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Paper 1

Response to Commission Staff Working Document
Simplification In The 7th Framework Programme
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Author: Dana Remes Revision [1.0]

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Release Approval:

Name	Role	Date
Dana Remes	Originator	August 2005

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Introduction

In June 2005, the Commission opened a consultation for comments on the following documents:

- **Commission Staff Working Document on Simplification in FP7;**

and

- Presentations from the workshop on simplification (16 June 2005) on:
  - Community Financial Contribution
  - Legal and Financial issues
  - IPR
  - Evaluation
  - From FP6 to FP7

The aim of the consultation was to provide an opportunity for all researchers, but especially those within the EU (and Associated Countries), to offer their views on the 10 proposed measures for simplification contained in the staff working document on simplification that accompanied the Commission proposal on the Seventh Framework Programme (FP7).

This document contains EFPConsulting's comments only.

EFPConsulting are the Coordinators of Finance-NMS-IST which runs the Finance Helpdesk, www.finance-helpdesk.org . In addition, they are framework Program Experts and offer Consultation on all aspects of the Framework Program.

Disclaimer

This document contains EFPConsulting's comments only, and is informal. Any views expressed in this paper are EFPConsulting's only and are not endorsed by the Commission or the other Finance-NMS-IST Partners.

Section 1 – Authors CVs

Graham Feldman

Qualifications – FCA (UK Chartered Accountant, from 1969) and CPA(Isr.) (Israeli Certified Public Accountant, from 1985).

Among his extensive financial/accounting experience he deals with the following matters:

- Giving Financial advice to various organisations (companies, universities and government bodies) concerning project proposals and reporting under FP4, FP5 and FP6..
- Preparation of audit certificates for IST projects under FP5.
- Lecturer on financial regulations under FP4, FP5 and FP6 in public seminars organized by Israeli NCP and privately.
- Management accounting advisor to SMEs in Israel and London
- Auditor of SMEs, charities and other organisations
- Taxation advisor on Israeli Corporate, Charity and Individuals taxes
- Trustee of UK Pension Fund and UK Charity

Graham is:

Director, of EFPC – consultants on all Administrative and financial aspects of project proposals and management under FP6.

Director FB Consultants Ltd. – Financial and Taxation advisors to SMEs in Israel

Partner in office of Certified Public Accountants in Jerusalem, (part of international association of accountants "INPACT" with over 150 offices worldwide and in over 50 countries) specialising in SMEs financial reporting, management advice, applications to Government authorities for grants, taxation and audits.

Prior to taking up his existing positions above, Graham was chief management accountant in international pharmaceuticals division of Beecham Group (now Glaxo Smithcline Group - UK.) (1967-69), partner in a London West End practice of chartered accountants (1969-1981), and chief accountant in Israeli Construction company (SME) (1982-1984)

Graham is the Financial Scientific Director of the Finance-NMS-IST project which runs the Finance Helpdesk and Helpline www.finance-helpdesk.org .

Myer Morron

Mr Morron is a graduate of the University of Glasgow where he studied Pure Science as well as Computer Science from 1960 - 1965. He has a broad technical background but specialised in software engineering, especially operating systems and supercomputer architectures. He has worked in these fields in the US, UK and Israel.

Currently he is CEO of EFP Consulting, a company set up in 2002 to combine both Financial and Technical/Administrative as well as training support for organisations interested in participating in the Framework Program. In addition to an impressive array of satisfied clients EFPC itself is participating in six different EU funded projects - being coordinator of one. Myer has authored many papers and reports dealing with European research and more recently the impact of the new EU Financial Regulations and Research Instruments on the participation of SMEs in projects. He has given many workshops and training courses on all aspects of participating in EU R&D programs.

Until recently Myer was IST Director at ISERD, the Israeli body responsible for managing the Association Agreement with the EU on behalf of the Israeli government. He represented the State of Israel on the IST Management Committee for the duration of FP5 and continued this role in FP6. He also represented the State of Israel on the Research Infrastructures Committee. As part of his job he coordinated all Israeli activity in the IST and RI parts of the Framework Program including the NCP activity in those areas. He was part of the team that negotiated the FP5 Association Agreement and then a member of the EC-Israel Research Committee that oversaw the operation of that Agreement. Mr Morron has been involved with IST and its predecessor programs from their inception in 1984 and has acted both as a project manager in many key projects as well as an evaluator and an external expert.

Prior to joining ISERD, Mr. Morron held various Senior Technical and Management positions for Computer and Telecommunications Manufacturers. The main companies he has worked for include Control Data (US and Israel), ICL, STC and Nortel (UK) and Elbit (Israel).

During the past twenty five years his work has concerned the development and successful market exploitation of new and emerging technologies and standards with an emphasis on Open Standards and joint collaborative projects. He has consulted and presented extensively in IT related issues, including for the CEC, US DoD, UK MoD, NATO and Standards Bodies ECMA, ISO, CEN, NIST and ETSI. Mr Morron has authored two books on the Framework Program, one for FP5 and one for FP6. Although targeted at IST, they are widely used texts across all programs. www.efpconsulting.com/tools

Dana Remes

Dana is experienced in International Project Management. Most recently, she is the Project Manager for the Finance-NMS-IST project which runs the Finance Helpdesk and Helpline www.finance-helpdesk.org . To date, the project has held 20 Financial Workshops across the 10 New Member States.
With Euroconsultants (Israel), she was the Scientific Director of IST Mentor, IST Mentor+ and Tristan-East. These three projects targeted the NMAS and NIS.
From a technical perspective, Dana has a background in Mathematics, Computational Biology (e.g. Imaging), Statistics (e.g. Quantitative market Analysis), and Website creation and maintenance.
Dana enjoys being involved in innovation. Having worked with Remes Biomedical and Remes Computing she has learned the processes from the first concept to the Licensing of Patents.
Dana has been involved in many framework proposals; thus, she is familiar with the processes and workings of the Commission and has attended related events in Brussels and elsewhere from the third framework program. She has first hand experience with high tech SMEs and is experienced in the exploitation of innovation.
Professional Experience:
2002 – Present: Director, EFPConsulting Ltd.
2000 –2004: EuroConsultants (Israel) - Senior Project Manager.
1997 – 2004: Remes Consulting - provided services related to the European Union Framework Program both to UK and Israeli organisations. Remes Consulting had particular experience and expertise in `Information Society Technologies` and `INCO`, International Cooperation.
1996 - 2000 Remes Group - Remes Computing and Remes Biomedical Ltd.
As well as being a shareholder, Dana was responsible for preparing Remes Biomedical for ISO 9001 certification and had ongoing responsibility for the operational aspects of the company. She also developed the image processing algorithms that were key to its technology. Dana also was active on behalf of Remes Biomedical in successful execution of an Exploratory Award from the EU Biomedical Program - she also was involved in several successful Fifth framework proposals and projects.

Section 2 – Specific Comments

1. Clause 2.2.

The Financial Guidelines for FP6 (and previously FP5 and FP4) were published well after the commencement date, resulting in misunderstandings and errors in many of the first financial reports. It is essential that the guidelines be simplified (including removing the many duplications that there are in the FP6 guidelines – duplications exist not only between documents but also within documents) with an index which allows easy reference to the correct relevant sections (and other documents). This will of course mean clearer titles to sections. The Guidelines should be published in draft for comment and sent to all Financial Officers of companies and organizations with projects in FP6 and partners of all auditing firms (large and small) to receive their comments. The commenting process should not be limited to specific sectors, type or size of organization or audit firm.

We recommend that project officers should meet together with representatives of financial officers of organizations and companies and partners of audit firms in a series of workshops at the time of launching FP7, to explain legal and financial aspects (our experience has been that a 3 day intensive course is needed to explain financial aspects of FP6, even where participants have past experience). Accordingly, the proposed course will need to be of a similar duration. Feedback from participants at these courses would also allow amendment and clarification of documentation at an early stage of implementation. The courses with participation of project officers and external financial officers of companies and organizations and auditors will also allow the project officers and the others to understand each others problems. The courses should be given by project officers together with auditors/accountants with experience in FP6 and those who may have been consulted on FP7.

We suggest that the audit report for FP7[1] should reflect that the audit has been carried out in accordance with international audit standards. The format of the report should reflect current thinking within the profession. Consultation at an early stage with FEE and its representatives could ensure this.

2. Clause 2.4

Reference is made to external (financial evaluators). These should be auditors and financial officers of organisations with experience in FP6. We know of qualified people who have been registered as an expert in financial matters but have had no response. Appointment of evaluators/evaluators on financial matters should be on the basis of qualified accountants and auditors of each member (and associate) State and their experience in FP6. The financial criteria should be established in consultation with these qualified accountants and auditors of each member (and associate) State.

3. Clause 2.5

Although operational autonomy of the consortia should be left in their hands, it is essential that there be clear guidelines for apportionment of funding from the Commission to ensure that "small" partners are not deprived by larger, "stronger" coordinators/partners of sufficient funding, either of pre-financing or generally, to complete their part of the project.

It is a mistake to have "mixed" signals about reporting, with "usual accounting principles" and "usual management practices". This will cause confusion and allow unscrupulous partners to take advantage of the best of each alternative as well as making it difficult for auditors to determine accuracy and fulfilment of guidelines.

In practice the only accounting should be for direct costs (here the only problem is depreciation and we suggest setting the Commission sets specific levels rather than allowing depreciation levels of 5% to 100%

[1] please note that the audit profession has for many years ceased issuing "certificates" which suggests 100% checking of material but issues audit reports with high assurance of correctness

by similar organizations, just because of the organisations own internal rules or rules imposed by the State!). Overheads should be based on personnel cost only (the use of all direct costs as the basis in FP6 was a mistake and lacks logic in the majority of organizations with projects). We suggest the EU sets percentages based on the size of organisations. e.g. 1-10 staff = 30%, 11-50 = 40%, 51-100 = 60%, 101 – 250 = 80%, 251 and above 100%. (All based on personnel levels and costs).

Again, the use of "certificates" for audits should cease – there should be audit "reports" only – please see footnote 1.

We also suggest that only (State "licensed") auditors who have attended FP7 specific workshops or have provided audit reports in FP6 be allowed to issue audit reports in FP7, so as to ensure consistency and knowledge of specific financial and legal requirements.

Question:
Is it intended that the consolidated consortia financial report will be audited, with that auditor relying on audit reports from each partner or will each partner have his own audit report submitted to the Project Officer?
Provision by consortia of a single audit certificates on a consolidated basis may mean that one audit firm (the coordinators) will insist that his offices in each country audit the partners' reports. This in turn will mean that the "big" firms will undertake most audits because they are more likely to overseas affiliates or branches, thus reducing the opportunities for smaller independent firm of auditors. We all know that the big accounting firms usually charge more for audits than the smaller/medium size firms!

The work of auditors on overheads probably only represents some 10-15% of their time/fee. We therefore do not see how the cost of audit reports will be reduced substantially (without a decline in quality of the report and level of assurance). Especially since including the need for the auditor to ensure exclusion of any reckless expenditure, will make financial auditor the judge of whether the cost was legitimate for carrying out the project and will mean that he will have to thoroughly understand the project and whether the equipment/consumable was needed - very few accountants are engineers or scientists, and placing this burden on the financial auditors will tend to increase the cost of audits rather than reduce them. It will also increase the auditors "risk" and as a result the cost of his professional indemnity insurance.[2]

4. Clause 2.8

We welcome wholeheartedly the increased use of flat-rate financing (particularly for NoE's) where, we sincerely hope, no financial reporting of costs will be needed but only compliance with conditions and technical/scientific results. The flat rate financing of indirect costs (see our comments above regarding percentages "Point 3" above) is also welcomed but, in our view, should be applied to all types of projects.

We strongly disagree with the idea of 20% for indirect costs based on total direct costs (excluding subcontractors). The level and basis of calculation are inappropriate to the vast majority of organisations. The overheads percentage should be a percentage of personnel costs only. There should be a single cost model (and no AC!) for all organisations and types of project, with overheads as percentages based on size – see "Point 3" above. All costs should be calculated the same way with same percentages while funding may be as different percentage of total costs for types of activity or project.

5. Clause 2.10

Eligible costs need clear definitions and coordination between project officers where there are grey areas (inevitably there will be grey areas). There should be a mechanism to receive prior approval of a cost as an eligible cost where it is not clear from the guidelines. These definitions should be constantly updated and available to Project Officers and partners in projects.

[2] Personal Experience

Eligible cost reporting should be based on payment rather than date of incurring expense (in line with other financial reporting models with EU); with the exception of the final reporting period where accrued expenses incurred could also be included. This will ensure prompt payment by the partner for supplies and services which should help ensure competitive pricing by suppliers and that the partner does not use EU funding for other activities or past debts.

We make a plea for some kind of reasonableness about materiality of individual eligible costs and recording them. The example of the airport "taxes' (which in some countries seems to be a fee for the Airport Authority, while in others is a payment to Central Government) is a classic example of bureaucracy being concerned more with the principle rather than the cost - the amounts involved are minute compared to the level of grants, but the coordinators, Project Officers, Finance Section etc. have spent hours talking and arguing about it and each coordinator, partner and auditor needs to check each invoice for 30-80 Euros non-allowable expense.

In practice the universities are better able to record direct costs and calculate overheads than many small SME's. This section seems to imply that AC or other special rules will still apply to Universities etc. All institutions/companies should have one cost and overhead basis.

Ceilings, if applied, should be used for all types of organisations without distinction between SME's, large companies, public non-profit and non-profit organisations etc. No profit element should be allowed and the type of organisation is therefore irrelevant. As stated above there should be one costs model only (and no AC model) with reporting of direct eligible costs which all organisations ought to be able to cope with (including time records). If they cannot, we would suggest that they are unlikely to have adequate financial controls and should not be included within EU projects.

Section 3 – General Comments

6 Uniformity of interpretation

In FP6 the rules are interpreted differently to varying extents across the board. This must be addressed by clarification as well as monitoring of implementation.

7 Participant financial checks where there is collective responsibility

An example of point 6, above. Some directors feel they have personal liability if a company defaults financially and thus insist on financial checks and sometimes bank guarantees from all industrial organisations. Other directors feel that by checking non-coordinators they leave themselves personally liable if they subsequently default. This must be clarified.

8 Financial viability spread sheet

Some Commission divisions have created a financial viability spread sheet in FP6, so when a coordinators financial details are entered, it gives a uniform view as to any need for guarantee. Such a facility must be made available generally and its use mandated. Any subsequent deviation should need independent justification.

9 Good practice guidelines

By devolving many aspects to the consortia and in particular to coordinators, in our view some unethical behaviour has evolved to the detriment of SMEs in particular. The Commission could promulgate guidelines in a similar manner that they have promulgated Consortium Agreement examples. Many of the bad practice now common have resulted from those examples.[3]

10 Need for hard copy of deliverables

The model contract insists on deliverables being sent in hard copy (unsigned) to the Commission. This is an anachronism – as deliverables are generally also submitted electronically. Form of deliverable should be agreed during contract negotiations.

11 Micro management by Commission

Another example of point 6, above. In some units, during negotiations, some Commission staff still insist on mandating minute details in the Description of Work. For example, projected monthly spend for entire project as well as low level technical details such as data base formats etc.

12 Disclosure of sensitive financial information to partners

It must be emphasised to both coordinators and Commission staff that financial details disclosed by participants must be kept in confidence. On many occasions, Commission staff and Coordinators have disclosed individual financial difficulties to the entire consortium. This can lead to bankruptcy.

13 Central ombudsman

Some central appeal authority should be set up to comment on practice by participants as well as Commission staff.

14 Level playing field for peripheral countries

[3] EFPConsulting will soon be publishing a separate paper on Ethics in EU Projects.

Some countries not centrally located in Europe have much higher travel costs (both tickets and time). They should not be penalised by either the Commission or their projects. There are instances, for example, where during negotiation it has been suggested moving work from a peripheral country participant to a more central participant to minimise travel costs. In fact, the opposite should be encouraged i.e. give such participants more opportunity to travel.

15 Impact on high salary countries

Similar to point 14, above, except it applies to labour costs. There is sometimes a tendency to move work from high labour cost country participant to others to save budget. This is sometimes encouraged by Commission as providing better value for money. High labour cost countries contribute proportionally more to the program funding and should not be penalised as a result.

16 Third parties as Assistant Contractor

This is partly an example of point 6, above. Third parties are an ideal mechanism to simplify management overhead for marginally involved partners in the absence of the assistant contractor option. However, use of third parties for such consortium rationalisation, is frowned upon by some units. We need some such mechanism.

17 Interdependence on non-framework activities

It is unfair to make some proposed activities dependent or interdependent on non-framework programs that may not be open to all contributing countries. i.e. not all Associated States can participate in all Commission funding programs.

18 Review use of anonymity in technical proposal

This was removed in FP6 and has lead to a complete lack of transparency in the evaluation process. If proposals were in two parts as before with the technical part anonymous it would restore to some extent, confidence in the process. No valid reason has ever been made for this change in FP6.

19 Weighting in Evaluations

Weighting should be reintroduced during Evaluations. In particular Criterion 1. All the evaluators we spoke to on this issue agreed it would make it much better.

20 Arbitrary across the board cut backs in negotiation

Another example of point 6, above. Some parts of the Commission always cutback funding without adequate reason. This leads to project problems and over-budgeting by some proposers. This should be banned.

21 Need for 7% consortium management

The introduction of this concept resulted in money being channelled from research to overheads. It is generally not required as most coordinators, especially of IPs are large companies or Universities. For those on AC, the difference is marginal. For large companies on FC who generally will have overhead rate of at least 100%, this rule allows them to make a profit on a marginal cost view. Very few SMEs have the advantage of this.

22 Some long delays in concluding contract on Commission side

There must be some response norm established for concluding contracts. There are instances of projects starting on conclusion of negotiation and then having to wait six months or more for contract and prepayment. All projects should have equal priority. In industrial research, delays in starting have a direct impact on eventual commercial viability of the results.

23 In house Consultants

Finally, FP7 needs to address properly the use of outsourced "in-house" consultants and issues relating to overtime and salary cost proportions for staff working part of their time on a project and part of their time on other projects/admin etc. as well as differences in salary levels (particularly in new member States).

Section 4 – Conclusion

In general we support the proposed changes. However we believe that there needs to be implemented immediately a process of consultation specifically with Financial Officers of small SME's and small auditing firms to receive their views, and more important their suggestions based on experience “in the field”.

We hope that the needs of the SMEs, NMS and peripheral countries will be taken into account in FP7, and we look forwards to another successful program.