

# THE EUROPEAN COURT OF AUDITORS



## Audit of Employment and Social Affairs 2013 Statement of Assurance (DAS) and the audit of **SCOs** (Simplified Cost Options)

### European Court of Auditors

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# NOTA BENE



The opinions and views expressed in this presentation are those of the authors and do not necessarily represent those of the European Court of Auditors.



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## Audit methodology underlying the Statement of Assurance (DAS)



# The Statement of Assurance (DAS) (Art. 287 TFEU ex Art.248 TEC)



“The Court of Auditors shall provide the European Parliament and the Council with a Statement of Assurance\* as to the reliability of the accounts and the legality and regularity of the underlying transactions”

\* Déclaration d'Assurance (DAS)



# The Statement of Assurance



- Two sides of the same page:

**Reliability  
of the accounts**

**Aim:** To establish whether the consolidated final accounts give a true and fair view of the EU finances

**Legality and regularity  
of underlying  
transactions**

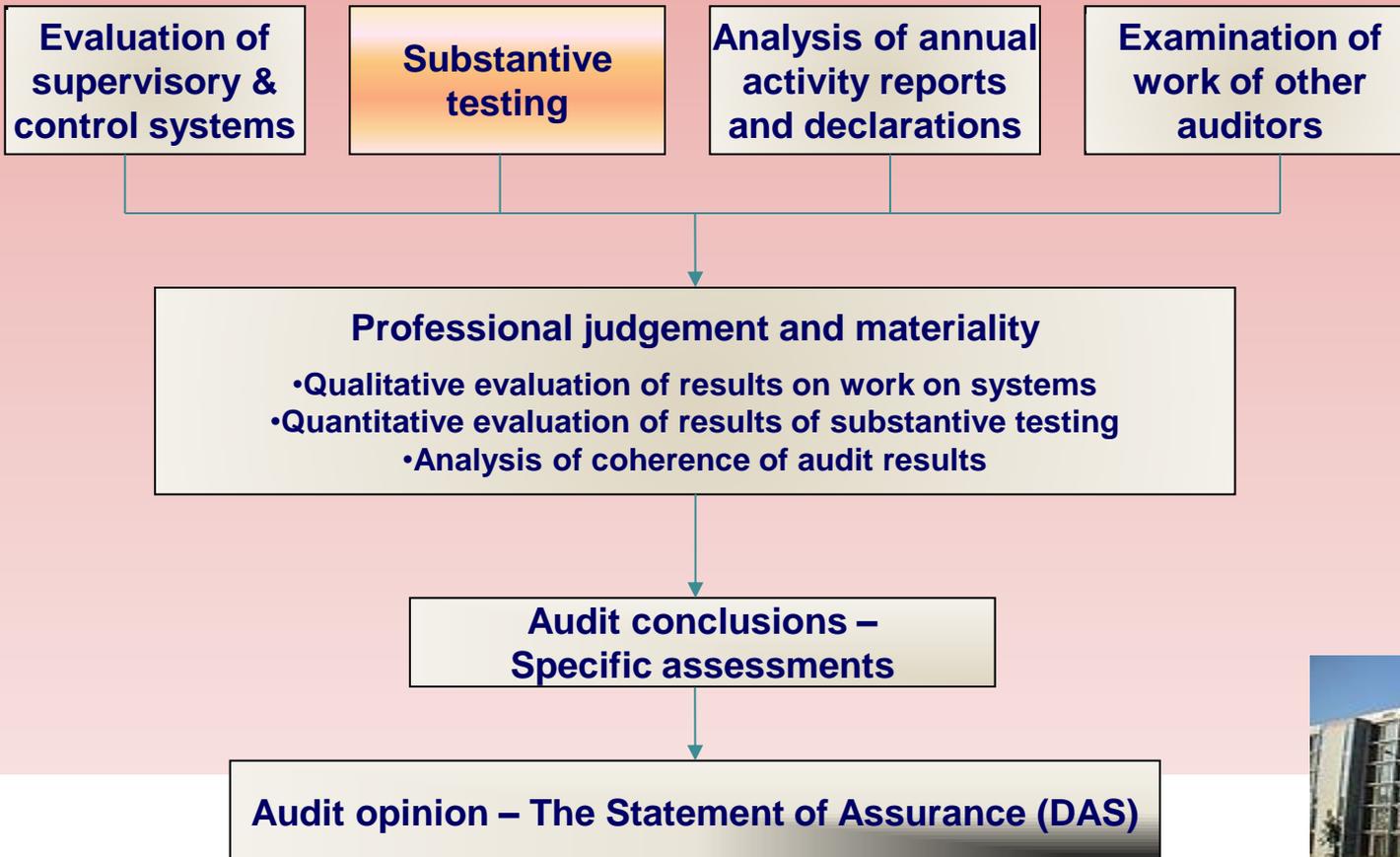
**Aim:** To establish whether funds have been received and spent in conformity with contractual and legislative conditions and have been correctly and accurately calculated

## **Determination of whether:**

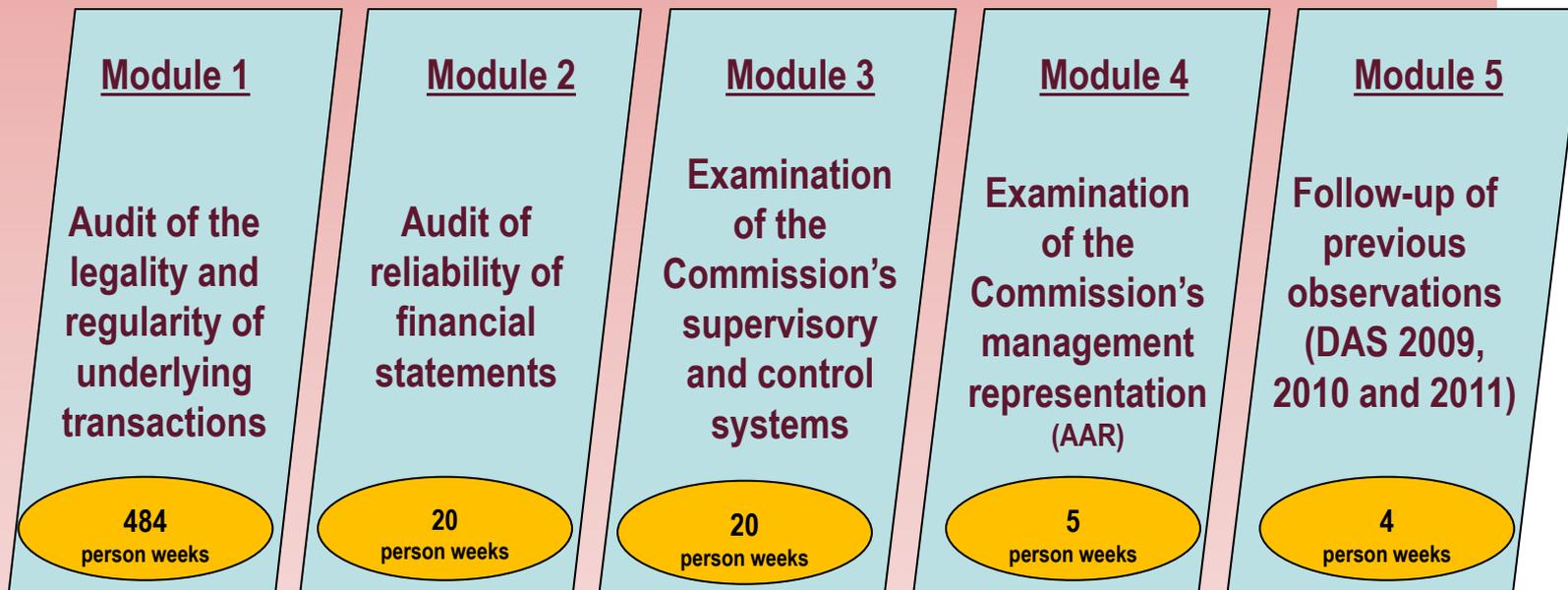
- ✓the transaction took place,
- ✓the beneficiaries were eligible for the funds received
- ✓the costs/quantities claimed were accurate and eligible



# The Statement of Assurance



# DAS 2013: ECA's approach to the audit of Employment and Social Affairs



A representative sample of :

- **24 ESF/IPA operational programmes** (173 projects to be audited on-the-spot)
- **7 transactions** for Other social and employment measures

Examination of **20 Annual Control Reports (ACRs)** from at least **7 Audit Authorities (AAs)**



# DAS 2013: ECA's approach to the audit of Employment and Social Affairs



## ◆ Module 1 - Audit of transactions:

- ✓ **Objective:** to collect evidence to conclude on the legality and regularity of these payments.
- ✓ **Substantive testing** of a random sample of **180 interim, final and clearing payments** to Employment and social Affairs projects or operations (ESF/IPA - 173, non-ESF social and employment - 7).
- ✓ **Level of testing:** on-the-spot up to final beneficiary/recipient level to check whether the expenditure declared and accepted was in accordance with main regulatory requirements,

## ◆ Module 3 - Assessment of management and control systems:

- ✓ **Objective:** to analyse and assess effectiveness of commission's checks on the accuracy of the information provided by AAs in the ACRs and audit opinions.
- ✓ Review of **EDG EMPL's examination of 20 ACRs of at least 7 AAs.**
- ✓ **Level of testing:** At Commission's level to assess the robustness of DG EMPL's validation procedure prior to adoption of the DG EMPL's Annual Activity Report (AAR). This may include participation to DG EMPL's fact-finding missions as an observer.

# DAS 2013: ECA's approach to the audit of Employment and Social Affairs



## Outline of the audit process for testing of transactions at beneficiary level:

- Mission notification/Mission program
- Examination: Perform audit procedures
  - ↳ Working in the MS
  - ↳ Desk review
  - ↳ Evaluating the results of audit procedures
- Reporting
  - ↳ ECA preliminary audit findings sent to MS and Commission
  - ↳ Contradictory procedure
    - ↳ Member State's and DGEMPL's replies
    - ↳ ECA analysis of Member State's /European Commission reply
    - ↳ If necessary, tripartite meeting



# DAS 2013: ECA's approach to the audit of Employment and Social Affairs



## EU-Budget 2013

Title	Heading	Budget 2013		% of payments
		Commitments	Payments	
<b>04</b>	<b>Employment and Social Affairs</b>			
04 02	European Social Fund	11 594 862 310	10 087 557 851	97,6%
04 03	Working in Europe - Social dialogue and mobility	79 097 000	58 354 054	0,6%
04 04	Employment, social solidarity and gender equality	122 286 000	108 376 020	1,0%
04 05	European Globalisation Adjustment fund (EGAF)	p.m.	50 000 000	0,5%
04 06	IPA - Human Resources Development	113 157 077	29 652 574	0,3%
<b>TOTAL</b>		<b>11 909 402 387</b>	<b>10 333 940 499</b>	<b>100,0%</b>



# DAS 2013: ECA's approach to the audit of Employment and Social Affairs



## Risks in Employment and Social affairs policy

- Large number and **diversity of co-financed activities**, including the increasing use of innovative funding mechanisms, such as financial engineering instruments (FEIs).
- **Regulatory framework** which requires conformity with a variety of national and EU policies, including **public procurement**, **state aid** and gender equality, etc.
- **Cost-reimbursement based scheme**, in which beneficiaries may overstate eligible expenditure in their cost declarations leading to an overpayment, if not detected by management and control systems.
- **Weaknesses in management controls** at the level of national authorities (intermediary bodies, managing authorities, certifying authorities and audit authorities) or at the level of the Commission



# DAS 2013: ECA's approach to the audit of Employment and Social Affairs



## Definition and Treatment of DAS Errors

- Errors refer to transactions (or part thereof) and/or actions linked to them which have not been carried out in accordance with the applicable legal and regulatory provisions

### ➔ **Quantifiable errors**

Have a direct and measurable financial impact on the amount of the underlying transactions financed from the EU budget.

### ➔ **Non-quantifiable errors** concern the non-observance of:

- Other compliance issue
- A condition for payment having a direct financial impact but where it is not possible to quantify the exact amount of the error.





## The audit of transactions with **Simplified Cost Options**

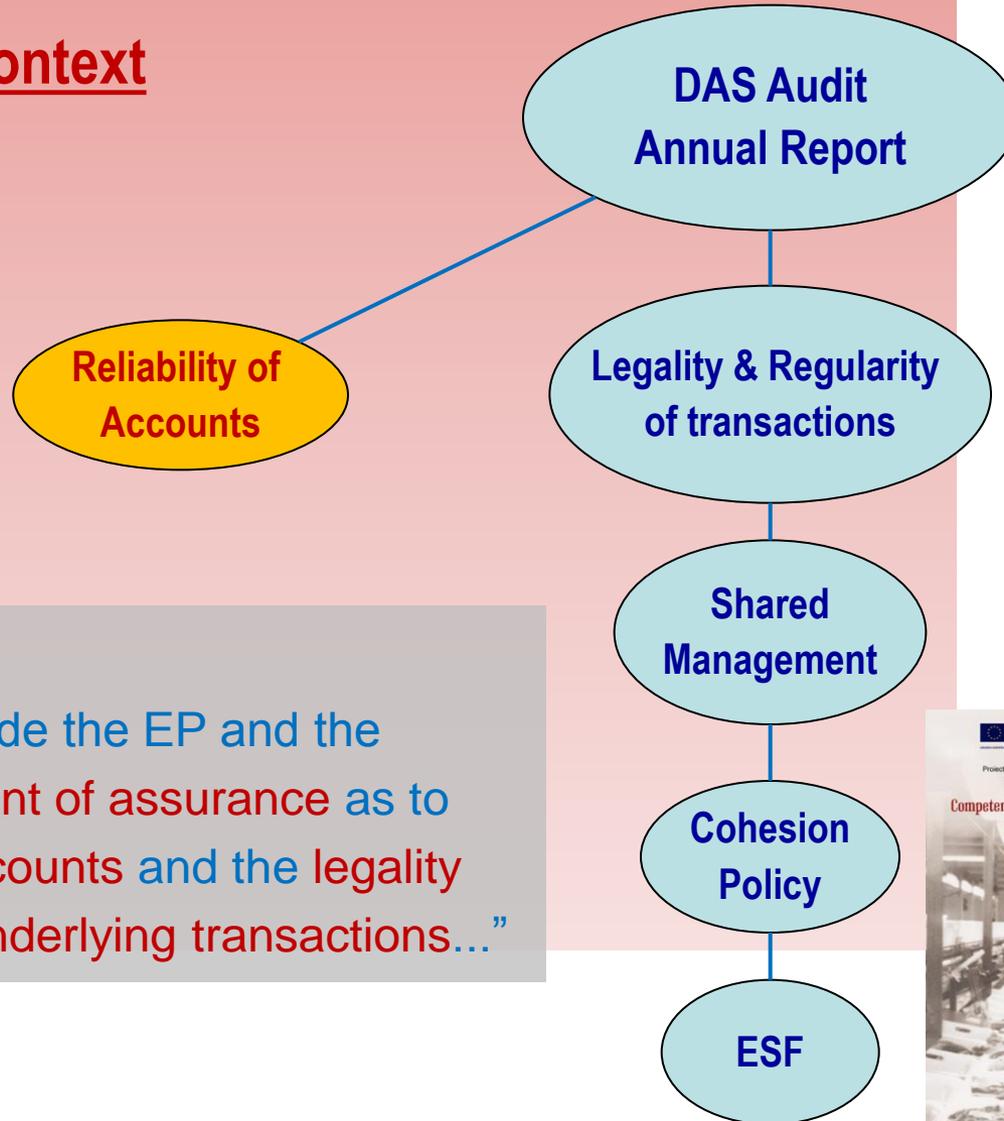


# THE AUDIT OF SIMPLIFIED COST OPTIONS



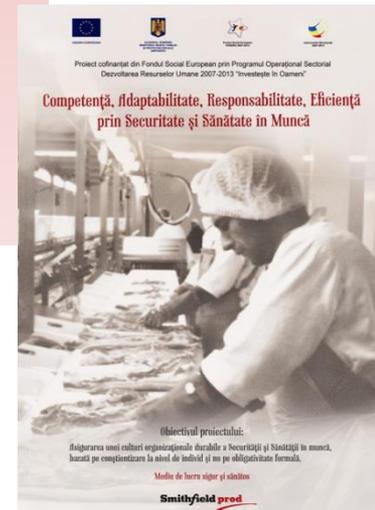
## Context

Performance Audit  
Special Reports



### Treaty Art 287:

”...The ECA shall provide the EP and the Council with a statement of assurance as to the reliability of the accounts and the legality and regularity of the underlying transactions...”



# THE AUDIT OF SIMPLIFIED COST OPTIONS



## Audit's approach:

➤ Different approach possible depending on type of audit:

↳ DAS audits: Legality and regularity aspects

- ↳ Soundness of the calculation method made at MA/IB level
- ↳ Correct application of the method in individual projects at final beneficiary/recipient level
- ↳ Verification on the basis of the “real cost” principle of the direct costs (or of their calculation in case of use of other simplified cost option to calculate them) in the case of flat rates for indirect costs.

↳ Performance audits: Effectiveness, efficiency and economy

- ↳ Are SCOs achieving their objectives?
  - Simplification, less errors, administrative cost savings, etc
- ↳ Extent of the use by National authorities:
  - Pros and cons, barriers, etc.



# THE AUDIT OF SIMPLIFIED COST OPTIONS



- **Legal base:** Article 11 (3) of Regulation (EC) No 1081/2006 as amended by Regulation (EC) No 396/2009 - Specific Regulation for ESF

## 3. **Other eligible costs:** ...(b) in the case of grants:

- Indirect costs, declared on a flat-rate basis, of up to 20% of the direct costs
- Flat-rate costs calculated by application of standard scales of unit cost
- Lump sums (max. EUR 50 000)

...

The options referred to in points (i), (ii) and (iii) of point (b) may be **combined only** where each of them covers a **different category of eligible costs** or where they are used for **different projects** within the same operation.

Costs referred to in points (i), (ii) and (iii) of point (b) shall be established **in advance** on the basis of a **fair, equitable and verifiable** calculation. The lump sum referred to in point (iii) of point (b) shall not exceed EUR 50000."

- **Guidance:** COCOF note 09/0025/04/EN shows the Commission's interpretation on how the legal base should be understood and applied

↳ It includes aspects on audit matters



# THE AUDIT OF SIMPLIFIED COST OPTIONS



## Main aspects for DAS Audits

- Departure from the approach of tracing every euro of co-financed expenditure to individual supporting documents
- Examples of issues to be checked:
  - ↳ Were SCOs applied to right types of projects?
  - ↳ Had the applied simplified cost method been established in advance, on the basis of a fair, equitable and verifiable calculation?
  - ↳ Have SCOs been applied in one of the three forms allowed by the Regulation?
  - ↳ Were the different options combined only where each of them covers a different category of eligible costs or where they are used for different projects?
  - ↳ Was the same expenditure not declared as direct cost on the basis of real cost principle and as cost included in flat rate calculation?



# THE AUDIT OF SIMPLIFIED COST OPTIONS



## WERE SCOs APPLIED TO RIGHT TYPES OF PROJECTS?

- It should be applied only for **grants**
- Not available to operations or projects subject to public procurement contracts (also if below the Directive's 2004/18 thresholds).
- The beneficiary has to keep full control on the management and implementation of the project or part of the project for which it applies this method.
- Still the obligation to fully observe all applicable Community and national rules



# THE AUDIT OF SIMPLIFIED COST OPTIONS



Had the applied simplified cost method been established **in advance**, on the basis of a fair, equitable and verifiable calculation?

➤ **established in advance:**

- have to be defined ex ante;
- must be published in advance (included for example in the call for proposal or at latest in the grant decision);
- The relevant rules and conditions should be incorporated in the national eligibility rules applicable to the operational programme.



# THE AUDIT OF SIMPLIFIED COST OPTIONS



Had the applied simplified cost method been established in advance, on the basis of a **fair**, **equitable** and verifiable calculation?

- It must be **fair**:
  - The calculation has to be reasonable, i.e. based on reality, not excessive or extreme
  - Objective of the audit work: to examine **the basis** used for establishing the rates and whether the rates finally set are indeed in line with this basis.
  
- It must be **equitable**
  - Has to ensure an equal treatment of beneficiaries and/or operations



# THE AUDIT OF SIMPLIFIED COST OPTIONS



Had the applied simplified cost method been established in advance, on the basis of a fair, equitable and **verifiable** calculation?

## ➤ It must be **verifiable**

- Should be based on documentary evidence, which can be verified;
- The MA has to be able to demonstrate the basis on which it has been drawn up;
- Key issue: to ensure compliance with the principle of sound financial management

## ➤ Audit trail

- MA: adequate records of the calculation method; must be able to demonstrate the basis on which the flat rates, standard scales of unit costs or lump sums have been decided
- Beneficiary: supporting documents for outputs are required



# THE AUDIT OF SIMPLIFIED COST OPTIONS



## Have the simplified costs been applied in one of the following forms?

- Indirect costs, declared on a flat rate basis, of up to 20% of the direct cost of an operation
- Flat rate costs calculated by application of standard scales of unit costs as defined by the Member State (when it is possible to define quantities related to an activity, e.g. consultant hours, hotel nights, trainings etc.)
- Lump sums, not exceeding EUR 50.000, to cover all or part of the costs of an operation
  - ↳ Has the grant been paid only if the pre-defined terms of agreements on activities and/or outputs are completed?



# THE AUDIT OF SIMPLIFIED COST OPTIONS



## Other relevant questions:

- Were the different options combined only where each of them covers a different category of eligible costs or where they are used for different projects?
- Was the same expenditure not declared as direct cost on the basis of real cost principle and as cost included in flat rate calculation?



# THE AUDIT OF SIMPLIFIED COST OPTIONS



## Recent experience of auditing SCOs for DAS 2012:

- 43 transactions of the 180 audited had cost declarations with SCOs
- This referred to 12 of the 21 OPs sampled for audit
- Breakdown of SCOs used by type:
  - ↳ 24 transactions with standard scales of unit costs
  - ↳ 15 transactions with flat rates for indirect costs
  - ↳ 4 transactions with lump sums.

**No errors** detected and reported related to the use of SCOs





# Thank you for your attention!

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