



Reasonableness of Costs

Conclusions from Audit Missions

Wolfgang KAHLENBORN

European Commission

DG Agriculture and Rural Development

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Compliance Audits for Investment Measures

AGRI-J.4 carried out **compliance audits** in many Member States with regard to the reasonableness of costs (RoC):

- We audited compliance with Article 24 of 65/2011.
- The RoC issue concerns mainly measures for **private beneficiaries**.
- **Public beneficiaries**: RoC mainly covered by the respect of the national public procurement rules.

Legal Requirement

Article 24(2)(d) of 65/2011

Administrative checks on applications of support shall in particular include verification of the reasonableness of costs submitted, which shall be evaluated using a suitable evaluation system, such as

- Reference costs,
- A comparison of different offers,
- An evaluation committee.

Overall Conclusions

- All Member States **have a system in place** to evaluate the RoC, some better than others.
- However, **weaknesses** have been found in several Member States: weaknesses
 - in the procedures, as well as
 - in the way the checks are carried out.
- Where weaknesses have been found, the Member State has taken **corrective measures** to improve the situation.

Audit Findings - The Weaknesses found

- A comparison of different offers
- Reference costs
- Evaluation committee
- RoC and public procurement

Audit Findings – a comparison of different offers (1)

The beneficiary has to submit with his application for support offers from different suppliers (normally, depending on the item value, from 3 different suppliers).

We noted the following weaknesses:

- The offers are **not independent**.
- The offers are **not competitive** offers.
- The offers are **difficult to be compared**.
 - The items in the offers are quite different.
 - Despite a complex project, the tender specification is very vague and/or very short.

Audit Findings – a comparison of different offers (2)

- The **threshold** to submit more than one offer is too high.
- Only one offer has been transmitted but the necessary **exceptional circumstances** are not fulfilled.
- Call for offers by **publication in a newspaper**: the description is very vague.

Audit Findings – a comparison of different offers (3)

Some examples which passed the checks:

- We had doubts that the offers were **independent**:
 - The offers were from the same supplier, for the same items, only the prices have been changed.
 - Offer 2 was 2.0% higher than the lowest offer; offer 3 was 4.0% higher than the lowest offer (in principle, the price of the lowest offer could not be known).
 - The tender specification was non-specific, two offers were a copy/paste with the same spelling mistakes.

Audit Findings – a comparison of different offers (4)

Some examples (cont.):

- We had doubts that the offers were **competitive**:
 - The company of the second/third offer has no web-site.
 - The company of the second/third offer is active in a different market.
- **Short tender notice**: the construction of a mill, project costs of more than 1 MioEUR, the description of the project in the request for offers was around half a page.

Audit Findings – a comparison of different offers (5)

Some examples (cont.):

- We found the **threshold** for the submission of one offer as too high (up to 50.000 EUR); the national public procurement provisions foresee a substantially lower threshold (15.000 EUR).
- **Publication in a newspaper:** the tender specification was short; the one offer received came from the company which had prepared the project specification.

Audit Findings – reference costs

The Member State has established a price reference data base:

- The data base is **not detailed** enough; the prices indicate the most expensive models.
- The price data base is not regularly **updated** (example: no timely updating of the decreasing prices for solar panels).
- The prices reflect the **catalogue prices** but not the market prices.

Audit Findings – evaluation committee

The Member State has established an evaluation committee or carries out informally a market research:

- The members of the evaluation committee have not sufficient **experience** in the related field.
- The work is not correctly **documented**.

Audit Findings – RoC and public procurement (1)

Problems with unreasonable costs have been found where the aid intensity was very high. The public procurement provisions have been respected. An example:

- M321: Construction of a municipal road
- Aid intensity of 100%
- Publication of the tender
- Evaluation of the offers on the basis of two award criteria
- Contractual penalty in case of delay of works: 0.05% per day.

Audit Findings – RoC and public procurement (2)

Evaluation of the 4 eligible offers:

Offer	Price		Execution Time		Total
	Weight 60%		Weight 40%		100%
	EUR	Scores	Days	Scores	Scores
Offer 1	800.000,00	47,3	28	40,0	87,3
Offer 2	790.000,00	47,8	88	12,7	60,6
Offer 3	870.000,00	43,4	31	36,1	79,6
Offer 4	630.000,00	60,0	60	18,7	78,7

Audit Findings – RoC and public procurement (3)

Observations:

- The tender has been awarded to offer 1; not to the lowest bid (offer 4).
- The supplementary costs (difference between offer 1 and offer 4) are acceptable if the price difference seems to be reasonable (here: payment of 170.000 EUR (+27%) for more speedy works).
- Upcoming local elections are not a valid reason for this price supplement.
- The penalty of 0.05%/day is not high enough.

Audit Findings – RoC and public procurement (4)

Conclusions:

- The award criteria shall adequately take into consideration **the interests** of the contracting authority as well as those of the EU.
- The award criteria shall not lead to **unreasonable (ineligible) expenditure**.
- The Managing authority should give **help** and/or fix in advance **specific conditions** for the procurement.
This also facilitates the checks later on.



Thank you for your attention

Wolfgang KAHLENBORN
Wolfgang.kahlenborn@ec.europa.eu