to them by the Director General.

ARTICLE 4 - Administrative and Finance Committee

1. The Administrative and Finance Committee shall examine and recommend to Council any necessary amendments to these Regulations and Annexes.
2. Exceptionally, the Administrative and Finance Committee may, by a two-thirds majority of all the Member States, decide to temporarily suspend application of provisions of these Regulations provided that it informs Council accordingly.

3. Unless otherwise provided for in the applicable rules and regulations, all decisions on financial matters to be taken by the Administrative and Finance Committee pursuant to these Regulations shall require a two-thirds majority of all the Member States.
II - GENERAL PRINCIPLES

ARTICLE 5 - Currency and Financial Year

1. The euro shall be the currency used for all financial transactions of the Agency, be it the payment of Contributions, or the placing and payment of orders and contracts with the nationals of Member States or of States participating in Agency programmes. The euro shall also be the currency used for the financial planning, funding, accounting and reporting operations of the Agency.

2. The use of the euro is recommended for transactions with third parties and the placing of contracts or for the exchange of funds with nationals outside the Euro zone. Only in exceptional circumstances may other currencies be used.

3. The financial year shall run from 1 January to 31 December.

ARTICLE 6 - Financial Principles

Taking into consideration the purpose of the Agency, the financial management and operations of the Agency shall comply with the principles of sound financial management, transparency, Member States' affordability, equity, separation of duties and the other principles referred to in the Convention.

ARTICLE 7 - Financial Instructions

The financial instructions established by the Director General shall provide for the accountability of all staff in charge of the management of the financial resources or property of the Agency. Such staff shall be responsible for the proper use of those resources or property and shall be accountable to the Director General for their use and for the results achieved.

ARTICLE 8 - Sound Financial Management

The financial resources of the Agency shall be managed in accordance with the principles of economy, efficiency and effectiveness:

- *the principle of economy* is aimed at minimising the cost of resources used by the Agency for an activity while having regard to appropriate quality;

- *the principle of efficiency* is aimed at ensuring the best relationship between resources employed and results achieved. The resources allocated by Contributors to the Agency's activities and Programmes shall be optimised through sound financial management;

- *the principle of effectiveness* concerns the extent to which objectives set have been achieved and the relationship between the intended inputs and outputs of an activity.
ARTICLE 9 - Transparency

The financial management and operations of the Agency, including planning, controlling, funding, accounting and all associated reporting shall comply with the principle of transparency.

ARTICLE 10 - Member States' Affordability

When establishing its funding and planning its resources, the Agency shall take into account the funding capacities of its Contributors.

ARTICLE 11 - Principle of Equity

Contributors shall honour their Financial Obligations in good time to ensure an equitable sharing of the overall financial resource requirements across the Agency's activities and Programmes.

ARTICLE 12 - Financial Authority and Separation of Duties

Internal administrative instructions shall identify those staff members to whom financial powers may be delegated by the Director General, the scope of the powers delegated, and the conditions under which such persons may sub-delegate to other Agency staff members. All Authorising and Accounting Officers shall be responsible for managing Revenue and Expense in accordance with the principles of sound financial management and for ensuring compliance with the Agency's regulatory requirements.

The duties of Authorising Officer and Accounting Officer shall be segregated and mutually incompatible.

ARTICLE 13 - Other Principles

Financial management shall comply with the principles that are specific to the Agency, including the legal autonomy of its optional Programmes, their multi-year nature, and industrial policy objectives.
III - MULTI-YEAR PLANNING

ARTICLE 14 - General Principles

The Director General shall establish financial plans based on actual programme achievements and on the estimation of future programme needs. These plans shall be compliant with the Financial Obligations of the Contributors, as reflected in the Level of Resources, other decisions taken by Council in accordance with applicable rules and subscription to optional Programme Declarations. All planning activities shall take into account the funding capacities of the Contributors and Other Funding Entities to the Agency's activities and Programmes.

ARTICLE 15 - Long-Term Plan

1. The Director General shall establish and maintain a Long-Term Plan covering ten years for all the Agency’s approved or, as the case may be, to-be-approved activities and Programmes as an instrument for the Member States and the Agency to fulfil the latter’s objectives within the framework of the European space programme.

2. The Long-Term Plan shall be consistent with the Agency’s budgets – relevant to the first year of the planning – the report on Contributors’ Financial Obligations, and the Quarterly Report to Council, and shall include:

   - strategic guidelines for the Agency resulting from the European space policy defined by Council taking into account the evolution of the global context;
   - the Agency’s short, medium and long-term objectives;
   - programmatic priorities and plans with associated roadmaps at domain level;
   - priorities and plans for common infrastructure investments;
   - an Agency-wide assessment by the Director General of risks associated with strategic Agency-level or multi-Directorate objectives, activities and decisions;
   - Agency-wide workforce planning and staffing requirements, as well as forecasts of associated costs, including those related to pensions. For the latter, indications on the long-term funding will be provided;
   - financial long-term planning expressed at the economic conditions of the first year of the planning, including:

     - On the income side, the annual distribution over a ten-year period of overall funding capacity based on:

         - estimated Contributions based on existing Financial Obligations concerning already approved and estimates concerning to-be-approved activities and Programmes;
estimated funding from Other Funding Entities, including details of funding committed (according to agreements in force) and estimated future funding;

* Other Income, as applicable.

- On the cost side, the annual distribution over a ten-year period for:

* costs and Levies for mandatory activities and Programmes, and the associated cash disbursement plan not exceeding the funding established by the Level of Resources in force and its projected evolution beyond the approved period;

* costs and Levies for ongoing optional Programmes and activities referred to in Article III.2 of Annex II to the Convention, including the estimated Cost-at-Completion – when relevant – and the consolidated cash disbursement plan, and

* costs and Levies for planned optional Programmes and activities referred to in Article III.2 of Annex II to the Convention and the consolidated cash disbursement plan estimated on the basis of their Full Costs assumed to be fully funded.

3. By 31 May of each financial year, the Contributors shall provide the Director General with indications of their funding capacity for the following year and update those indications with respect to the following nine years for the purposes of updating the Agency's Long-Term Plan. Following comparison of these indications with the estimated disbursement needs of the Agency, the Director General will communicate to the Contributors indications on any potential risk of non-compliance with the provisions of paragraphs 20.2(d) or (e).

4. The Long-Term Plan established by the Director General shall be issued annually. It shall be submitted first to the October Council for consultation. It shall be available in both constant and current economic conditions (e.c.). Thereafter, it shall be submitted concomitantly with the budgets to Council at its December meeting.

ARTICLE 16 - **Common Infrastructure Plan**

1. The Director General shall propose, in phase with the decision on the Level of Resources, a Common Infrastructure Plan including common costs for infrastructure investments.

2. The draft Common Infrastructure Plan shall be submitted to the Industrial Policy Committee and to the Administrative and Finance Committee for recommendation and to Council for the approval of activities and the corresponding funding for the next three years. The Common Infrastructure Plan shall also give an indication of activities and the corresponding funding for the fourth and fifth year.
ARTICLE 17 - Multi-year Planning

1. The Director General shall establish and maintain multi-year Cost Plans to be drawn up for all activities and Programmes carried out by the Agency. Cost Plans shall represent the actual progress of the activities and Programmes and shall be updated regularly to reflect transactional events and planning changes.

2. The Cost Plans shall include all costs and Levies pertaining to ongoing and planned activities and Programmes.

3. The multi-year Cost Plans shall be established in mixed economic conditions: current e.c. for cost incurred, constant e.c. for planned cost.

4. In the context of budget preparation, multi-year Cost Plans corresponding to the planned execution of Programmes and activities shall be submitted by the end of June of year \( n \) to the relevant subordinate body for recommendation of the Cost Plan slice for year \( n+1 \).

5. The Director General shall regularly submit to Council and to the delegate bodies status reports for Programmes and activities containing the multi-year Cost Plans together with the major milestones, the commitment planning and risk analysis in order to allow the appropriate Programme decisions to be taken.

6. A Medium-Term Financial Plan shall be established and shall include cash disbursement planning and income projections together with the associated analysis. The cash disbursement planning shall cover for on-going Programmes the duration of the Programmes and for future Programmes the years \( n, n+1 \) and \( n+2 \). Income projections shall cover the years \( n, n+1 \) and \( n+2 \). Medium-Term Financial Plans shall be submitted to the Administrative and Finance Committee by 30 June for consultation.

7. The planned cash disbursement needs consolidated at Agency level for year \( n+1 \) shall be issued to the Administrative and Finance Committee to assist with budget preparation.

8. The Administrative and Finance Committee may provide Council with comments and recommendations on the Medium-Term Financial Plan for the years \( n+1 \) and/or \( n+2 \), especially in view of financial sustainability. On the basis of these comments and recommendations Council may exercise its prerogatives under Article XI.5c.ii of the Convention.
IV - FUNDING AND BUDGETS

ARTICLE 18 - Funding Sources

1. In accordance with the provisions of the Convention, the Agency's activities and Programmes are principally funded by Contributions. Other sources may also be used, as provided for in the Convention.

2. In accordance with the principle of legal autonomy, income generated by an activity or Programme, such as from the sale of goods or services, shall be credited to the activity or Programme which gives rise to them, if applicable.

ARTICLE 19 - Reporting on Funding

1. Annual Contributions are set by reconciling the requirements of a nominal execution of the Agency's activities and Programmes within the limits of Contributors’ Financial Obligations with Contributors’ funding capacity.

The Director General shall establish and maintain records for each Contributor within a multi-annual framework allowing comparisons against their multi-annual Financial Obligations. Upon request, separate records may be maintained for each Contributing Entity within a given Contributor, and shall be analysed by individual Programme obligation.

2. Separate records shall also be maintained for funding emanating from Other Funding Entities to ensure the transparency and traceability of their respective funding status in the relevant activities and Programmes.

ARTICLE 20 - Funding Balances

1. The Funding Balance shows for any ongoing activity or Programme the difference between Contributions paid by a Contributor on the basis of adopted budgets and its nominally required share of actual disbursements
   • according to the scale of contributions for mandatory activities or
   • the corresponding Normalised Contribution Scale in on-going optional Programmes.

A Contributor’s Consolidated Funding Balance is the consolidation of all its individual activity and Programme Funding Balances.

2. The following rules shall apply to Contributors’ Funding Balances:
   a) Contributor’s funding shall only be attributed to the activities and Programmes in which that Contributor is legally bound to participate;
   b) upon completion of a Programme, all participants shall have covered the related costs according to their respective shares and Financial Obligations;
c) for each activity or Programme, the annual Contribution of a given Contributor shall not exceed its remaining Financial Obligations;

d) for a given year n, a Contributor’s end-of-year Final Consolidated Funding Balance shall not show a deficit of more than ten per cent with respect to the Contributor’s Financial Obligations for the year n+2, as shown in the latest issued Report on Contributors’ Financial Obligations referred to in Article 29;

e) a Contributor’s end-of-year Final Consolidated Funding Balance shall not remain in deficit for more than two consecutive years n-1 and n;

f) each Contributor shall be informed regularly of its Funding Balance, and specifically with respect to compliance with paragraph 2.(d) above.

3. In the event of non-compliance, for a given year n, with paragraphs 2.d) or e) above, the Director General shall forewarn the Contributor(s) concerned during year n. If the situation is not resolved in the Budget of year n+1 the Director General shall establish the draft Budget of the year n+2 disregarding the Contributors’ funding capacity referred to in Article 24.4. If during the year n+1 there are insufficient funds in the General Treasury and the situation cannot be resolved through direct application of Article 35.1 b), the deficit referred to in paragraph d) or e) above shall be considered as an outstanding Contribution in the sense of Article 35.1 b), authorising the Director General to take a loan for an amount corresponding to the said deficit, the financial cost of which shall be borne by the Contributor concerned.

4. Interest earned on Contributors’ Funding Balances shall be allocated to them during year n+1 on an individual basis reflecting the average quarterly Funding Balance and taking account of positive or negative balances held by the Agency on their behalf throughout the year.

ARTICLE 21 - **Reports on Contributors’ Funding Balances**

1. Reporting on the use of Contributors’ funds shall be on the basis of cash.

2. The Director General shall issue to the Administrative and Finance Committee quarterly reports showing, for each Contributor:
   - the balance of past Contributions as of the beginning of the financial year;
   - Contributions received during the financial year;
   - operations resulting from the adjustments of Contributions;
   - drawings made on the funds for the purpose of disbursement needs;
   - the Funding Balance indicating any deficit referred to in Article 20.2 d) and e).
ARTICLE 22 - **Scales of Contributions**

Where scales of contributions are based on national income, the statistics used are those for net national product at factor cost drawn up for the latest three years by the national statistics offices of Contributors and issued in official statistical bulletins giving comparable figures for the Contributor concerned. Should such statistics not be available for a given Contributor, a provisional scale of contributions shall be established on the basis of best estimates and updated as soon as the statistics become available with retroactive effect. Should the data required to establish the final scale of contributions not be available at the end of the period to which the provisional contribution scales apply, the latest version of the provisional scale of contributions shall be considered final and Contributions shall no longer be retroactively adjusted.

ARTICLE 23 - **Adjustment of Contributions**

1. Contributions shall be adjusted if any of the following circumstances arise:

   a) upon an agreed revision of the scales of contributions or of the financial envelope of an optional Programme; adjustments resulting from new participants joining the Programme after expiration of the subscription period or from existing participants increasing their Contribution shall take into account the impact of the time value of the funds, unless the new participant is a new Member State having acceded to the Convention after expiration of the subscription period of the financial envelope concerned and having become a Programme participant within a period of four (4) months after accession to the Convention;

   b) upon adjustment to industrial return requirements as provided for in the corresponding Programme Declaration; intermediate adjustment to industrial return requirements shall be calculated every second year for Programmes with a guaranteed return of 1 on the basis of the most recent data on distribution of work forecast at completion of the Programme; final adjustment at completion of the Programme will be calculated and implemented as provided for in the corresponding programmatic instrument;

   c) if a Contributor has, in accordance with applicable rules and procedures, transferred Contributions which were already called up or used, from one Programme to another;

   d) upon accession of a new Member State, or conclusion of an agreement with an associate or cooperating State to ensure that the proper equilibrium in the contribution scales to the mandatory activities is respected;

   e) upon discontinuation or completion of an optional Programme.

2. Adjustments of Contributions shall be carried out as far as possible within the financial planning profiles of Contributors and shall be submitted to the Administrative and Finance Committee for information.
3. Adjustments which cannot be absorbed in this manner shall be submitted to the Administrative and Finance Committee for decision and approval of the modalities of settlement of the relevant amounts between Contributors. In principle, the corresponding Contributions shall be settled at the third call-up of the following year, unless otherwise agreed by the Administrative and Finance Committee.

4. Adjustments of Contributions shall be carried out once a year and subsequently be presented to the Administrative and Finance Committee. The consequences shall be reflected in the report on Contributors’ Financial Obligations.

ARTICLE 24 - Principles Applicable to Annual Budgets

1. The Annual Budgets shall be the funding instruments for the implementation of the Agency’s activities and Programmes totally or partially funded by Contributors. Activities funded by Other Funding Entities shall, as necessary and appropriate, also be covered by individual Annual Budgets. The adoption of a Budget by Council shall be binding on the Contributors and authorises the Director General to call up the corresponding Contributions.

2. The Annual Budgets shall provide Contributors with a transparent and stable funding framework within which to meet their multi-annual Financial Obligations while ensuring optimal execution of the Agency-approved activities and Programmes.

3. The basis for preparation of the Agency’s Annual Budgets shall be the Cost Plans, which are submitted to the relevant subordinate body in accordance with Article 17.4. The annual cash disbursement consolidated at Agency level for year n+1 shall be derived from the consolidation of recommended Cost Plans and their comparison with Contributors’ affordability, with a view to ensuring the Agency’s solvency.

4. The Annual Budgets shall be established taking into consideration the remaining Financial Obligations of the Contributors, the estimated status of their Funding Balances at year end, their funding capacity, projections for the situation of the Agency’s General Treasury, planned income from other sources and planned cash disbursement needs for activities and Programmes.

5. The draft Annual Budgets shall be established and issued for the Administrative and Finance Committee by 15 September or fourteen days before the September meeting of the Administrative and Finance Committee, whichever is earlier.

6. The Administrative and Finance Committee shall forward to Council its recommendations on the draft Annual Budgets in time for adoption by Council at the latest at its last meeting of the financial year.

7. Following closure of the annual accounts, the Director General shall submit for decision to the Administrative and Finance Committee a proposal for the allocation of any Excess Other Income generated from the General Budget.
ARTICLE 25 - Annual Budgets

1. The Budgets shall show the level of Contributions to be called up for the next financial year and income from other Funding Entities and sources, when applicable, per Contributor and Other Funding Entity, per funded Programme and activity.

2. Annual Budgets shall be established for:

   a) the General Budget for the mandatory activities:
      - basic activities, as referred to in Article V, 1a (i) of the Convention, and including the Common Infrastructure investments referred to in the Common Infrastructure Plan;
      - the scientific programme;
    the Budget for the mandatory activities shall be supported by additional information on cost planning relevant to the basic activities, and scientific projects;

   b) Budgets Associated with the General Budget which have been established by Council by unanimous decision of all Member States;

   c) optional Programmes;

   d) activities referred to in Article III.2 of Annex II to the Convention.

3. The Annual Budgets shall be accompanied by information on planned workforce levels and on the planned level of Indirect Costs and corresponding cash disbursements.

ARTICLE 26 - Revised Budgets

1. During annual execution, draft revised Budgets shall, if necessary, be submitted to the Administrative and Finance Committee for recommendation to Council to reflect approved Programme changes, changes in planned activities or in a Contributor’s affordability.

2. When a Programme Declaration provides for increases in Contributions to be considered automatically approved by simple notification of the Agency, a revised Budget shall be issued to the Administrative and Finance Committee for information.

3. A revised Budget will be issued to the Administrative and Finance Committee for information when a Contributor wishes to increase or bring forward the payment of its Contributions.

4. A revised Budget may be issued to the Administrative and Finance Committee for information when a Participating State has, in accordance with the applicable rules and procedures, transferred Contributions from one Programme to another.
5. A revised Budget shall be submitted to the Administrative and Finance Committee for adoption in any other case where a budget revision during annual execution is required that does not affect the overall level of Contributions of the Agency’s Annual Budgets and is not covered by paragraphs 1 to 4 of this Article. The Administrative and Finance Committee shall also adopt the budgets for approved Programmes during annual budget execution.

ARTICLE 27 - Absence of Budget Adoption

1. If a draft Budget has not been adopted before the start of the financial year to which it relates, the Director General shall be authorised to call up the Contributions representing 30% of the corresponding annual funding request by 31 January at the latest. The subsequent calls for Contributions shall take account of the calls already made and of the planned disbursements up to the date of the next call-up.

2. The corresponding draft Budget shall be discussed in iterations between the Contributors and the Administrative and Finance Committee during the first half of the financial year to which it applies with a view to being adopted by 30 June. Beyond this date, the Director General shall be entitled to a second call-up of 35% of the corresponding annual funding request and shall submit proposals to the Contributors for the continuation of the related programme activities.

ARTICLE 28 - Budgetary Process for Activities Funded by Other Sources

Specific financial provisions allowing for the budgetary process of the Agency to be recognised and implemented shall be included in the agreements governing the Agency's activities partially or totally funded by sources other than Contributions.

ARTICLE 29 - Report on Contributors’ Financial Obligations

1. The Director General shall draw up and keep up-to-date a report on Contributors’ Financial Obligations in respect of the Agency's activities and Programmes. It shall be issued in support of the draft Budgets and adopted Budgets in case of variations between them.

2. The report on Contributors’ Financial Obligations shall show, for each Contributor, its total past budgeted Contributions and remaining Financial Obligations per Programme Declaration in force, for which Contributions are planned to be called up, under the Level of Resources and for each Budget Associated with the General Budget. It shall be consistent with the Long-Term Plan and provide a complete picture of the funding situation by Contributor and by activity or Programme. It shall also provide information on the Cost-at-Completion of optional Programmes.
V - FINANCIAL CONTROL

ARTICLE 30 - Commitment Ceilings

1. The Commitment Ceiling is an *a priori* control tool to ensure that costs and Levies are kept within the Financial Obligations undertaken by Contributors and Other Funding Entities. For each approved activity or Programme, overall authorised costs and Levies shall not exceed a ceiling covering total activity or Programme duration.

2. For optional Programmes, the Commitment Ceilings shall initially be established on the basis of 100% of the subscribed financial envelope and, in case of oversubscription, of 100% of the indicative financial envelope.

3. For activities to be funded by the Budget for the scientific programme, the Commitment Ceilings shall reflect the Cost-at-Completion information submitted to the Science Programme Committee.

4. For activities to be funded by the Budget for the basic activities or Budgets Associated with the General Budget, Commitment Ceilings shall be established according to the Level of Resources in force or according to approved multi-year Cost Plans as necessary.

5. Commitment Ceilings governing activities referred to in Article III.2 of Annex II to the Convention shall be established on the basis of the relevant contracts or agreements in force.

6. For Programmes funded both through Contributions from Participating States and through other sources, the Commitment Ceiling shall be established by the combined application of sections 2 and 5 of this Article.

7. Commitment Ceilings shall be provided annually for information to the Administrative and Finance Committee and the competent subordinate bodies, in support of the corresponding funding requests.

ARTICLE 31 - Modification of Commitment Ceilings

1. Annual updates of the Commitment Ceiling per Programme or activity shall be calculated to reflect the overall amount of Commitments authorised and planned for the following years. This level of authorised Commitments is obtained after deduction of cumulative usage of Commitment Ceilings from the initial ceiling updated according to the results of the backdating exercise, where applicable.

2. If the estimated Cost-at-Completion of an optional Programme exceeds 100% of the subscribed financial envelope, participating States shall be informed or invited to decide on such an increase in accordance with the applicable rules. The Commitment Ceilings shall be increased accordingly.
3. If the estimated Cost-at-Completion of an optional Programme exceeds 120% of the subscribed financial envelope, separate Commitment Ceilings shall be established for commitments beyond the threshold of 120%.

4. The Commitment Ceilings shall be revised following revisions of the underlying legal instruments referred to in Article 30.2 to 30.6 and/or receipt of additional income.

ARTICLE 32 - Cash Control

For the activities funded by the Level of Resources and for the activities funded by Budgets Associated with the General Budget, the total cash disbursements for the first three years of the approved five-year period of the Level of Resources or the valid period for activities funded by Budgets Associated with the General Budget shall not exceed the total funding indicated by Council for the same three years when establishing the Level of Resources or the Budgets Associated with the General Budget.
VI - TREASURY MANAGEMENT

ARTICLE 33 - Principles

1. Liquidities for the Agency's activities and Programmes funded by Contributions shall be managed as a General Treasury. The Director General shall prudently invest monies not needed in the short term and take appropriate measures to mitigate any exchange risk.

2. The funds invested in the pension buffer fund are managed as a Separate Treasury.

3. Where appropriate, Separate Treasuries shall be set up by Council decision to manage activities and Programmes funded wholly or in part from sources other than Contributions. The utilisation of funds from the General Treasury to meet disbursements related to activities and Programmes managed under Separate Treasuries shall be avoided and, in any event, shall be subject to immediate financial compensation.

4. Net currency exchange gains or losses shall be recognised as Revenue or cost incurred and credited or charged accordingly to the General Budget in the same year.

5. Treasury management and performance reporting, including cash flow forecasts, variances, treasury status, status on outstanding Contributions, interest earned, exchange differences and related bank account evolution shall be reported regularly to the Administrative and Finance Committee.

ARTICLE 34 - Contributions

1. Contributions shall be due each year on the basis of the adopted Annual Budgets according to the following schedule:
   - 40% on 31 January at the latest (1st instalment);
   - 40% on 30 June at the latest (2nd instalment);
   - 20% on 31 October at the latest (3rd instalment).
Call-up of these instalments shall be issued at least six weeks before the due dates.

2. Provided that the Annual Budgets have been adopted and a funding requirement exists, the Director General may, after approval by the Administrative and Finance Committee, ask the Contributors to pay part or the entirety of the Contributions in advance of the due dates. If circumstances do not necessitate advances from all Contributors, the Director General may ask for advances from individual Contributors. The advances shall be deducted from the relevant Contributors’ next payment of Contributions.

3. Contributions related to revised Budgets shall be due within four weeks following (i) the adoption of the corresponding revised Budget by Council or the Administrative and Finance Committee, as the case may be, or (ii) the submission of the revised budget to the Administrative and Finance Committee.
ARTICLE 35 - Loans

1. If a Contributor does not pay its Contribution by the due date, the Agency shall cover the outstanding Contribution by taking up a loan, as follows:

   a) If there are sufficient funds in the General Treasury, the Director General shall, in the first instance, make recourse to the Agency’s General Treasury, so as to minimise use of external sources of financing. In this case the Contributor concerned shall fully compensate the General Treasury for the loss of interest so incurred, except during a four-week time period following the due date of the first call-up referred to in Article 34;

   b) Should there be insufficient funds in the General Treasury for the purposes described above, the Director General may contract a bank loan after having informed the Contributor concerned on the proposed arrangement of a loan and its conditions. Interest charges and all other financial costs associated with the loan shall be borne in full by the Contributor concerned. If more than one Contributor have outstanding Contributions, each of them shall be informed and bear the interest charges and all other financial costs associated with the corresponding bank loans in proportion to its outstanding Contributions.

2. This borrowing mechanism shall be without prejudice to the application of the provisions of Article XI.6.b of the Convention concerning voting rights where a Member State’s Contributions are in arrears. For the application of Article XI.6b of the Convention only the overall situation of a Contributor regarding all Agency activities and Programmes shall be considered. The Director General shall notify Council three times a year, i.e. after the due date of each of the three instalments referred to in Article 34, of the status of outstanding Contributions for the application of Article XI.6b of the Convention.

3. In exceptional cases, the Director General, after having obtained authority from the Administrative and Finance Committee, may contract loans to cover the Agency’s financial requirements. The conditions applying to this type of funding shall require the approval of the Administrative and Finance Committee. Any Contributor may opt not to avail itself of the loan but instead pay a Contribution to meet its share of the agreed funding.

4. The Agency shall not act as guarantor for a loan taken out by a third party or to cover overdue income without prior authorisation from the Administrative and Finance Committee.

5. Pre-financing by industry for Programme purposes which results in additional charges to be borne by the Agency’s Budgets shall not be allowed.

ARTICLE 36 – Loan Modalities

1. Should the Director General make recourse to the General Treasury to cover outstanding Contributions in accordance with Article 35.1.(a), the rate of interest to be charged to the defaulting Contributor shall be that established on 31 March and 30 September on the basis of the General Treasury opportunity cost observed during the preceding six months. Should
the aforementioned rate be negative due to the general market situation, the rate of interest to be charged to the defaulting Contributor shall be the prevailing European Central Bank rate on the marginal lending facility.

2. For the distribution of the financial costs among defaulting Contributors in accordance with Article 35.1 (b), the Director General shall not take into account, during the four-week time period following the due date of the first call-up (referred to in Article 34) Contributions outstanding from this call-up, as long as the overall amount of the bank loans does not exceed the amount of Contributions outstanding from previous call-ups.

3. Any interest charges and financial cost to be paid during the year n by a defaulting Contributor according to Article 35.1(a) or (b) and relating to the year n shall be due on the date of the third call-up (referred to in Article 34) of the year n+1.
VII - COST MANAGEMENT

ARTICLE 37 - Cost Management Framework

1. The Director General shall define and implement an Agency-wide cost management framework which shall be compliant with cost accounting best practice, and enable ready compliance with the requirements of Contributors as well as those of Other Funding Entities.

2. The primary purpose of the cost management framework is to allow proper identification and measurement of costs in a transparent and efficient manner.

3. The cost management framework shall allow monitoring of the Cost-to-Completion and Cost-at-Completion of the activities and Programmes managed by the Agency. It shall identify Direct and Indirect Costs and define cost allocation keys with a view to attributing directly as much cost as possible according to usage.

ARTICLE 38 - Cost Structure

1. The cost structure shall be based on accounting principles to allow cost identification and monitoring. It shall provide the basis for charging Direct and Indirect Costs to activities and Programmes using appropriate criteria.

2. Direct Costs include purchasing costs and costs for manpower support and technical facilities. Direct Costs shall be allocated as follows:
   
   - purchasing costs, including running expenses, shall be allocated directly to the activities and Programmes according to a work breakdown structure applicable throughout the Agency;
   
   - costs for manpower and technical facilities shall be allocated to activities and Programmes using charging rates. These rates include the corresponding Directorate’s own costs.

3. Indirect Costs include costs for general and administrative activities including corporate governance functions, facility management and activities related to corporate IT infrastructure. Indirect Costs shall be attributed to activities and Programmes via allocation keys as follows:
   
   - costs for corporate governance shall be allocated in proportion to Direct Costs;
   
   - costs for administrative support, facility management and corporate IT infrastructure shall be allocated in proportion to manpower.
ARTICLE 39 - General and Administrative Cost Plan

The Director General shall propose, in phase with the decision on the Level of Resources, a plan for general and administrative costs, which shall be submitted to the Administrative and Finance Committee for recommendation and to Council for approval of the related cost ceiling for the following three years. This General and Administrative Cost Plan shall also give an indication of the general and administrative costs for the fourth and fifth year. If, within the three-year period, there are significant deviations from the original planning, the Director General shall make a proposal for an update of the General and Administrative Cost Plan.
VIII - USE OF THE AGENCY’S FACILITIES AND SERVICES

ARTICLE 40 - Principles

1. The Agency's expertise, facilities, services or products related to activities and Programmes outside the scope of Article V.1 of the Convention may only be made available in accordance with the principle that Full Costs shall be borne by the requesting party, except as otherwise decided by Council.

2. These activities must be carried out in accordance with the purpose of the Agency as defined in Article II of the Convention and may not interfere with the efficient accomplishment of the Agency’s activities and Programmes.

3. These activities shall be considered official activities of the Agency in the sense of Article VII.2 of Annex I to the Convention. They shall be covered by the privileges and immunities applicable to official activities of the Agency and in particular by Article V and VI of Annex I to the Convention.
IX - ACCOUNTING

ARTICLE 41 - Accounting System

1. The Agency's accounting system incorporates both financial accounting and analytical cost accounting. The Agency's financial accounting system shall follow the principles of accrual accounting in accordance with International Public Sector Accounting Standards (IPSAS).

2. All Contributions and Revenue, financial transactions, gifts, legacies, grants, and other subsidies shall be entered in the Agency's accounts on an Accrual Basis.

ARTICLE 42 - Chart of Accounts

The Agency's chart of accounts shall be designed to meet the accounting requirements of IPSAS and the reporting needs of Contributors.

ARTICLE 43 - Financial Statements

1. The financial statements shall be prepared in accordance with IPSAS. The principles adopted and the manner in which they are applied shall be set forth in the note on accounting policies accompanying each period’s financial statements.

2. The financial statements shall comprise:
   - Statement of financial position;
   - Statement of financial performance;
   - Statement of changes in net assets/equity;
   - Cash flow statement;
   - Accounting policies and notes to the financial statements.

3. In addition to the budget reporting required by IPSAS, the financial statements shall be accompanied by a report on Annual Budget execution and utilisation of funds showing budgeted contributions and actual cash disbursements per Programme. An explanation of the reasons for material differences between budgeted and actual amounts shall be provided.

4. The Director General shall submit the draft financial statements to the Audit Commission by 15 March following the end of the financial year to which they relate.
ARTICLE 44 - Asset Management

1. Tangible and intangible Fixed Assets, including space segment Fixed Assets and any intellectual property rights or patents, acquired by the Agency and exceeding a fixed threshold value of 5,000 euros shall be capitalised and depreciated according to their useful life.

2. The Director General shall adhere to a standard depreciation policy in accordance with IPSAS. The depreciable amount of the Fixed Assets shall be allocated on a systematic basis over their useful life.

3. The Director General may authorise the write-off of losses provided that the statement of all write-offs is disclosed in the financial statements submitted to the Audit Commission. Write-off of losses shall be treated in compliance with the accounting policies adopted by the Agency and a provision corresponding to the risk of such postings shall be recorded in a dedicated account. Reports concerning such transactions shall be submitted to the Administrative and Finance Committee for information. Incidents of this kind exceeding 500,000 euros shall be submitted to the Administrative and Finance Committee for approval. Write-offs of receivables from Contributors or their tax administrations shall not be permitted unless approval is obtained from the Administrative and Finance Committee.

4. The Director General may authorise the transfer of ownership of redundant or unserviceable Fixed Assets with a net accounting value below 50,000 euros per item, above which limit the authorisation of the Administrative and Finance Committee shall be sought.

ARTICLE 45 - Programme Completion

1. On completion of a Programme, the Director General shall notify the Participating States thereof in accordance with the implementing rules and submit the final accounts of the Programme to them. The final accounts shall be broken down by year and, as the case may be, by Programme element or component for the entire duration of the Programme.

2. The final accounts shall be accompanied by a narrative report giving major Programme milestones and any deviations from the initial Declaration, together with their financial consequences. As appropriate, the final accounts shall further include the final backdating to the economic conditions of the initial financial envelope of the Declaration.

3. Programmes further subdivided into phases shall be completed from the financial point of view and unused Contributions shall be transferred to subsequent phases whenever possible or applicable with the agreement of the Participating States.

4. A register of all property still owned by the Agency at Programme completion shall accompany the final accounts. This shall include Fixed Assets (tangible and intangible), patents and other intellectual property.

5. On the basis of the final accounts, the Participating States shall take note of the completion of the corresponding Programme or activity.
X - CONTROLLING AND REPORTING

ARTICLE 46 - General principles

The Director General shall maintain cost controlling structures and processes for the purpose of delivering timely planning and reporting information to the Agency's decision-making bodies.

ARTICLE 47 - Reporting on Cost-at-Completion

1. The Director General shall report once a year to the Administrative and Finance Committee, and in principle on a quarterly basis to the Programme delegate bodies, on the evolution of the total costs and Levies on which financial envelopes defined in Programme Declarations and approved activities are based, showing actual costs and Levies incurred and estimated trends on the basis of all information available at the date of the report. The report shall indicate when the evolution of actual costs and Levies incurred and forecasts based on the most recent information available make it possible to determine that a Programme’s financial envelope is approaching either a hundred or a hundred and twenty per cent of its total subscribed amount.

2. For financial envelopes expressed at constant economic conditions, a backdating of costs and Levies shall be carried out by applying ESA Conversion Rates and the Harmonised Index of Consumer Prices (HICP), or in exceptional circumstances, sector-specific price indices as decided by the Administrative and Finance Committee.

ARTICLE 48 - Performance Assessment and Reporting

1. The Director General shall ensure the monitoring and control of the evolution of Indirect Costs in accordance with the General and Administrative Cost Plan referred to in Article 39. He shall carry out an annual review of the volume of activities of the direct and indirect analysis centres, the associated rates and allocation keys.

2. The Director General shall establish a set of key performance indicators as a tool for monitoring the achievement of the Agency's objectives and the progress of activities and Programmes. An annual report on performance, including, as necessary and appropriate, proposals for corrective measures, shall be issued to the Administrative and Finance Committee and to Council by the end of the financial year.
XI - INTERNAL CONTROL AND AUDIT

ARTICLE 49 - Internal Control

The Director General shall implement an overall system of internal control to provide reasonable assurance regarding the achievement of objectives in terms of effectiveness and efficiency of operations, reliability of financial and operational reporting and compliance with applicable laws and regulations. The internal control process shall be performed by Directors, management and other Agency staff, and shall consist of an adequate risk assessment and control environment, made up of control activities, information communication and monitoring. It shall be designed to ensure that:

- objectives are established and risks are appropriately identified, assessed and managed;
- financial and operational information is complete, accurate, reliable and timely;
- interaction with governance bodies occurs openly and regularly;
- Activities and decisions of the Agency and its staff comply with approved rules and regulations, and with applicable policies, procedures and instructions;
- required resources are acquired economically and operated efficiently and effectively for the purposes and objectives of the Agency, in accordance with the principle of sound financial management;
- Assets of the organisation are safeguarded through the establishment and effective implementation of procedures to prevent, detect, inquire into and remedy errors, irregularities and fraud, which complement the relevant rules and regulations.

ARTICLE 50 - Internal Audit Service

1. For the carrying out of his duties as set out in in Article 49 above, the Director General shall be assisted by an internal audit service, independent of the operational activities of the organisation, which shall assess and report directly to him on the effectiveness of the internal control system.

2. The Internal Audit Service shall also evaluate the economic effectiveness of the Agency's internal operation policies and initiatives, the application of the principles of efficiency and economy and optimum use of the Agency's resources, and shall verify by audit or evaluation that the policies, procedures, implementation, systems and data regarding management control and risk management are suited to their intended purpose. In this regard, the internal audit service shall recommend to the Director General any policy improvements or corrective action it may deem necessary and appropriate, and shall assess their implementation.

3. The internal audit service shall assess and make appropriate recommendations regarding the governance of the Agency, how it implements the principles of transparency and accountability, and how it accomplishes the objectives of:

- promoting appropriate ethics and values within the Agency;
- ensuring effective organisational performance management and accountability;
- communicating risk and control information to the appropriate areas of the Agency’s management, and
- communicating pertinent information to the Council, the Audit Commission, and the Director General.

4. The internal audit service shall conduct audits in conformity with generally accepted internal auditing standards.

5. The Agency's Staff Rules shall make provisions to safeguard the independence of the internal auditors in the performance of their duties.

6. All measures concerning these officers in the matter of disciplinary sanction or transfer, as well as the various procedures for suspending or terminating their duties, shall be laid down in reasoned decisions which shall be communicated to the Administrative and Finance Committee unless the officer concerned requests that this shall not be done.

ARTICLE 51 - Relations with the Audit Commission

1. The Head of the Internal Audit Service has a right to communicate with the Audit Commission if and when deemed necessary.

2. The Audit Commission shall be notified annually of all suspected or known instances of fraud affecting the financial statements.
XII - EXTERNAL AUDIT

ARTICLE 52 - Duties and Composition

1. Pursuant to the provisions of Annex II to the Convention, the Audit Commission shall carry out an audit of the financial statements of the Agency, prepared in accordance with IPSAS, as stated under Chapter IX, Article 43 of these Financial Regulations. The Audit Commission reports on the compliance of the administration and management of the Agency’s resources with the general principles set forth in these Regulations.

2. The composition and terms of reference of the Audit Commission are provided in Annex II to the Financial Regulations.

ARTICLE 53 - Annual Report on the Audit of the Agency's Financial Statements

1. The Audit Commission shall report annually to Council, providing an audit opinion, that includes the aspect of regularity, on the financial statements of the Agency.

2. The final audited financial statements, together with the audit opinion and report of the Audit Commission, accompanied by any comments by the Director General, shall be made available to the Administrative and Finance Committee and Council by 1 May of each year.

3. The Administrative and Finance Committee shall examine the Audit Commission's report on the audit of the Agency's financial statements, subsequent to which the Administrative and Finance Committee Chair shall submit a report thereon to Council. The Administrative and Finance Committee may take the Commission's report as a basis for any resolutions or recommendations adopted or made within its area of responsibility.

4. By 31 October of each year, the Director General shall submit to Council for approval and discharge for his financial management the audited financial statements of the previous year. After examining the Commission's report and the Director General's comments thereon, and taking into consideration any resolutions or recommendations adopted by the Administrative and Finance Committee, Council, if satisfied with the Director General's management of the Agency's finances, shall give the Director General discharge.

ARTICLE 54 - Reports on the Administration and Management of the Agency

1. The Audit Commission makes observations and reports on the compliance of the administration and management of the Agency’s resources in accordance with the general principles set forth in these Regulations. These reports to the Administrative and Finance Committee and Council will be in addition to the annual report on the audit of the financial statements.
2. The Commission shall submit these draft reports to the Director General. The Director General shall agree on a mutually acceptable timescale with the Audit Commission for submission of his comments on the draft reports.

3. The Audit Commission's reports, accompanied by the associated comments from the Director General, shall be submitted to the Administrative and Finance Committee and the subordinate body best qualified to perform their examination.

4. Council and the Administrative and Finance Committee shall be informed of the outcome of this process. They may take the Commission's reports as a basis for any resolutions or recommendations adopted or made within their area of responsibility.

5. Council or the Administrative and Finance Committee may also, within their respective areas of responsibility, request that the Audit Commission perform specific examinations and issue separate reports thereon.
ANNEX I - DEFINITIONS

For the purpose of applying the relevant provisions of the Convention and of these Regulations, the following definitions of terms or expressions are used:

**Accounting Officer**
A Finance Department officer in charge of, implementing payments, collecting revenue, managing treasury and preparing the financial statements in accordance with the financial rules in place.

**Accrual Basis**
Basis of accounting under which transactions and other events are recognised when they occur (and not only when cash or its equivalent is received or paid). Therefore, transactions and events are recorded in the accounting records and recognised in the financial statements in the period to which they relate. The elements recognised under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.

**Annual Budget**
An Annual Budget is the act whereby Council accords the necessary annual financial resources for the carrying out of an Agency activity or Programme. It determines the amount of Contributions to be provided by the Contributors and, as the case may be, the amount of income to be provided by Other Funding Entities.

**Assets**
Resources originating from past events and from which future economic benefits or service potential are expected to flow to the Agency (the items stated on the left side of a balance sheet, including current and non-current Assets).

**Authorising Officer**
A staff member to whom is delegated the responsibility to make commitments, validate expense and authorise payments, ensuring through a sound and efficient control system that legality and regulatory requirements are complied with.

**Budgets Associated with the General Budget**
Budgets unanimously established by Council for specific activities. They create Financial Obligations for Contributors in addition to the Level of Resources and to financial envelopes for optional Programmes.

**Commitment**
Any financial commitment undertaken by the Agency in the framework of its activities and Programmes.
**Commitment Ceiling**
The upper multi-year financial limit authorised on an activity or Programme. It is an *a priori* control tool to ensure that costs and Levies are kept within the Financial Obligations undertaken by Contributors and Other Funding Entities.

**Common Infrastructure**
Common ESA-wide fixed assets (property, plant or equipment) which are available to and potentially benefit a significant fraction of the ESA Programmes and activities and/or are of strategic interest to the Agency and/or necessary in order to comply with ESA’s legal or statutory provisions.

**Contribution**
Funding provided to the Agency by a Contributor according to its Financial Obligations in the mandatory activities and optional Programmes.

**Contributor**
This term shall encompass Member and Participating States legally bound to pay Contributions to the Agency.

**Contributing Entity**
This term refers to any entity within a Contributor which provides contributions to the Agency.

**Cost-at-Completion**
Total cost of a Programme or project, from the year it started to the year of completion. It is expressed in euros and in the case of an optional programme, as a percentage of the subscribed financial envelope.

**Cost-to-Completion**
Estimated remaining cost of a Programme or project from the current date until its expected date of completion.

**Cost Plan**
Cost Plans show all Direct and Indirect Costs and Levies planned to be incurred on a given Programme or activity for its duration.

**Direct Cost(s)**
Direct Costs are those costs which can be specifically identified to a specific activity, Programme or project and traced to it in an economically feasible way. Direct Costs include purchasing costs and costs for manpower support and technical facilities.
**Economic Conditions (e.c.)**

Economic Conditions refer to the values in which financial amounts are expressed, in relation to a reference period. The economic conditions can be of a given year, referred to as constant e.c., or each year in its own economic conditions, referred to as current e.c., that take into account the effect of inflation. At the Agency, either constant or current e.c. is used.

In most cases, reports are in mixed economic conditions, i.e. in current e.c. for the past and year n and in constant e.c. of year n+1 for future years.

Programmes whose financial envelopes are expressed at **constant economic conditions** of a given year are subject to backdating procedures applying the relevant inflationary index to the annual cost.

Programmes whose financial envelopes are expressed at **current economic conditions** are not subject to backdating procedures because inflation assumptions are already embedded in the financial envelope.

For reporting to Member States, documents shall indicate the type of economic conditions and the inflationary indices used.

**ESA Conversion rates**

Currency conversion rates defined in financial instructions.

**Excess Other Income**

Income which exceeds amounts forecast and included in the Annual Budgets.

**Expenses**

Decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of Assets or incurrence of liabilities that results in decreases in net assets/equity.

**Financial Obligation**

A Contributor’s Financial Obligation corresponds to its share of the total costs of a given approved activity or of a given approved Programme to which it has subscribed.

**Fixed Asset**

Tangible (property, plant or equipment) or intangible Assets acquired by the Agency on its own, or on behalf of participating States in an optional programme having a useful life of over one year, whose acquisition value exceeds 5,000 euros and which is capitalised in the Agency accounts.

**Full Costs**

Sum of all Direct Costs, Indirect Costs and Levies.
Funding Balance

The Funding Balance shows for any given ongoing activity or Programme the difference between the Contributions paid by a Contributor on the basis of adopted budgets and its nominally required share of actual disbursements

- according to the scale of contributions for mandatory activities or
- the corresponding Normalised Contribution Scale in ongoing optional Programmes.

Consolidated Funding Balance

A Contributor's Consolidated Funding Balance is the consolidation of all its individual activity and Programme Funding Balances.

Final Consolidated Funding Balance

The Final Consolidated Funding Balance is the actual quarterly funding balances for a given year consolidated at Contributor level after closure of the accounts.

Yearly Average Funding Balance (YAFB)

The YAFB is the average of the four quarterly funding balance averages obtained from the consolidated quarterly funding balances for a given year.

Quarterly Funding Balance

The quarterly funding balance is the calculation of the funding balance every three months. For a given year n four quarterly funding balances are calculated.

General Budget

The budget for the mandatory activities referred to in Article IV.1.a of Annex II to the Convention.

General Treasury

The pooling of all liquidities of activities and Programmes that are not allocated to separate treasuries under the provisions of these Regulations.

Harmonised Index of Consumer Prices ("HICP")

Harmonised Index of Consumer Prices prepared by Eurostat in collaboration with the corresponding national statistics offices on a monthly basis covering the preceding 12-month period and designed for international comparisons of price variations. The Agency uses the Euro Area Index.
Indirect Costs

Indirect Costs are costs which are incurred for common purposes and cannot be attributed to a specific activity, Programme or project in an economically feasible way. Indirect Costs include costs for general and administrative activities including corporate governance functions, facility management and activities related to corporate IT infrastructure.

Level of Resources (LOR)

The Level of Resources of the Agency is the five-year overall Financial Obligation of all Contributors for the funding of the mandatory basic activities and the scientific programme referred to in Article V, 1a (i) and (ii) of the Convention. It is revised by a unanimous decision of Council towards the end of the third year of each five-year period for a new five-year period pursuant to the provisions of Article XI, 5a (iii) of the Convention.

Levies

Levies are an internal mechanism for collecting resources equally and proportionally from approved activities and Programmes for a specific purpose in accordance with a decision taken by Council.

Long-Term Plan (LTP)

Top-level draft strategic document established by the Director General covering all Agency activities and programmes over a 10-year period.

Medium-Term Financial Plan

The Medium-Term Financial Plan is a financial planning document, which shall include cash disbursement planning and income projections together with the associated analysis.

Normalised Contribution Scale

Mathematical adjustment (upwards or downwards) of percentages of subscriptions in a Programme Declaration so as to reach a total of 100 per cent in the calculation of the Contributions while maintaining the relative share of each Contributor.

(optional) Programme

Any optional activity carried out in the framework of a Programme Declaration agreed pursuant to Article V, 1b) and Annex III to the Convention.

Other Funding Entities

Entities other than Contributors legally bound to provide funding to the Agency under agreements concluded in accordance with the Agency’s rules and procedures.
**Other Income**
Income received from funding sources other than Contributors or Other Funding Entities.

**Participating State**
Any Member, associate or cooperating State legally committed under the provisions of an optional Programme Declaration pursuant to the provisions of Annex III to the Convention.

**Revenue**
Gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity.

**Separate Treasury**
Liquidities earmarked for specific activities and Programmes as decided by Council.
ANNEX II

COMPOSITION AND TERMS OF REFERENCE OF THE AUDIT COMMISSION

I – Composition and Resources

1. The Audit Commission shall consist of four members whose period of office shall be four years (from 1 October of year n to 30 September of year n+4).

2. The Council shall designate, by a two-thirds majority of all Member States, the Member States which, in rotation on an equitable basis, shall be invited to nominate auditors, preferably from among their experienced audit officials, to serve on this Commission. One member of the Audit Commission shall serve as Chair during the penultimate year of his/her mandate.

3. The Audit Commission:
   (a) shall be assisted in particular for the annual audit of the Agency’s financial Statements referred to in Article 53 of these Regulations by an internationally recognised audit firm, which shall be selected in accordance with the Agency’s procurement regulations with the following proviso; in order to grant the complete independence of the procedure, the Tender Evaluation Board shall be composed of the Members of the Audit Commission and the Chair of the Administrative and Finance Committee and be chaired by the Chair of the Audit Commission; the Director General shall provide technical assistance and appoint staff members as experts in the process; the Chair of the Audit Commission shall inform the Administrative and Finance Committee about the outcome of the selection procedure; the Audit Commission shall be responsible for the supervision, evaluation and approval of the work performed and services delivered by the audit firm;
   
   (b) may be assisted by experts who shall be responsible to the Audit Commission and who shall be appointed by the Administrative and Finance Committee upon proposal of the Audit Commission; the Audit Commission shall include in its proposal an explanation of its choice and the estimated costs for the expert(s).

4. The Director General shall provide the necessary support to the Audit Commission for administrative and secretarial tasks.

5. The activities of the Audit Commission shall be funded by dedicated resources covering the cost for:
   - the Audit Commission in accordance with Section III.3 below;
   - the audit firm selected in accordance with Paragraph 3(a) above to assist the Audit Commission;
   - any expert appointed in accordance with Paragraph 3(b) above.
The Director General shall provide the Administrative and Finance Committee with a dedicated annual report on the costs incurred by the Audit Commission.

II - Functions

1. The Audit Commission shall carry out an audit of the financial statements of the Agency, prepared in accordance with Chapter IX, Article 43, of these Regulations.

2. The Audit Commission shall prepare an annual report on the financial statements and shall express an opinion, including the aspect of regularity, on the financial statements of the Agency within the framework of and in accordance with the International Auditing Standards to which it refers and operates. The Audit Commission shall also report on its auditing activities during the corresponding financial year and the services provided by audit firms or experts.

3. The Audit Commission may make observations and report on the administration and management of the Agency’s resources in accordance with the general principles of these Regulations. These reports may be in addition to the annual report on the financial statements.

4. The Audit Commission shall provide the Administrative and Finance Committee, by 15 September of year n, with the annual audit workplan for the year n+1; this annual audit workplan shall remain within the limits of the resources mentioned under Section I.5 above and shall include a cost estimate.

5. The Audit Commission shall draw up its own rules of internal functioning.

III - Status

1. The members of the Audit Commission shall be completely independent. They shall be solely and directly responsible for the audit and accountable towards Council and the Administrative and Finance Committee for carrying out their functions in accordance with Annex II to the Convention, these Regulations and their Annexes.

2. The members of the Audit Commission shall enjoy the privileges and immunities provided for in Article XVII of Annex I to the Convention. The audit firm selected in accordance with Section I.3 (a) above and the experts appointed in accordance with Section I.3 (b) above shall, for the purposes of the work performed for and the services delivered to the Audit Commission, enjoy the privileges and immunities provided for in Article XVII of Annex I to the Convention.

3. Mission expenses incurred by the members of the Audit Commission in the performance of their duties shall be reimbursed in accordance with the rules applicable to experts.
IV- Information, observations and report

1. The Audit Commission and the entities and persons assisting it in accordance with Section I.3 above shall have free access at all reasonable times to all accounts, records and documents which, in their opinion, are necessary for the performance of the audit.

2. On application to the Director General, all necessary measures will be taken in order to ensure that the Audit Commission receives, within 15 days, copies of all the documents which it considers necessary to carry out its functions.

3. Access to classified or privileged information shall be made available to the Audit Commission and the entities and persons assisting it in accordance with Section I.3 above in accordance with the applicable rules.

4. The Audit Commission shall have no power to disallow transactions in the accounts. It may bring to the attention of the Director General any important matters concerning legality, propriety or the economical, efficient or effective use of the Agency's resources about which it has doubts. The Commission shall inform the Director General of any observations arising from its audit, and the Director General shall respond to them within a reasonable period.

5. The Audit Commission may at any time submit to Council or to the Director General observations on the results of the audit under way if it considers this necessary.
ANNEX III
LIST OF FINANCIAL DOCUMENTS
ISSUED TO COUNCIL AND SUBORDINATE BODIES

Adjustment of Contributions (cf. Art. 23.2, 23.3)

• Issued once a year (May) to AFC for information or decision, as applicable.

Annual Performance Report (cf. Art. 48.2)

• Issued once a year to AFC and Council (by the end of June for year n-1).

Audit Commission Report on the Agency’s financial statements and the Director General’s comments thereon (cf. Art. 53.1)

• Issued once a year by 1 May to AFC and Council.

Audited Financial Statements (cf. Art. 53.2, 53.4)

• Issued to AFC and Council by the 1 May following the end of the financial year to which they relate.
• Submitted to Council for approval by the 31 October following the end of the financial year to which they relate.

Budgets

Annual Budgets (cf. Art. 24.5)

• Draft Submitted to AFC by 15 September or fourteen days before the September AFC meeting, whichever is earlier and to Council for approval before the end of the financial of the year preceding that to which they relate.

Revised Budgets (cf. Art. 26)

• Issued to AFC for information, adoption or recommendation to Council, as appropriate, at any time during the execution of the financial year to which they relate.

Commitment Ceilings (cf. Art. 30.7)

• Included in the annual draft budgets submitted to AFC and Council.

Common Infrastructure Plan (cf. Art. 16)

• Issued to IPC and to AFC for recommendation and to Council for approval in phase with the decision on the Level of Resources.
Contains information on planned investment activities and their rationale, a forecast of the investment cost over five years, and the planned location of associated assets. For major investment projects, usage and associated running costs for operation and maintenance shall be provided for information purposes.

The Director General will inform Delegations annually, following the closure of the annual accounts, of the implementation of the approved Common Infrastructure Plan.

**Cost Plans (cf. Art. 17.4)**

- Submitted to the competent subordinate body by the end of June of year n, for recommendation of cost forecasts for year n+1.

**Financial Instructions and their updates (cf. Art. 2.2)**

- Made available to Contributors.

**General and Administrative Cost Plan (cf. Art. 39)**

- Issued to the AFC for recommendation and to Council for approval of a three-year cost ceiling in phase with the decision on the Level of Resources.

- Provides the outlook for the planned costs, by activity and type of cost, of the G&A activities for a five-year period and describes the main cost drivers for the activities concerned and the set of objectives established by the Director General.

- The Director General will inform Delegations annually, following the closure of the annual accounts and in preparation of the Annual Budgets, on the implementation vis-à-vis the G&A plan presented and the approved multi-annual cost ceiling.

**Long-Term Plan (cf. Art. 15.4)**

- Issued to AFC in support of the draft budgets.

- Submitted to October Council for consultation and to December Council concomitantly with the draft budgets.

**Medium-Term Financial Plan (cf. 17.6)**

- Issued to AFC once a year by 30 June

**Optional Programme Completion Reports (cf. Art. 45)**

- Issued after Programme completion with final accounts for Participating States to take note.
Planned Workforce levels (cf. Art. 25.3)

- Issued in September in support of draft budgets.

Planned level of Indirect Costs and corresponding cash disbursements (cf Art. 25.3)

- Issued in September in support of draft budgets.

Programme and Activity Status Reports (cf. Art. 17.5)

- Issued regularly to Council and delegate bodies.

Reports on Contributor Funding Balances (cf. Art. 21)

- Issued to AFC for information.

Quarterly Report to Council (cf. Art. 15.2)

- Issued to Council following the quarter to which it relates.

Report on Budget Execution (cf. Art. 43.3)

- Issued to AFC and Council once a year (by June) with the financial statements.

Report on Contributions

- Issued regularly to AFC.

Report on Contributors' Financial Obligations (cf. Art. 29)

- Issued twice a year.

Reporting on Cost-at-Completion (cf. Art. 47.1)

- Issued once a year to AFC and quarterly to Programme delegate bodies.

Report on the Costs incurred by the Audit Commission

- Issued once a year to AFC by 31 May.

Report on Treasury Management (cf. Art. 33.5)

- Issued regularly to AFC.

Reports on activities financed by Other Funding Entities

- Issued once a year to Council together with the audited financial statements.