



Simplified Cost Options: audit approach (lessons from 2007-2013)

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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

General audit approach

- ***No audit of (all) actual costs and supporting financial documents for each operation***

- ***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

Audit of operations

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

Basis for setting the SCO

Methodology: defined ex-ante

- **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

Established in advance:

- defined ex ante;
- 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.

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

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

- **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
- **Rules on documents' availability:**
 - ✓ 2007-2013 Article 90 of Reg. 1083/2006 on availability of documents applies (3 years after closure)
 - ✓ 2014-2020 Article 140 of Reg. 1303/201 2-3 years after 31.12.N of the year of submission of accounts

Impact of the use of SCOs on the errors

Errors detected	If SCOs had been used ...
Incorrect calculation of overhead costs	<ul style="list-style-type: none"> No error. This type of error was the reason to introduce flat rate for indirect costs in the Regulation
No evidence to support time charged	<ul style="list-style-type: none"> No error for unit costs / lump sums (depending on the indicator)
<p>Ineligible direct staff costs</p> <p>Absence of separate accounting identifying all expenditure related to the project</p>	<ul style="list-style-type: none"> No error for unit costs / lump sums No error for unit costs / lump sums

New practice = new risks: examples

Flat rate

- ✓ Inclusion of costs not foreseen in the categories of costs
- ✓ **Costs included in direct costs although they are 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

ECA Audit 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.

Conclusion: Act now!

- **MA**
 - Define simplification strategy
 - Compare options and decide before the start of a programme
 - Adapt national rules when necessary
 - Communicate to CA/AA
 - Use existing experience and best practices
- **AA**
 - Keep informed, get involved early
 - Provide advice
 - Communicate audit approach to SCOs (and JAPs)
- **COM continue to provide support through**
 - Guidance note, Technical meetings
 - Seminars (most Member States have by now been covered in 2012/2013)
 - Ad hoc support, upon request