



Audit of SCOs: The Basics

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Outline

- I. Legal Basis & Guidance
- II. SCO: General principles
- III. Audit of the methodology and implementation
- IV. Risks
- V. Financial corrections
- VI. Good practices identified

I. "Current" Legal Basis & Guidance

2014-2020

- Article 67 Reg. (EU) No 1303/2013 (CPR): Forms of grants and repayable assistance
- Article 68 CPR: Flat rate financing for indirect costs and staff costs concerning grants and repayable assistance
- Article 104-109 CPR: Joint Action Plan
- Article 14 Reg. (EU) No 1304/2013 (ESF): Simplified cost options
- Article 19 Reg. (EU) No 1299/2013 (ETC): Staff cost
- Guidance on Simplified Cost Options (EGESIF_14-0017)

.....However OMNIBUS

II. SCOs: General principles

- **Optional** (but mandatory for ESF operations < EUR 50,000 of public support)
- Must be a **reliable proxy** of real costs
- Must be **established ex-ante**
- **Not possible** for operations/projects implemented exclusively through public procurement
- Method can be drawn from other EU policies (e.g. Horizon2020, LIFE) and from national methods, for **similar** type of operations **and** beneficiaries

III. Audit of the methodology and implementation

The audit approach must be aligned with simplification objectives=> reduce administrative burden & costs

The audit is carried out at two levels:

- 1. At Programme level on the Methodology => MA/IB**
- 2. At Beneficiary level on the Implementation of the SCOs** (payments based on SCOs)

Best Practice:

Methodology drawn by the MA to be validated by the AA prior to its implementation

III. 1. At Programme level on the Methodology

The tasks of the auditor will include checking the existence of:

- **Detailed description** of the steps performed for establishing the SCO.
- **Information** on the calculation method.
(Should be documented, traceable and applied consistently)
- **Justification** of why costs included in the calculations are determined as relevant.
- **Clear and comprehensive** definition of direct and indirect costs in case of flat rates for staff costs and indirect costs.

III. 2. At Beneficiary level on the Implementation

The tasks of the auditor will include:

- Control of the **correct application** of the established methodology
- **Audit trail** for:
 - Direct costs: if flat rate for staff or indirect costs applied
 - Deliveries (outputs/inputs): if lump sums or standard scales of unit costs applied

These audits will be carried out in a different manner:

- **On the basis of the calculation method** used to set the simplified costs and **not** on the basis of supporting financial documents per project/operations
- Resulting amount is considered as expenditure incurred by the beneficiary

Thus,

- Departure from the principle of real costs (incurred & paid)
- The real costs and supporting financial documents **underlying the categories of expenditure covered** by a flat-rate, standard of unit cost or lump-sum **do not need to be verified/ checked!!**

Depending on the established methodology of Flat rates:

Checking whether the flat rate option has been correctly applied to the 'direct costs':

➤ **'Direct costs'** to verify:

- expenditure has been correctly **allocated** to the category(-ies) of 'basis costs'
- there is **not any ineligible** expenditure included in the 'basis costs'
- there is **not a double declaration** of the same cost item

➤ **According to the document setting up the conditions for support and agreements** with the beneficiary, to verify:

- the flat rate is applied to the right categories of cost (basis costs)
- the right flat rate % has been used and calculations are correct

Depending on the established methodology of

Standard scales of unit costs :

The control consists in checking:

- the units **delivered** i.e. quantified activities, outputs or results are **documented thus verifiable**

- The amount declared =
$$\text{standard rate per unit} \times \text{actual units delivered}$$

*i.e. the beneficiary is **only** obliged to report and prove the number of units delivered **and not their actual cost incurred***

Depending on the established methodology of Lump Sums:

The control consists in checking:

- whether the **agreed phases** of the project have been **completed**
 - the deliveries are **documented** and;
 - the **deliveries are** in line with the **conditions/terms** set by the programme authorities (call, subsidy contract, grant letter)
- i.e. the actual costs borne by the beneficiary in relation to the deliveries will not be checked; there is not an obligation to present any supporting documents to prove them

IV. Risks

Identified risks that could lead to findings when SCOs are used:

- 1. Risks related to the methodology followed (systemic error): at programme level**
- 2. Risks related to the implementation of the SCOs: at beneficiary level**

IV.1. Risks related to methodology followed (systemic error): at programme level - 1/2

- Inadequate justification of the SCO methodology
 - the method used **does not meet regulatory requirements**
- Inadequate justification of the calculation basis
 - the results of the calculation method have **not been respected** while setting the SCO
- **Inadequate or vague definition of costs to be covered by the SCOs (direct vs indirect costs) →** risk of different interpretations or double financing of costs



IV.1. Risks related to methodology followed (systemic error): at programme level- 2/2

- **Absence** of relevant data
- **Lack of transparency:** insufficient information to applicants or beneficiaries on the requirements and conditions for the application of simplified costs
- **Overlapping of SCOs within the same operation** (e.g. staff indirect costs included in the scales of unit cost and also financed through flat rate as % of direct costs)
- Scales of unit costs (hourly rates) **overstated** (including indirect costs or overheads) or **underestimated** (based on old data not up to date)

IV.2. Risks related to the implementation of the SCOs: at beneficiary level

- **Incorrect application of the established methodology:**
 - Formal errors (e.g. flat rates applied to incorrect basis costs)
 - Lack of correlation between the amounts to be reimbursed on the basis of SCOs and the operations/activities executed (lump-sums) or quantities incurred (standard scales of unit costs)

V. Financial corrections

For Flat rates and Standard Scales of unit costs

- In the event of an irregularity detected, the correction should reflect the difference between the correct and wrong application of the rate or unit cost (proportionality)

For Lump sums

- In a situation where the deliveries triggering the payment are not justified, (i.e. the pre-defined terms or milestones have not been fulfilled) a full correction of the lump sum should be applied

VI. Good practices identified

- **Consult** partners/stakeholders before deciding on using SCOs, in particular potential beneficiaries
- **Cooperation with or validation by** the Audit authority prior to its implementation
- **Proper justification and documentation** of the methodology
- **Transparency:** SCOs clearly defined in the call for proposals for beneficiaries
- **Clear and comprehensive** definition of direct and indirect costs
- **Regular review** of the adequacy and validity of the data to establish the SCO

How are we helping?

- Seminar in the European Week of Regions and Cities
- INTERACT workshops on SCOs Q&A
- TAIEX-REGIO Peer to Peer workshop on SCOs
- ISCO WG
- Draft on Key principles for auditing SCOs in collaboration with ECA _Single
- Update of the Guidance on SCOs based on Omnibus
- Provide answers to one-off questions from programmes
- ESF Transnational Thematic Network on Simplification
- Survey on current and intended use of SCOs

**Thank you for
your attention**