



## **Special Report 1/2004 “FP5 (1998 to 2002)”**

# **Management of indirect RTD actions under the 5<sup>th</sup> Framework Programme (FP5) for Research and Technological Development (1998 to 2002)**

Presentation to Budgetary Control Committee (COCOBU)  
by Mr François COLLING (Member of the Court)

**European Parliament, Strasbourg, 19. April 2004**



- **Why an audit of FP5? Some background information ...**
- **What is the budget and the structure of FP5?**
- **What were the audit objectives and the approach?**
- **Summary of observations and recommendations**
- **Conclusion**

## Some background information on the FP5 audit ...

- first audit **of an RTD framework programme** looking at organisational, administrative and financial aspects in a **horizontal manner**<sup>1</sup>
- **overall duration** of the audit **19 months** (start in October 2001 and completion in April 2003 – i.e. three months after official end of FP5); **formal adoption** by Court after contradictory procedure **in February 2004**
- staff resources used for this audit: **176 person weeks**
- **excellent co-operation with Commission**, resulting in a number of the recommendations being already reflected in FP6 (2002 to 2006)

<sup>1</sup> *previous audits, for example on FP4, focussed on specific programmes within the same RTD framework programme such as “Joule-Thermie”, “Fisheries, Agriculture & agro-industrial research (FAIR)” or “Training and mobility of researchers (TMR)”*

## Budget and structure of FP5

- **FP5 (1998 until 2002)** had a total budget of **14 960 million euro**
- two sections of FP5 for **European Community** (13 700 million euro, i.e. 91% of the budget) and **Euratom**
- **direct actions** carried out by the Commission's Joint Research Centre and **indirect actions** carried out through contracts with third parties and co-financed by the Community budget (95% of the budget within the EC-section)
- **five different action types**<sup>1</sup> for indirect RTD actions
- FP5 comprises **seven specific programmes** (four thematic<sup>2</sup> and three horizontal<sup>3</sup> programmes)
- jointly managed by **five Directorates-General**: for Research, for Information Society, for Energy & Transport, for Enterprise and for Fisheries

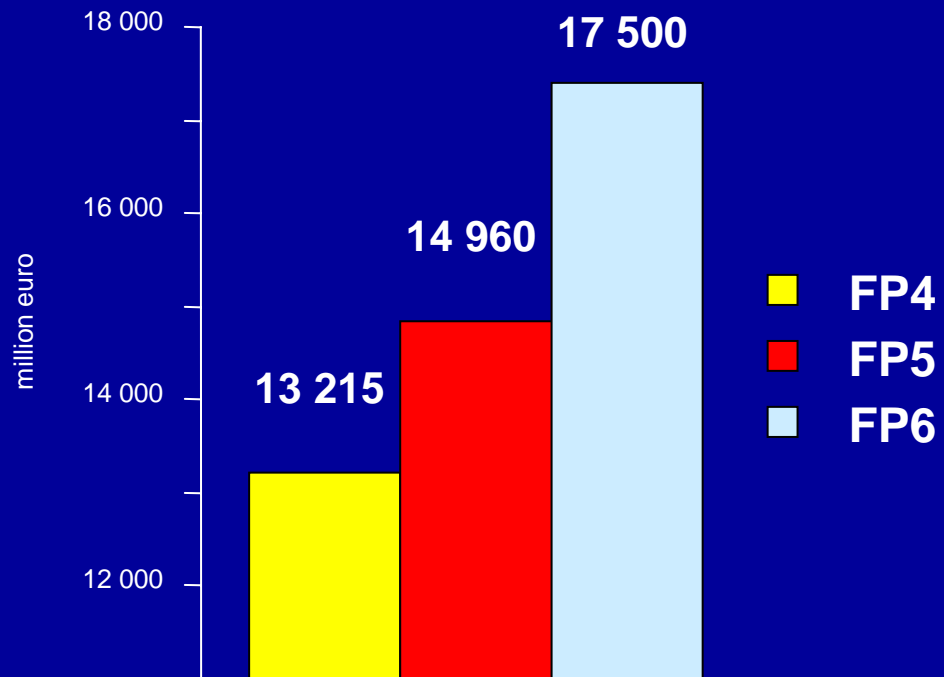
<sup>1</sup> "Shared cost RTD actions", "Training Fellowships", "Support to networks", "Concerted actions", "Accompanying measures"

<sup>2</sup> "Quality of life and management of living resources" (QoL), "User-friendly information society" (IST), "Competitive and sustainable growth" (Growth), "Environment, Energy and sustainable development" (EESD)

<sup>3</sup> "Confirming the International role of Community research" (INCO), "Promotion of innovation and encouragement of SME participation" (SME), "Improving the human research potential and the socio-economic knowledge base" (IHP)

# Programme periods and budgets of the successive European RTD framework programmes

- **FP4: 1994 to 1998**
- **FP5: 1998 to 2002**
- **FP6: 2002 to 2006**



## Audit objectives and approach for Special Report 1/2004 “FP5 (1998 to 2002)”

- Was FP5 managed **economically, efficiently and effectively**?
- **Specific audit objectives** addressed:
  - Intervention mechanisms and rules applicable to the Community’s financial participation
  - Organisational structure and procedures and methods for indirect RTD actions
  - Information Technology (IT) systems
  - Internal control system
  - Reporting to senior management
- **description of management system** by Court, **testing of a sample of 53 contracts** for FP5 indirect RTD actions (of all Directorates-General and all specific programmes) throughout their “life cycle” (i.e. from reception of proposal to closure of contract) and **analysis of other audit evidence** (such as review of legal basis, internal documents, surveys, analysis of statistics, etc.)
- **on-the-spot audits of 28 contracts in 9 Member States** (Austria, Belgium, France, Germany, Greece, Italy, Spain, Sweden and United Kingdom)

## Intervention mechanisms

Structure, procedures and methods

IT systems

Internal control system

Reporting

- **Decision** by EP and Council, **implementing regulation** and **model contracts** adopted late and **rules** for fixing the Community's **financial participation** overly complicated
- **legal requirements** for proposal, contract and project management unnecessarily complex (for instance large number of model contracts, contract signature by all participants)
- insufficient **control over reality and accuracy of costs declared by final beneficiaries** and lack of **sanctions**

mandatory **certification of financial statements by an external auditor** and introduction of visible and dissuasive **sanctions** (as deterrent to participants overclaiming costs) - *done in FP6*

further strengthening of **joint and several liability** and drastic simplification of **cost systems** recommended for a future FP7

- **fragmentation of programmes** between Directorates-Generals resulting in a dilution of responsibilities, duplication of functions and increased need for co-ordination
- significant **organisational problems** in starting phase and **difficulties in recruiting staff** with required profiles
- inefficient **procedures and administrative practices** contributing to administrative delays<sup>1</sup> and reducing the overall system efficiency – but in particular insufficient **scientific monitoring** of indirect RTD actions

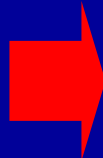
Intervention mechanisms

Structure, procedures and methods

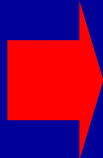
IT systems

Internal control system

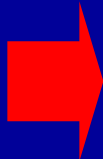
Reporting



**simplification of organisational structure** (“merger of FP-activities in one entity”) and setting-up of **centralised support functions** – *partly done in FP6*



**streamlining procedures** (aiming at halving of time-to-contract) and **strengthening the role of the co-ordinator**



**concentration of Community funding on projects with highest likelihood of success** based on mandatory mid-term evaluation by external experts

<sup>1</sup> **time-to-contract** (i.e. from reception of proposal to signing of contract) averaging **8 to 9 months**, and **12 months** from publication of the call for proposal

Intervention mechanisms

Structure, procedures and methods

**IT systems**

Internal control system

Reporting

- absence of **common or integrated information technology (IT) system**
- **inadequacy** of the Commission's (local and central) computerised **systems for the proposal, contract and project management**, not least due to insufficient investment
- **technical and operational problems** persisted in most Directorates-General throughout the FP5 programme period, diminishing also the reliability of the Commission's statistics

deployment of a **common and integrated IT system** for all Directorates-General operating the RTD framework programmes – *done for FP6*

significant potential for **efficiency gains** through phasing out of paper-based transactions during FP6 and fully electronic data exchange in a future FP7

- **improvements in internal control** thanks to gradual implementation of Commission's internal control standards, but considerable differences between Directorates-General
- **tests of key controls** revealed that not all had been operated effectively by Commission services and some controls were found to be lacking (mainly with regard to negotiation), but level of error not material
- significant incidence of **overdeclaration of costs by final beneficiaries** and **late payments** (by Commission but in particular by co-ordinators to other contractors)

Intervention mechanisms

Structure, procedures and methods

IT systems

Internal control system

Reporting

➔ **simplification** of legal base, reducing need for **excessively detailed checks and verifications by Commission** (which realistically cannot be carried out with the current level of staff resources)

➔ joint definition of **relevant and necessary controls** by all Commission services and use of **preventive controls, as well as better monitoring** of the operation of internal controls

- Lack of **common (or at least harmonised) operational objectives** at the five Directorates-General for the research area and for the implementation of the RTD framework programmes
- Commission's **reporting** to Directors and Directors-General did not capture all relevant information and **performance indicators** for non-financial/budgetary aspects were missing
- **lack of procedures** to ensure that management-level information is prepared **on time** and that **reports** are presented in a **standardised format**

Intervention mechanisms

Structure, procedures and methods

IT systems

Internal control system

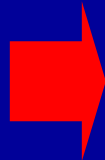
Reporting

joint definition by the five Directorates-General of **operational objectives and indicators** allowing for a benchmarking of Commission services and programmes

development of a comprehensive **reporting and controlling system** to permit an adequate monitoring of the RTD framework programmes and the efficient and effective functioning of internal controls

## Overall conclusion

- FP5 was characterised by the **complexity of rules** applicable to its intervention mechanisms, often not fully understood by participants in indirect RTD actions
- **joint management of FP5** by five Directorates-General and **organisational structure** within the Commission services was not conducive to the most efficient use of Community funds
- **staff resources** were insufficient to ensure adequate internal control, potential for **centralised support functions** was not fully exploited and **support tools** (i.e. manuals, IT systems, reporting) did not adequately address the needs of the Commission services



Court's findings and recommendations to be taken into account for the **design of a future FP7** after 2006