



# ***Ex ante* assessment of Simplified Cost Options and partnerships between managing authorities and audit authorities – How to do it?**

ESF Transnational Cooperation Platform

Community of Practice on Results-based Management

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November 2021

**EUROPEAN COMMISSION**

Directorate-General for Employment, Social Affairs and Inclusion  
Unit G.1 — European Social Fund +

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Manuscript completed in July 2021

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Luxembourg: Publications Office of the European Union, 2021

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PDF

ISBN 978-92-76-40706-5

doi:10.2767/113929

KE-03-21-360-EN-N

## What is the European Social Fund (ESF) Transnational Cooperation Platform?

Mutual learning is at the core of the ESF Transnational Cooperation Platform and its four Communities of Practice (CoP): employment, education and skills; social inclusion; results-based management; and social innovation.

The ESF Transnational Cooperation Platform gives CoP members, including managing authorities, intermediate bodies and other ESF stakeholders, the opportunity to participate in mutual learning activities and tackle common challenges together. The CoPs were created as a place for members to share ideas and concerns, deepen knowledge and expertise, and help one another to solve problems with practical approaches.

The mutual learning activities generate hands-on outputs such as toolkits, guides, practice mapping, checklists and recommendation papers that can inspire practitioners and policymakers alike.

## Acknowledgements

This document has been prepared by Luca Santin, Lead Thematic Expert of the ESF Community of Practice on Results-based Management, as established under the ESF Transnational Platform.

The manual is based on the experience of ESF managing authorities, audit authorities, and national coordination bodies from all (27) EU Member States, which shared good (and not-so-good) practices and recommendations within the 2015-2019 ESF Thematic Network on Simplification and the ESF Community of Practice on Results-based Management (CoP RBM). Key contributions for the preparation of the document have been provided by managing and audit authorities from Estonia, Portugal, Sweden and The Netherlands - good practices of collaboration between authorities-, by members of the CoP RBM's subgroup on 'Simplified Cost Options' and by officials of the European Commission DG EMPL – Units G1 '*European Social Fund +*' and former G2 '*Audit - Shared Management I*'. This document would not have been possible without your engagement and support!

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<sup>1</sup> DG EMPL Unit G2 '*Audit - Shared Management I*' is now part of the Joint Audit Directorate for Cohesion (Direction d'audit de la Cohésion - DAC)



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## List of abbreviations

CoP RBM: ESF Community of Practices on Results-based Management

CPR: Common Provisions Regulation

EC: European Commission

ERDF: European Regional Development Fund

ESF: European Social Fund

ESIF: European Structural and Investment Funds

IB: Intermediate body

MA: Managing authority

MS: Member State

NCB: National Coordination Body for Cohesion Policy / EU Funds

OP: Operational Programme

OTS: Off-the-shelf option

SCO: Simplified Cost Option

SSUC: Standard Scales of Unit Costs

TN: ESF Thematic Network on Simplification

ToR: Terms of reference



## 1. Introduction

The concept and key contents of this document on '*Ex ante assessments of Simplified Cost Options and partnerships between managing authority and audit authority – how to do it?*' were designed by the European Social Fund (ESF) Thematic Network (TN) on Simplification and further developed by its successor, the ESF Community of Practice on Results-based Management (CoP RBM), which built on the experience carried out by the TN between 2015 and 2020.

Established under the ESF Transnational Cooperation Platform, the Simplification TN and the CoP RBM carried out work programmes involving ESF managing authorities (MAs), intermediate bodies (IBs) and audit authorities (AAs), National Coordination Bodies (NCBs) and ESF stakeholders from all Member States (MS) of the European Union (EU), as well as several Directorates-General of the European Commission (EC), coordinated by DG EMPL Unit G.1.

### Aim of the document

The aim of this document is to encourage and support ESF authorities in carrying out the assessment of the legality, regularity and eligibility of Simplified Cost Options (SCOs) before they are actually implemented. This manual also provides examples and references on the scope and functioning of this assessment. It draws from the draft position paper prepared by the European Commission<sup>2</sup> and the experiences of four good practices identified within the ESF TN on Simplification. Potential pitfalls and not-so-good practices are also presented in this document.

Besides technicalities regarding the assessment, the document also addresses the wider theme of collaboration between MAs and AAs, which has been identified as a key issue for enhancing legal certainty and achieving simpler and more effective implementation of the ESF (and EU Funds, in general).

### Target audience

This manual is primarily aimed at representatives of ESF authorities who have little or no experience of *ex ante* assessments and partnerships between MAs and AAs. The target audience would also include 'more experienced' ESF MAs and AAs as well as authorities from other EU Funds and programmes.

### Approach

The document was developed around the following key assumptions, validated by TN and CoP RBM members:

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<sup>2</sup> Draft 'position paper on the advisory role of the audit authorities in the preparation of Simplified Cost Options' (European Structural and Investment Funds – Programming period 2014-2020). Prepared by services of the European Commission.

- The manual should present practical information and tips and should include links to actual practices carried out by ESF authorities.
- Contents of this manual must not constitute, in any way, (additional) requirements or interpretation of legal provisions on audit and assessment of SCOs. In other words, the document should not be seen as a source of ‘gold-plating’<sup>3</sup>.
- The manual should present both good and not-so-good practices (do’s and don’ts).

## Sources and legal framework

Main sources considered for the preparation of this document:

- Case reports on the four best practices on collaboration between ESF MAs & AAs.
- Outcomes of peer-to-peer interviews and group discussions carried out within the ESF TN on Simplification.
- Maps and case reports on SCOs prepared by the TN on Simplification and maps of practices further developed within the CoP RBM.
- European Commission draft position paper on *ex ante* assessments and checklist for the assessment of SCOs.
- European Commission Guidance Note on SCOs – also taking into account the outcomes of the Q&A session at the joint ESF/ERDF meeting organised by the CoP RBM, on 6 November 2020, to present the draft revised Guidance Note.
- Outcomes of CoP RBM’s plenary and subgroup meetings.
- Studies carried out by the EC on the use of SCOs and other simplification measures.

The manual refers to provisions under the legal framework of the European Structural and Investment (ESI) Funds for the 2014-2020 programming period and, in particular, to the Common Provisions Regulation (CPR) adopted for the 2014-2020 period<sup>4</sup> as amended by

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<sup>3</sup> Gold-plating describes a process by which a Member State which has to transpose EU Directives into its national law, or has to implement EU legislation, uses the opportunity to impose additional requirements, obligations or standards on the addressees of its national law that go beyond the requirements or standards foreseen in the transposed EU legislation. (Source: European Commission. (2015). Communication from the Commission to the European Parliament, the Council, The European Economic and Social Committee and the Committee of the Regions. Better regulation for better results - An EU agenda. COM(2015) 215 final. Strasbourg). And also, Gold-plating is a term used in the context of the implementation of the European Structural and Investment Funds (ESIFs) often to describe the administrative extra requirements and burden imposed on beneficiaries by the ESIF national and sub-national authorities. (omissis) Gold-plating is being created not only as a response by national and sub-national authorities to EU level procedures, but also as burden coming from their own national administrative traditions and customs. (Source: High-Level-Group on Simplification – Report on Gold Plating– June 2016 Brussels)

<sup>4</sup> Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the ERDF, the ESF, the CF, the EARDF, and the EMFF and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006.

the Omnibus Regulation<sup>5</sup>. The document also includes references to the CPR for the 2021-2027 period<sup>6</sup>.

## Structure of the document

The document is organised as follows:

- Section 2 presents key aspects of *ex ante* assessments, in terms of purpose, scope and legal basis.
- Section 3 illustrates the state of play of *ex ante* assessments and collaboration between MAs and AAs at EU Level.
- Section 4 provides a description of the roles and responsibilities of authorities.
- Section 5 describes how *ex ante* assessments and partnerships could work in practice.
- Section 6 presents a set of recommendations based on the experience of CoP RBM members.

## 2. Purpose, scope and legal basis of *ex ante* assessments

SCOs must be established by the MA in advance (*at the latest in the document setting out the conditions for support*<sup>7</sup>).

The *ex ante* assessment is the assessment carried out by the AA on the legality, regularity and eligibility of a SCO proposed by the MA, before the SCO is actually implemented<sup>8</sup>.

The assessment should cover the calculation methodology and amounts as well as the arrangements to ensure the verification, quality and storage of data used to establish the SCO. It should aim to verify that the SCO was set up in compliance with the requirements for calculation methods specified in the CPR and relevant provisions defined by programme authorities for such SCOs.

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<sup>5</sup> Regulation (EU, Euratom) No 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union.

<sup>6</sup> Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy.

<sup>7</sup> European Commission - *Guidance on Simplified Cost Options (SCOs) Flat rate financing, Standard scale of unit costs, Lump sums*. (Revised Edition following the entry into force of Regulation (EU, Euratom) 2018/1046).

<sup>8</sup> Draft 'position paper on the advisory role of the audit authorities in the preparation of Simplified Cost Options' (European Structural and Investment Funds – Programming period 2014-2020). Prepared by services of the European Commission.

The experience of the ESF TN on Simplification and CoP RBM shows that an *ex ante* assessment is a key factor in achieving the objective of wider use of SCOs in the ESF (and EU Funds in general). This conclusion is supported by several studies<sup>9</sup> carried out by the European Commission (EC) around SCOs and simplification.

The draft position paper prepared by the EC points out that:

The role of the audit authorities in assessing the legality, regularity and eligibility of the proposed simplified cost options is, for the managing authorities concerned, a key factor in obtaining legal certainty that the SCOs comply with the applicable regulations and requirements.

The *ex ante* assessment of SCOs was not mandatory in the 2014-2020 programming period, but was highly recommended both by the EC and those ESF audit authorities that had carried out the first experiences of assessing SCOs prior to their implementation. Building on this recommendation and on said experiences, provisions for the 2021-2027 period makes *ex ante* assessments mandatory, as per the framework of article 94 of the CPR. Proposals for the adoption of SCOs submitted by MSs under this article, as part of either the programme or resulting from a request for its amendment, should provide information on the assessment carried out by the audit authority<sup>10</sup>. In practice, proposals under article 88 would only be considered if they included evidence that the assessment was carried out with clear and positive conclusions.

Although not constituting an obligation during the 2014-2020 period, several AAs chose to carry out the assessment and validate SCOs proposals prior to their implementation (see section 3). Good practices of collaboration between MAs and AAs suggest that enhancing legal certainty around SCOs (and any activity/measure involved in the management of EU programmes) is a key objective for all authorities, not only for the MAs. This is particularly the case for programmes under shared management as legal certainty also involves joint efforts by national and programme authorities.

Furthermore, on a more practical level, it is important to note that carrying out an *ex ante* assessments does not necessarily involve additional work for the AA.

In this sense, the EC draft position paper clarifies that:

*'If the ex ante assessment is carried out in sufficient depth and in a well-defined framework, and the audit authority comes to a positive conclusion (i.e. formal validation of the SCO methodology), the audit authority can use the result of its assessment for future (assurance) audits, when operations are sampled where the SCO methodology is applied.'*

This means that with *ex ante* assessments, the AA anticipates the check of the methodology and does not have to re-assess the methodology following the implementation of the operation.

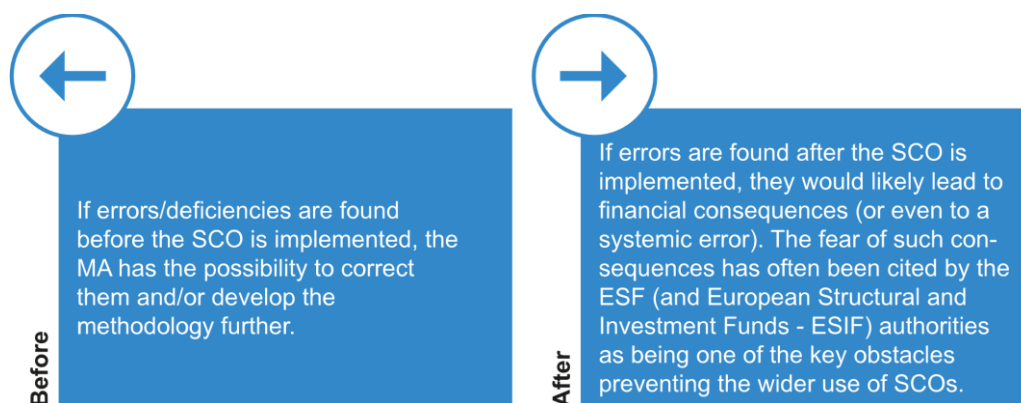
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<sup>9</sup> See 'Use and intended use of simplified cost options in European Social Fund (ESF), European Regional Development Fund (ERDF), Cohesion Fund (CF) and European Agricultural Fund for Rural Development (EAFRD)', European Commission (2018) available at: [http://ec.europa.eu/regional\\_policy/sources/docgener/studies/pdf/use\\_sco\\_esif\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/use_sco_esif_en.pdf) and 'New assessment of ESIF administrative costs and burden', European Commission (2018) available at [https://ec.europa.eu/regional\\_policy/en/information/publications/studies/2018/new-assessment-of-esif-administrative-costs-and-burden](https://ec.europa.eu/regional_policy/en/information/publications/studies/2018/new-assessment-of-esif-administrative-costs-and-burden)

<sup>10</sup> According to art. 94 of the CPR for the 2021-2027 period – SCO proposals should be submitted in accordance with the template set out in Annex V – Appendix 1 of the CPR. Section C.5 requires to provide information on the assessment carried out by the audit authority(ies) on the *calculation methodology, the amounts and the arrangement to ensure the verification, quality, collection and storage of data.*

Moreover, the different timing of the assessment makes a clear difference in terms of potential consequences of errors or deficiencies in the methodology.

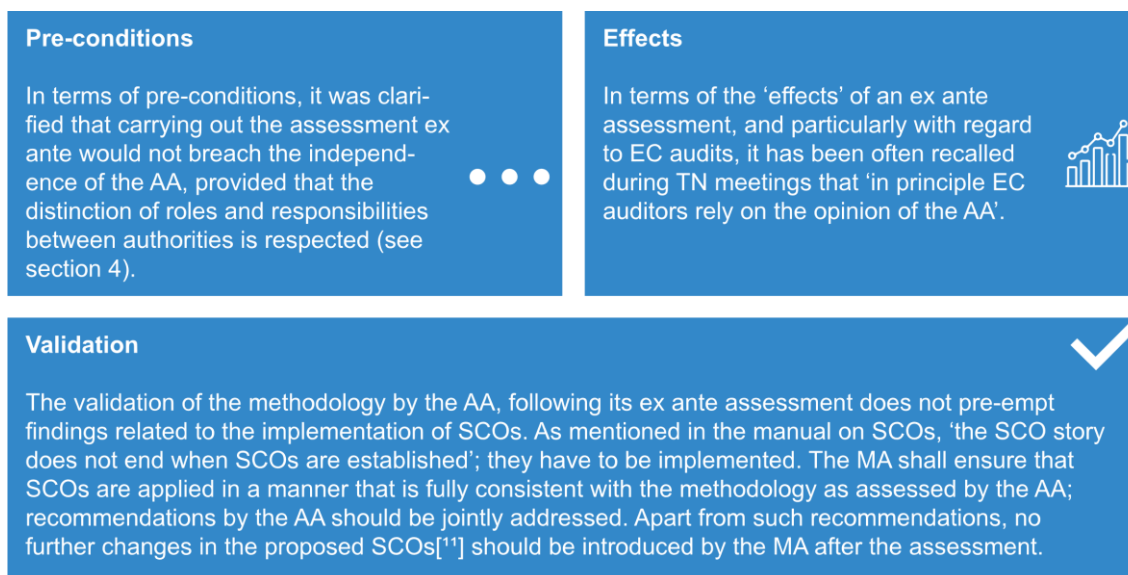
**Figure 1 – Potential consequences of errors or deficiencies in the methodology**



Although this may seem to be a ‘common sense’ reflection, discussions concerning SCOs and assessments carried out in the ESF TN and several other settings suggest that it is worth mentioning it in this manual.

A few other relevant points, often discussed within the ESF TN and CoP RBM, should also be mentioned with a view to defining the legal framework of *ex ante* assessments.

**Figure 2 – Potential consequences of errors or deficiencies in the methodology**



<sup>11</sup> In terms of assumptions, indicators, amounts, conditions for reimbursement, audit trail and any other aspect of the SCO proposal.

### 3. State of play of assessments and collaboration between MA and AA

A survey of ESF managing authorities launched in September 2017<sup>12</sup> on the implementation of Simplified Cost Options - to which authorities for 75% of the ESF Operational Programmes (OP) responded -, shows that, in 36% of the cases, the audit authorities were either consulted for the design or carried out an *ex ante* evaluation of the SCO methodology.

Details on the outcomes of the assessment provided by the survey are presented below in Table 1.

**Table 2 – Outcomes of EC survey on *ex ante* assessment**

Activities and outcomes	Share of SCO practices
Was the audit authority involved in the design or did it carry out an <i>ex ante</i> validation of the SCO methodology?	36%
Did it give informal feedback?	27%
Did it give a formal opinion?	18%

Source: Study on the 'Use and intended use of simplified cost options in European Social Fund (ESF), European Regional Development Fund (ERDF), Cohesion Fund (CF) and European Agricultural Fund for Rural Development (EAFRD)' – European Commission (2018).

A survey on 'Audit of SCO', which included questions on *ex ante* assessments and relationships between MAs and AAs, was launched in 2018 by the ESF TN on Simplification, following the involvement of AA representatives in the network. Responses were provided by MAs and AAs from 23 MSs (88% of the MSs represented in the TN at the time the survey was launched).

The survey's questionnaire included questions on the following points:

- Formal/informal meetings between MAs and AAs.
- *Ex ante* assessments of SCO: experiences and outcomes.
- Joint or crossed training between both authorities.

Key outcomes of the TN survey are presented below in Table 2.

<sup>12</sup> See 'Use and intended use of simplified cost options in European Social Fund (ESF), European Regional Development Fund (ERDF), Cohesion Fund (CF) and European Agricultural Fund for Rural Development (EAFRD)', European Commission (2018) available at: [http://ec.europa.eu/regional\\_policy/sources/docgener/studies/pdf/use\\_sco\\_esif\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/use_sco_esif_en.pdf)

**Table 2 – TN survey on audit of SCOs and partnerships between MAs and AAs.**

Survey questions	Key outcomes
<p><b>Have formal/informal meetings been held between MA and AA? If yes, how often are they organised and what are the key points discussed?</b></p>	<p><b>The majority of respondents have declared that both formal and informal meetings are held between MAs and AAs.</b> Around 85% of the authorities (28 out of 33) involved in the survey have participated in formal meetings, whereas informal meetings were mentioned by 67% of respondents.</p> <p><b>Frequency of meetings:</b> around 57% of (28) respondents who provided information about meetings declared that these were held on a regular basis (at least 'once a month' in 36% of the cases and 'quarterly' for 21% of respondents). Around 25% of authorities reported that meetings were not organised regularly, but they were held if required (e.g. to discuss specific issues). In 18% of the cases, meetings were usually held once a year.</p> <p><b>Key points discussed between MAs and AAs:</b></p> <ul style="list-style-type: none"> <li>• Interpretation of EU regulation (and national provisions)</li> <li>• <i>Ex ante</i> assessments of SCOs</li> <li>• Management and control system and planning of audit activities</li> <li>• Audit findings and corrective measures</li> <li>• Potential risks (fraud and irregularities)</li> </ul>
<p><b>Are the principles and/or the process of <i>ex ante</i> assessments of SCOs set out in any formal document/act jointly prepared/adopted by both authorities? If yes, what aspects are covered by the document/act (e.g. roles, responsibilities, key steps of the process, timing, risk assessment, others)?</b></p>	<p><b>Principles and process of <i>ex ante</i> assessment:</b> The scope and functioning of <i>ex ante</i> assessments of SCOs have been formalised in a limited number of cases. Only two respondents declared that the rules for <i>ex ante</i> assessments had been formally set out. One MS declared that the scope of the <i>ex ante</i> assessment had been set in a dialogue between the MA and AA) but was not formalised. A fourth MS declared that the AA was in the process of drawing up a document, wherein all aspects would be set out: roles, responsibilities, key steps of the process, timing, risk assessment, result (form of report), addressees, etc.</p>
<p><b>Have joint/crossed training sessions been organised between the two authorities?</b></p>	<p><b>The vast majority of authorities considered both joint and crossed training sessions to constitute an effective solution to improving knowledge, mutual understanding and ultimately relationships between MAs and AAs. However, in most cases (70% of respondents), such training sessions did not take place.</b> In some cases, the two authorities attended only training sessions/seminars organised by the Commission.</p> <p><b>Joint training sessions were more frequent (30% of respondents),</b> whereas crossed training sessions were reported only in 4 cases.</p>

Source: ESF Thematic Network on Simplification, 2018.

Further information on the state of play of assessments will be provided by the mapping exercise of SCO proposals under art. 94 of the Common Provisions Regulation (CPR) for the 2021-2027 period, which at the time of writing was being carried out by the ESF CoP

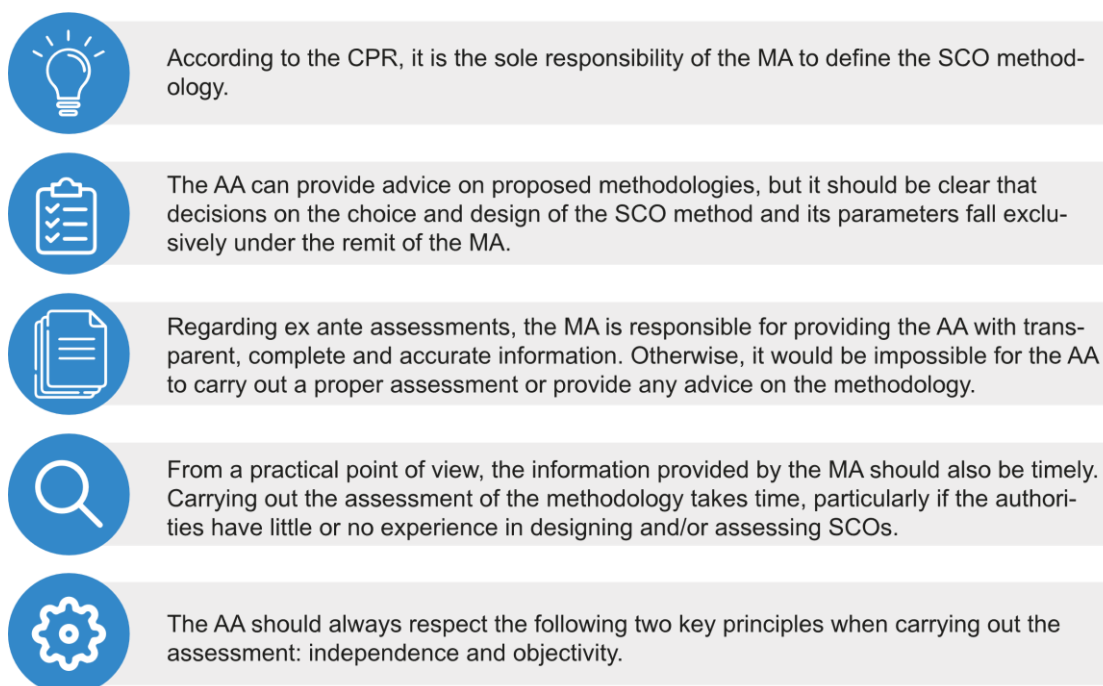
RBM. Preliminary results<sup>13</sup> of the mapping exercise show that *ex ante* assessment has already been carried out for around 40% of the SCO proposals<sup>14</sup> under art. 94.

## 4. Roles and responsibilities of authorities

As mentioned in section 2, carrying out *ex ante* assessments would not breach the independence of the AA, provided that the distinction of roles and responsibilities between authorities is respected.

Good practices of collaboration between MAs and AAs show that informal exchanges, including discussions around 'a cup of coffee', are possible and highly recommended to build partnerships and trust. However, good practices also demonstrated that partnerships should be based on a clear and mutually agreed division of roles and responsibilities.

**Figure 3 – Key aspects to be considered**



As highlighted in some of the good practices (see Table 2) identified by the ESF TN on Simplification, the adoption of a formal document, jointly prepared and agreed by the MA and AA, which sets out the roles and responsibilities as well as the principles and functioning of collaboration and assessments proved to be beneficial. In practice, the document was structured as a sort of 'terms of reference' (ToR) for collaboration between MAs and AAs. This solution would be particularly useful in cases where authorities were subject to frequent

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<sup>13</sup> It should be noted that those results are provisional (the mapping exercise had not been completed at the time of writing) and do not cover all potential SCO practices to be developed during the 2021-2027 period (as the mapping exercise does not include SCOs under art. 53 CPR).

<sup>14</sup> The percentage does not consider SCO proposals which were already covered by a Delegated Act adopted under art. 14(1) ESF Regulation during the 2014-2020 programming period.

<sup>15</sup> As clarified in the EC draft position paper: *independence*: being free of limitations that threaten the ability of the internal audit function or of the head of the internal audit function to impartially carry out the responsibilities of the internal audit function; *Objectivity/being unbiased*: an unbiased attitude that allows internal auditors to perform their duties in such a manner that they believe in the outcome of their work and that no compromises are made on quality.



changes of staff. As observed by several MSs, high staff turnover could undermine agreements reached by the two authorities. Adopting shared ToR would bolster the stability of decisions around principles as well as shore up processes of collaboration over time. An example of ToR structure is provided in Annex I.

Indeed, agreeing upon ToR for collaboration could be a useful step towards partnerships between MAs and AAs. Nevertheless, it should be noted that in other good practices, MSs did not adopt any formal document as they did not see the need for it. Rather, they simply started collaborating and built trust over time, even when initial relations between authorities were far from collaborative.

The following is a key recommendation upon which all good practices can be established:

Partnerships between MAs and AAs cannot be built without a change in the mindset of both authorities. As such, this is a joint responsibility.



## 5. *Ex ante* assessments and partnerships in practice

### 5.1. *Ex ante* assessment process and tools

The approach, scope and process of *ex ante* assessments are described in the EC guidance note on SCO<sup>16</sup>, which provides key references on the correct establishment of the calculation method.

While addressing the general audit approach for SCOs, the guidance note specifies that audit and control are carried out at two levels:

1. Verification of the correct establishment of the calculation method for establishing the simplified cost option, and
2. Verification of the correct application of the established rate(s) and amount(s).

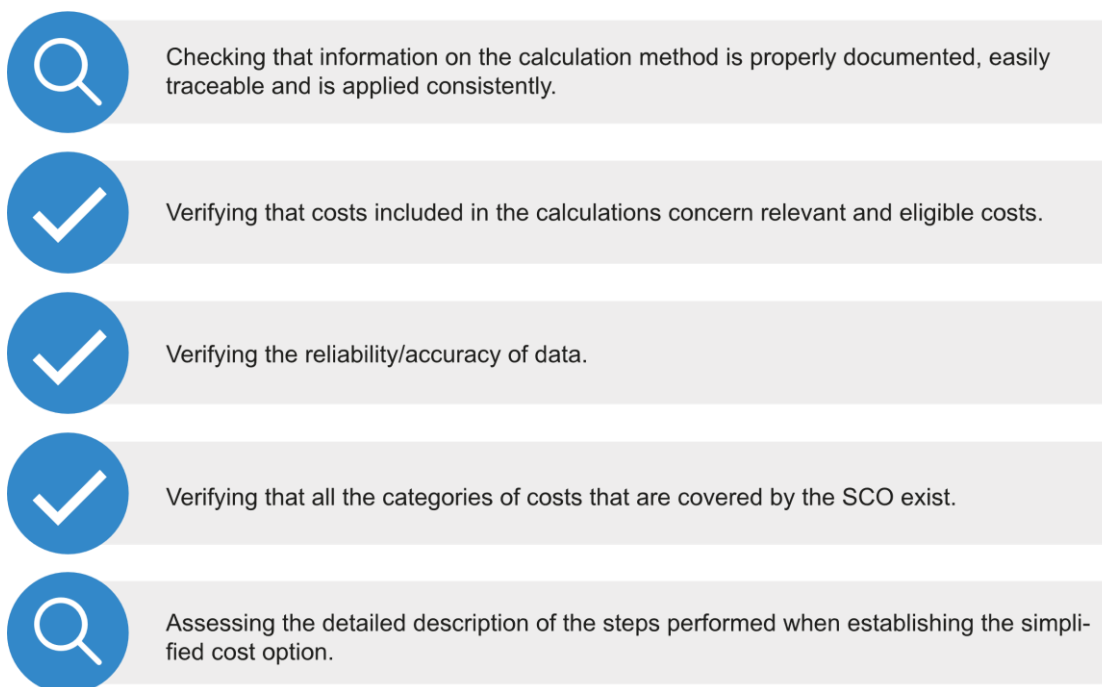
The two levels correspond to the key phases of the SCO process preceding management verification and audit: 1) Setting up and 2) Implementation of SCOs.

As mentioned in section 2 of this note, the *ex ante* assessment covers the setting up of SCOs before it is implemented. Thus, it refers to the first level of control.

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<sup>16</sup> European Commission - *Guidance on Simplified Cost Options (SCOs) Flat rate financing, Standard scale of unit costs, Lump sums*. (Revised Edition following the entry into force of Regulation (EU, Euratom) 2018/1046).

**Figure 4 – Elements to be included in the assessment of the methodology**



The guidance note also clarifies that:

- In case 'off-the-shelf'<sup>17</sup> options are used, the assessment should focus on the definition of categories of costs (e.g. direct costs, indirect costs, direct staff costs) covered by the SCO.
- The assessment should not involve questioning the reasons for selecting a specific methodology over another, as the choice of the method (among the several possibilities available in the CPR<sup>18</sup>) remains the sole responsibility of the MA.

On the second point, it is worth noting that constructive relations between MAs and AAs, based on mutual respect of roles and responsibilities, enhance the quality of decision-making around SCO design. Good practices of collaboration between authorities indicate that suggestions from the AA are very effective in supporting the MA when it comes to selecting the best possible options and improving methodological approaches. Further to addressing potential compliance issues, in practice, AAs' suggestions often contribute to defining simpler and clearer requirements for SCO implementation and verification. Such an approach results in clear advantages in terms of legal certainty and simplification for authorities and stakeholders.

To facilitate the work of the AA, the Commission services prepared a checklist<sup>19</sup> (available in Annex II) for the assessment of SCOs under the 2014-2020 programming period. The checklist is composed of three sections:

- Section 1 – on the overview of SCOs applied in the audited operation
- Section 2 – dedicated to the assessment of the SCO methodology

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<sup>17</sup> 'Off-the-shelf' options are SCOs which are included in the EC Regulation relevant for the Fund/Programme. They do not require the MA to perform any calculations.

<sup>18</sup> See the 'Manual on Simplified Cost Options', ESF Community of Practices on Results-based Management (2021). <https://ec.europa.eu/european-social-fund-plus/en/publications>.

<sup>19</sup> 'Checklist for the assessment of SCOs under the 2014-2020 period', prepared by Commission Services (2019)

- Section 3 – concerning the application of the established methodology.

For each section, the checklist includes references to relevant legal provisions, questions/items to be addressed/verified within the assessment as well as comments/references on how to fill in the document. The checklist also includes a final section on Conclusions, where the AA could list all points to be included in the audit report, if relevant.

It is important to note that a similar checklist is also being prepared for the 2021-2027 period. It will be finalised, together with a template for the assessment of SCOs implemented in the framework of art. 94 of the CPR for the 2021-2027 programming period.

## 5.2. Examples of (potential) findings

As mentioned in section 2, performing an *ex ante* assessment is highly recommended for several reasons. In particular, carrying out the assessment before the methodology is implemented allows for correcting of errors/deficiencies, in addition to avoiding financial consequences (and potential systemic errors).

In practical terms, the timing of the assessment determines whether an observation by the AA remains a 'comment' to be addressed by the MA or becomes a 'finding', thus leading to financial consequences. Indeed, the difference is not negligible.

This section presents the most frequent types of comments discussed between auditors and auditees, with regard to assessing SCO methodologies before their implementation. Thanks to *ex ante* assessments, the comments below did not become findings.

It is important to clarify that the types of comments included in this section are not theoretical, but stem from actual experiences shared within the ESF TN on Simplification.

In particular, the list below presents examples of comments discussed between:

- The European Commission and the MSs within the assessment of SCO proposals submitted under art. 14(1) ESF<sup>20</sup>.
- MAs and AAs regarding SCO methodologies developed and assessed at national/programme level.

**Table 3. Comments on SCO methodologies**

Source	Comments
European Commission	<p><b>On 'Calculation Method – Sources'</b></p> <ul style="list-style-type: none"> <li>• Continued validity concerning the use of <b>national SCOs</b> can no longer be demonstrated (e.g. for ESF operations to be implemented in 2020 the MA intended to use 'similar' SCOs which were established under national schemes which have not been in use since 2015, without providing</li> </ul>

<sup>20</sup> Art. 14(1) of the ESF Regulation for the 2014-2020 period provides the possibility of reimbursing expenditure paid by Member States on the basis of standard scales of unit costs and lump sums defined by European Commission and adopted by delegated acts.

Source	Comments
	<p>evidence that the amounts and/or conditions are still suitable to approximate actual costs).</p> <ul style="list-style-type: none"> <li>● Verifiable data and sources: references to any <b>online websites</b> are not accepted (e.g. providing links to web pages / information which is no longer available online and cannot be verified, or making reference to data and information from sources whose reliability cannot be demonstrated).</li> <li>● Confirm <b>official websites</b> i.e. in relation to national wages (updates on cost of living), social security, inflation, etc. i.e. for adjustment purposes (e.g. Eurostat, National Statistical Offices, Official website of the Ministry of Labour or Ministry of Economy and Finances).</li> <li>● Methodology includes <b>budgeted amounts</b> as opposed to certified costs (i.e. where historical data from previous ESF operations is used, the methodology should be based on data which has been verified by the competent MA).</li> <li>● Most <b>recent</b> and relevant data are not used (e.g. SCOs implemented in Year 2018 based on data from Year 2012) and supporting arguments are not provided (e.g. by demonstrating, such as through the use of specific data collected from reliable sources, that the costs to be covered by the SCOs were not subject to significant fluctuations over time).</li> </ul> <p><b>On 'Transparency of calculation method'</b></p> <ul style="list-style-type: none"> <li>● Unclear/incomplete definition of what costs are in and out, are (in)direct e.g. the MA intends to use a flat rate to cover indirect costs without providing a clear and unequivocal definition of all specific costs which would fall into that category. This would make it impossible for the AA to verify that there is a clear distinction between cost categories (i.e. what is 'direct' and what is 'indirect') and to exclude the risk of overlaps between the concerned categories.)</li> <li>● Lack of completeness: SCOs are not reconciled with total historical data on costs (e.g. the MA does not provide adequate information on how historical data have been cleaned and processed to calculate the SCO and it is not possible for the AA to trace data on which calculations are based back to their source).</li> <li>● Revenues are not taken into account (to reduce the cost).</li> <li>● Unsupported differences with source data.</li> <li>● The use of assumptions: statements lacking argumentation (e.g. 'Y1 results are not relevant' or 'Y2 is expected to be in line with results of Y0').</li> <li>● Using data on one type of training for other types of training believed to be more expensive (e.g. accredited vs non-accredited training sessions).</li> <li>● Consistent application of historical conditions: <ul style="list-style-type: none"> <li>○ Class sizes as a condition in line with historical data;</li> <li>○ Calculated SSUCs for different types of organisation and size of project based on studies that do not have sufficient data on all types and sizes (without providing evidence that, for the specific operation to be covered by SCOs, to changes in types of organisation or size of project do not cause costs to vary).</li> </ul> </li> <li>● Amounts calculated based on only a part of data lacking argumentation as to why other data have not been considered.</li> <li>● Method description (assumption/calculations) <u>not</u> comprehensible to third parties.</li> </ul> <p><b>On 'Audit trail – outputs (payment trigger)'</b></p> <ul style="list-style-type: none"> <li>● Documents to be checked are incomplete and/or not clearly specified.</li> <li>● Milestones are unclear or trigger disproportionate payments (e.g. 90% payment set at the start of action (milestone) when services (training) have not yet been delivered.</li> </ul>

Source	Comments
	<ul style="list-style-type: none"> <li>● Process/tools to collect data for management verification not specified or not suitable to collect complete, consistent and reliable data.</li> <li>● Unnecessary conditions/documents required (e.g. timesheets (output) required to demonstrate a certificate (result) has been awarded).</li> </ul> <p><b>On 'Risks (perverse incentives)'</b></p> <ul style="list-style-type: none"> <li>● Training sessions replacing national funding are barely contributing to OP objectives and targets (OP alignment).</li> <li>● Unit Costs per training session per person leading to bigger classes (e.g. the MA intends to adopt a unit cost of X EUR per trainee hour, covering all eligible costs of the operation, without setting any limits in terms of size of class. This would potentially lead to reimbursing amounts that are disproportionate compared to actual costs incurred by the beneficiary).</li> <li>● Proposed measures to address possible risks appear unclear or ineffective. (e.g. the MA intends to set up a results-based unit cost per participant employed at the end of a training course and does not provide information on how the risk of creaming would be addressed).</li> </ul>
<p><b>Managing authorities and audit authorities</b></p>	<ul style="list-style-type: none"> <li>● Definitions of eligible target groups/participants and/or of criteria and conditions to verify eligibility are incomplete or unclear (e.g. the MA establishes a unit cost for training targeting 'young unemployed' without specifying the exact criteria for eligibility of participants (e.g. age, education) and the conditions to verify their actual eligibility).</li> <li>● Lack of information on the fulfilment of the principle of equal treatment: why different amounts/rates have been (or have not been) established for different target groups and how? (e.g. a 10% flat rate for indirect costs is established at 10% for projects implemented by universities, whereas a 14% flat rate is applied if the project is implemented by a private company without providing justification for the different rate applied).</li> <li>● Unclear or incomplete definitions of results to be achieved (or processes to be implemented) within the operation (conditions and verification criteria) (e.g. training courses for 'small groups' without specifying the maximum number of participants per class; setting up a unit cost for the successful completion of a training course including a mix of individual and group training' without specifying (i) the criteria for defining and verifying 'successful completion' (ii) the distribution (%) of eligible hours between individual and group training).</li> <li>● Completeness and correctness of underlying data (e.g. methodologies for SCOs covering operations to be implemented at national level in MSs with relevant territorial disparities, based on data with insufficient geographic coverage or types of actions referred to which are not similar to the object of calculation).</li> <li>● Suggestions from the AA not included in the calculation methodology (i.e. in case the MA opts for other solutions than those suggested by the AA, it should at least explain the rationale and added value of the decision with a view to reaching an agreement within the framework of <i>ex ante</i> assessment).</li> <li>● Supporting documents justifying the calculations are missing or incomplete.</li> <li>● The methodology and, more importantly, its result (amounts and conditions) are too complicated and unclear/difficult to understand (particularly for beneficiaries) (i.e. this is often the case when the MA has not clearly defined the fundamental aspects qualifying the operation (rationale, objectives, interventions, target(s), expected outcomes etc.) and/or when it aims to reach the 'perfect approximation of actual costs under any possible conditions').</li> <li>● Choice of statistical functions (e.g. mean, median, mode) is not justified (supported by objective assumptions/reasons) (e.g. the mean should not</li> </ul>

Source	Comments
	<p>be used when data includes several outliers/the distribution is strongly skewed).</p> <ul style="list-style-type: none"> <li>• The inclusion or exclusion of outliers within the data cleaning process is not addressed/justified (based on objective qualitative assumptions or sound statistical analysis).</li> <li>• Criteria to define milestones (e.g. in case lump sums are used) are missing or unclear (e.g. 25% of the lump sum is awarded when 'initial guidance to job seekers is completed', without specifying when/under which conditions the initial guidance phase is actually considered 'completed').</li> <li>• Criteria for adjustment/update of the methodology are missing or it is not clear how and when they should be applied (e.g. automatic adjustment linked to national provisions or macro-economic indicators which are not specified in the methodology).</li> <li>• Definition of aid intensity is missing.</li> <li>• Minimum/standard requirements for staff/experts to be involved in the implementation of the operation are not set out or are not clear (e.g. a unit cost is established to cover 'senior experts' fees without establishing conditions to assess/verify the level of expertise (years of relevant experience etc.)).</li> <li>• Unit costs established by national law are not correctly transposed into the methodology (e.g. use of different definitions or conditions) (e.g. unit cost established at national level to support interventions specific for long-term unemployed applied to operations targeting other groups and requiring other types of interventions).</li> </ul>

### 5.3. Partnerships between MAs and AAs: issues and practical solutions

Experiences of good (and not-so-good) practices shared by MAs and AAs within the ESF TN on Simplification allowed for the identification of key references for the development of collaborative relationships (and eventually partnership) between MAs and AAs. A list of main issues and potential solutions identified by TN members is presented below in table 4.

**Table 4. Issues and solutions around partnerships between MAs and AAs**

Key issues	Possible solutions
1. Lack of communication/trust/mutual understanding of roles and responsibilities	1.a Regular (formal and informal) joint meetings
	1.b Charter/terms of reference setting out roles, responsibilities and collaboration process (key steps, timing)
2. Assessing data coming from the MA (i.e. not collected by the AA as usual)	2. Definition of key principles/criteria for data collection and assessment
3. Time pressure (related to programming and reporting cycle)	3. Joint definition of realistic timetable for <i>ex ante</i> assessments to be included in the charter/terms of reference (e.g. could be based on reverse engineering approach: starting from the launch of the call for proposal and going back to the first step of the assessment)
4. Lack of resources and need for change management (staff)	4. Adopt lean organisation principles to simplify the process

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Key issues	Possible solutions
5. Gold-plating = national rules and/or administrative customs/practices resulting in complicated/burdensome approach or hindering relationships (e.g. 1 AA dealing with 20+ MAs' approaches)	<p><b>5.a</b> Identify gold-plating issues and respective solutions/countermeasures</p> <p><b>5. b</b> Establish coordination units/teams composed of MAs and AAs to harmonise approaches and processes (particularly in the case of MS where the AA is responsible for several OPs)</p>
6. The scope of the <i>ex ante</i> assessment is not completely clear	6. Preparation of a TN position paper on the scope and functioning of <i>ex ante</i> assessment, based on best approaches as developed by the good practices and the EC position paper and supported by guidance/further information from the EC
7. Uncertainty around consequences in case errors are found afterwards	7. Identification of the main risk areas and related potential consequences to be discussed among MAs, AAs and EC representatives
8. Lack of experience/knowledge/training on calculation and/or designing operations (e.g. innovative actions)	<b>8.a</b> Enhance training provided by the EC (advanced and hands-on training)
	<b>8.b</b> Exchange on examples and practices available at EU Level
	<b>8.c</b> Joint and crossed (i.e. AAs training MAs and vice-versa) training sessions across authorities

TN members also identified concrete actions to implement the proposed solutions, thereby addressing issues related to either limiting or hindering collaboration between MAs and AAs (see table 5).

**Table 5. Concrete actions to develop partnerships between MAs and AAs**

Solutions	Concrete actions
<p><b>1.a Regular (formal and informal) joint meetings</b></p>	<ul style="list-style-type: none"> <li>▪ Organise formal and informal joint meetings and circulate memos</li> <li>▪ Regular exchanges between TN and AA (homologues meetings)</li> <li>▪ Information on new good practices</li> <li>▪ Online forum and SCO database</li> <li>▪ Start with formal meetings that are subject to a brief set of TOR, informal meetings tend to follow as relationships and trust develop and improve</li> </ul>
<p><b>1.b Charter/ToRs setting out roles, responsibilities and collaboration process (key steps, timing)</b></p>	<ul style="list-style-type: none"> <li>▪ The sub-group on Audit could precisely define the roles and responsibilities of MAs and AAs within the partnership relationships (in general) and specifically for the purposes of <i>ex ante</i> assessment</li> <li>▪ Clarify the concept (scope) of independence</li> <li>▪ Explain the difference between advising, consulting and assurance (showing pitfalls and possible solutions)</li> <li>▪ Elaborate a sample charter (key steps, timing)</li> <li>▪ Clarify how EC looks at the advisory role of AA</li> <li>▪ Provide an overview on how AAs see their role and the role of the MA</li> </ul>
<p><b>2. Definition of key principles/criteria for data collection and assessment</b></p>	<ul style="list-style-type: none"> <li>▪ The sub-group on Audit could precisely define the roles and responsibilities of MAs and AAs within the partnership relationships (in general) and specifically for the purposes of <i>ex ante</i> assessment</li> <li>▪ Develop soft audit guidelines on how to assess data</li> <li>▪ Definition of key principles/criteria for data collection and assessment</li> <li>▪ Gather good practices and problems encountered in the MS and use these to draw up the key principles and criteria</li> <li>▪ Define an agreement on the form and extent of data and information to be provided</li> <li>▪ Standard Operating Procedure Manual</li> </ul>
<p><b>3. Joint definition of realistic timetable for <i>ex ante</i> assessments</b></p>	<ul style="list-style-type: none"> <li>▪ To be included in the charter/ToR</li> <li>▪ Timetable to be included in the Audit Strategy and MoU between MAs, AAs and EC</li> </ul>
<p><b>4. Adopt lean organisation principles to simplify the process</b></p>	<ul style="list-style-type: none"> <li>▪ Explain the difference between advising, consulting and assurance (showing pitfalls and possible solutions)</li> <li>▪ Define a plan/identify concrete and lean organisation principles which can help simplifying the audit process</li> </ul>



Solutions	Concrete actions
	<ul style="list-style-type: none"> <li>▪ Forward planning on both sides to help manage tight resources and flexibility at the outset as the demands can often be quite resource intensive</li> </ul>
<p><b>5.a Identify gold-plating issues and respective solutions/countermeasures</b></p>	<ul style="list-style-type: none"> <li>▪ Identify gold-plating practices to find an optimal approach</li> </ul>
<p><b>5. b Establish coordination units/teams composed of MAs and AAs to harmonise approaches and processes (particularly in the case of MSs where the AA is responsible for several OPs)</b></p>	<ul style="list-style-type: none"> <li>▪ This point could be included in the Charter/ToR (solution 1.b)</li> </ul>
<p><b>6. Preparation of a ‘TN position paper on the scope and functioning of <i>ex ante</i> assessment’, based on best approaches as developed by the good practices and the EC position paper and supported by guidance/further information from the EC</b></p>	<ul style="list-style-type: none"> <li>▪ The paper should be developed to not only look at good practices but to also consider the most common mistakes (findings) - including those observed within the assessment of the draft Delegated Acts</li> <li>▪ Preparation of a TN position paper – this would be a useful way of codifying emerging practice and encouraging further debate</li> </ul>
<p><b>7. Identification of the main risk areas and related potential consequences, to be discussed among MAs, AAs and EC representatives</b></p>	<ul style="list-style-type: none"> <li>▪ Provide concrete examples on how to deal with errors</li> <li>▪ Explain the difference between advising, consulting and assurance (showing pitfalls and possible solutions)</li> <li>▪ Position paper of EC (or TN) on potential consequences (risk analysis on SCO)</li> <li>▪ Overall risk analysis regarding the setup of SCOs</li> <li>▪ Gather, systematise and analyse information (practices) from the MSs on the main risk areas and consequences</li> </ul>
<p><b>8.a Enhance training provided by the Commission (advanced and hands-on training)</b></p>	<ul style="list-style-type: none"> <li>▪ Advice (and even consultancy) provided by EC approved consultants (a similar scheme is used under ERDF for state aid)</li> <li>▪ Enhance role of the EC in promoting and supporting knowledge sharing between AAs and harmonising audit practices and cooperation practices between MAs and AAs</li> <li>▪ Enhance role of the EC in promoting more collaboration by the AAs</li> <li>▪ Prepare a list of topics/issues/problems (questions) to support EC in setting up the training</li> <li>▪ Enhance training courses aimed at unifying practices and understandings among MSs</li> </ul>
<p><b>8.b Exchange on examples and practices available at EU level</b></p>	<ul style="list-style-type: none"> <li>▪ Advice (and even consultancy) provided by EC approved consultants (a similar scheme is used under ERDF for state aid)</li> </ul>

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Solutions	Concrete actions
	<ul style="list-style-type: none"> <li>▪ Enhance role of the EC in promoting and supporting knowledge sharing between AAs and harmonising audit practices and cooperation practices between MAs and AAs</li> <li>▪ Collect a set of good practices</li> <li>▪ Set up an online platform where authorities can find examples and ask questions/exchange information</li> <li>▪ Make available not only recommendations and examples of good practices but also (different types of) common mistakes</li> </ul>
<p><b>8.c Joint and crossed (i.e. AAs training MAs and vice versa) - training sessions across authorities</b></p>	<ul style="list-style-type: none"> <li>▪ Advice (and even consultancy) provided by EC approved consultants (a similar scheme is used under ERDF for state aid)</li> <li>▪ Enhance role of the EC in promoting and supporting knowledge sharing between AAs and harmonising audit practices and cooperation practices between MAs and AAs</li> <li>▪ Peer-to-peer training events between MAs and AAs from different MSs</li> <li>▪ Sharing programmes and relevant documents of training courses organised by MAs and AAs</li> </ul>

## 6. Conclusions and key recommendations

The experience developed by managing authorities and audit authorities from all EU Member States involved in the ESF Thematic Network on Simplification and the ESF Community of Practice on Results-based Management allow for some key recommendations around *ex ante* assessments of SCOs and collaboration between the two authorities to be discerned.

Lessons learned by the good and the not-so-good practices indicate that:

- I. Carrying out *ex ante* assessment by the AA on the legality, regularity and eligibility of SCOs proposed by the MA before they are actually implemented is highly recommended, for the following reasons:
  - a. It enhances legal certainty around SCOs, thus preventing the risk of errors or deficiencies in the methodology, which could lead to financial corrections or even to a systemic error.
  - b. It improves decision making around SCO design, as suggestions from AAs are very useful for the MA to identify the most suitable options (types of SCOs and methods) and define clearer and simpler conditions for implementation (avoiding unnecessary requirements).
- II. An *ex ante* assessment does not breach the independence of the AA and does not undermine the formal division of roles and responsibilities of the authorities.
- III. Carrying out an *ex ante* assessment does not involve additional work for auditors, as the AA does not have to re-assess the methodology following the implementation of the operation.
- IV. In principle, European Commission auditors rely on the opinion of the AA. In practice, where an *ex ante* assessment was carried out, EC auditors did rely on the opinion of the AA.
- V. Adopting common terms of reference, setting out the principles and functioning of collaboration and assessment, could be a useful solution, particularly where authorities are subject to high staff turnover.
- VI. Building trust and partnerships between MAs and AAs is a key step towards a better design and implementation of the ESF (and EU Funds in general). Good practices indicate that setting up partnerships requires:
  - a. Change in mindset: willingness to set and achieve common goals.
  - b. Open, transparent and timely communication.
  - c. Informal exchanges, including discussions around a 'cup of coffee'.
  - d. Support from the EC and applying MSs' successful examples which evidence the concrete advantages of collaboration.
  - e. Time and effort: good practices were not created in one day. MAs and AAs built trust over time and invested in developing knowledge and mutual understanding. However, they reported that the result was definitely worth the effort.
- VII. If you (MAs and AAs) still think that there are good reasons not to follow the example of the good practices, please go back to point VI.a above.

## Annex I – Example of terms of reference for collaboration between managing authorities and audit authorities

### ESF PROGRAMME, SCO STEERING GROUP

#### TERMS OF REFERENCE

##### Membership

1. The Steering group (hereafter: the Group) comprises senior representatives from the ESF managing authority (MA). senior representatives from the certifying authority (CA), audit authority (AA), intermediate body/ies (IBs) will attend in an advisory capacity. Where relevant, senior representatives of national coordination bodies and stakeholders could also attend in an advisory capacity.

##### Purpose

2. The Group will oversee development of the methodology/ies and implementation arrangements for the use of simplified cost options (SCO) in the ESF Operational Programme with the aim of reducing the administrative burden on beneficiaries.

##### Scope and process

3. The Group will agree to procedures and timetables for the process.
4. The process will take account of EC Regulations and relevant documents produced by the EC.
5. The SCO development, under the responsibility of the MA, would include:
  - Detailed analysis of EC Regulations, guidance and presentations available to date on SCO;
  - Detailed review of the proposed activities and nature of expenditure to be included in the Programme;
  - Identification of suitable options: types of SCOs, calculation methods, conditions for reimbursement. ;
  - Analysis of the benefits and drawbacks/risks associated with each option;
  - Collection and analysis of relevant historical/industry data;
  - Development of appropriate SCOs where recommended and agreed.
6. The Advisory Group, which includes authorities and stakeholders attending in an advisory capacity, will provide observations during the meetings of the Steering Group which will include:
  - *Ex ante* advice on appropriateness of approach proposed by the managing authority; and
  - *Ex ante* advice on the data sets proposed for analysis.

## **Responsibilities of Steering Group Members**

7. The MA will be responsible for:

- Chairing the Steering Group meetings;
- Identifying and providing reliable sources of data for analysis where appropriate;
- Identifying, approving and determining the SCO(s) to be developed;
- Development of a final paper on the process and outcome, including any additional analysis undertaken and details of any proposed SCO(s);
- Submission of the final paper and supporting audit trail documents to the audit authority for formal audit which will include an opinion on the outcome of the SCO development, including final solutions identified;
- Following the approval of the audit authority, development of appropriate guidance/administrative procedures to ensure correct application of the agreed SCO(s).

8. The MA (and/or, where relevant, the national coordination body) will adopt into eligibility rules the final SCOs approved by the audit authority.

9. The Steering Group, and in particular the MA, will be responsible for liaising with national audit bodies (with support from the AA as necessary) throughout the process as appropriate.

## **Working method, timetable and deliverables**

The Group will meet physically every \_\_\_\_ weeks and it is anticipated that the process should be concluded within \_\_\_\_ months.

## Annex II – Checklist for the assessment of SCOs under the 2014-2020 period

### **Checklist – Review of the Simplified Cost Options (SCO)** **04/12/2019**

*This checklist has been developed by the Commission services for the audits carried out by the services of DG REGIO, EMPL and MARE.*

*The interested audit authorities or other bodies could also use this checklist (or a version adapted to their needs) in the framework of:*

- 1) Audit of operations to help with the evaluation of eligibility of expenditure declared in the form of SCOs (sections 1-3)*
- 2) System audits in order to help the auditor with the assessment of:*
  - SCO methodology and its implementation, including tests of controls (sections 1.1-3.4)*
  - the management verifications (sections 3.1-3.5) and follow-up of audits (sections 2.6 and 3.6)*

*In the case of an assessment of the SCO methodology prior to the implementation of the SCO, section 2 could facilitate verification of the calculation methodology and amounts.*

*The dedicated InfoRegio SCO website includes useful documentation concerning SCOs:*

*[https://ec.europa.eu/regional\\_policy/en/policy/how/improving-investment/simplified-cost-options/](https://ec.europa.eu/regional_policy/en/policy/how/improving-investment/simplified-cost-options/)*

<b>OP</b>	
<b>DG/Fund</b>	
<b>Country / Region</b>	
<b>Managing authority/intermediate body</b>	
<b>Beneficiary</b>	
<b>Operation code and title</b>	
<b>Amount declared</b>	

Section 1: Overview of SCO applied in the audited operation				
No	Legal reference	Question	Yes/No/NA	Comment/Reference <sup>21</sup>
1.1	Art. 67(2a) CPR <sup>22</sup>	<p>If the public support for an operation or project under the ERDF or ESF does not exceed EUR 100 000, does the grant/repayable assistance take the form of a standard scales of unit costs, lump sums or flat rates?</p> <p>If not, please confirm that one of the following cases is applicable:</p>		<p><i>Please note that:</i></p> <p><i>Where the public procurement within an operation or project forming part of an operation is limited to certain categories of costs, SCO maybe applied for the whole operation or project forming a part of an operation.</i></p>

<sup>21</sup> In case of audit findings, please include in the comment column a reference to the supporting working papers.

<sup>22</sup> Common Provisions Regulation (Regulation (EU) No 1303/2013) with further amendments. The consolidated version is available under the following link: <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1568881092396&uri=CELEX:02013R1303-20190511>

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	Art. 67(4) CPR	<p>1) there is no obligation to apply SCOs as the operation receives State aid support<sup>23</sup></p> <p>2) standard scales of units costs, lump sums and flat rates cannot be applied as an operation (or a project forming part of an operation) is implemented exclusively through the public procurement of works, goods or services</p> <p>3) MS notified the Commission of a decision to extend the transitional period for which SCOs are not applied<sup>24</sup></p>		<p><i>Where flat-rate financing is used, the categories of costs to which the flat-rate is applied may be reimbursed as real costs.</i></p> <p><i>In case of application of a flat rate up to 40% of eligible staff costs to cover the remaining costs of an operation, the allowances and salaries paid to participants maybe reimbursed as real costs.</i></p>
	Art. 152(7) CPR			
<b>1.2</b>	Art. 67(1) CPR	<p>Please indicate the form(s) of SCO applied in the operation subject to the audit:</p> <p>1) standard scales of unit costs 2) lump sums 3) flat-rate financing, determined by the application of a percentage to one or more defined categories of costs</p>		<p><i>Several SCO methodologies could be applied within the same operation. Please indicate in this section all SCO applied in the audited operation.</i></p> <p><i>The assessment of the methodology in section 2 should be carried out for each methodology separately.</i></p>
<b>1.3</b>	Art. 67(3) CPR	<p>In case real costs, standard scales of unit costs, lump sums, flat rates or financing not linked to costs are combined in one operation, do they cover either:</p> <p>1) different categories of costs</p>		<p><i>This question aims at identifying or excluding double financing of the same expenditure (see in particular information included in the grant agreement and available information on the declared expenditure).</i></p>

<sup>23</sup> Although there is no obligation to apply SCOs for operations receiving State aid support, operations under de minimis aid are subject to the obligatory use of SCOs.

<sup>24</sup> Obligatory application of SCOs in operations/projects not exceeding EUR 100 000 was introduced by the Omnibus regulation (Reg. 2018/1046) with a transitional period allowing MS to derogate from this obligation. The initial transitional period of up to 12 months starting from 2 August 2018 could be extended for a period considered appropriate (even till the end of the current programming period).



		<p>2) different projects forming a part of an operation                  3) successive phases of an operation</p>	<p><i>It should be ensured that a specific type of expenditure for a beneficiary can only be reimbursed either based on real costs or one type of SCO:</i></p> <ul style="list-style-type: none"> <li>- <i>If an operation is partially reimbursed on real costs, verify that these costs are not taken into account for the calculation of SCOs.</i></li> <li>- <i>For flat rates, it should be ensured that there is a clear distinction between the cost categories to which the rate is applied and the cost category reimbursed by the flat rate. One or more categories of costs on which the flat rate is based should be pre-established and one should ensure clear and unequivocal definition of these cost categories.</i></li> <li>- <i>If a lump sum and unit costs are used for the same type of operation, verify that the calculation of the lump sum does not cover the elements reimbursed based on unit costs.</i></li> </ul> <p><i>Example:</i></p> <p><i>Operation involving a training project for young unemployed people, followed by a seminar for potential employers of the region: The costs related to the training could be paid on the basis of standard scales of unit costs (e.g. EUR 1 000/day of training). The seminar would be paid on the basis of lump sums. Given that there are two different projects forming part of the same operation, there is no risk of double financing as each project's costs are clearly separated.</i></p>
<p>1.4</p>	<p>Art. 67(6) CPR</p>	<p>Does the document setting out the conditions for support for the operation/grant agreement set out the method to be applied for determining the costs of operation and the conditions for payment of the grant?</p>	<p><i>SCO have to be defined ex ante and must be included for example in the call for proposals or at the latest in the document setting out conditions for support.</i></p>

*In case of discrepancies between the document setting out the conditions for support/grant agreement and the methodology, please specify.*

**Section 2: Assessment of the SCO methodology**

***If the methodology has been already verified in the framework of previous work on which reliance is placed within this audit, please indicate and go directly to section 3 to verify the correctness of implementation of the established methodology.***

***This section should be completed per methodology. If more than one methodology is applied, please copy this section and duplicate as needed.***

2.1	Art. 67(5) CPR  Art. 14 Reg. 1304/2013       Art. 68(b) CPR	Was the methodology established using an appropriate method?  1) Was one of the <b>off-the-shelf methodologies</b> used as <b>proposed in EU regulatory framework</b> ? In particular:  a) In case the MA uses a flat rate, is one of the off-the-shelf flat rates applied which do not require the MA to perform a calculation to determine the applicable rate <sup>25</sup> ?  (i) a flat rate of up to 15% of eligible direct staff costs in order to cover indirect costs		Please go directly to section 3 to verify the correctness of the implementation, if: <ul style="list-style-type: none"> <li>• one of EU off-the-shelf methodologies is used<sup>29</sup>, or</li> <li>• the methodology established by the MS was subject to Commission assessment and acceptance through a delegated act<sup>30</sup>.</li> </ul>
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<sup>25</sup> If the flat rate applied by the MS is above the indicated off-the-shelf rates listed below, a methodology established in one of the ways indicated below under sub-question 2) could be used (in particular: fair, equitable and verifiable calculation method, a method applied under schemes for grants funded entirely by the MS for a similar type of operation and beneficiary or based on existing methods and corresponding rates applicable in Union policies for a similar type of operation and beneficiary). In such a case the methodology should be assessed in this section (please indicate the way the methodology was established and continue with the questions 2.2, 2.4 or 2.5 as relevant).

<sup>29</sup> Section 3.3-3.4 for flat rates and section 3.2 for staff hourly rate based on 1720 hours

<sup>30</sup> Section 3.1 for unit costs and lump sums

Art. 68a(1) CPR	(ii) a flat rate of up to 20% of the direct costs other than the staff costs of that operation to cover direct staff costs <sup>26</sup>		
Art. 19 Reg. 1299/2013	(iii) a flat rate of up to 40% of eligible direct staff costs in order to cover the remaining costs of an operation <sup>27</sup>		
Art. 68b(1) CPR			
Art. 2 Reg. 2019/1867	(iv) a flat rate of 4% (ERDF, CF, ESF) or 6% (EMFF, ERDF: ETC) for overall amount of TA operations in the programme on the basis of amounts of expenditure of operations under the priority axes other than TA		
	b) In case the MA has chosen standard scales of unit costs for the calculation of the staff costs, is the hourly rate calculated by dividing the latest annual gross employment costs by 1720 hours? <sup>28</sup>		
Art. 68a(2) CPR	2) For any type of simplified costs options other than those mentioned in point 1 above, was the methodology established by MA in one of the following ways?		
Art. 67(5) CPR	<p>a) <b>Fair, equitable and verifiable calculation method</b> based on any of the following:</p> <p>(i) statistical data; other objective information or an expert judgement;</p>		<p><i>For the methodologies established as described under point 2), please assess their correctness and complete the following questions below:</i></p>

<sup>26</sup> MS are not required to perform a calculation to determine the applicable rate provided that the direct costs of the operation do not include public works contracts which exceed in value the threshold set out in point (a) of Article 4 of Directive 2014/24/EU.

<sup>27</sup> Please note that: salaries and allowances paid to participants can be considered additional eligible costs not included in the flat rate; this flat rate is not applied to staff costs calculated on the basis of a flat rate.

<sup>28</sup> Article 68a(2) CPR offers off-the-shelf unit cost for staff costs calculated by dividing the latest annual gross employment costs by 1720 hours. In case the MA calculated differently the unit cost for staff costs, please indicate how the amount was established by answering the sub-question 2 and assess the methodology in line with questions 2.2, 2.4 or 2.5 as relevant.

EX ANTE ASSESSMENT OF SIMPLIFIED COST OPTIONS AND PARTNERSHIPS BETWEEN MANAGING AUTHORITIES AND AUDIT AUTHORITIES – HOW TO DO IT?

		<p>(ii) the verified historical data of individual beneficiaries;                  (iii) the application of the usual cost accounting practices of individual beneficiaries</p> <p>b) A <b>draft budget</b> established on a case-by-case basis and agreed <i>ex ante</i> by the MA</p> <p>c) In accordance with the rules for application of corresponding scales of <b>unit costs, lump sums, and flat rates applicable in Union policies</b> for a similar type of operation and beneficiary</p> <p>d) In accordance with the rules for application of corresponding scales of <b>unit costs, lump sums and flat rates applied under schemes for grants funded entirely by the MS</b> for a similar type of operation and beneficiary</p>	<ul style="list-style-type: none"> <li>•2.2. <i>fair, equitable and verifiable calculation method</i></li> <li>•2.3 <i>draft budget</i></li> <li>•2.4 <i>SCO applicable in Union policies for a similar type of operation and beneficiary</i></li> <li>•2.5 <i>SCO applicable in Member State policies for a similar type of operation and beneficiary</i></li> </ul> <p><i>In case the audit scope covers the follow-up of previous audit work, complete in addition section 2.6.</i></p>
2.2	Art. 67(5a) CPR	<p>In the case of SCO based on a <b>fair, equitable and verifiable calculation method</b></p> <p>1) Verify that the data used are reliable and relevant.</p> <p>2) Confirm that the SCO is established on the basis of a fair, equitable and verifiable method.</p> <p>3) In case the SCO concerns a flat rate, established to cover indirect costs on the basis of eligible direct costs, does this flat rate remain within the maximum threshold of 25%?</p>	<p><i>Please indicate the source of information/the basis for establishing the methodology:</i></p> <ul style="list-style-type: none"> <li>• <i>statistical data, other objective information or an expert judgement</i></li> <li>• <i>the verified historical data of individual beneficiaries</i></li> <li>• <i>the application of the usual cost accounting practices of individual beneficiaries</i></li> </ul> <p><i>In the case of SCO based on the usual cost accounting practices, confirm on the basis of the accounting policy/internal procedures of the beneficiary and/or other documentation that the practice is actually applied by the beneficiary.</i></p>

				<ul style="list-style-type: none"> <li>• <i>Fair: the calculation has to be reasonable, i.e. based on reality, not excessive or extreme.</i></li> <li>• <i>Equitable: it does not favour some beneficiaries or operations over others, i.e. equal treatment principle is followed (differences in treatment must be based on objective elements).</i></li> <li>• <i>Verifiable: the determination of the SCO should be based on documentary evidence which can be reviewed.</i></li> </ul> <p><i>Examine the basis used for establishing the rates and whether the rates finally set are indeed in line with this basis. Review of the data/calculation could be carried out on a sample basis if needed.</i></p>
2.3	Art. 67(5aa) CPR	<p>In the case of SCO based on the <b>draft budget</b> established on a case-by-case basis</p> <p>1) Verify that:</p> <p style="padding-left: 40px;">a) the budget was reviewed and agreed <i>ex ante</i> by the MA</p> <p style="padding-left: 40px;">b) the public support does not exceed EUR 100,000</p> <p>2) Have changes in the budget/scope of the operation been introduced after grant agreement approval?</p> <p>3) If yes, is it acceptable in view of the initial conditions agreed?</p>		<p><i>Review the documentation supporting the amounts established by the draft budget.</i></p> <p><i>In order to assess that the overall budget is reasonable taking into account the planned activities/outputs and the project duration, different documentation/ information could be helpful, such as documents demonstrating that the MA assessed the budget/the sources of the data used by the MA for analysis of the draft budget, the historical data of the beneficiary, the amounts obtained by application of its usual cost accounting practices, any available data on market research, etc.</i></p>
2.4	Art. 67(5b) CPR Art. 20-21 Reg. 480/2014	<p>In the case of SCO based on the <b>methodology applied under another EU policy</b></p> <p>Verify that:</p>		<p><i>Specify the reference to the EU policy methodology. The dedicated InfoRegio SCO website includes information on SCO applied under other EU policies (see link on the first page of the checklist).</i></p>

EX ANTE ASSESSMENT OF SIMPLIFIED COST OPTIONS AND PARTNERSHIPS BETWEEN MANAGING AUTHORITIES AND AUDIT AUTHORITIES – HOW TO DO IT?

	<p>Art. 29(1) Reg. 1290/2013</p> <p>Art. 124(4) Reg. 966/2012</p>	<p>1) The EU policy methodology is still in force.</p> <p>2) The totality of the method is re-used.</p> <p>3) The EU policy methodology is applied for a similar type of beneficiary and operation.</p>	<p><i>Totality of the method:</i></p> <p><i>When re-using an existing EU method, the managing authority should ensure that the totality of the method is re-used (for instance the definition of direct/indirect costs, eligible expenditure, scope) and not only its result (the rate of X %).</i></p> <p><i>This aims at avoiding overcompensation/double financing of the same expense. As a title of example, applying a flat rate of X% based on direct costs to cover indirect costs could lead to overcompensation in the case of differences in definitions of direct and indirect costs (in the methodology re-used by the MA some types of expenses could be treated as direct and be declared as real costs whereas the original EU policy methodology treated them as indirect and covered by the flat rate of X%).</i></p> <p><i>See Art. 20-21 of Reg. 480/2014 (as amended) for information/requirements related to the flat rate financing for indirect costs based on:</i></p> <p><i>- Reg. 1290/2013 (Article 29(1), Horizon 2020 flat-rate of 25%)</i></p> <p><i>- Reg. 966/2012 (Article 124(4), flat-rate of 7%)</i></p>
<p><b>2.5</b></p>	<p>Art. 67(5c) CPR</p>	<p>In the case of SCO based on the <b>methodology applied under another national policy</b></p> <p>1) Verify that:</p> <p>a) The methodology under the national policy is still in force.</p> <p>b) The totality of the method is re-used.</p>	<p><i>Specify the reference to the national policy methodology.</i></p> <p><i>For the totality of the method, see clarification under section 2.4 above.</i></p>

		<p>c) The methodology under the national policy is applied under schemes for grants funded entirely by the MS.</p> <p>d) The methodology under the national policy is applied for a similar type of beneficiary and operation.</p> <p>2) In case the SCO concerns a flat rate established to cover indirect costs on the basis of eligible direct costs, does this flat rate remain within the maximum threshold of 25%?</p>		
2.6		<p>In case the audit scope covers the <b>follow-up of previous audit work</b>:</p> <p>If the methodology was previously assessed by the audit authority (either <i>ex ante</i> or during implementation phase) :</p> <p>a) Have any recommendations been issued by the audit authority (risk or issues pointed out for consideration)?</p> <p>b) If yes, have they been addressed by the managing authority?</p> <p>c) In case the methodology was already assessed by the audit authority, are there any changes after the assessment?</p>		<p><i>See also section 3.6 for follow-up of audit findings in relation to the individual operations selected for audit.</i></p>

**Section 3: Application of the established methodology**

**To confirm the correctness of the SCO amounts declared, please fill in:**

- **Sub-section 3.1 for unit costs and lump sums (except the unit costs covered in sub-section 3.2)**

- **Sub-section 3.2 for unit costs related to staff costs calculated on an hourly rate by dividing the latest annual gross employment costs by 1720 hours**
- **Sub-section 3.3 and 3.4. for flat rates**

**If the audit scope covers management verifications, fill in the sub-section 3.5 as well as the preceding sub-sections 3.1-3.4 as relevant for operations selected for tests of controls. Fill in section 3.6 (follow-up of audit findings), if there have been in the past audit findings in relation to the audited operations.**

3.1	<p>Art. 67(1b,c), 67(5) CPR</p> <p>Art. 14(1) Reg. 1304/2013</p>	<p><b>For lump sums and unit costs</b></p> <p>1) Verify that:</p> <ul style="list-style-type: none"> <li>• conditions for reimbursement have been fulfilled</li> <li>• the pre-defined deliverables/ milestones had been achieved</li> </ul> <p>2) If relevant, check the number of actual eligible units and confirm that the amount declared equals the standard amount per unit multiplied by the actual number of units delivered.</p>		<p><i>The beneficiary is obliged to report and prove the deliverables/number of actual units and not their actual costs incurred.</i></p> <p><i>In case the methodology established by the MA was subject to Commission assessment and acceptance through a delegated act based on Article 14(1) of Regulation 1304/2013, please indicate its reference number.</i></p>
3.2	Art. 68a CPR	<p>If for the purpose of determining staff costs, the MA is using the possibility to calculate <b>an hourly rate by dividing the latest annual gross employment costs by 1,720 hours</b></p> <p>1) Verify that:</p> <p>a) Where annual gross employment costs are available, an hourly rate was calculated by dividing the latest documented annual gross employment costs by 1,720 hours for persons working full time, or by a corresponding pro-rata of 1,720 hours, for persons working part-time.</p>		



	<p>Art. 68a(2) CPR</p>       <p>Art. 68a(4) CPR</p>       <p>Art. 68a(3) CPR</p>	<p>b) Where annual gross employment costs are not available, the calculation has been based on the available documented gross employment costs or from the contract for employment, duly adjusted for a 12-month period.</p> <p>c) The total number of hours declared per person for a given year does not exceed the number of hours used for the calculations of that hourly rate<sup>31</sup>.</p> <p>2) Confirm correctness of calculation (the amount of SCO declared equals the hourly rate multiplied by the actual hours worked).</p>		
<p><b>3.3</b></p>		<p>For <b>flat-rate financing</b>, verify the actual costs incurred and paid to which the rate is applied and ensure that these are in accordance with the applicable methodology.</p> <p>1) In particular, in relation to the costs constituting the basis of calculation check that:</p> <p>    a) The expenditure has been correctly allocated to the category(ies) of basis costs.</p> <p>    b) There is no ineligible expenditure included in the basis costs.</p>		

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<sup>31</sup> This does not apply to programmes under the European territorial cooperation goal for staff costs related to individuals who work on a part-time assignment on the operation.

EX ANTE ASSESSMENT OF SIMPLIFIED COST OPTIONS AND PARTNERSHIPS BETWEEN MANAGING AUTHORITIES AND AUDIT AUTHORITIES – HOW TO DO IT?

		<p>c) There is no double declaration of the same cost items (i.e. that the basis cost or any other real cost do not include any cost item that normally falls under the flat rate).</p> <p>2) Confirm the correctness of the calculation (the amount of SCO declared equals the established flat rate multiplied by the amount of eligible basis costs).</p>		
3.4		<p>In case of <b>financial corrections</b> or other adjustments applied for the declared expenditure which constituted the base for <b>flat rate</b> calculation (e.g. following detection of irregular expenditure), did the MA/IB adjusted also the amount declared under SCO (i.e. both the ineligible expenditure detected and the corresponding amount calculated on the basis of flat rate were corrected)?</p> <p>If not, please re-calculate and indicate the eligible SCO amount.</p>		
3.5		<p>In case the audit scope covers the <b>management verifications</b> of the MA/IB:</p> <p>1) Verify what is checked during management verifications.</p> <p>In particular, in the case of standard scales of unit costs and lump sums, establish on the basis of the relevant documentation (such as internal procedures, instructions to beneficiaries, files related to audited operations) what documents are used to confirm the achievement of the pre-defined deliverables/milestones.</p> <p>2) On the basis of verifications carried out in line with questions 3.1-3.4, confirm that the SCO amounts</p>		

		approved by the MA/IB are in line with applicable methodology and rules, and there is a proper treatment of ineligible expenditure.		
3.6		<p><b>Follow up of previous audits</b></p> <p>Are there any SCO audit findings for the audited operations?</p> <p>a) If yes, are the audit findings taken into account by the MA/IB?</p> <p>b) If relevant, are identified financial corrections accepted and implemented?</p>		This section focuses on the follow-up of audit findings related to the individual operations selected for the audit. See section 2.6 for a follow-up of audit findings related to the SCO methodology.
<b>Conclusions</b>				
Point 1	<i>Please list all points to be included in the audit report, if relevant.</i>			
Point ...				

<b>Prepared by:</b>		<b>Date:</b>	
<b>Reviewed by:</b>		<b>Date:</b>	

## Annex III – Case reports on partnerships between managing authorities and audit authorities



### The ESF Thematic Network on Simplification

# CASE REPORTS ON PARTNERSHIPS BETWEEN MANAGING AUTHORITIES & AUDIT AUTHORITIES

## Reports from:

1. Estonia
2. Portugal
3. Sweden
4. The Netherlands

The case reports were prepared in 2018 by managing authorities and audit authorities of the four countries, based on practices developed in the 2014-2020 programming period. Each report is structured around four key points:

- I. **Key preconditions and actions:** How has it been possible to set up a collaborative scheme between the two Authorities? (i.e. what does it take to develop a partnership approach?)
- II. **Challenges, issues and solutions:** What main challenges and issues have you been faced with and what solutions have been found?
- III. **Outcomes and results:** What key outcomes and results have been achieved through collaboration (i.e. added value of partnership)?
- IV. **Lessons learned and recommendations:** What lessons have you learned and what recommendations would you share with your colleagues (both MAs and AAs) from other MSs and with the EC?

## 1. Estonia

### I. Key preconditions and actions

The cooperation between the AA and the MA started with small steps. From the beginning of the 2007-2013 period, or even earlier, regular (twice a month) meetings between the MA, the certifying authority (CA) and the AA were held. The aim was to facilitate the exchange of information on the situation both on the ground and at EU level so that all parties were aware of ongoing developments in the field. During the first few years, the MA and the AA had divided opinions on some contracts regarding the application of major financial corrections. One of the specific cases related to the calculation method of Standard Scales of Unit Costs (SSUC) suggested by Article 67. An agreement was reached between both parties around 2011-2012. Thereafter, their relationship developed to the next stage. The role of auditors, from the MA perspective, expanded beyond its primary narrow focus on auditing and included consulting complicated cases prior to making final decisions. A change in mindset which saw a move away from interpreting the principle of audit independence in a narrow way (that precluded the possibility for cooperation) was a crucial factor. Additionally, these disputes and their resolution set the basis for mutual trust and respect of each other's competences and knowledge.

Today, our cooperation includes:

- sharing knowledge and information: formal and informal meetings between the MA, CA and AA allow for the discussion of potential issues, current works and provide an opportunity for giving an overview of their activities and plans;
- consulting: regular meetings are also held with the 2<sup>nd</sup> level IB-s wherein all the authorities are present. This allows them to have direct contact with the IB-s and share experiences/problems;
- settling differences on audit findings – roundtables, discussions (if the beneficiary/IB has not accepted the audit findings);
- advising: unit cost methodologies prepared by the MA/implementing bodies are reviewed by the AA before their implementation; and
- co-operating in preparing the annual assurance package to EC.

We do this for the following reasons:

- sharing information (including from specific meetings at EU level) and harmonising practices;
- avoiding mistakes during implementation;
- preventing possible financial correction;
- having a wider view of (potential) risks/the risk management process itself and being able to react to potential risks quicker and more proactively;
- avoiding duplication of controls;
- aligning the time-schedules and work plans;

- sharing best practices; and
- reaching a common decision on difficult topics (in the case authorities have different opinions)

Consent given by the AA by way of rather informal reflections in the form of consultation.

## II. Challenges, issues and solutions

Previously, collaboration was carried out mostly after the audits when the MA and the AA mainly discussed or argued about which authority was right. Now, relations rather resemble consultation or advice whereby we discuss the matters beforehand. Neither authority interferes in the other's work, though we keep each other informed.

As we work towards achieving the same goal, it is reasonable to set out to ensure the same understanding of the rules from the beginning. Therefore, when the MA amends the internal guidelines, the AA gives an opinion on whether these are comprehensive and understandable. The MA does not presume from the AA a final stance, but when the topics are difficult (like Financial Instruments), the MA seeks to provide recommendations or advice to improve clarity. During the audits, the AA immediately notifies the MA when there might be more serious findings. The MA, who knows every little detail about the system, can then explain the background or give an additional explanation where needed.

The AA has also taken a more active consulting role to address various risks in the implementation system proactively and to raise awareness of potential risks with regard to the IBs.

The annual assurance package has to be presented on the same day by 3 different bodies – MA, CA, AA. To achieve this, we have agreed on internal deadlines concerning the stages of different reports. Information on main issues is disseminated as soon as possible to avoid any potential issues being encountered last minute.

Since the beginning of 2017, the AA has participated (on a proposal from the MA) in the development of SSUC (art 67).

## III. Outcomes and results

As legal certainty is only achieved after the final audit, this kind of collaboration guarantees that some of the opinions will be similar, providing that practices are harmonised so that all have a similar understanding of the rules. This approach helps to avoid mistakes being made during implementation and to prevent any possible financial corrections - a more proactive role in preventing errors and financial corrections.

Duplication of controls is avoided so that the MA and the AA do not carry out their controls on the same topics at the same time. Additionally, if the AA plans to start auditing the same project that falls under the AA's remit, then the MA will not carry out its verification and will rely on the AA's findings.

For unit cost methodologies that the AA has reviewed, no separate methodology audits will be carried out.

#### IV. Lessons learned and recommendations

Partnerships and cooperation are stages of a growth process, both at individual and institutional level, whose value is enhanced by joint debates and common solutions. This also means a change in the administrative culture of valuing common goals more than individual 'jewels in the crown'. To get to this point, both sides must develop the will to set and achieve a common goal and understand that cooperation is the only way to achieve said goal. Moreover, realisation of the goal requires the presence of experts who are able to remain focussed and to take account of the arguments raised by their counterparts. To prevent potential financial corrections, it is very important to have a unified approach and to have an ongoing consultation on questions raised during the implementation process, so that the AA is also aware of potential risks and may be able to give its input (consultation services from the auditors).

Checklists on different levels should be the same to ensure a unified approach in management verification and audit and to avoid financial corrections.

Open and timely communication and sharing of best practices is key to fostering trust between the various authorities.



## 2. Portugal

### I. Key preconditions and actions

The collaborative scheme reported here refers to the SCOs implemented through Article 67 CPR for the 2014-2020 period and not to the SCOs implemented through a Delegated Act.

Portugal (PT) started to apply unit costs in the programming period 2007-2013, with involvement of the AA in the discussions with the MA and stakeholders seen since the beginning of the process. The involvement of the AA was very important in the negotiations with the European Commission in view of the acceptance of the model. The MA and the AA in PT have benefitted from mutual learning over several years.

The key factors for establishing a collaborative scheme between the AA and other stakeholders involved in the definition of SCOs include the existing relationship of trust and dialogue and the openness shown by the AA concerning simplified cost options as a way of making life easier for beneficiaries and also contributing to the reduction of error rates.

For a good and functioning partnership in the process of defining a new methodology of SCOs, there are several crucial factors: trust, clear and transparent communication in all processes and involvement of all relevant stakeholders (MA/IB, AA, coordinating entities, and Political decision-makers responsible for the methodological approvals). Exchanges of information and regular meetings are very important throughout the entirety of the process.

### II. Challenges, issues and solutions

**Stakeholders' approach aligned with simplification objectives** - One of the main challenges to SCO's implementation is the change of paradigm – the move away from real cost principles - for all the stakeholders involved in the process of a SCO model definition and implementation. This challenge has been exacerbated by the fact that not all stakeholders have the same level of information and understanding of simplified cost options. The dilemma: SCO means simplification for all/who wins and who loses? Commitment to simplification principles is crucial.

**Collaborative scheme** - The establishment of a collaborative scheme between the AA and other stakeholders involved in the definition of SCOs cannot jeopardise the role of the AA. It is not the AA that approves the methodology. Approvals are decided at political level. The AA carries out an *ex ante* appraisal, has an advisory role, and signals possible audit risks. Although the AA has an advisory role/*ex ante* appraisal signalling possible audit risks, it maintains its independence.

**MA's primary responsibility for SCOs** - All stakeholders, mainly the MA, should be aware that the primary responsibility for SCOs remains the MA, namely the data and the calculations that support the methodologies, despite the *ex ante* appraisal of the model by the AA and the approval by political decision-makers.

### III. Outcomes and results

- The AA has an advisory role/*ex ante* appraisal signalling possible audit risks, namely compliance with state aid rules and with public procurement rules. Audit risks are

discussed and reduced or solved, in order to reduce legal uncertainty. Since there is no formal approval by the European Commission (legal uncertainty), the national AA has a crucial role in providing some certainty and some comfort to stakeholders.

- During the designation process, the AA identifies the simplified cost operations and does a preliminary analysis/assessment of the adopted models.
- Secondly, the AA performs system audits by OP, which include the simplified costs options.
- In a third phase, the AA will hold a thematic audit specifically targeting simplified costs, whereby it will also execute the follow-up of recommendations from previous audits.
- These audit systems will focus on the following in particular:
  - Validating the correct construction of the simplified costs option model
  - Testing the correct application of the model in a sample of transactions
  - Confirming the adequacy of management checks (quality management checks is a key element in this process)
  - Confirming the adequacy of the audit procedures developed by other auditors in the review simplified cost option implementation
- Through audits on operations, the AA will:
  - not check the expense documents
  - verify the correct application of the calculation method of the adopted simplified cost methodology
  - confirm the conditions for application of the simplified cost method (*e.g. documents that demonstrate the fulfilment of the objectives and execution of the operation or of actual costs*)

#### IV. Lessons learned and recommendations

- The importance of a good and functioning partnership where transparent communication and trust are crucial along throughout the process
- The AA should be kept informed and involved in the process of defining a new SCO model from the beginning
- The AA maintains its independence with regard to evaluating the model during the audit
- The SCO model adoption (MA/political decision-makers) is improved by the AA's *ex ante* appraisal, identifying audit risks
- The involvement of all stakeholders (MA/IB/AA) is crucial in the whole process i.e. from the beginning
- The initial investment in the definition of the SCO model will save time and resources in management and audit checks (greater efficiency and simplification), and help to reduce the error rate.

## 3. Sweden

### I. Key preconditions and actions

Sweden had the same AA for ESIF since 2007. In addition, the head of the AA has been the same person during this period, as is also the case for several of the auditors. Such stability in the organisations and commissions has been key for the development of cooperation built on mutual trust.

A key aspect has been to find, over time, a common understanding of how to manage the funds correctly in relation to the costs of management and auditing the fund management. The AA and the MA need to sit down together to decide on the demarcation line regarding what is absolutely correct according to the regulations, and what is correct enough within the spirit of the regulations.

This has been done with mutual respect with regard to the fact that the MA knows how to manage funds, and the AA knows how to carry out audits.

And, as always, relations boil down to an honest desire to cooperate and build trust among the individuals involved.

### II. Challenges, issues and solutions

Back in 2007, there was no trust between the MA and the AA. On the contrary, relations were tense and the authorities only spoke formally.

Gradually, the MA and the AA have moved forward, and they now plan yearly activities together so that the MA knows when and what to do to provide the AA with figures, proofs etc., and vice versa. In this way, the MA and the AA collaborate and help each other conduct their respective missions.

The planning concerns at which stage, during the year, the CA will send a declaration to the Commission. This provides a proper, functioning timeline for the AA to conduct their audits on the declaration. This way, the MA can reply duly in time so that the AA can finalise their yearly report to the Commission. It is also about setting out a timetable for who is doing what and when in relation to the schedule for the management declaration and yearly accounting.

The MA and the AA also have informal meetings to discuss topics of common interest, and we do this with mutual respect for the roles we both play.

In addition to the above, the MA consulted the AA when preparing the SCOs for the Delegated Acts (DAs) under art. 14(1) ESF. Still, the MA only consulted, but did not ask for nor received formal consent from the AA regarding the proposed SCOs. The AA has also organised joint meetings with MAs on the ESI funds to discuss audit issues.

Added to this is a kind of pragmatic attitude that the authorities have come to share; 'manage the funds correctly enough in relation to their costs'. In other words, this is our shared interpretation of 'sound financial management'.

### III. Outcomes and results

- Less frustration through the achievement of a common understanding of the goal of the funds plus mutual respect of roles. A low error rate means less audits and decreased administrative costs for both the MA and the AA.
- Better predictability and conditions for the yearly overall planning.
- A structure for problem solving between both parties on audit matters.
- The MA believes that the low error rate is partly, but not solely, a result of common understanding and collaboration with the AA.
- In 2008-2009, the error rate was above 2 percent, which forced the authorities to make corrections. This taught the MA to be better at managing the funds and to build up a structure to meet audit reports.
- The MA has sharpened management and control, has become better in management and replying to the AA. The mutual understanding of overall fund management has evolved.
- Informal discussions over a cup of coffee.

### IV. Lessons learned and recommendations

- Find an informal space to discuss fund management and audit.
- Discuss how to manage and audit funds in relation to the budget regulation's rule on 'sound financial management'.
- Build trust over time.

## 4. The Netherlands

### I. Key preconditions and actions

- Both the MA and the AA see the need and advantages regarding simplifications.
- Trust in each other's competence.
- Both the MA and the AA are involved in the whole process of the development of the SCO, wherein the MA develops and the AA points out the risks, verifiability and feasibility.
- Clarity concerning the different roles each has: the MA is responsible for establishing the SCO methodology, the AA has an advisory role.
- Also involve the beneficiary in the development of the SCO.
- Simple structure in the Netherlands - only one OP, one MA, one AA and no IBs.
- Regular meetings between the MA and the AA where the development of SCOs is discussed and audit issues are discussed beforehand.
- Proposals are discussed and developed with our own auditors (from the MA) beforehand so that when proposals are discussed with the AA the proposals are more 'audit' proof.

### II. Challenges, issues and solutions

- Cooperation without jeopardising the roles of the MA and the AA as auditee and auditor.
- Primary responsibility for the SCO remains under the remit of the MA.
- The AA is involved from start to finish in the process of making the SCO with their advisory role.
- Making use of historical information which has been subject to an audit by the AA is greatly advantageous.
- If the SCO is not based on historical information that was already audited, the process of verifying and checking the data takes much longer.
- More involvement of the auditors of the MA before discussing issues with the AA. (Auditors think alike).

### III. Outcomes and results

- Audit risks are discovered, discussed and solved proactively beforehand. As such, there are fewer discussions afterwards between the MA and the AA about the audit of the projects with SCOs.
- The results of the SCO also makes the life of the MA, the beneficiary and the AA easier when it comes to verifying, auditing and administrating projects.

### IV. Lessons learned and recommendations

- The adoption process by the EC is made easier with a positive recommendation by the AA.
- Build your relationship by involving the AA so they can point out the risks, verifiability and feasibility concerning SCOs.
- While developing SCOs, the discussions are always informal. Only when the proposal is finished is an official statement from the AA about the proposal sent together with the proposal to the Commission.

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