EUROPEAN UNION
AUDITS OF
STRUCTURAL FUNDS

How to obtain assurance on legal and regular spending of Funds allocated to Cohesion Policy

Jan Heeren
Directorate General for Regional Policy

Brno, 14 October 2009 - International Conference on Internal Audit
Directorate Audit and Control

Audit Director

- J1 Coordination unit
- J2 Operational Audit unit
- J3 Operational Audit Unit
- J4 Operational Audit unit

Brno, 14 October 2009 - International Conference on Internal Audit
Outline of presentation (1)

- What are the objectives of Cohesion Policy
- Volume of Spending
- Shared Management Principle of Structural Funds
- How assurance will be built up – legal framework for 2007-2013
  - Brief outline of a Member State’s management and control system
  - Audit objectives
Outline of presentation (2)

• Methodology and legislative changes in the audit approach
• Output of audit – opinion and reasonable assurance
• Action plan of the Commission to strengthen its supervisory role
• Interruption or suspension of payments – financial corrections
• Impact financial crisis on EU audits of Structural Funds
• Conclusions
Objectives of Cohesion Policy

- Mission statement: Contribute to economic, social and territorial cohesion
- Financial instruments: ERDF, CF, IPA
- Financial envelope: € 350 billion in 27 Member States
- First challenge: Efficient and effective implementation
- Second challenge: Executed with sound financial management
Volume of Spending

• Approx. 420 programmes in 27 Member States
• In 2008 some 45% of EU spending to cohesion and economic growth in EU 27
• For Czech Republic: € 27 billion in 2007-2013
<table>
<thead>
<tr>
<th>Country</th>
<th>Cohesion Fund</th>
<th>Convergence</th>
<th>Statistical phasing out</th>
<th>Phasing in</th>
<th>Regional competitiveness and employment</th>
<th>European Territorial Cooperation</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>BELGIE/BELGIQUE</td>
<td>638</td>
<td></td>
<td>1,425</td>
<td>194</td>
<td>2,258</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CZECH REPUBLIC</td>
<td>8,819</td>
<td>17,064</td>
<td></td>
<td>419</td>
<td>26,692</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DANMARK</td>
<td></td>
<td></td>
<td></td>
<td>510</td>
<td>103</td>
<td>613</td>
<td></td>
</tr>
<tr>
<td>DEUTSCHLAND</td>
<td>11,864</td>
<td>4,215</td>
<td>9,409</td>
<td>851</td>
<td>26,340</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EESTI</td>
<td>1,152</td>
<td>2,252</td>
<td></td>
<td>52</td>
<td>3,456</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ELLAS</td>
<td>3,697</td>
<td>9,420</td>
<td>6,458</td>
<td>635</td>
<td>210</td>
<td>20,420</td>
<td></td>
</tr>
<tr>
<td>ESPANA</td>
<td>3,543</td>
<td>21,054</td>
<td>1,583</td>
<td>4,955</td>
<td>3,522</td>
<td>559</td>
<td>35,217</td>
</tr>
<tr>
<td>FRANCE</td>
<td>3,191</td>
<td></td>
<td></td>
<td>10,257</td>
<td>872</td>
<td>14,319</td>
<td></td>
</tr>
<tr>
<td>IRELAND</td>
<td></td>
<td></td>
<td></td>
<td>458</td>
<td>293</td>
<td>151</td>
<td>901</td>
</tr>
<tr>
<td>ITALIA</td>
<td>21,211</td>
<td>430</td>
<td>972</td>
<td>5,353</td>
<td>846</td>
<td>28,812</td>
<td></td>
</tr>
<tr>
<td>KYPROS</td>
<td>213</td>
<td></td>
<td></td>
<td>399</td>
<td>28</td>
<td>640</td>
<td></td>
</tr>
<tr>
<td>LATVIA</td>
<td>1,540</td>
<td>2,991</td>
<td></td>
<td></td>
<td>90</td>
<td>6,885</td>
<td></td>
</tr>
<tr>
<td>LITUVA</td>
<td>2,305</td>
<td>4,470</td>
<td></td>
<td></td>
<td>109</td>
<td>6,200</td>
<td></td>
</tr>
<tr>
<td>LUXEMBOURG</td>
<td></td>
<td></td>
<td></td>
<td>50</td>
<td>15</td>
<td>65</td>
<td></td>
</tr>
<tr>
<td>MAGYARORSZAG</td>
<td>8,642</td>
<td>14,248</td>
<td>2,031</td>
<td></td>
<td>386</td>
<td>25,307</td>
<td></td>
</tr>
<tr>
<td>MALTA</td>
<td>284</td>
<td>556</td>
<td></td>
<td></td>
<td>15</td>
<td>855</td>
<td></td>
</tr>
<tr>
<td>NEDERLAND</td>
<td></td>
<td></td>
<td></td>
<td>1,660</td>
<td>247</td>
<td>1,907</td>
<td></td>
</tr>
<tr>
<td>ÖSTERREICH</td>
<td></td>
<td></td>
<td></td>
<td>177</td>
<td>1,027</td>
<td>257</td>
<td>1,461</td>
</tr>
<tr>
<td>POLSKA</td>
<td>22,176</td>
<td>44,377</td>
<td></td>
<td></td>
<td>731</td>
<td>67,284</td>
<td></td>
</tr>
<tr>
<td>PORTUGAL</td>
<td>3,060</td>
<td>17,133</td>
<td>280</td>
<td>448</td>
<td>490</td>
<td>21,511</td>
<td></td>
</tr>
<tr>
<td>SLOVENIA</td>
<td>1,412</td>
<td>2,689</td>
<td></td>
<td></td>
<td>104</td>
<td>4,205</td>
<td></td>
</tr>
<tr>
<td>SLOVENSKO</td>
<td>3,898</td>
<td>7,013</td>
<td></td>
<td></td>
<td>227</td>
<td>11,588</td>
<td></td>
</tr>
<tr>
<td>SUOMI/FINLAND</td>
<td></td>
<td></td>
<td></td>
<td>545</td>
<td>1,051</td>
<td>120</td>
<td>1,716</td>
</tr>
<tr>
<td>SVERIGE</td>
<td></td>
<td></td>
<td></td>
<td>1,626</td>
<td>265</td>
<td>1,891</td>
<td></td>
</tr>
<tr>
<td>UNITED KINGDOM</td>
<td>2,738</td>
<td>174</td>
<td>965</td>
<td>6,014</td>
<td>722</td>
<td>10,613</td>
<td></td>
</tr>
<tr>
<td>BULGARIA</td>
<td>2,283</td>
<td>4,391</td>
<td></td>
<td></td>
<td>179</td>
<td>6,853</td>
<td></td>
</tr>
<tr>
<td>ROMANIA</td>
<td>6,552</td>
<td>12,661</td>
<td></td>
<td></td>
<td>455</td>
<td>19,668</td>
<td></td>
</tr>
<tr>
<td>Not allocated</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>445</td>
<td>1,313</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>69,578</td>
<td>199,322</td>
<td>13,955</td>
<td>11,409</td>
<td>43,556</td>
<td>9,590</td>
<td>347,410</td>
</tr>
</tbody>
</table>
Shared Management Principle

• Legal responsibilities from EC-Treaty, Financial Regulation and SF-Regulations:

  – Implementation of the budget: centralised, shared management or joint management *(Art. 53 of the Financial Regulation)*
  – Structural Funds under shared management *(Art. 14 of Council Regulation (EC) 1083/2006)*
  – Commission accountable towards EP/Council who shall give annual discharge *(Art’s. 275 and 276 of EC Treaty)*
Shared Management - Division of responsibility

Member State responsible for:

- Set up of a management and control system which complies with requirements of regulations
- Ensuring that systems are function effectively - i.e. certification reliable
- Preventing, detecting, correcting irregularities
- Making financial corrections

Commission supervisory role

- Satisfies itself that “set up” of systems is compliant
- Verifying effective functioning of the management and control system
- Using powers of interrupting and suspension of payments
- Making financial corrections
How assurance will be built up 2007-2013

Audit opinion at closure

Commission audits

Annual opinion based on national audits

Certification of expenditure + first level verification

Compliance assessment

Guarantees in programme negotiations

Ex ante

During implementation

Ex post
Organisation of the control and audit framework 2007-2013

Commission

Audit Authority

Certifying Authority

Managing Authority (and Intermediate Bodies)
Managing Authority

- Responsibility for implementing the programme, in particular for:
  - Selection of operations
  - Administrative and on-spot verifications of operations
  - Compliance with information and publicity requirements
  - Ensuring the audit trail (levels: MA/intermediate body and beneficiary)

*Art. 60 Council Regulation*
Certifying authority

- Responsibilities of CA practically unchanged compared to 2000-06.
- Function: to draw up and submit to Commission certified expenditure statements and payment requests
- Certification of expenditure with regard to:
  - accuracy of data; must be based on reliable accounting system and verifiable supporting documents
  - compliance with EU and national rules

Art. 61 of C.R. and 20 Implementation Regulation
Audit Authority

1. Presenting an audit strategy
2. (Organisation of) systems audits
3. (Organisation of) audits of operations
4. Annual control report + opinion
5. Ensure use of internationally accepted audit standards
6. Ensure independence and supervision of other audit bodies
7. May have a role in the Compliance assessment of the Management and Control System in providing an Audit Opinion on the systems established in the Member State
Audit Objective

To seek reasonable assurance that the Management and Control Systems established and implemented in the Member States:

- Comply with Community regulations
- Functions effectively
- Assure legality and regularity of expenditure

Pay the correct amounts to the rightful beneficiaries
Providing Assurance = Contributing to Accountability

- Internal: **Annual Activity Report** and **Annual Declaration of Assurance by the Director General** on the use of the resources

- External: **The European Tax Payers**
REGIO audit approach (1)

- Three year rolling audit strategy
- Based on risk analysis
- Actions in Audit strategy 2009-2011:
  - Period 1994-1999
    - Finalisation of Closure of programmes
  - Period 2000-2006:
    - Follow up systems audits in relation to preparation of Member States for closure
    - Audits for IPA in Candidate Countries
REGIO audit approach (2)

- Period 2007-2013
  - Review and acceptance of compliance assessment documents submitted by the MS
  - Review and acceptance of audit strategy documents submitted by the MS
  - Audits of a representative sample of operations to obtain information on the level of error in certified expenditure
  - Audits in the MS to obtain assurance on the work of 20 selected high risk Audit Authorities

- Horizontal activities
  - Action plan to strengthen the Commission’s supervisory role
Output of audit work

• Audit reports
• Follow up – Final position letters
• Audit Opinion for each operational programme
• Suspension of Payments to MS
• Commission Decisions on Financial Corrections 😞 😞
• Annual Country fiches
Audit Opinion

• Council Regulation (EC) No 1083/2006 Article 62
  – Compliance with Articles 58-62 of 1083/2006 and Section 3 of 1828/2006
  – Management and control system functions effectively;
  – As to provide reasonable assurance that statements of expenditure are correct and as a consequence reasonable assurance that the underlying transactions are legal and regular.

Difference with “Presents fairly and true”?
Audit opinion: ‘Reasonable Assurance’

- High but not absolute assurance:
  - Statements are free of material mistakes
- Material: so significant that it would influence a decision
- Materiality is now set in the Regulation (2%)
- ISA Directive 200
Action plan to strengthen the Commission’s supervisory role (1)

• Action plan in response to the European Court of Auditors (ECA)

• ECA reported:
  – High error rate in reimbursed expenditure
  – Weaknesses in the systems in the Member States
  – Systems of the Commission to mitigate not always effective

• Steps already taken by Commission:
  – Increase audit resources
  – Strengthened control arrangements in regulations
  – Guidance

NOT ENOUGH ? ACTION PLAN
Action plan to strengthen the Commission’s supervisory role (2)

• Stronger Commission supervision on the management and control systems in the Member States;
• Increase impact of audit activity;
• Ensure reliable and consistent reporting on financial corrections and recoveries;
• Decisions on suspension of payments and financial corrections within a clear timeframe.

37 Actions - Report on achievements
31/12/2008 COM(2009) 42/3
Interruption or suspension of payments, financial corrections

• European Commission can use executive power for:
  – Interrupting of payments (decision of the Authorising Officer)
  – Suspension of payments (decision of the Commission)
  – Making financial corrections (decision of the Commission)
Impact of Financial Crisis on Cohesion Policy and EU Audits (1)

- Allocation of Funds did not change
- Seven years perspective 2007-2013
- EU is budget driven
- No or insignificant impact on audit approach
- Essentially the same rules

RESPONSE: Speed up the implementation through a series of measures
Impact of Financial Crisis on Cohesion Policy and EU Audits (2)

- 2000-2006 Programming period
  - Extension eligibility date from 31-12-2008 to 30-6-2009
  - Increase of the flexibility rule from 2% to 10%
- 2007-2013 Programming period
  - Simplification measures for Overheads and Indirect costs
  - Extent scope of eligible expenditure to energy efficiency investments
  - Increase the advance payments
  - Facilitate financial engineering instruments
  - Temporary increase in state-aid framework
Conclusions

• Shared Management concept: European Commission needs assurance from the Member States
• EC has to deliver assurance to EU Budget Authorities
• Assurance based on own audit work of the European Commission and substantial audit work by the Audit Bodies in the Member States
• Annual audit opinions
• Commission is finalising the Action Plan to strengthen its supervisory role
• No or minimum impact of the crisis on the audit approach but a number of actions taken to respond to the crisis
‘IN CONTROL’

• Good balance between Over- and Under-regulation?
• Good balance between risks and costs of controls?