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Simplified Cost Options: DG EMPL audit approach

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Audit implications

- *Need to consider audit implications of the implementation of SCOs (**and JAP's**)*
- *Need to render Commission's audit approach to SCOs transparent*
 - ✓ **Member State audit authorities encouraged to apply the same approach**



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General audit approach

- *Ensure that the audit approach is aligned with simplification objectives*
- *Expenditure **calculated according to:***
 - ✓ 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 (all) actual costs and supporting financial documents for each operation***
- ***Audit of methodology vs. audit of specific operations***



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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



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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
- **Checked on a horizontal level**



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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)
- 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.



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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. 1083/2006 on **availability of documents** applies (3 years after closure)
- **Art 132 of CPR**: 2-3 years after 31.12.N of the year of submission of accounts



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Audit on Joint Action Plan (JAP)

*Financial audit pertains **only to the conditions of payment** defined in the **Commission Decision**: milestones, outputs & results*

*This presupposes **reliable systems** to collect & store data + **common interpretation** of indicators*

For costs incurred by the beneficiary, national accounting practices apply. They are not subject to audit by the audit authority or the Commission



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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



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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)
Ineligible direct staff costs	<ul style="list-style-type: none">• No error for unit costs / lump sums
Absence of separate accounting identifying all expenditure related to the project	<ul style="list-style-type: none">• No error for unit costs / lump sums



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Feedback DAS 2012

- 57% of ESF OPs and 26% of ESF transactions sampled in 2012 DAS use at least one SCO
 - > **Results: NO errors in these transactions**
- The Court has **recommended again** in its DAS 2012 report the **extensive use of Simplified Cost Options**



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

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Thank you for your attention!

Questions?