

March 2015

Court's Special report 22/ 2014


Achieving economy: keeping the costs of EU-financed rural development project grants under control

European Commission's Workshop on Reasonableness of Costs and Public Procurement - 17 March 2015



EUROPEAN
COURT
OF AUDITORS

Why this audit ?

- The Court audits rural development expenditure every year and presents the findings in its annual and special reports
 - Recurring finding : Member State authorities **do not sufficiently ensure that the costs approved for rural development grants are reasonable**, which is a legal requirement
 - The EU and Member States share an interest in **ensuring that costs of rural development grants are kept under control**. This is a key element of the **'sound financial management'** required by the EU's financial regulations
- 
- Clear need for **improving financial management**, though best practices exist and should be shared
 - Provide Member States and the Commission with feasible **good practices**

The audit environment – Rural Development in figures



For the main investment measures, the mean total project cost is around
125 000 euro



Large number of small grants
(from less than 1000 euro) and
small number of large grants
(more than one million euro)



1,4 million individual grants
might have been approved by the end of the programming period



The audit environment - Main risks to Sound Financial Management

Overspecification at application stage

- Quantity and quality of items and projects proposed for an aid may be greater than appropriate, representing unnecessary cost to the EU and national budgets

Too high prices for necessary specification

- Grant for items needed to achieve intended outputs and results should be based on the lowest available price for the required specification

Changes during implementation

- Rural development projects may be complex, and they may change over implementation; Material changes should not lead to unreasonable prices at payment phase

Over-administration

- Administrative burden linked to rural development project management should be proportionate to their risk



The aim of the audit



A performance audit, aiming at :

- Identifying and comparing practices in Member States
- with a view of setting out best practices which can be easily implemented
- aiming not to increase the control burden on national authorities, however to improve existing control systems



Audit scope - Main measures under review



- Modernisation of agricultural holdings
- Adding value to agricultural and forestry products
- Infrastructure related to the development and adaptation of agriculture and forestry
- Training and other measures to improve the competitiveness of agriculture and forestry
- Investment measures related to land management and the environment
- Measures to diversify the rural economy and improve quality of life
- Local development measures using the LEADER approach



Audit scope- the Court's evidence

Focus group of officials from the Commission and Member State authorities to identify key elements of design of effective control systems

Follow-up of previous audit findings

Questionnaire addressed to the managers of all the EU's 88 RDPs to identify potential interesting practices and generate statistics

Desk review of the key procedures applied in the 15 RDPs with the greatest planned expenditure on the measures within the scope of this audit

Audit visits to 4 of these Member States to complement desk reviews

Interviews of Commission officials



Overall state of play

- By 2014, the 15 largest rural development programmes all had in place the basic systems required by the regulations for checking rural development costs
- The methods used varied, and the Court identified some well-designed approaches to address certain risks (cf. Annex I of SR)

- All had weaknesses in relation to the main risks such that overall, the costs of rural development grants were not well controlled



Main audit findings – Commission level

COM Once weaknesses were identified, the Commission responded by proposing financial corrections and by encouraging Member States to prepare action plans

COM Costs could have been better managed had the Commission issued guidance and detected weaknesses much earlier in the programming period

COM/MS Commission's recent initiatives have produced some results, however the action plans do not address sufficiently the risks to the reasonableness of costs



Main audit findings - Member States' level

**Avoid overspecification
at application stage**

**Getting the best price
for the items/ projects
approved**

**Keeping the eye on the
ball after project
approval: Costs
reimbursed remain
reasonable**

**Making it efficient: approaches to ensure that the level of requirements
and checks is commensurate with the level of risk**



Main audit findings - Member States' level

Avoid overspecification at application stage



Simple measures

- Restricting grants to the costs of a **standard specification** is simple and effective, wherever possible



Complex measures

- Costs should be evaluated to ensure that **specifications are reasonable**, e.g. by:
 - **Standard calculations and comparison to benchmarks**
 - **Common-sense checks and unambiguous rules** for non-technical administrative staff can help prevent and detect overspecification of individual project items
 - **Expert opinions** can give good assurance that specifications are reasonable (if sufficiently independent)



Main audit findings- Member States' level

Getting the best price for the items/ projects approved

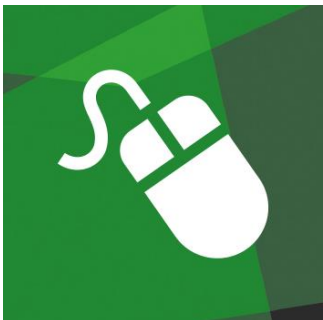


Using **simplified cost options** (or using **maximum costs** in a similar way) effectively limits the risks of excessive prices ...

... if they are set at the **right level** and **periodically reviewed**



Market research can be used to get independent comparative price information for more **complex projects**.



Reference to price databases and listings can be efficient but...

... only useful if prices listed are close to **market prices**

... approach is needed to cope with **huge variety of eligible items**

... where requests are above reference prices, **judgement, based on clear rules/ criteria**, is needed to determine level of grant



Main audit findings- Member States' level

Getting the best price for the items/ projects approved



Comparison of offers received from different suppliers can be a straightforward method to establish market prices but...

.... measures are needed to **deter, prevent, detect and correct any manipulation**

... If **only one offer/ non-comparable offers** is provided, **alternative methods** are needed to check prices are reasonable

... **public procurement rules** make manipulation and fraud more difficult to conceal, but **do not guarantee by themselves** that costs will be reasonable; **Further steps of control** are required



Where judgement is required, **an independent expert opinion or that of an evaluation panel** can give valuable assurance and can be particularly cost-effective when targeted to **higher-risk cases**



Main audit findings- Member States' level

Keeping the eye on the ball after project approval: costs reimbursed remain reasonable



Control systems should identify any **material changes to the project made after the grant has been approved** - Costs to be reimbursed should remain reasonable



Clear rules and checks on samples of payments can deter the **concealment of discounts, rebates** or other advantages given by the supplier that lower the real cost



Main audit findings- Member States' level

Making it efficient: approaches to ensure that the level of requirements and checks is commensurate with the level of risk



Where the **likelihood and potential impact of the risks is low**, control systems can be designed that **minimise the administrative burden**

Rather **concentrate on high-value items, projects with high aid rates and other known risk factors**



Further useful information

Annex I of the Special Report 22/2014 Checklist developed by the ECA to assess the design of control systems in relation to the risks associated with rural development costs

Risk	Design feature
Overspecification	1. Restrict the eligibility to the costs of a standard specification where there are many similar projects or common types of expenditures
	2. Evaluate the proposed costs to ensure that specifications are reasonable
	(a) Make standard calculations and compare to benchmarks to quickly identify applications that are overspecified.
	(b) Evaluate if costs are reasonable against cost-effectiveness or value-for-money criteria.
	(c) Document assessments of whether specifications are reasonable and the basis for this, whether comparison with other projects, technical evaluation or common-sense judgement.
	(d) If grants are not based on the lowest valid offer, establish clear criteria for establishing whether the costs of the higher offers are reasonable; document the evaluation of the extra costs involved.
	(e) Use independent expert opinions for assurance that specifications are reasonable, particularly where projects present risks because of their size, technical complexity or lack of comparative information.

Special report no 23/2014: **Errors in rural development spending: what are the causes, and how are they being addressed?**



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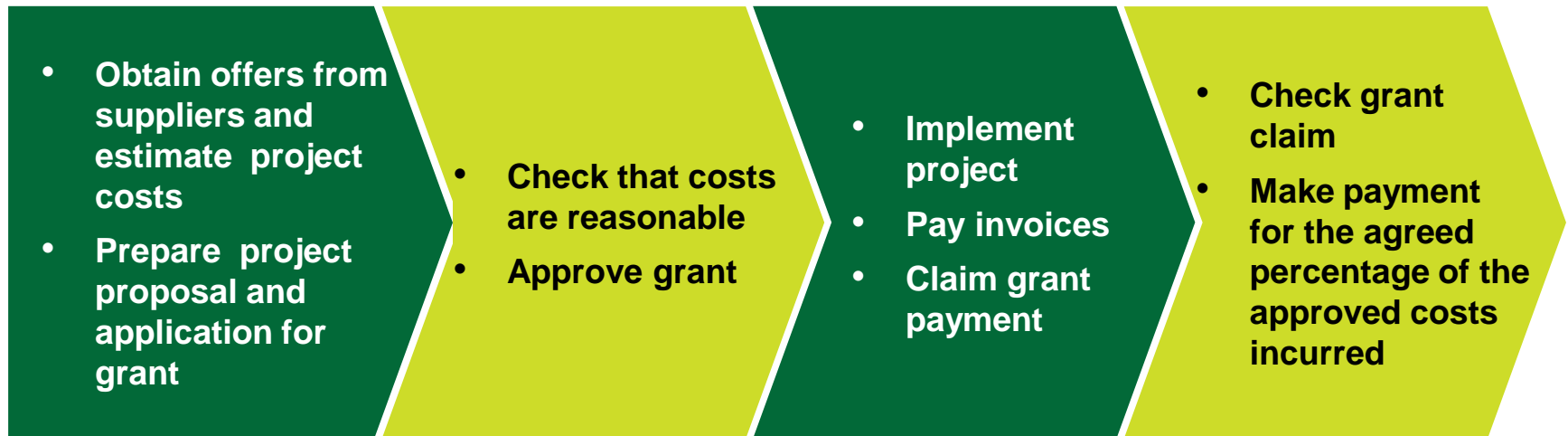
RESERVE



Typical steps for requesting and obtaining a grant

 Applicant

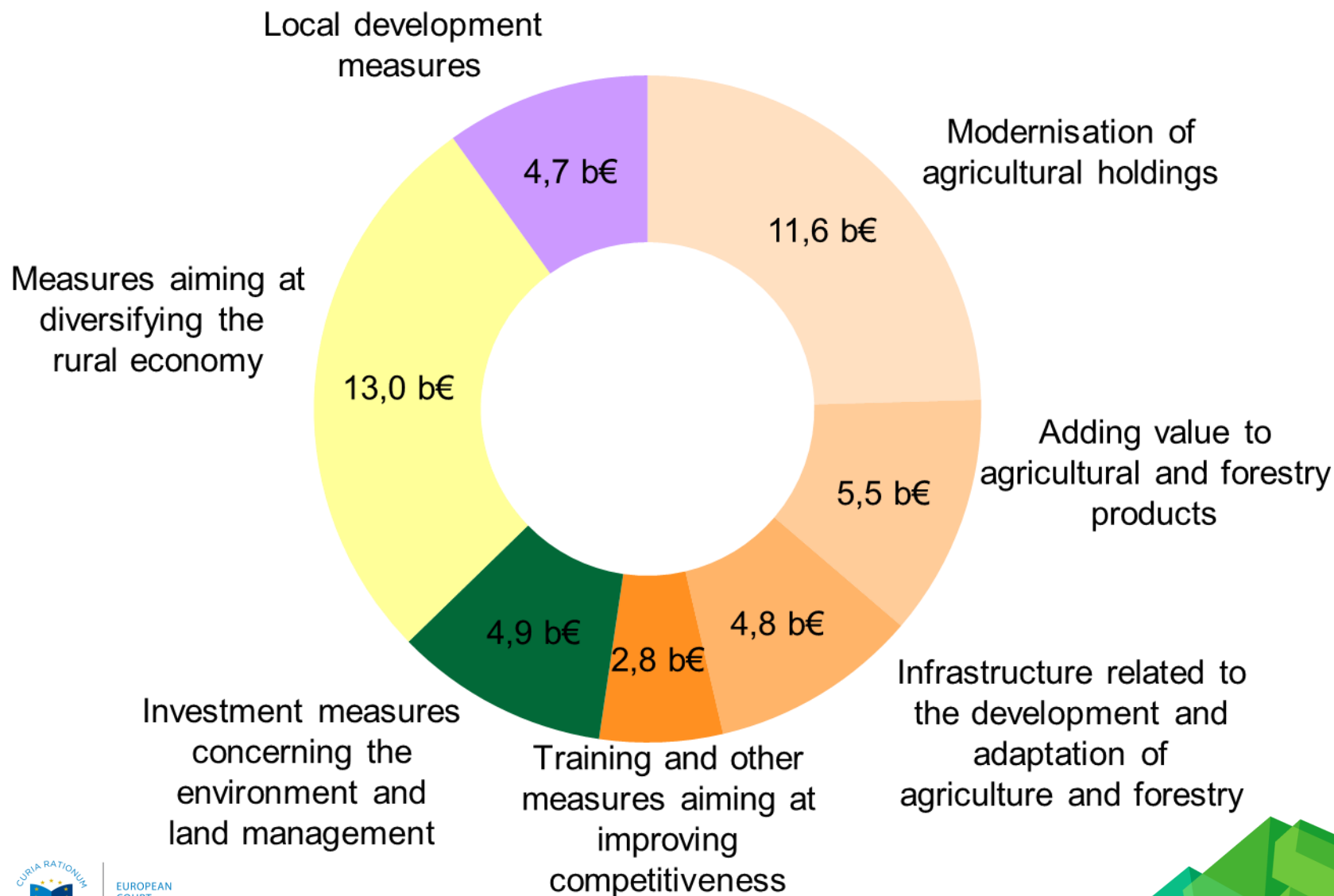
 Member State authorities



Audit scope: the measures covered by this audit

Programmed expenditure 2007-2013 (billion euro)

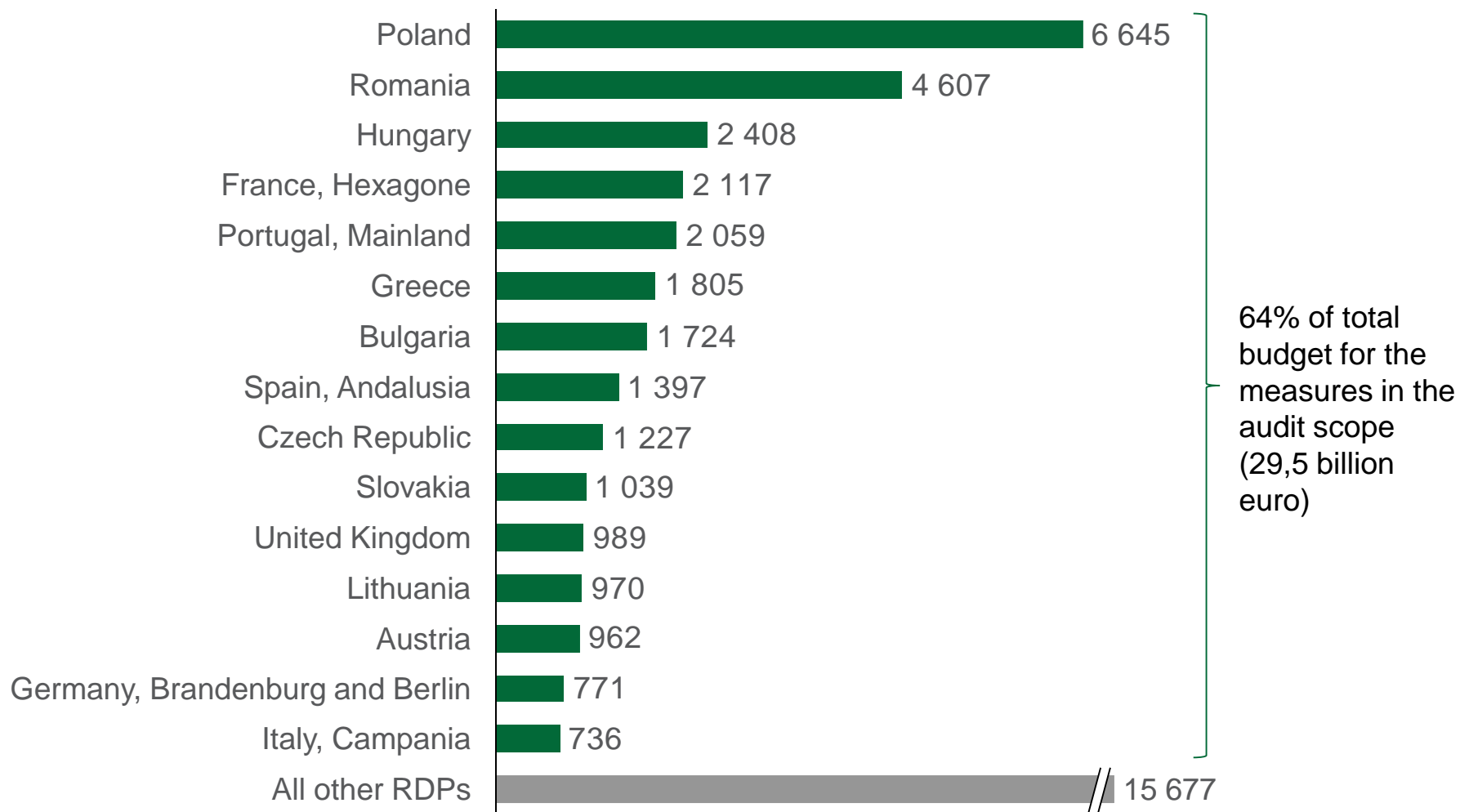
Source: European Commission



Programmed expenditure (2007-2013) for the 15 largest RDPs¹

Million euro

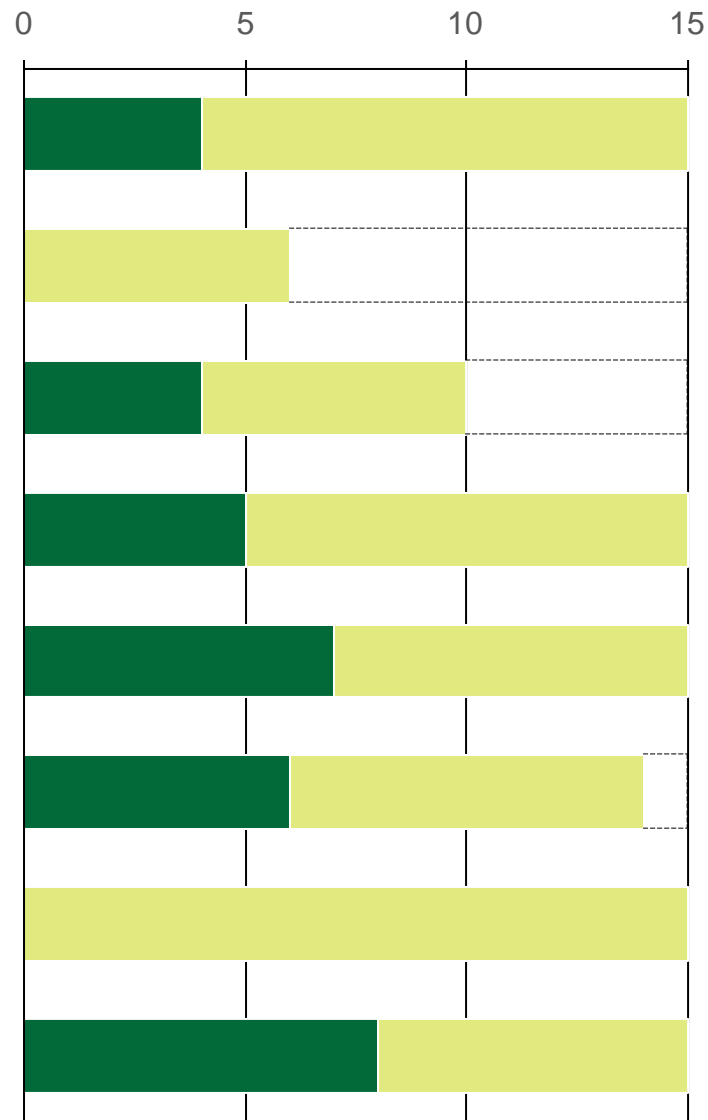
Source: ENRD



¹ For the measures in the scope of this audit, as of 31/12/2013

Overview of approaches in the 15 RDPs audited

Source: ECA audit findings



Audit questions and structure of the report

Are the approaches followed by the Commission and the Member State authorities well designed in relation to the risks associated with the costs of rural development grants?

PART 1: Has the **Commission** a well-designed approach to ensure that Member States have effective systems for controlling the costs of rural development grants?

Have the **Member States** well-designed approaches to...

PART 2: ... mitigate the risk of over-specification?

PART 3: ... ensure that the prices of items approved are reasonable?

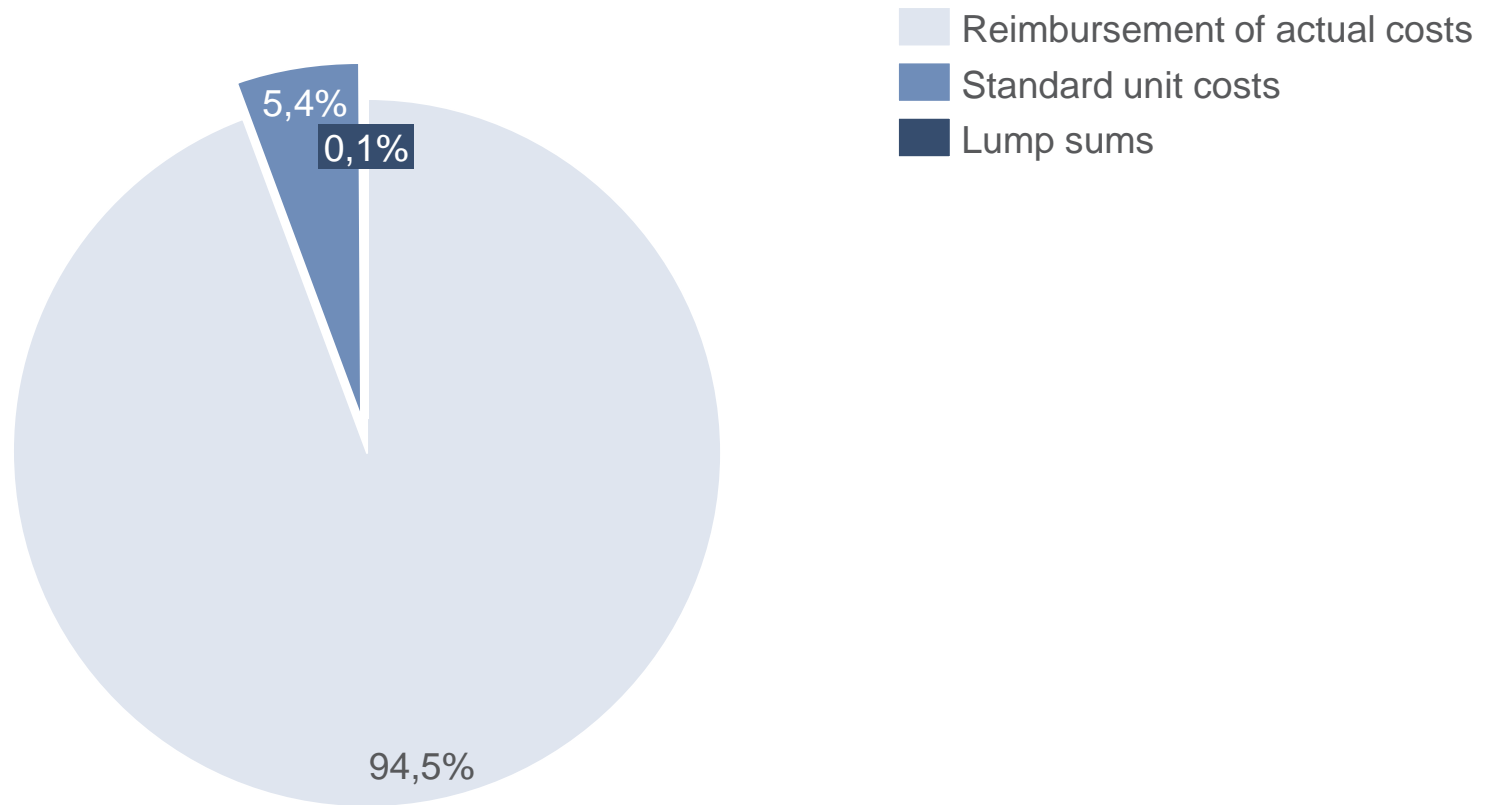
PART 4: ... ensure that the costs actually reimbursed are reasonable?

PART 5: ... relate the level of checks to the level of risk?



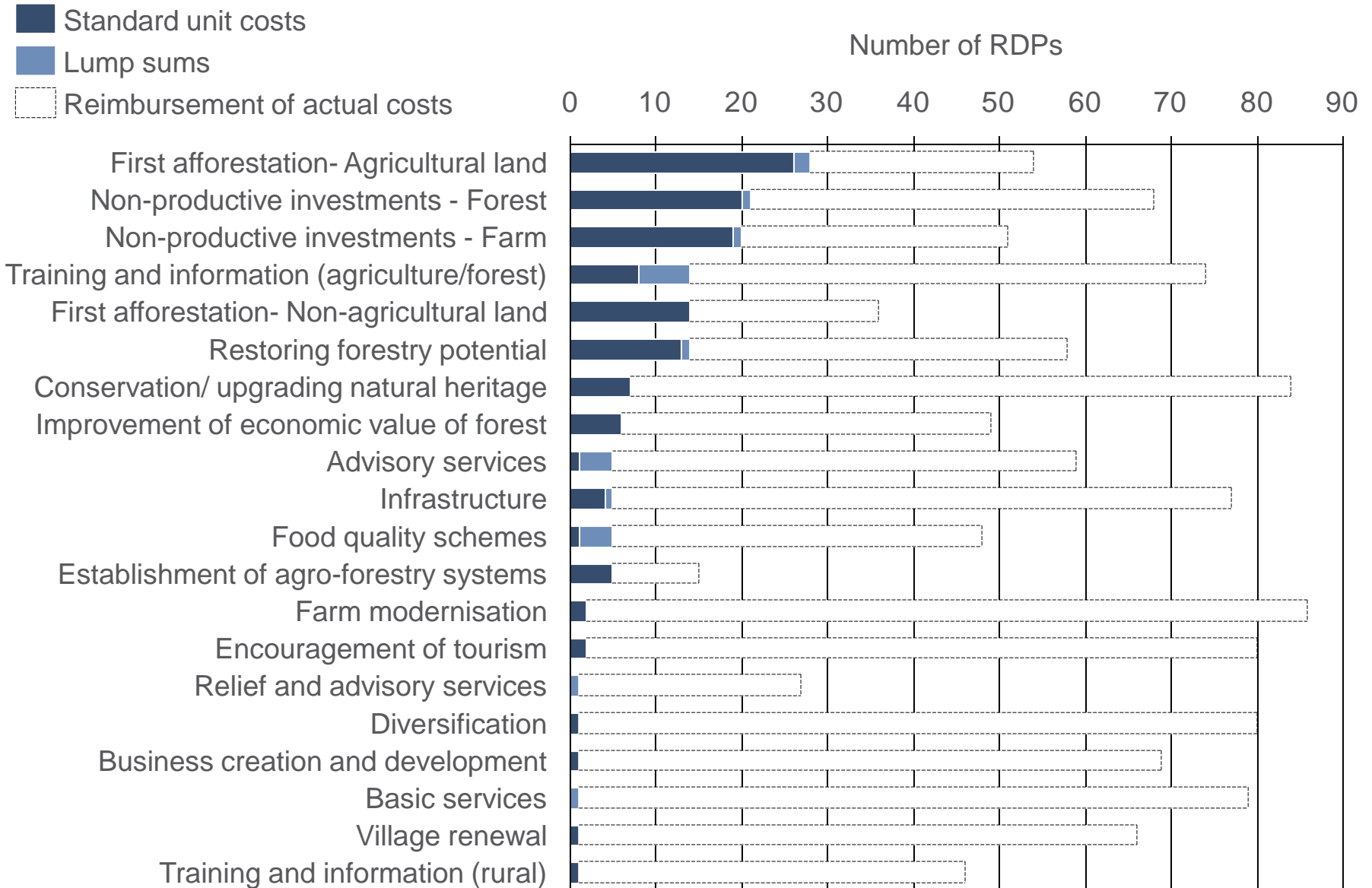
Financial weight of main methods used to determine the grant amount (as % of the rural development budget)

Source: ECA Questionnaire, December 2013



RDPs using standard unit costs or lump sums as one of the methods, by measure

Source: ECA Questionnaire, December 2013



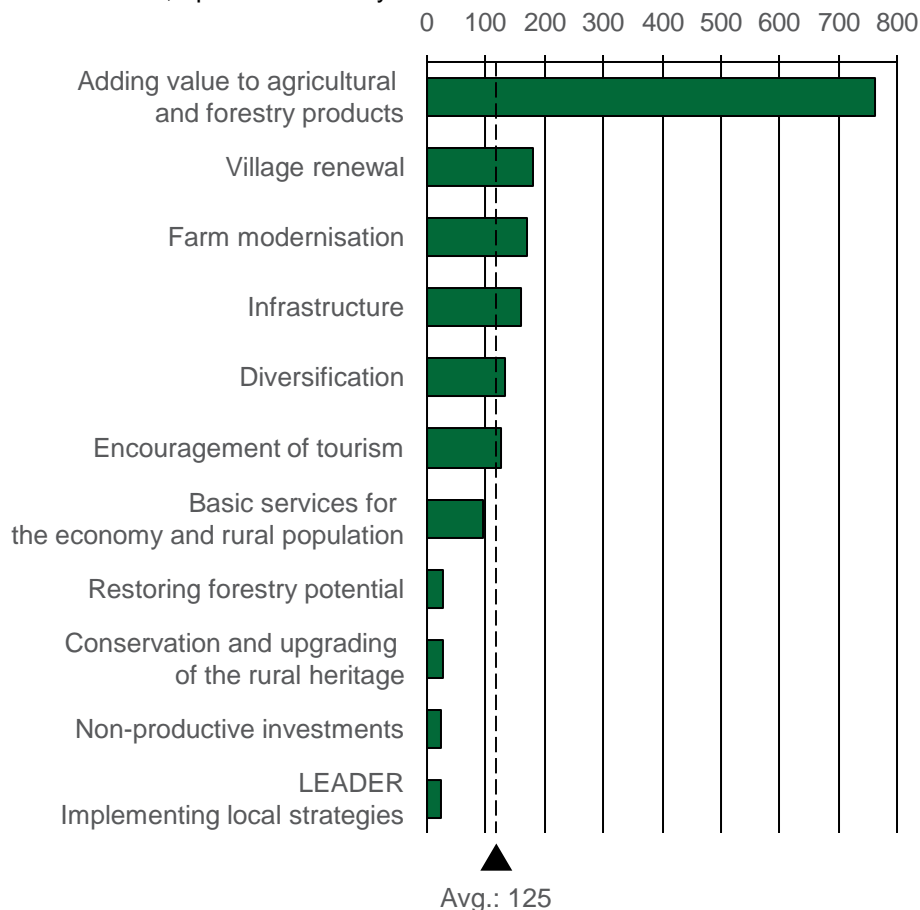
Average project value for the main¹ EAFRD measures

Source: ENRD

Average project costs, 2007-2013

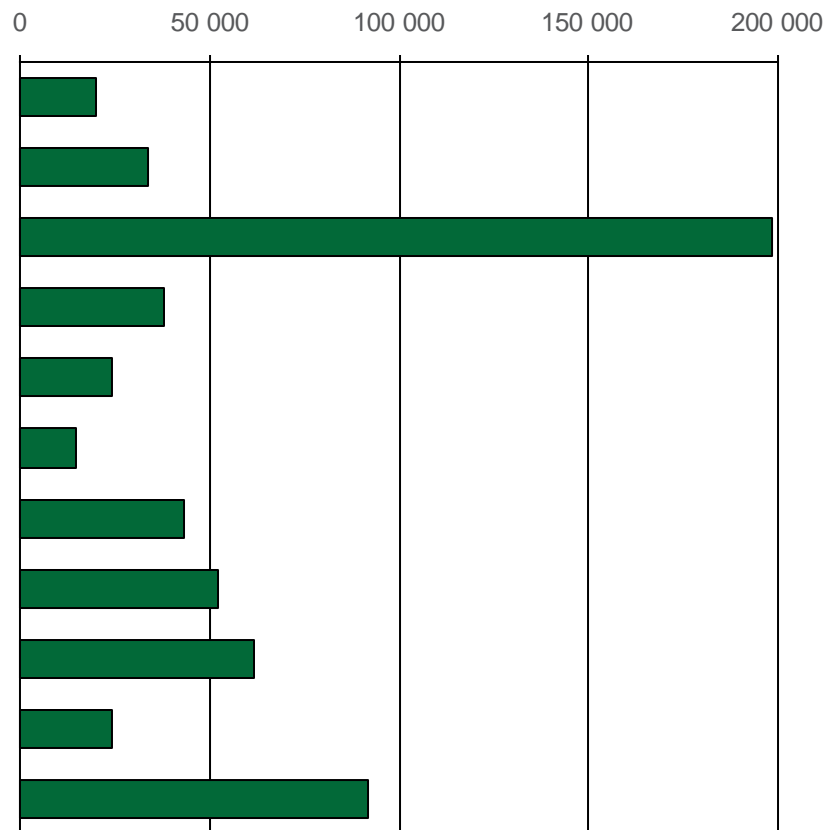
'000 euro

Source: ENRD, updated February 2014



Number of completed² projects, 2007-2013

number



¹ Largest investment measures in scope for this audit, except measures 221 and 312 for which data was missing. When “number of projects” was not available”, “number of beneficiaries” has been used as a proxy

² Another 610 000 actions are in the pipeline according to the CMEF targets and should be completed by 2015