European Commission

Simplified Costs Options (SCOs)

The audit point of view

Simplification: the broader picture

- *Comprehensive approach towards simplification*
  - **SCOs**
  - JAPs
  - National eligibility rules
  - OP structure
  - Number of IB
- *Recurring recommendation from EP (2011 Discharge), Council and ECA (2011 Annual Report)*
  - Assessment of national eligibility rules to identify simplification opportunities
  - Gold plating
  - **Further promote implementation of SCOs**
- *Reduced administrative burden and reduced error rate*
- ***Preparation for 2014-2020: strategy, options***

Identified barriers to use of SCOs

- *Legal uncertainty*
- *"Getting it right"*
  - Methodology
  - Historical/statistical data
  - Calculation
- *Undisclosed audit approach*
- *National legislation*
- *Lengthy approval process*

Slow start in some Member States

The audit point of view

- *Need to consider audit implications of the implementation of SCOs*
- *Need to render Commission's audit approach to SCOs transparent*

  ↳*Member State audit authorities encouraged to apply the same approach*
- *Need to provide certainty to MS*

General audit approach

- ***Ensure that the audit approach is aligned with simplification objectives***
  - **Expenditure <u>calculated</u> <u>according to:</u>**
    - Quantities, if unit costs/lump sums applied
    - direct costs, if flat rate for indirect costs applied
  - **Resulting amount is considered as expenditure incurred by the beneficiary**
- *No audit of actual costs and supporting financial documents for each operation*
- *Audit of methodology vs audit of specific operations*

General audit approach

- *Focus of the audit work:*
  - ***MA/IB level**: verification of the methodology used for simplified cost options*
  - ***Beneficiary level**: Verification of the correct application of the established methodology*

Basis for setting the SCO

Methodology:

- ***Fair***: *Reasonable, based on reality, not excessive or extreme. Duly* ***justified*** *and explained*
- ***Equitable***: *Not favouring some beneficiaries or types of operations over others*
- ***Verifiable***: *Based on* ***documentary evidence*** *which can be verified (audit trail). Ex nihilo rates will not be accepted*
- *Checked on a horizontal level*

Operations

- *Correct **implementation** of methodology*
- *Verification of **supporting evidence**/documents for **outputs** (lump sums, standard scales of unit costs) or **direct costs** (flat rate for indirect costs)*
- *No audit of actual costs or underlying financial documents*
- *Verification of compliance with all applicable Community and national rules on eligibility, public procurement, etc.*

Audit trail

- ***Methodology***: *MA/IB to maintain full records on the methodology and the basis for setting the standard scales*
- ***Operations***: *beneficiary to maintain an adequate audit trail and supporting documents:*
  - ✓ **Outputs**: if lump sums or standard scales of unit costs applied
  - ✓ **Direct costs**: if flat rate for indirect costs applied
- *Article 90 of Reg. (EC) No 1083/2006 on* ***availability of documents*** *applies (3 years after closure)*

Legal certainty

- ***2007-2013**: Possibility to submit a flat rate scheme to the Commission for agreement: if agreed, subsequent audits will verify whether the system is correctly applied*
- ***2014-2020**:*
  - *Rates enshrined in the Regulation or Fund specific rules*
  - *Methods used for similar operations and beneficiaries at EU or national level*
  - *For ESF small operations only, possibility to use a draft budget*

Flat-rate financing

	Category of costs to which the rate is applied	Rate	Rate used to calculate …	Calculation method
ESF Reg	***Eligible direct staff costs***	***40%***	***Remaining eligible costs of an operation***	***No calculation***
ETC Reg	***Direct costs other than staff costs***	***20%***	***Staff costs***	***No calculation***
CPR Reg	Variable (see next slide)	Variable (see next slide)	Indirect costs	Variable (see next slide)
	Your own system of flat rate (except for indirect costs)			

Flat rate financing to calculate indirect costs

Category of costs to which the rate is applied	Rate	Calculation method	Remark
Eligible direct costs	Maxi 25%	- Fair, equitable, verifiable -MS schemes -Draft budget*	Current system with additional calculation methods
Eligible direct staff costs	***15%***	***No calculation***	***Other eligible direct costs are declared in addition***
Eligible direct costs	***Rate applied in EU Policies***	***Delegated act will specify rate & method***	

*** ESF, for grants < EUR 100.000**

Impact on error rates

- **2011 DAS results**:
  - **ESF Error rate: 2,2%**
  - **ESF Frequency: 40%** (up from 18%, 25%, 27% 2008-10)
  - **Management verifications: 76%**
  - **Both COM's and ECA's audits confirm the positive impact of SCOs in reducing error rates**
  - **Simpler management verifications**
  - Strong support to their implementation in the new programming period
- **2012 DAS results: 57% of sampled OP and 26% of sampled transactions used SCOs; no errors found on transactions using SCO**
- **Audit approach has to be adapted to SCOs at AA, COM and ECA levels**

2011 Discharge and ECA annual report

2011 ECA Annual Report

Recommendation 6: *encourages the use by Member States of the* ***simplified cost options*** *permitted in the regulations in order to reduce the scope for error.*

2011 Discharge

Contribute to simplification of national rules and to implementation of simplification measures

New practice = new irregularities. Examples

Flat rate	✓Inclusion of costs not foreseen in the categories of costs ✓**Costs included in direct costs although already covered by the flat rate for indirect costs** ✓Non respect of set rate
Standard scales of unit costs	✓Non respect of set standard scale; ✓Various interpretations of the definition of outputs ✓Declared amounts do not reflect the actual outputs
Lump sums	✓**Non delivery of the product or service (100% correction)** ✓Correction if intermediary payments are not justified by final delivery

Impact of the use of SCOs on the errors

Errors detected by ECA: Ineligible costs	If SCOs had been used …
Ineligible training participants	• The error remains
Overcharging of staff costs: no evidence to support the time charged	• The error remains with flat rate for indirect costs • No error for unit costs / lump sums (depending on the indicator)
Ineligible direct staff costs	• The error remains with flat rate for indirect costs • No error for unit costs / lump sums

Impact of the use of SCOs on the errors

Errors detected by ECA: incorrectly calculated costs	If SCOs had been used …
Incorrect calculation of overhead costs (ratio based on the proportion of the area of the building used by the project)	• No error. This type of error was the reason to introduce flat rate for indirect costs in the Regulation
Incorrectly calculated cost declaration: difference in the amount declared by the beneficiary to the managing authority, compared to the amount for the project declared by the managing authority to the Commission	• The error remains

Impact of the use of SCOs on the errors

Errors detected by ECA: Failure procedural requirements	If SCOs had been used …
Absence of separate accounting identifying all expenditure related to the project	• The error remains with flat rate for indirect costs • No error for unit costs / lump sums (depending on the indicator)
Non-compliance with accreditation rules for training companies	• The error remains
Contract award notice sent late	• Simplified costs options cannot be used for projects implemented through public procurement rules.

Conclusions

- *Act now, before start of the programming period*
- *Decide simplification strategy and options chosen*
- *Prepare implementation, involving all authorities concerned*
- *Communicate audit approach by AA*
- *Use existing experience!*
- *COM will continue to provide support through:*
  - Technical meetings
  - Seminars (most Member States have by now been covered)
  - Ad hoc support, upon request

Thank you for your attention.
Questions?

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Please feel free to use and disseminate these slides.