

# Verification of simplified cost options (SCOs)

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## Practical implications of SCOs on control and audit work

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## 1. Verification of SCOs – main principles

Verification of simplified cost options (SCOs) is very different from verification of real costs. The starting point is that where SCOs are used, there is no need to trace every single euro of expenditure. Instead, checks are limited to the verification of outputs, deliverables, and basis costs.

Article 74(1) CPR

(a) carry out management verifications to verify that the co-financed products and services have been delivered, that the operation complies with applicable law, the programme and the conditions for support of the operation, and:

(ii) where costs are to be reimbursed pursuant to points (b), (c) and (d) of Article 53(1), that the conditions for reimbursement of expenditure to the beneficiary have been met.

[where points (b), (c), and (d) of Article 53(1) are unit costs, lump sums, and flat-rate financing respectively]

Therefore, the scope of management verifications of the expenditure reimbursed via SCOs is totally different from real cost verifications. It is limited to the verification of the delivered outputs/ deliverables (for unit costs and lump sums), or basis costs (for flat rates). Management verifications do not cover individual invoices of underlying expenditure reimbursed on the basis of SCOs (as is the case for the real costs). Where SCOs are used, there is no need to justify the real costs of the categories of expenditure covered by the SCOs or specific procedures underlying the expenditure based on SCOs (e.g., public procurement, depreciation, in-kind contribution, etc.).

NB: Such simplified verifications by no means imply that SCOs “lift” eligibility rules. Even though underlying expenditures under SCOs are not checked, projects anyway must comply with all European, programme, and national eligibility rules. A programme needs to clearly communicate this to all project partners implementing projects with SCOs.

Audit and control of SCOs are focused on 2 elements:

- the verification of the correct establishment of the method (audit part), and
- the correct application of the method (audit and control).

In this factsheet, we will focus on the verification of the correct application of the SCOs<sup>1</sup>. The factsheet serves as a reference point for controllers performing management verifications in the Interreg programmes. The factsheet can also be used by the audit authorities to support them in the verification of SCOs application.

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<sup>1</sup> The EC has published an [EC checklist](#) “Assessment/ Audit of Simplified Cost Options (SCO)” for the 2021-2027 programming period. The checklist consists of 2 parts: assessment of the SCO methodology (to be used by the AA for system audits), application of the established methodology (to be used by the AA for system audits/ audit of operations and could be used by controllers for management verifications).

## 2. Verification of SCOs

### 2.1. Verification of flat rates

Verification of the correct application of a flat rate includes verification of the cost category(ies) that form the “basis costs” (cost category(ies) to which the flat rate is applied). The actual costs incurred by the beneficiary and related supporting documents of the cost category reimbursed as a flat rate are not checked.

Types of flat rates:

- off-the-shelf flat rates, established in the Regulations<sup>2</sup>. They are established as a ceiling in the Regulations, therefore, the MA should decide on the percentage of the flat rate ex-ante;
- programme-specific flat rates, established by the programme based on a methodology as provided by Articles 53 and 94 CPR.

What to check	What not to check
1. Programme rules to verify:	Underlying expenditures of the cost category reimbursed as a flat rate
The flat rate is established ex-ante by the MA	
The cost categories covered by the flat rate were planned in the project partner budget (existence of the cost category)	Supporting documents to make sure the amount of the flat rate was spent on the correct cost category
The flat rate is indicated in the document setting out the conditions for support (i.e., subsidy contract)	
The flat rate covers the correct cost category(ies), as defined ex-ante by the MA, and uses the correct cost category (ies) as basis costs for the flat rate	Evidence that the actual amount spent corresponds to the amount of the calculated flat rate
The flat rate percentage is correctly applied (normally is done automatically in the e-monitoring system)	
The cost categories covered by the flat rate exist <sup>3</sup>	
In case of a change of the flat rate, the new flat rate is not applied retrospectively	
2. Basis costs to verify:	
The basis costs are legal and regular. There are no ineligible expenditure in the basis costs.	
No double financing; expenditure covered by the flat rate is not reimbursed by other means (real cost, other SCOs, etc.)	

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<sup>2</sup> Article 54, 55 and 56 CPR (Regulation (EU) 2021/1060) (further in the document referred to as CPR) and Articles 39-41 of the Interreg Regulation (Regulation (EU) 2021/1059) (further in the document referred to as Interreg Regulation)

<sup>3</sup> This can be proved using any relevant supporting document. Checking all the documents related to the existence of the cost category is to be avoided. For indirect (office and administrative) costs, one can assume that they exist without checking any document as an entity cannot function without them.

## Practical examples of verification of the off-the-shelf flat rates

1. Up to 15% flat rate for office and administrative <sup>4</sup> costs of eligible direct staff costs/ up to 7% for indirect costs of eligible direct costs <sup>5</sup>	
What to check	What not to check
The flat rate set by the MA ex-ante is part of the project partner budget (in the latest version of the application form) and indicated in the document setting out the conditions for support (i.e., subsidy contract)	Underlying expenditures of the office and administrative cost category (the expenditure has been incurred and paid)
The flat rate covers office and administrative costs (as defined in Article 40 of the Interreg Regulation - indirect costs) and it is applied to eligible direct staff costs/ eligible direct costs <sup>6</sup> as the basis costs	Supporting documents to make sure that the amount reimbursed based on the flat rate was actually spent on the expenditure of the office and administrative cost category
A correct percentage of the flat rate (as set in the programme's rules, in the application form and in the document setting out the conditions for support) is applied and the calculation is correct	Evidence that the actual amount spent corresponds to the amount of the calculated flat rate
In case of a change of the flat rate, the new flat rate is not applied retrospectively. It is used only for newly selected operations.	
Basis costs (direct staff costs/ direct costs) do not contain ineligible costs (verification of the staff costs/ direct costs will depend on the reimbursement method used)	
Office and administrative costs <sup>7</sup> are not included in other cost categories	

<sup>4</sup> Article 40 of the Interreg Regulation

<sup>5</sup> Article 54 CPR

<sup>6</sup> Depending on the applicable legal basis (Article 40 of the Interreg Regulation or Article 54 CPR)

<sup>7</sup> As specified in Article 40 of the Interreg Regulation

## 2. Up to 15% flat rate for travel and accommodation costs of direct staff costs<sup>8</sup>

What to check	What not to check
The flat rate set by the MA ex-ante is part of the project partner budget (in the latest version of the application form) and indicated in the document setting out the conditions for support (i.e., subsidy contract)	Underlying expenditures of the travel and accommodation cost category (the expenditure has been incurred and paid)
The flat rate covers travel and accommodation costs (as defined in Article 41 of the Interreg Regulation) and uses direct staff costs as the basis costs	Supporting documents to make sure the amount of the flat rate was spent on the expenditures of the travel and accommodation cost category
A correct percentage of the flat rate (as set out in the programme's rules, in the application form and in the document setting out the conditions for support) is applied and the calculation is correct	Evidence that the actual amount spent corresponds to the amount of the calculated flat rate
In case of a change of the flat rate, the new flat rate is not applied retrospectively. It is used only for newly selected operations.	
Basis costs (staff costs) do not contain ineligible costs (verification of the staff costs will depend on the reimbursement method used)	Evidence that all the trips of the project staff planned in the application form were organised
Travel and accommodation costs <sup>9</sup> are not included in other cost categories	
The category (travel and accommodation) of costs covered by the flat rate exists. This information can be gathered from either a mission order or report or a recording of a meeting or similar evidence for at least one trip (the existence of the cost category is to be checked at least once in the project's lifetime).	Evidence that the cost category exists with each progress report is not to be checked.

<sup>8</sup> Article 41 of the Interreg Regulation

<sup>9</sup> As specified in Article 41 of the Interreg Regulation. NB: Travel and accommodation costs refer to travel arrangements of staff of the partner organization. Travel and accommodation costs of external experts should be reported under the External expertise and services cost category.

### 3. Up to 20% flat rate for staff costs of the direct costs other than the direct staff costs of the project<sup>10</sup>

What to check	What not to check
The flat rate set by the MA ex-ante is part of the project partner budget (in the latest version of the application form) and indicated in the document setting out the conditions for support (i.e., subsidy contract)	Underlying expenditures of the staff costs (the expenditure has been incurred and paid)
The flat rate covers staff costs (as defined in Article 39 of the Interreg Regulation) and it is applied to direct costs other than the direct staff costs of the project as the basis costs  (NB: if the travel and accommodation cost category is reimbursed using up to a 15% flat rate on top of a flat rate for staff costs, it will be excluded from the basis costs to calculate staff costs as a flat rate) <sup>11</sup>	Supporting documents to make sure the amount of the flat rate was spent on the expenditures of the staff cost category
A correct percentage of the flat rate (as set out in the programme's rules, the application form and in the document setting out the conditions for support) is applied and the calculation is correct	Evidence that the actual amount spent corresponds to the amount of the calculated flat rate
In case of a change of the flat rate, the new flat rate is not applied retrospectively. It is used only for newly selected operations.	
Basis costs (direct costs other than staff costs of the project) do not contain ineligible costs (verification of the other direct costs will depend on the reimbursement methods used)	Timesheets; pay slips, proof of payment of salaries and the employer's contributions; employment/ work documents.
Staff costs <sup>12</sup> are not included in other cost categories	
Existence of at least one person of staff or a natural person working for the Interreg partner under a contract, according to Article 39 of the Interreg regulation (e.g., by providing registration at the social insurance agency or annual payroll	

<sup>10</sup> Article 39 of the Interreg Regulation

<sup>11</sup> To illustrate: when in the budget an up 20% flat rate is used to calculate staff costs and an up 15% flat rate to calculate travel and accommodation costs, the travel and accommodation cost category will be excluded from the basis costs (direct costs) of the staff costs calculation (as a flat rate for travel and accommodation is built on top of the staff costs category). If a project wants to use an up to 7% flat rate to calculate office and administrative costs (of direct costs of a project), basis costs will include staff costs and travel and accommodation costs even if they are reimbursed as flat rates.

<sup>12</sup> Article 39 of the Interreg Regulation

account, a work contract or another type of contract which can be assimilated to a work contract).

4. Up to 40% flat rate for the remaining eligible costs of the project <sup>13</sup> of eligible direct staff costs <sup>14</sup>	
What to check	What not to check
The flat rate set by the MA ex-ante is part of the project partner budget (in the latest version of the application form) and indicated in the document setting out the conditions for support (i.e., subsidy contract)	Underlying expenditures of other than staff costs cost categories (the expenditure has been incurred and paid)
The flat rate covers all remaining costs of the project and uses eligible direct staff costs as the basis costs	Supporting documents to make sure the amount of the flat rate was spent on expenditures other than staff cost categories
A correct percentage of the flat rate (as set out in the programme's rules, the application form and the document setting out the conditions for support) is applied and the calculation is correct	Evidence that the actual amount spent corresponds to the amount of the calculated flat rate
In case of a change of the flat rate, the new flat rate is not applied retrospectively. It is used only for newly selected operations.	
Basis costs (staff costs) do not contain ineligible costs (verification of the staff costs will depend on the reimbursement method used)	Evidence that other cost categories (office and administrative costs, travel and accommodation, external expertise and services, equipment, infrastructure and works) exist
No other cost categories exist in the project (unless different projects forming a part of an operation or successive phases of an operation are used <sup>15</sup> )	

<sup>13</sup> If a 40% flat rate is combined with the lump sum for preparation costs, the successive phases of the project should be clearly defined (e.g., the preparation phase, the implementation phase, the closure phase) to comply with the requirements for SCOs combinations (Article 53(1)(e) CPR)

<sup>14</sup> Article 56 CRP

<sup>15</sup> Article 53(1)(e) CPR

## 2.2. Verification of unit costs

When verifying unit costs, the controller should focus on checking the units delivered by the project.

Types of unit costs:

- off-the-shelf unit costs, established in the Regulations (Article 55 CPR). The Regulations define two hourly rates as off-the-shelf unit costs, calculated either using the 1720 hours method or by dividing the latest documented monthly gross employment costs by the average monthly working time;
- programme-specific unit costs, established by the MA ex-ante, based on a methodology as provided by Articles 53 and 94 CPR.

What to check	What not to check
1. Programme rules to verify:	Underlying actual costs of the units (the expenditure has been incurred and paid)
The unit cost is indicated as a form of reimbursement in the document setting out the conditions for support (i.e., subsidy contract)	
If conditions set in programme documents/ subsidy contract regarding process, outputs/results for reimbursement of costs have been fulfilled (unit cost) and they are supported by documents	Supporting documents/ Evidence to justify that the actual amount spent corresponds to the amount calculated as unit cost
The correct price of the unit is used to calculate the amount declared (correct multiplication, normally is done automatically in the e-monitoring system)	
2. Units delivered:	
Units delivered are properly documented and real (evidence supporting the number of units declared)	
Expenditures covered by the unit cost are not reported as real costs in other cost categories	



## Practical examples of verification of the off-the-shelf (1) and programme-specific (2) unit costs

<b>1. Hourly rate (unit cost for staff costs) established by dividing the latest documented annual gross employment costs by 1 720 hours (for full-time employees) or corresponding pro-rata of 1 720 hours (for part-time employees) based on Article 55(2)(a) CPR<sup>16</sup></b>	
What to check	What not to check
The unit cost is part of the project partner budget (in the latest version of the application form) and is indicated as a form of reimbursement in the document setting out the conditions for support (i.e., subsidy contract)	
Employment/ work contract and job description (one-time check, when the staff costs of an employee are reported for the first time)	Payslips (after the hourly rate is established)
Payslip(s) or other documents of equivalent probative value (e.g., accounts, payroll reports) – to verify the correct establishment of the hourly rate (latest documented gross employment costs/ 1720h or pro-rata of 1720h). NB: once the hourly rate (unit cost) is established, payslips should not be verified!	Proof of payment of salaries and the employer’s contributions (the expenditure has been incurred and paid)
Data from the working time registration system (e.g., timesheets) to check the total number of hours worked for the project	Indirect salary costs (e.g., annual leave, overtime pay, other benefits, pension plans)
The total number of hours declared per person for a given year/ month does not exceed the number of hours used for the calculation of the hourly rate (in this case, it does not exceed 1720h)	Checking how the hourly rate was established by comparing what is behind the “full-time” working system in the country/ partner organization (i.e., whether it is 40 hours or 37.5 hours according to the national law).
Ceilings of maximum amounts per month/ annual if established by the programme (number of hours worked per month/ year * hourly rate)	
Correct calculation (number of hours declared multiplied by a correct hourly rate)	

<sup>16</sup> Article 55(2)(a) CPR

**2. Hourly rate (unit cost for staff costs) established by the programme based on Article 53(3)a CPR (functional groups)<sup>17</sup>**

What to check	What not to check
The unit cost is part of the project partner budget (in the latest version of the application form) and is indicated as a form of reimbursement in the document setting out the conditions for support (i.e., subsidy contract)	Indirect salary costs (e.g., annual leave, overtime pay, other benefits, pension plans) <sup>18</sup>
Employment/ work contract and job description (one-time check, when the staff costs of an employee are reported for the first time)	Pay slips
Allocation of an employee to a correct functional group	Proof of payment of salaries and the employer's contributions (the expenditure has been incurred and paid)
<p>Data from the working time registration system (e.g., timesheets) to check the total number of hours worked for the project (for employees working on a part-time basis).</p> <p>Check that the relevant number of hours is considered (for employees working on a part-time basis). For example, if the methodology included breaks, annual leave, etc., the unit cost is to be applied to those hours as well.</p>	For employees working full-time, where the fixed monthly salaries are established by the programme (max number of working hours per month * hourly rate), timesheets or equivalent are not needed!
Correct calculation (number of hours declared multiplied by a correct hourly rate)	

<sup>17</sup> Article 53(3)(a) CPR

<sup>18</sup> If the methodology of the unit costs covers all indirect costs (e.g., annual leave, overtime pay, pension plans, other benefits), the hours have to be included in the number of hours reported. If the methodology excludes them, they cannot be reported as unit costs and have to be reported as real costs.

### 2.3. Verification of lump sums

When verifying a lump sum, a controller should check whether the pre-defined outputs/ results have been delivered by the project partner as agreed upon in the subsidy contract/ approved application form.

There are no off-the-shelf lump sums defined in the Regulations. All lump sums are programme-specific and established based on the methodologies as provided in Articles 53(3) and 94 CPR.

What to check	What not to check
1. Programme rules to verify:	Underlying expenditures of the lump sum (the expenditure has been incurred and paid)
The lump sum is indicated as a form of reimbursement in the document setting out the conditions for support (i.e., subsidy contract)	
If conditions set in the programme document(s)/ Subsidy contract regarding the delivery of output(s) have been fulfilled and are supported by relevant documentation	Supporting documents for the actual costs to justify that the amount of the lump sum was actually spent on the predefined types of costs/ activities
Amount of a lump sum is the amount corresponding to the milestones defined in the methodology	Evidence that the actual amount spent corresponds to the amount of the lump sum
Pre-defined outputs/ results to be delivered or other conditions for payment trigger(s) have been met, based on supporting documentation	
2. No-double financing	
Costs covered by the lump sum amount are not reported in other cost categories	

## Practical examples

1. A lump sum to cover preparation/ closure costs of a project	
What to check	What not to check
A lump sum is approved to reimburse preparation costs in the project partner budget (confirm the project partner's share – in the application form/ document setting out the conditions for support; i.e., subsidy contract)	Underlying expenditures of the lump sum (the expenditure has been incurred and paid)
The amount of the lump sum for preparation costs is correct, according to the document setting out the conditions for support, and corresponds to the milestone set in the methodology	Supporting documents for the actual costs to justify that the amount of the lump sum was actually spent on the predefined types of costs/ activities
Pre-defined outputs are delivered (e.g., payment trigger – approved application form), based on supporting documentation	Evidence that the actual amount spent corresponds to the amount of the lump sum
Costs associated with the activities/ outputs of the project preparation phase are not reported in the project implementation phase (usually, not possible by the design of the e-monitoring system)	

2. A lump sum to cover costs of organisation of the event(s) <sup>19</sup>	
What to check	What not to check
A lump sum is approved to reimburse costs of organisation of events in the project partner budget and indicated in the document setting out the conditions for support	Underlying expenditures of the lump sum (the expenditure has been incurred and paid)
The amount of the lump sum for organisation of an event is correct, according to the document setting out the conditions for support and it corresponds to the milestone set in the methodology	Supporting documents for the actual costs to justify that the amount of the lump sum was actually spent on the organization of event(s)
Pre-defined outputs are delivered; i.e., the event is organised based on the verification of the pre-defined supporting documents (e.g., signature list, agenda, x number of participants, etc.)	Evidence that the actual amount spent on the organisation of the event corresponds to the amount of the lump sum

<sup>19</sup> Article 53(3)(a) CPR – programme-specific SCO

Costs associated with the organisation of the event (covered by the lump sum) are not reported in other cost categories as real costs

### 3. Double-financing and SCOs

The notion of “double financing” refers to avoiding the declaration of the same expenditure as real cost and simplified cost options. Checks for double financing means verifying that the specific type of expenditure of a project partner is reimbursed only either based on real costs or one type of an SCO (flat rate, unit cost or lump sum).

In the 2021-2027 programming period, projects where the total costs do not exceed EUR 200 000, should be implemented by the means of SCOs<sup>20</sup>. For small projects implemented in the framework of a small project fund<sup>21</sup>, where the public contribution does not exceed EUR 100 000, the EU contribution should also take the form of unit costs, lump sums, or flat rates. In both cases, where the flat rates are used, only the categories of costs to which the flat rate applies can be reimbursed via real costs.

A combination of different forms of support (real costs and SCOs) in one project is possible, however, under certain conditions. They can be combined provided that<sup>22</sup>:

- the combination covers different categories of costs,
- where they are used for different projects forming a part of an operation, or
- for successive phases of an operation.

These conditions need to be observed to avoid the double declaration of costs. A clear definition of cost categories as provided in Articles 39 to 44 of the Interreg Regulation certainly helps to avoid double financing as they give a strict indication with the exhaustive and non-exhaustive lists of items falling under each of the 6 Interreg-specific cost categories. By clearly separating the cost categories and the application of different SCOs for each category, the MA ensures that there will be no double financing of the same expenditure.

Where flat rates are used, it needs to be ensured that the basis costs on top of which the flat rate is calculated are “clean” (no ineligible expenditure) and that the basis costs or any other real costs/ SCOs do not include any cost items that are covered by the flat rate. For instance, office and administrative costs (as indicated in Article 40 of the Interreg Regulation) covered by a flat rate should not appear in any

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<sup>20</sup> Except for projects for which support constitutes State aid (note, de minimis is not State aid). Projects with total costs below EUR 200 000 which constitute State aid can be implemented using SCOs, however, it is not mandatory, but optional (Article 53(2) CPR)

<sup>21</sup> Article 25 of the Interreg Regulation

<sup>22</sup> Article 53(1)(e) CPR

other cost category of the project partner's budget to avoid the risk of double financing. For flat rates, it should also be ensured that there is a clear distinction between the cost categories to which the flat rate is applied, and the cost category reimbursed by the flat rate. The categories of costs on which the flat rate is based should be pre-established and one should ensure a clear and unequivocal definition of these cost categories, at least at the level of each call.

For lump sums and unit costs, a clear definition of what costs are covered by a lump sum or unit cost must be ensured (what is in the box, what is out) to avoid double financing. For example, if the cost of the venue is included in the definition of the programme's lump sum for organisation of events, the cost of the venue cannot be reported as a real cost in the project partner budget.

To sum up, each Interreg programme should avoid the duplication of costs and eliminate the risk of double financing in line with sound financial management.

#### 4. Gold plating and SCOs

Gold-plating is a widely used term in the context of the implementation of ESI Funds to describe the extra requirements and administrative burden imposed on beneficiaries by national and sub-national authorities beyond those deriving from provisions at the EU or national level.

Source: [Interim Report on Gold-Plating from the High-Level Expert Group on Monitoring Simplification for Beneficiaries of ESI Funds](#)

In the recent study (June 2022) requested by the Committee on Budgetary Control, "[Single Audit Approach – Root Causes of the Weaknesses in the Work of the Member States' Managing and Audit Authorities](#)", gold plating at the national and regional levels is identified as one of the main root causes that create problems and challenges in the implementation, control and audit of EU expenditure. In fact, gold plating is referred to as "a key issue affecting the management and control of the EU expenditure".

In the report, active uptake of the SCOs has been identified as one of the improvements to further simplify the implementation of the ESI Funds:

*Despite the efforts of the Commission in promoting the use of SCOs, there has been a limited uptake so far. This is mainly due to limited alignment between national and regional legal frameworks and consequently legal uncertainty. Promoting the uptake of this approach [simplified cost options] could be one viable solution to address current challenges in complying with EU rules and avoiding gold-plating effects.*

Here are the most common gold plating practices when verifying projects implemented via SCOs:

### 1. Verification of real costs

When SCOs are used in the project, whether real costs (covered by SCOs) have been incurred and paid should not be verified! Furthermore, whether the amount reimbursed based on an SCO corresponds to the amount actually incurred by the beneficiary should also not be checked by controllers<sup>23</sup>.

### 2. Verification of timesheets (when not required)

Timesheets should be verified only in the following cases:

- Staff costs reimbursed based on real costs (except for the fixed percentage method<sup>24</sup> for which timesheets are not required)
- Staff costs reimbursed based on unit costs (hourly rates).

For instance, where the fixed percentage method is used (even though it is a real cost method), controllers should not check extracts from the working time systems (e.g., timesheets) even if required and kept for some reasons by the partner organisation.

If staff costs are reimbursed using the flat rate, controllers should not check timesheets as it is not required by the regulations.

### 3. Complex application of off-the-shelf flat rates

For instance, a flat rate of 40% of direct staff costs is applied to calculate the remaining eligible costs of a project. However, such amount was distributed as follows: 30% (of direct staff costs) for other direct costs and 10% for indirect costs, instead of a possible single flat rate (40%) applied to all eligible direct staff costs (by creating two flat rates within the off-the-shelf flat rate which should be avoided).

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<sup>23</sup> Check whether an SCO is a proxy of real costs is checked by the AA when assessing the design of the SCO methodology.

<sup>24</sup> As specified in Article 55(5) CPR