Simplified Cost Options: DG EMPL audit approach

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Audit implications

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

## Impact of the use of SCOs on the errors

<table>
<thead>
<tr>
<th>Errors detected</th>
<th>If SCOs had been used …</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incorrect calculation of overhead costs</td>
<td>• No error. This type of error was the reason to introduce flat rate for indirect costs in the Regulation</td>
</tr>
<tr>
<td>No evidence to support time charged</td>
<td>• No error for unit costs / lump sums (depending on the indicator)</td>
</tr>
<tr>
<td>Ineligible direct staff costs</td>
<td>• No error for unit costs / lump sums</td>
</tr>
<tr>
<td>Absence of separate accounting identifying all expenditure related to the project</td>
<td>• No error for unit costs / lump sums</td>
</tr>
</tbody>
</table>
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
Thank you for your attention!

Questions?