

Internal Financial Regulations

In accordance with Art. 5 of the Financial Rules, the Council of the European XFEL GmbH, at its 4th Meeting on 11 May 2010, approved the following Internal Financial Regulations upon recommendation by the Administrative and Finance Committee. They will come into effect on 11 May 2010.

Article 1

OBJECTIVES OF THE INTERNAL FINANCIAL REGULATIONS

- 1.1 These Internal Financial Regulations are drawn up according to Art. 5 of the Financial Rules and specify the financial and controlling practices and procedures for internal use within the European XFEL GmbH (hereinafter referred to as the “Company”).
- 1.2 The Internal Financial Regulations contribute to the requirement that, according to Art. 3 of the Financial Rules, the establishment and implementation of the budget be governed by the principles of efficiency, economy, effectiveness and optimum use of the Company’s resources and that any use of the Company’s resources for purposes other than those in fulfilment of the Company’s objectives shall be prevented.
- 1.3 In the interpretation of any of the Articles included in these Internal Financial Regulations, the Company follows the provisions of the European XFEL Convention, the Articles of Association and the Financial Rules, which have precedence over the provisions of the Internal Financial Regulations.
- 1.4 The Managing Directors are responsible for the application of these regulations.

Article 2

INTERNAL FINANCIAL AND BUDGETARY CONTROL

- 2.1 To achieve the objectives mentioned in Art. 1, the Internal Financial Regulations include a system of internal financial and budgetary control.

- 2.2 This system is implemented within the organisation of the Company under the responsibility and control of the Management Board and with the advice of the *Controlling* and *Internal Audit* functions, and involves the Work Package Leaders, the Head of Groups and the Staff Functions.

Article 3

DELEGATION / SEPARATION OF POWERS

- 3.1 The Managing Directors are entitled to delegate to members of the staff the authorisation to enter into commitments and to authorise or to make payments (cf Art. 5 of the Financial Rules) according to the principle of separation of
- authorising functions and
 - accounting functions.
- 3.2 Delegation of powers shall be implemented such that, in particular
- pertinent expertise can be efficiently applied in the interests of the Company,
 - internal procedures for the award of contracts, for commitments to be entered into and for the preparation of payments are duly respected,
 - the Company is represented towards third parties by an Authorising Officer with appropriate knowledge of the particular requirement or function.
- 3.3 Powers of authorisation are delegated to staff members who are charged with processing certain cases within their area of responsibility and the thresholds set by the Management Board without the participation of a supervisor. The supervisor has to ensure that cases of a scope exceeding that usually being treated by the staff member are reported to him/her.
- 3.4 Every staff member signing within his/her authorisation limits takes responsibility for the substance and/or the form of the signed records.
- 3.5 A record of all delegated authorisations and financial approval thresholds is maintained by the Administration of the Company, which is responsible for keeping the records up-to-date and for communicating such delegations to the individuals concerned.

Article 4

PRESERVATION OF BUSINESS RECORDS

- 4.1 All records shall be signed or initialled by the staff members involved.

- 4.2 The Administration retains the Company's financial supporting documents in accordance with the legal requirements concerning the retention of documents. In particular, documents directly in support of the Profit and Loss Account, the Balance Sheet, and any other document relevant for taxation shall be retained for a period of 10 years following the date of the relevant communication of the German Financial Authorities¹.

Section I – BUDGET

Article 5

BUDGETARY PRINCIPLES

5.1 Principle of unity and budgetary accuracy

The annual budget is the instrument which, for each financial year, forecasts and authorises the revenue and expenditure considered to be necessary for the Company to meet its objectives. The budget shall comprise²:

- a) the planned commitments of the Company,
- b) the planned amounts and payment schedule of the cash contributions of the Shareholders,
- c) the expenditure authorised in the previous year and the real expenditure of the last closed year,
- d) the carry-forward of previous commitments and payments,
- e) the in-kind contributions provided by the Shareholders,
- f) any revenue generated by the Company,
- g) any other financial contributions, resources and revenues, and
- h) revenue assigned to specific items of expenditure.

No revenue shall be collected and no expenditure effected unless booked to a Title/Chapter in the Budget.

An appropriation must not be entered in the budget if it is not for an item of expenditure considered to be necessary to meet the objectives of the Company.

No expenditure may be committed or authorised in excess of the appropriations authorised by the annual budget, except in the cases foreseen by Art. 14 of the Financial Rules.

¹ Finanzbehörde: Finanzamt Nord and Oberfinanzdirektion Hamburg.

² Art. 6 Financial Rules.

5.2 Principle of equilibrium

The budget revenue and payment appropriations must be in balance.

The *Finance group* shall implement rigorous cash management in order to ensure that the Company's cash balances are limited to duly justified requirements. With its payment requests, it shall submit detailed and updated forecasts on its real cash requirements throughout the year.

5.3 Principle of unit of account

The budget shall be drawn up and implemented in Euro and the accounts shall be presented in Euro. However, for cash-flow purposes, the accounting officer shall be authorised to carry out operations in other currencies.

5.4 Principle of universality

Total revenue shall cover total payment appropriations. All revenue and expenditure shall be entered in full without any adjustment or balancing of different items against each other.

The following items of revenue shall be used to finance specific items of expenditure:

- revenue earmarked for a specific purpose, such as income from subsidies, gifts and bequests, voluntary contributions or other donations,
- contributions to the Company's activities from Shareholders, non-Shareholders or miscellaneous bodies, insofar as this is provided for in the agreement concluded between the Company and the Shareholders, non-Shareholders or bodies in question,
- revenue from third parties with respect to goods, services or work supplied at their request,
- revenue arising from the repayment of amounts paid in error,
- proceeds from the sale of vehicles, equipment, installations, materials, and scientific and technical equipment,
- insurance payments received,
- revenue from payments connected with lettings, and
- revenue from the sale of publications and similar items.

All abovementioned items of revenue shall cover all direct or indirect expenditure incurred during the activity or for the purpose in question.

The budget shall include line items to accommodate different categories of assigned revenue and, wherever possible, shall indicate the amount.

The cost of products or services provided to the Company shall be charged to the budget for the full ex-tax amount. Any non-German national taxes that are temporarily borne by the Company shall be entered in a suspense account until they are refunded by the State concerned.

Any negative balance shall be entered in the budget as expenditure. The final gain or loss shall be included in the balance for the year in question.

5.5 Principle of specification

The appropriations in their entirety shall be earmarked for specific purposes by major activity, component, titles and chapter.

Transfers and modifications of the approved budget are allowed within the limits and according to the procedure set out in Art. 24 of the Financial Rules.

5.6 Principle of sound financial management

Budget appropriations shall be used in accordance with the principle of sound financial management, that is to say, in accordance with the principles of economy, efficiency, effectiveness and optimum use of the Company's resources.

- The *principle of economy* requires that the resources used by the Company for the pursuit of its objectives shall be made available in due time, in appropriate quantity and quality and at the best price.
- The *principle of efficiency* is concerned with the best relationship between resources employed and results achieved.
- The *principle of effectiveness* is concerned with attaining specific objectives and achieving the intended results.
- The *principle of optimum* use of the Company's resources is concerned with ensuring that sound management practices are in place and that the funds that are made available to the Company are used in a judicious manner while pursuing the Company's objectives.

The budget shall be implemented in compliance with effective and efficient internal control.

For the purposes of the implementation of the budget, internal control is defined as a process applicable at all levels of management and designed to provide reasonable assurance of achieving the following objectives:

- effectiveness, efficiency and economy of operations,
- reliability of reporting,
- safeguarding of assets and information,
- prevention and detection of fraud and irregularities, and
- adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multi-annual character of the project as well as the nature of the payments concerned.

The internal control shall be performed by the *Controlling* and *Internal Audit* Staff Functions for their respective fields of competence. The results of the internal control shall be reported regularly to the Management Board.

Specific, measurable, achievable, relevant and timed objectives shall be set for all sectors of activity covered by the budget. Achievement of those objectives shall be monitored by *Controlling* on the basis of performance indicators for each activity. Information shall be provided annually to the Council by the Management Board.

In order to improve decision-making, the Management Board, supported by *Controlling*, shall regularly carry out ex ante evaluations where appropriate and ex post evaluations of its programmes or activities. Such evaluations shall be applied to all programmes and activities that entail significant spending.

5.7 Principle of transparency

The budget shall be drawn up and implemented and the accounts presented in compliance with the principle of transparency.

A summary of the Annual Budget as adopted by the Council shall be published on the website of the Company. This summary shall show the Major Activities and Titles, an estimate of the number of contract staff expressed in full-time equivalents for which appropriations are budgeted, and the cash and in-kind contributions of the Shareholders and non-Shareholders as well as other miscellaneous bodies. It shall also indicate the figures for the previous year.

Article 6

ANNUAL BUDGET AND MEDIUM-TERM FINANCIAL ESTIMATES

- 6.1 By 1 February of each year, via the Directors in charge, the Work Package/ Group Leaders and the Staff Functions communicate to the *Finance group* the expected expenditure (in terms of payments and commitments) for the next financial year, distributed by Major Activity and Titles/Chapters. If any income is expected by the Management Board, the Work Package/ Group Leaders or the Staff Functions, they also communicate this expected income (in payments and in commitments/claims) allocated to the respective section of the budget.
- 6.2 The *Finance group*, supported by *Controlling*, on the basis of information received from the responsible Directors or Heads of Groups, prepares a Preliminary Annual Budget together with a general analysis and detailed information to be submitted to the Management Board by the Director of Administration for approval by 1 March,.
- 6.3 If the information provided differs from the previous Medium-term Financial Estimates, a reconciliation of these documents shall be carried out in agreement with the Director of Administration and the responsible Scientific Director or WP Leader/Head of Group.
- 6.4 The Preliminary Annual Budget, together with the Medium-Term Financial Estimates, is then submitted to the Administrative and Finance Committee for comments and recommendations.
- 6.5 Adjustments and amendments resulting from the comments and recommendations made by the Administrative and Finance Committee are taken into account in the Final Proposal for the Budget.

- 6.6 The Final Proposal for the Budget³ shall be sent to the Administrative and Finance Committee by 30 September for comments and recommendations, in order to enable the Company to submit the final budgetary proposal to the Council by 31 October⁴.
- 6.7 If the balance of the outturn account is positive, it shall be entered as a carry forward in the budget of the following financial year. If the balance of the outturn account is negative, it shall be entered as a deficit in the budget for the following financial year.
- 6.8 The Medium-Term Financial Estimates are produced annually⁵ and shall cover a five year period. They shall show the actual expenditure for the previous year, the approved budget for the current year (in current prices), the proposed budget for the following year (in estimated prices for that year) and the latest estimates for the following four years (at the same prices as for the immediately following year).
- 6.9 The Medium-Term Financial Estimates shall be established by Titles and Major Activities according to the Model in Annex III of the Financial Rules.
- 6.10 As soon as the Annual Budget is approved by the Council, the *Finance group* informs the Head of Groups and the Work Package Leaders of their respective budget allocations.

Article 7

CARRY FORWARD OF EXPENDITURE AND INCOME

- 7.1 In compliance with Art. 23.2 of the Financial Rules, uncommitted balances may be carried forward at the end of the year in order to cover the expenditure foreseen in the following years.
- 7.2 A preliminary report on the uncommitted balances in year n shall be submitted to the Management Board by 31 January of year n+1 at the latest.
- 7.3 Income committed but not received at the end of the financial year is carried forward to the income budget of the following financial year⁶.

³ Art. 21.3 Financial Rules: "A provisional outturn forecast of the income and expenditure the outturn shall be presented", this is normally also accompanied by an outturn balance of the current year (three first quarters).

⁴ Art. 9 Financial Rules.

⁵ Art. 8.3 Financial Rules.

⁶ Art. 23.3 Financial Rules.

Article 8

BUDGETARY CONTROL

- 8.1 Budgetary expenditure and income are each recorded in the budget accounts presented according to prescribed budgetary headings:
- a) commitments are recorded against the authorisation to enter into commitments under the appropriate budget line,
 - b) those parts of commitments / claims made during the current year or previous years that are to be paid over the subsequent budget years are identified,
 - c) payments are recorded against the budgetary provisions and simultaneously deducted from the corresponding commitments, and
 - d) payments and outstanding commitments / claims to be paid during the current year are progressively monitored against the budgetary provisions.
- 8.2 If the out-turn forecast indicates that expenditure within a specific cost item is likely to exceed the approved budget ceiling, measures are to be agreed between the Director of Administration and the responsible Directors, Work Package Leaders or Heads of Groups to:
- limit the expenditure and/or
 - implement transfers according to Art. 14 of the Financial Rules.
- 8.3 If no agreement can be reached or if measures include transfers according to Art. 14 of the Financial Rules, the issue is to be submitted to the Management Board.
- 8.4 The status of the budget and the provisional out-turn forecasts of income and expenditure shall be presented monthly to the Management Board. A general analysis of the variances and proposals for preventive and corrective actions shall be presented to the Management Board on a quarterly basis.
- 8.5 If the out-turn forecast indicates that income is likely to remain below the corresponding provision in the budget, the Management Board shall decide upon appropriate constraints on the expenditure budget.

Section II – PURCHASES

Article 9

PURCHASE REQUESTS

- 9.1 A purchase request in the context of these regulations is an internal request for the purchase of goods from, or for services to be rendered by, an external suppliers.
- 9.2 The levels of authorisation for purchase requests are decided by the Management Board and communicated to all staff on a regular basis.
- 9.3 Purchase requests shall be processed by the *Procurement group* with respect to payment conditions and taxation regulations. Purchase requests shall be checked by the *Finance group* with respect to the availability of funds in the budget.
- 9.4 Whoever signs or approves a purchase request certifies, within his/her range of responsibility, that the principles mentioned in Art. 5 of these regulations have been observed.
- 9.5 The detailed internal procedure for submitting and processing a purchase request is defined in a 'Staff Note' describing the process.

Article 10

RULES OF PROCUREMENT AND THE AWARD OF CONTRACTS

- 10.1 The "Rules of Procurement and the Award of Contracts" approved by the Council apply to all Work packages and Groups of the Company.
- 10.2 The *Procurement group* shall compile and maintain a list of possible suppliers of goods and services regularly required by the Company. The list shall include information on the type of items provided by each supplier and a record of their previous business transactions with the Company, if applicable.

Article 11

TENDERING

- 11.1 The *Procurement group* is responsible for the administration of each entire tendering procedure.

- 11.2 The *Procurement group*, together with the relevant Authorising Officer, shall determine the procedure to be applied in order to obtain the best value for money for each purchase. The procedure may take the form of an international call for tender, a simpler call for offers from a number of potential suppliers, an examination of price lists or catalogues, or any other suitable method.
- 11.3 The *Procurement group* applies appropriate skills in the identification of the best supplier for each order and to obtain the optimum price, conditions for delivery and technical specifications.
- If the purchase is formally based on a contract, the principles of Art. 13 of the Internal Financial Regulations apply.
- 11.4 Where appropriate, e.g. in cases of repeat orders or orders for a very large number of items, "frame contracts" shall be established.
- "Frame contracts" are contracts or orders (cf. Art. 13.1) for which the purchase conditions, e.g. unit prices, delivery, or payment terms for certain items, are formally established for a fixed value and/or a fixed period. Within the limits set by such a frame contract, actual purchases can then be made quickly, as and when required by means of a simple instruction to the supplier.

Article 12

COLLABORATION CONTRACTS

- 12.1 The procedure described in Art. 10 and 11 of these regulations shall be applied as far as possible for collaboration contracts, including those placed with public institutions (university research laboratories, etc.).
- 12.2 The *Law Office*, the *Procurement group* and the *Finance group* jointly investigate the contractual, legal, fiscal, financial and budgetary aspects of such contracts, taking into account the precise nature and aims of the collaboration.

Article 13

PLACEMENT OF PURCHASE ORDERS AND AWARD OF CONTRACTS

- 13.1 In general, purchases are made on the basis of a purchase order. The preparation of contracts or purchase orders is the joint responsibility of the *Law Office* and the *Procurement group*.
- 13.2 In the event that changes are made between the first completion of a purchase request or the initial draft of a contract and the final version (order or

contract) to be despatched to suppliers, the initial assessment must be confirmed. This applies analogously for technical control.

- 13.3 Contracts or orders shall be signed according to the level of authorisations defined by the Management Board.
- 13.4 Amendments to contracts that are due to technical and/or financial changes agreed between the parties require signatures at the same level as the initial contract.
- 13.5 The signing of a contract or order constitutes a commitment.
- 13.6 The execution of all contracts and orders is monitored by a team composed of a representative each of the *Procurement group*, the *Finance group*, the *Law Office*, *Controlling*, and the relevant Work Package Leader or Head of Group. This team ensures the smooth operation and timely completion of contracts and orders. The *Procurement group* is also involved in the Certification Process, being responsible for confirming delivery acceptance and both contractual and arithmetical conformity.
- 13.7 Employment contracts are signed jointly either by both Managing Directors, or by a Managing Director and a proxy holder, or by a Managing Director and the Head of Human Resources, who holds a special authorisation for this based on the Authorisation Rules of the Company. Employment contracts are monitored by the *Human Resources group*.

Article 14

COMMITMENTS

- 14.1 A commitment is defined as an obligation entered into by the Company that is to be discharged at some point in the future out of funds at the disposal of the Company.
- 14.2 Each proposal for commitments shall show the purpose, the estimated amount involved, the budget item to which the expenditure is to be charged and the creditor. They shall be verified by the Controller. The purpose of this verification shall be to establish that:
 - a) the expenditure is charged to the correct budget item,
 - b) appropriations are available, and
 - c) the operation in question is in order and in accordance with the relevant provisions, particularly those of the budget and the Financial Rules.

In case this verification is declined, this must be documented in writing, giving the reasons for declining. The Authorising Officer shall be notified of the refusal and shall take the comments into consideration and amend the proposal accordingly.

- 14.3 Commitments entered into as a result of the signing of a contract or purchase order shall be charged against the Commitments Budget.
- 14.4 For each payment, the value of a commitment charged against the Commitments Budget is adjusted to coincide with the value of the payment eventually made in fulfilment of that commitment.
- 14.5 The value of a commitment charged against the Commitments Budget is adjusted if technical and financial changes agreed between the parties lead to a revision of the contractual value originally committed.
- 14.6 The value of an unpaid commitment that is charged against the Commitments Budget shall be cancelled. The same applies to the value of outstanding commitments that remain unpaid at the conclusion of a transaction.

Section III – CERTIFICATION PROCESS

Article 15

PRINCIPLES

- 15.1 The certification process is based on the principle of double signature. It covers technical, financial and contractual aspects and constitutes an assurance that the service has been provided and/or goods have been received in accordance with the conditions contained in the order or contract.
- 15.2 The execution of the certification process is ensured by the appropriate Authorising Officers in the *Procurement group* and the *Finance group* according to the following rules:
 - As a basis of subsequent payments, files have to contain appropriate justifications of the need, purchase requests, contracts, delivery notes, acceptance reports, invoices, terms of payment, due dates, noting of partial payment as such, records of previous partial payments and confirmation of registration if the goods are considered an asset (cf. Art. 21 of the Internal Financial Regulations).
 - The certification of records on the certifier's own behalf is not allowed.
 - If payments are to be made before the corresponding liability of the contractor is fully discharged, the Authorising Officer shall check whether the satisfactory performance of the contract is covered by a bank guarantee.
- 15.3 In the case of a refusal of certification or of reservations on certification, the relevant Authorising Officer shall document this in writing, giving the reasons for the refusal. The Authorising Officer shall notify the Accounting Officer the refusal in a timely manner. The Accounting officer shall take the comments

into consideration and promptly provide the Authorising Officer with the necessary requested information.

- 15.4 In the event of a further refusal of certification, the Managing Directors may confirm the certification in a reasoned decision. The certification shall then be considered to have been validly made. The Internal Audit shall be informed whenever this provision is applied.

Article 16

TYPES OF CERTIFICATION

- 16.1 By certifying "delivery acceptance", the relevant Authorising Officer (user and/or stores personnel) confirms that the supplies or services ordered have been appropriately and completely delivered/rendered.
- 16.2 By signing "contractual and arithmetical conformity", an Authorising Officer of the *Finance group* certifies that,
- a) the payment order was issued correctly,
 - b) the payment order corresponds to the commitment of expenditure and the amount thereof is correct,
 - c) the expenditure has been charged to the correct budget item,
 - d) the appropriations are available,
 - e) the creditor is correctly described,
 - f) where appropriate, there is an indication that the property for which the expenditure was incurred has been entered in the inventory,
 - g) the invoice has been issued in conformity with the provisions included in the purchase order or contract,
 - h) the amount to be paid or to be received is correctly derived from the relevant files, and
 - i) where penalties might be due, the appropriate authorisation by Directors/Heads of Division has been obtained.
- 16.3 By signing "legal conformity", an Authorising Officer of the *Procurement group* certifies that
- a) the file contains all necessary vouchers and that all supporting documents are in order,
 - b) relevant regulations have been observed, and
 - c) the certification process has been undertaken correctly
- in order to make it possible to record the transaction in the accounts and to enter into the procedure of payment / receipt of income.
- The certification process related to personnel expenses is ensured by the *Human Resources group*.

Section IV – ACCOUNTING AND FISCAL PROCEDURES

Article 17

CONDITIONS FOR DRAWING UP AND OPERATING THE ACCOUNTING PLAN

- 17.1 The Company maintains its General Accounting records according to the German Commercial Code and associated rules, in particular according to the norms and accounting regulations to be applied to a Company located in Germany.
- 17.2 On this basis and with respect to its organisation and activities, and according to the needs of the Company's programmes, the *Finance group* determines the adaptation and the extension of the accounts listed in the German Commercial Code in order to handle the Profit and Loss Account and Balance Sheet items of the Company in an appropriately detailed manner.
- 17.3 At the end of the financial year, a statement showing the reconciliation of the General Accounting and the Budget expenditure shall be provided for the auditors.

Article 18

CLOSING OF THE FINANCIAL YEAR

- 18.1 The annual accounts consist of a budget out-turn, showing the payments and commitments, a Profit and Loss Account and a Balance Sheet, together with additional information as required by Art. 21 of the Financial Rules. The annual accounts are signed jointly by the Managing Directors.
- 18.2 Final statements include the amounts due from and paid by Shareholders. The balance of planned annual contributions that remain unpaid at the end of the financial year is shown in the Balance Sheet.
- 18.3 The commitments statement includes commitments that remain unpaid at the beginning of the financial year, commitments made during the financial year, payments made against these commitments and commitments unpaid at the end of the financial year. The commitments / claims situation concerning income is treated correspondingly.
- 18.4 The notes to the Balance Sheet include a statement of the Shareholders' cumulative contributions compared with cumulated payments in the Budget.
- 18.5 The notes also include a statement of any changes in accounting procedures and budgetary nomenclature that have a material effect on those accounts. To the extent that this is possible, the effect of those changes is quantified.

- 18.6 The financial statements shall be presented in Euro and shall comprise:
- a) a balance sheet and the economic outturn account, which represent the assets and liabilities, the financial situation and the economic outturn on 31 December of the previous financial year,
 - b) a cash-flow table showing amounts collected and disbursed during the year together with the final treasury position, and
 - c) a statement of changes in capital, presenting in detail the increases and decreases during the year for each item in the capital accounts.
- 18.7 The annex to the financial statements shall supplement and comment on the information presented in the statements referred to in Art. 18.1 of the Internal Financial Regulations and shall supply all additional information prescribed by internationally accepted accounting practice where such information is relevant to the Company's activities.

Article 19

VALUE ADDED TAX (VAT)

- 19.1 The Company is subject to Value Added Tax (VAT) in Germany in accordance with German law and has the right to recover VAT on purchases.
- 19.2 The *Finance group* ensures that VAT procedures are duly respected and is in particular responsible for:
- maintaining VAT accounts in compliance with the German law,
 - declarations and requests for reimbursement of German VAT to the local tax office, and
 - annual declarations of non-German VAT paid as prescribed in the German law.

Article 20

CUSTOMS PROCEDURES

- 20.1 The Company is subject to customs regulations of the European Union.
- 20.2 The *Procurement group* is responsible for Customs matters, if necessary with the help of an external customs agent, and ensures that the proper procedures are duly respected.

Section V – FIXED AND MOVEABLE ASSETS INCLUDING INVENTORY ITEMS

Article 21

REGISTRATION, MONITORING AND INVENTORY OF ASSETS

21.1 The *Finance group* maintains a register of those assets of which ownership has been transferred from the suppliers to the Company and, in so doing, follows the requirements of the German Commercial Code and the definitions contained therein.

This register derives from the information contained in the general accounting. It allows ready identification of the assets and of the responsible officer.

Each entry in the assets register represents either an individual item where this is possible or an identifiable group of components which together represent a single asset. Individual assets are marked correspondingly.

21.2 The summation of acquisition values included in the assets register is reconciled with the corresponding cumulative totals in the accounting records.

21.3 Minor purchases of small components of low value that are not registered as assets but which represent universally suitable goods (e.g. pocket calculators), referred to as attractive items, are registered under a specific charge account.

21.4 The *Finance group* initiates a physical examination of all of the Company's assets and inventory items in a rolling programme over a three year period, i.e. one third of all items are examined annually⁷. In so doing, it checks disposals and losses, and investigates those not previously recorded.

Article 22

DEPRECIATION OF ASSETS

22.1 Assets are depreciated on an annual basis according to the principle of linear depreciation over the operating life of the asset.

22.2 Assets are depreciated according to the official depreciation tables⁸, except when the operating lifetime of a good deviates from the given data.

22.3 The depreciation period starts when the equipment is first used. The depreciation period of components to be integrated into a complex structure/plant

⁷ In compliance with sec. 240 para. 3 German Commercial Code (HGB).

⁸ "Steuerliche AfA Tabellen".

starts with the acceptance of the entire structure. Depreciation of components that are integrated into structures/plants which are already in use starts when the component is built into the structure/plant.

Article 23

REGISTERING, MONITORING AND INVENTORY OF STOCKS

- 23.1 The *Procurement group* shall, in consultation with the different Divisions/Groups, identify items frequently required by Company staff for which it appears reasonable to establish a permanent stock in the Company store.
- 23.2 The store is administered using a store accounting method which comprises:
- inventory monitoring,
 - restocking,
 - valuation,
 - integration with Company General Accounting, and
 - measures to avoid waste.
- 23.3 Once a year, the *Finance group* initiates a physical check of the stocks held in the Company store. The total value by stock item is compared with that calculated from the difference between incoming stocks and withdrawals as registered in the Company General Accounting.

Section VI – MANAGEMENT OF RESOURCES

Article 24

PAYMENTS PROCEDURE / RECEIPT OF INCOME

- 24.1 The *Finance group* is responsible for the payments procedure. No payment is made on behalf of the Company unless and until an external invoice has been certified and charged against the budget, or an internal request for payment has been authorised. The payment instructions are not implemented until the *Finance group* has confirmed that funds are available in the bank accounts and that the transaction to be made is in conformity with all applicable legal and financial regulations.
- 24.2 The *Finance group* is responsible for monitoring income due and, if necessary, opens formal debt collection procedures.

- 24.3 The *Finance group* checks that amounts received as income are in conformity with the provisions described in Art. 26 to 31 of the Internal Financial Regulations and certifies that the transactions made are in conformity with all applicable legal and financial regulations.
- 24.4 Payments are made by bank transfer except for items that may be settled out of Petty Cash funds.
- 24.5 The totals of bank transfers prepared for payment are compared with the total amount stated on the documents connected to the payment. Any variation has to be identified and corrected before payment is made.
- 24.6 In addition to these controls, the *Finance group*:
- exercises control over the payment instructions issued to the banks,
 - in connection with payment instructions sent to the banks, incorporates further security checks that may occasionally be agreed with the banks, and
 - on a daily basis conducts a reconciliation of the bank statements with the Company's bank book. A record of the bank reconciliation statements is kept in by the *Finance group* and is accessible to *Controlling* and *Internal Audit*.
- 24.7 Payment / income instructions, except those for Petty Cash funds, are signed either by one of the Managing Directors or a proxy holder. They must not be signed by the same Authorising Officer who confirmed the availability of funds in the bank account.
- 24.8 Bank transactions shall be signed jointly by two of the following:
- the Managing Directors,
 - the Proxy holders, or
 - the Head of the *Finance group*.

In cases of urgency, an additional person may temporarily be added to this list by the Managing Directors.

Article 25

PETTY CASH

- 25.1 Payment of expenditure or receipt of income up to a value of 300 Euro (taxes included), or any other limit set by the Director General, may be processed through Petty Cash.

Requests for reimbursement through Petty Cash have to be accompanied by a relevant justification in writing that has been approved by an Authorising Officer.

- 25.2 Payment / income instructions to be handled through Petty Cash are signed by the Head of the *Finance group*.
- 25.3 Cash needed to replenish Petty Cash funds should be transferred and stored using appropriate security measures and should normally not exceed the amount of 1,000 Euro.
- 25.4 With due regard to the separation of powers and at regular intervals as he/she sees fit (at least four times a year), *Internal Audit* conducts an unannounced audit of the Petty Cash funds.

Article 26

CONTRIBUTIONS FROM MEMBERS AND SCIENTIFIC ASSOCIATES

- 26.1 The request for contributions/call for funds from the Company's shareholders precedes the payment schedule indicated in the approved budget by 60 days. It is normally sent by letter signed by one of the Managing Directors.
- 26.2 The request indicates the basis underlying the calculations for the current contribution and sets out a full and clear statement related to over/under payments that may result from previous calculations and the generated interest, supported as necessary by explanatory notes.
- 26.3 The request for contributions/call for funds provides clear instructions as to the method of payment and, in particular, indicates in detail the banking arrangements.
- 26.4 Contributions called for and remaining to be paid at the end of the financial year are recorded as "Shareholders funds due on contributions called" under "Debtors" in the Balance Sheet (cf. Art. 18.2).
- 26.5 All Shareholders' contributions are recorded in "Debtor Accounts". Each Shareholder has a dedicated Debtor Account in the accounting books.
- 26.6 Shareholders' contributions paid in advance during the current year for the next financial year are recorded under "Creditors" in the Balance Sheet.
- 26.7 The balance of funds resulting from the closing of the previous financial year approved by the Council, or from differences in payments in the current year, is normally adjusted in the next call for funds. Other arrangements may be agreed between the Management Board and the Shareholders.
- 26.8 For each meeting of the Administrative and Finance Committee, the *Finance group* prepares a document on the status of the call for funds.

Article 27
OTHER INCOME

- 27.1 As a general principle, "Other Income" refers to all income except contributions from Shareholders (cf. Art. 26 of the Internal Financial Regulations) or interest allocated to the budget (cf. Art. 29.2 of the Internal Financial Regulations). Income from licence agreements and the sale of beamtime shall be handled under specific regulations to be approved by the Council. Income shall be specified under the following headings⁹:
- sale of beamtime,
 - other sales,
 - licence agreements,
 - scientific collaborations and special projects,
 - income managed under Art. 16.7 of the Financial Rules (to cover expenditure made on behalf of third parties),
 - financial discounts,
 - approved loans, and
 - other/miscellaneous (information should be given on unusual and/or important items of income).
- 27.2 During the preparation of a draft contract that will lead to the Company receiving income from a third party, the Administration implements appropriate measures to handle the contractual, legal, fiscal, financial and budgetary aspects.
- 27.3 Depending on the level of income to be received, such contracts shall be signed on the basis of double signature by both Managing Directors or one Managing director and a proxy holder.
- 27.4 Income expected to be received from a third party is charged against the appropriate commitment budget when the contract is signed. Corresponding expenditure resulting from the execution of the contract is charged against a specific budget.
- 27.5 The receipt of income, as well as the payment of corresponding expenditure, follows the regulations included in Art. 24.2, 14, 15, 16 and 17 of the present regulations.
- 27.6 Other income such as loans from banks or other financial institutions may only be obtained in exceptional circumstances, for specific purposes and with prior approval of the Council. Any such loan must be negotiated and managed according to the principles set out in Art. 17 of the Financial Rules.

⁹ Art. 9.5 lit. c Financial Rules.

Article 28

MANAGEMENT OF AVAILABLE FUNDS

- 28.1 For income that is not immediately required to meet payments due, the *Finance group*, in close collaboration with the Company bankers, gives instructions for investment on behalf of the Company.
- 28.2 Negotiations undertaken with Company bankers for the investment of income shall aim at obtaining the best rate at no risk.
- 28.3 The *Finance group* shall carry out daily reviews of cash flow forecasts and instruct the bank accordingly. Necessary transfers from deposits to current accounts shall be made in due time to meet payment requirements.
- 28.4 The *Finance group* at all times seeks to maintain the Company's bank accounts in credit and takes steps to avoid a bank overdraft by transferring funds between accounts as necessary.
- 28.5 Periodically, the Administration of the Company shall enter into discussions with the banks where Company accounts are kept to evaluate the overall services rendered. To support these discussions the Administration, whilst regarding the banks as offering professional advice in obtaining the most competitive rate of return, nevertheless seeks to confirm by independent methods whether or not the rate being offered is comparable with general interest rates and may, if deemed appropriate, move the accounts to a different bank offering more competitive conditions.
- 28.6 For each meeting of the Administrative and Finance Committee, the *Finance group* prepares a document on the cash flow situation.

Article 29

INTEREST

- 29.1 All letters of credit concerning the receipt of bank interest are checked by the *Finance group* to verify the correctness of the amount deposited, the rate of interest applied, the duration of the deposit and the calculation of the amount of interest earned.
- 29.2 In accordance with the provisions of Art. 15.3 of the Financial Rules, the *Finance group* shall, at the end of each quarter, provide a statement on the amount of interest that is due to the Shareholders, calculated pro rata to that part of their contributions which is received on time.
- 29.3 The quarterly interest is assigned to the Shareholders according to specific arrangements agreed between the Management Board and individual Shareholders, unless the Council decides unanimously to allocate this interest partially or totally as income to the annual budget of the current financial year.

Article 30

MANUFACTURE BY THE COMPANY

- 30.1 Under normal circumstances, the Company shall not allocate its resources (money or manpower) to the manufacture of items for a third party. Where, exceptionally, it is desirable or necessary for the Company to become directly involved in the manufacture of items for a third party, e.g. in order to further the transfer and exploitation of technology, it shall avoid being the principal manufacturing contractor whenever possible. The Company shall not undertake bulk or series manufacture under any circumstances.
- 30.2 All manufacture by the Company for a third party shall be governed by a specific contract. Before a contract is signed with a customer, it must be checked by the *Legal Office*. A summary of all manufacturing contracts that were active during a financial year shall be provided to the Administrative and Finance Committee following at the end of the financial year.
- 30.3 A manufacturing contract shall specify the full price to be charged (without the addition of VAT). Prices shall be calculated on the basis of full economic costs (including overhead costs). No contractual warranty shall be offered or implied. If legally possible, statutory warranties shall be excluded.
- 30.4 If, in the context of manufacture for a non-German customer, Company subcontractors deliver directly to the customer, the contract shall specify that any non-German VAT is to be borne by the customer.
- 30.5 The award of a manufacturing contract shall be subject to approval according to the value of the contract.
- 30.6 Manufacturing contracts shall be signed on the basis of double signature according to the value of the contract and the internal regulations of the Company.

Article 31

SALE OF STOCK ITEMS

- 31.1 Stock items already manufactured to Company designs and specifications can be sold to other scientific institutes, provided that this does not lead to a delay of the Company's objectives. No contractual warranty shall be offered or implied. If legally possible, statutory warranties shall be excluded. Prices (without VAT) shall be calculated on the basis of full economic costs (including overhead costs).

- 31.2 Surplus items may be disposed of at the discretion of the Managing Directors at prices below those calculated as specified above, but no warranty shall be offered or implied.

Section VII – CONTROLLING

Article 32

AIMS

- 32.1 The aim of *Controlling* is to continuously monitor and control the Company's activities in such a way that specified targets, expressed in numerical terms, are achieved or, if found to be unattainable, substituted in time by newly agreed targets.
- 32.2 The tasks of the Controller are:
- performing a budgetary control in compliance with Art. 8 of these regulations,
 - verifying the proposals for commitments in compliance with Art. 14.2 of these regulations,
 - supporting the Management Board in setting targets,
 - monitoring and controlling their achievement, and
 - making proposals relating to controlling of operations.

The Controller is implementing these tasks on behalf of the Management Board.

Article 33

ORGANISATIONAL POSITION OF THE CONTROLLER

- 33.1 The Controller is appointed by the Management Board.
- 33.2 The Controller is in a direct supporting relationship to the Management Board (Staff Function) and subject only to its instructions. The Controller reports to the Management Board about the current status of target accomplishment on a regular basis.
- 33.3 The Controller has no authority to engage in any management activities.
- 33.4 Within the framework of his/her tasks, the Controller has an unlimited right to information, which he/she must treat with due confidentiality.

Section VIII – INTERNAL AUDIT

Article 34

AIMS

- 34.1 According to Art. 24 and 25 of the Financial Rules, *Internal Audit* essentially verifies that the *Management Board* and the Administration:
- comply with German law and decrees as well as rules and regulations of the Company,
 - make appropriate and economical use of funds, and
 - properly safeguard the assets of the Company.
- 34.2 The activity of *Internal Audit* covers all fields relevant to the economical operation of the Company. Besides examining the legal and regulatory basis of working procedures, their practicality and suitability are examined.

Article 35

ORGANISATIONAL POSITION OF THE INTERNAL AUDITOR

- 35.1 The Internal Auditor is appointed by the Management Board. Special organisational and personnel-related measures must be taken to ensure the independence of the auditing bodies.
- 35.2 The Internal Auditor directly reports to the Management Board and is subject only to its instructions.
- 35.3 *Internal Audit* is independent of the examined party and stands outside of daily operations. He/she carries out his/her tasks in addition to the usual checks performed during the course of daily operations.
- In order to preserve his/her objectivity, he/she has no authority to issue directives but can offer advice to the Managing Directors and the Management Board.
- 35.4 The Internal Auditor shall not be involved in any way in the administrative processes to be reviewed by him/her. As long as an administrative process has not been completed, it cannot be audited. Therefore, audits will always be post-audits.
- 35.5 The Internal Auditor shall not be tasked with internal controlling, this being a prerogative of the Controller.
- 35.6 Within the framework of his/her tasks, the Internal Auditor has an unlimited right to information which he/she must treat with due confidentiality.

Article 36

RELATIONS WITH OTHER AUDIT BODIES

- 36.1 According to Art. 26 of the Financial Rules, *Internal Audit* co-operates with the External Auditor and makes available to her/him the records produced by *Internal Audit*.
- 36.2 With respect to their right of receiving, on request, the *Internal Audit* reports, members of the Administration and Finance Committee are provided yearly with a list of the completed Internal Audit Reports. The annual activity report of the Internal Auditor is submitted to the members of the Administration and Finance Committee and the Council by the Management Board.