

Summary Report of the Workshop

The meeting focused on the two following FP7 issues:

- **Simplified method** of indirect costs calculation
- **Certified methodology** for calculating a) average personnel costs (CoMAv) and b) both indirect costs and (actual or average) personnel costs (CoM)

1. Presentations

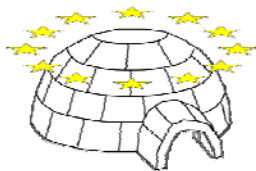
In the **first part of the meeting**, three institutions presented their experience with the simplified method and the certification on methodology.

Poul Petersen from **University of Copenhagen** pointed out that not every faculty at his institution is keen to implement the analytical accounting system (as some of the faculties may never participate in FP projects). Some of the University’s institutes were already on full cost in FP6 what could be handled by special clause to the GA Nr. 30, but this should be a temporary solution. The question is whether **it is necessary to have the indirect costs allocation system at the level of legal entity or could it be established at the faculty level?** From his point of view, participation in FP7 projects **could be a “risky business” especially for smaller institutions** that have no possibility to have their methodology certified and that in most cases won’t even have to submit the Certificate on Financial Statements.

Manuela Gross from **Graz University of Technology** explained the Austrian approach to calculating the indirect costs. Even though they are able to calculate the overhead rate (for research activities) at the level of institutes, they still use **one overhead rate for the whole legal entity**. They consider their system as “simplified” since they are not yet able to allocate the indirect costs at project level. The overhead rate (for research activities) accounts for about 60 % of the direct costs. The Austrian method has not been discussed with the Commission yet.

Finally, Bertold Walther from **Swiss Federal Institute of Technology (EPFL)** outlined the main principles of a simplified method which might be introduced in the future (for the time being EPFL opted for the Special transition flat rate). It should be based on existing concepts such as cost calculation per student that has been used in Switzerland for several years. **Time recording** seems to be one of the major problems.

All presentations will be available on the IGLO website shortly (www.iglortd.org)



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2. General Discussion

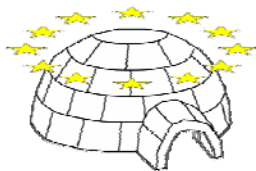
A **tour de table** amongst participants showed that most institutions they represent have chosen the Special transition flat rate of 60 % for the time being, but consider transition to simplified method or full analytical accounting in the future. Several participants felt that there is a **lack of clear guidance** from the Commission’s side that leads to **legal insecurity**, and that this is seen as one of the major obstacles. There is a great need for sharing and exchange of best practices.

However, from the Commission’s perspective, the responsibility lies with the participants and their choice of the most appropriate method for calculating their costs based on their usual accounting practice.

In contrast to this Commission-held view, it is worth considering that because of the obligations of the grant agreements and the perception that continuing on with a particular method without more detailed guidance could amount to a sizeable risk of problems later in any projects handled by each institution concerned. By way of indication of the scale of this uncertainty, participants used this event to discuss a whole range of issues around the most basic details of methods used and their implementation, including the use of different cost drivers, concerns around faculties/departments being managed differently and even just the kinds of rates that were being put forward in comparison to the 60% rate. Participants felt that if the Commission could provide straightforward worked examples, either theoretical or, preferably, real of simplified and fully analytical methods, and more explanation of the interpretation of key terms, then this would be extremely beneficial, and help resolve much of the uncertainty.

Some of the institutions presented are already using full costs or the simplified method. Their experience shows that the technical part of transition to full costs is not the most difficult one. More intricate is to **convince the staff to meet all the requirements** (such as completing timesheets) which could take up to several years. However this seems to be worthwhile since the researchers then become **aware of the real price for the research they conduct** and can also easily trace and assess the **time spent on different activities** which is important for other sources of funding, especially industry.

The possible ways of **time recording** were high on the agenda. The Commission proposes in the Guide to Financial Issues a very detailed timesheet that should be filled in by researchers every day. It is not clear yet whether timesheets could be completed also on weekly or monthly basis. From what is written in Form D (Annex VII of the MGA) it seems that even monthly recording could be acceptable. Another question raised was whether all working time needs to be recorded or just the time spent on FP7 project would be sufficient.



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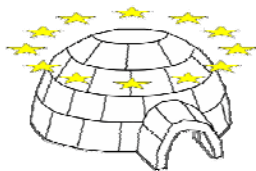
What also seems not to be very clear is the **difference between the simplified method and actual indirect costs**. Only a few things are defined in the Model Grant Agreement (MGA), such as that the simplified method has to be used at the level of legal entity and based on actual costs derived from the financial accounts of the last closed accounting year.

3. Discussion with European Commission Officials

The following points emerged from the discussion with the European Commission officials:

- **Simplified method versus actual indirect costs:** There is no encyclopedic definition of what the simplified method stands for, as it was not invented by accountants but results from a political arrangement. The concept of analytical accounting is more objective; basically it is used to be able to account for the indirect costs at project level. However, it is possible to have a full costs system with elements of simplification and vice versa (for example a system where several overhead rates are applied could be still considered as a simplified method). The criteria as such are not essential; most important is that the methodology of indirect costs allocation can be substantiated and is reliable. Generally, the intention of introducing an indirect costs allocation system should not be primarily motivated by FP7 requirements but should be a strategic management decision of the organization.
- **Cost drivers:** It is not prescribed what cost drivers for indirect cost allocation should be used. What counts is the logic of the methodology applied and reliability of the system, presumably in accordance with usual practice.
- **Certification of simplified method:** Simplified method does not require a prior certification. European Commission has limited resources and can not check the method of every single participant. However, the Commission will do its best to provide clear guidance (for participants as well as for auditors).
- **Is full cost going to be a requirement in future FPs?** : Most probably there will be always an option to use flat rates. But the development goes towards actual costs since more and more institutions want to get a fair price for their effort. There is also an increasing tendency to have better checks and balances in public sector.
- **Time recording:** Timesheets are notoriously an issue during audits; they are often not reliable or are fabricated. It should be in the interest of the institution to have a competent time recording system since in many cases overheads are derived from personnel costs. It is essential that timesheets are being independently verified (not only on sample basis).

There is a difference in the approach of Commission between issuing a Certificate on Methodology (CoM) and a regular Certification on the Financial Statements. In the latter case



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the auditor certifies cost claims related to one project, and therefore it is acceptable if time is being recorded only for that specific project. Unlike the certification of methodology where the Commission certifies the system and hence wants to make sure that the institution monitors the entire working time.

It was highlighted that in particular for those entities switching from AC under FP6 to full costing in FP7, that in a transitional phase a mere timesheet listing only hours performed on the EU project could satisfy the minimum requirement (providing overheads are not allocated via researchers' time) but would not be sufficient in a long term to support a sound personnel and indirect cost allocation methodology (it is common that timesheet analysis covering the full research activity of a beneficiary is used to establish a key driver to apportion indirect costs to the research activity). For the Commission to be able to grant a certification on cost methodology it is therefore important that the beneficiary's methodology offers such guarantees

Further information:

IGLO website: <http://iglortd.org> (presentations of the meeting)

CORDIS FP7 website: http://cordis.europa.eu/fp7/home_en.html (FP7 documents)

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