

Audit approach improving simplification

Monitoring Simplification for Beneficiaries of
ESI Funds

**Gold-plating and
Cross-cutting audit issues**

Malta, 14 June 2017

1. Presentation on Audit of ESF and ERDF to the High Level Group

- Background 4th Meeting of the HLG on Gold-plating

2. 6th Meeting of the HLG on Cross-cutting audit issues:

Comments and recommendations

3. Action Plan & Reflection groups with the contribution of the Audit authorities

1. Presentation on Audit of ESF and ERDF to the HLG 29/11/2016



HLG - working method

- Chaired by former VP of the Commission, Siim Kallas; 12 members participating in their individual capacity, with experience from the management and beneficiary side, for all ESI Funds
- Specific recommendations of non-legislative and legislative nature for 2014-2020 and for post-2020;
- Reports, presentations, action points on the [HLG website](#) addressed to the Commission and Member States
- **4th Meeting** of the HLG on Monitoring Simplification for Beneficiaries of ESI Funds **Gold-plating** ref. HLG_16_0008_00 16/11/16

4th Meeting on Gold-plating

Background



Comments:

The members of the High Level Group consider:

- **Gold-plating** practices are one of the **main sources** of administrative burden overarching the **full spectrum of implementation** fuelled by:
 - an atmosphere of distrust across the system of ESIF management and
 - a fear of non-compliance due to legal uncertainty
 - divergent national administrative cultures in the context of ETC programmes.

4th Meeting on Gold-plating

Background



Comments:

- It is a **shared responsibility** Commission and Member States to mobilise relevant authorities at all levels for intensifying simplification efforts making better use of the existing regulatory framework and **recommend** a more coherent and harmonised future legislative package that better reflects:
 - the principles of **subsidiarity, proportionality,**
 - **results orientation and single audit,**
 - provides equal State aid treatment for shared and direct management programmes and,
 - ensures a timely launch of implementation.

4th Meeting on Gold-plating

Background



(audit summary)

Recommendations:

- Detect redundant processes and procedures as part of their audits and suggest more effective solutions based on **good practices**
- Take into account **specificities of different implementation modes** and mechanisms (grants, financial instruments, simplified costs, etc.) when formulating audit findings and recommendations.
- Amending **Article 27(2) CDR** (retroactivity)
- **On ETC programmes**, auditors should contribute to a systematic comparative analysis of rules and procedures:
 - **recommendations from the Commission pointing out unnecessary regulatory or administrative burden.**
 - **Commission should ensure the dissemination of identified good practices among Member States**

4th Meeting on Gold-plating

Background



(audit summary)

- Expanding the scope of **Article 148 CPR** to extend and align the **principle of proportional control with the single audit principle**:
 - E.g. expanding the scope of Art. 148 CPR to all types of controls, including those conducted by the MAs, CAs, CoA and raising the thresholds below which an operation is subject to only one audit.
 - Amounts and risks should be the actual rationale behind multiple controls.
- Apply more **preventive, ex-ante and proportional approach** to audit with the main objective to improve the implementation and not to punish
- Prepare and on regular basis update a database of Q&A of MSs and other stakeholders concerning the most problematic areas.
- Share a **summary of the main findings** from audit missions among the MSs (e.g. List of Typology of errors presented in TM 24/11/2016)



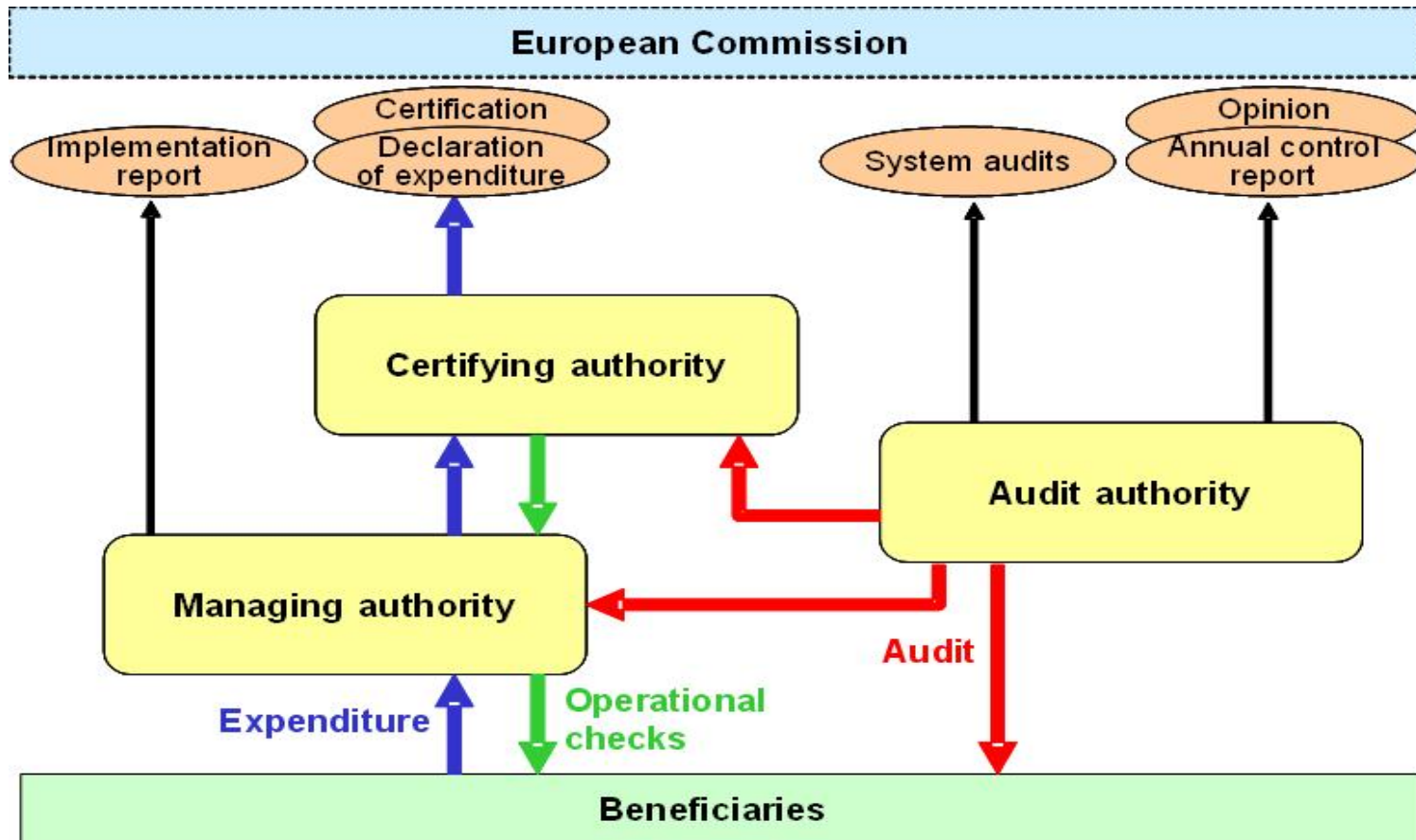
Clarification of Terminology

Management Verifications

- Carried out by the **MA / IB** before declaring expenditure to the Commission to ensure legality and regularity
- Administrative
- On-the-spot

Audit

- Carried out by the **AA, EC audit services and ECA** ex-post, after declaring expenditure
- Preventive designation exercise
- System audits
- Audit of sample of operations





On all operations & beneficiaries' claims

But intensity of desk verifications depends on risks

Limited on-the-spot controls (risk-based)

EC issued guidance for proportionate verifications

How can MS help to reduce errors and to simplify controls / audits?



Management Verifications:

✗ More
✓ Better

DAS 2015: MA / IBs had all information to avoid 3% out of 5.2% error rate reported by ECA

Simplify rules

UK (Scotland): salaries for part-time work on 2014-2020 projects

Optimising use of SCOs

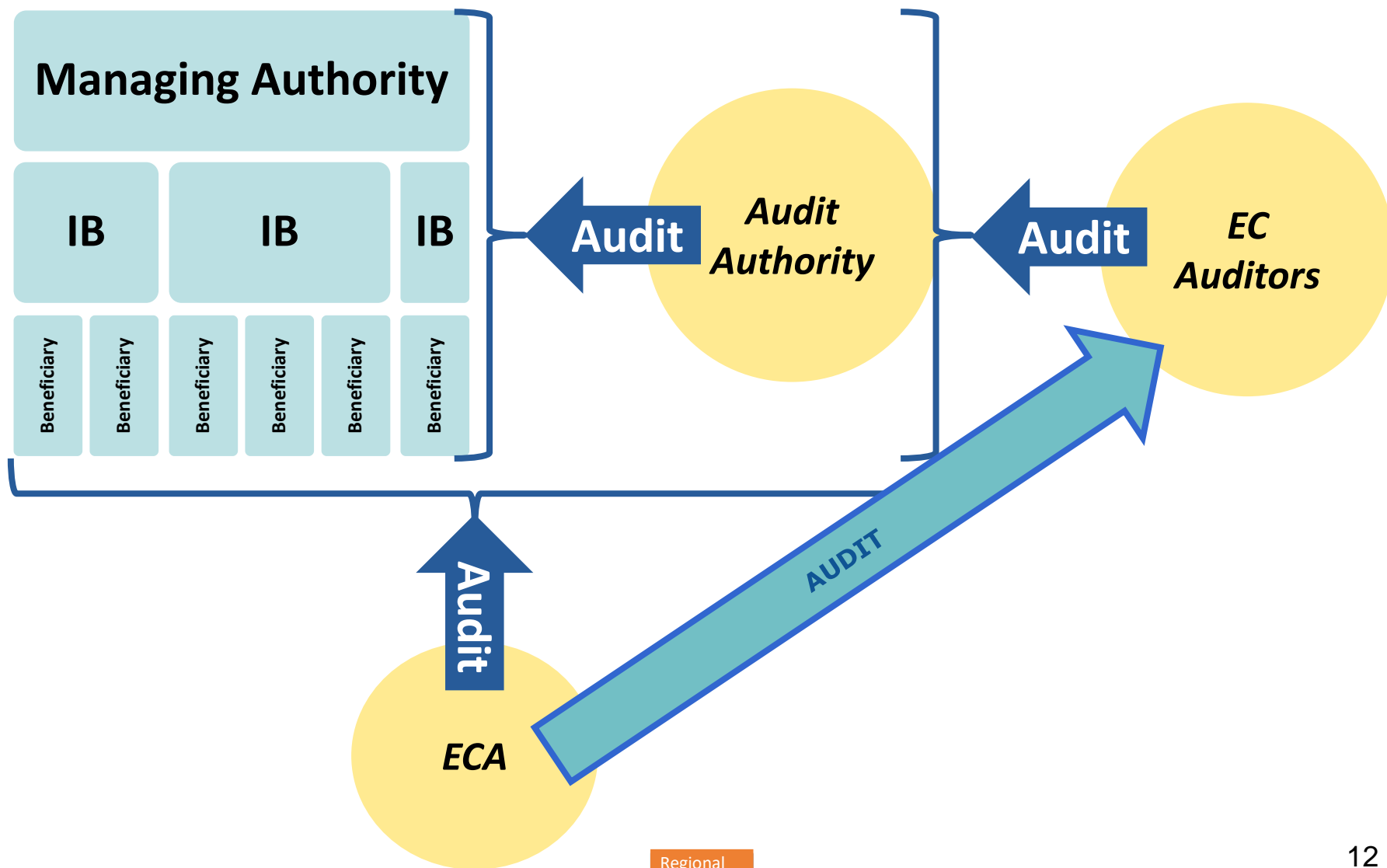
Spain: modifications of contracts in 2007-2013

Identify and remove gold plating

Simplify system set up

Reduce number of IBs; improve MA supervision

Who carries out audits?



Member States' audits: Some figures



System audits: > 500 for ERDF/CF and > 250 for ESF

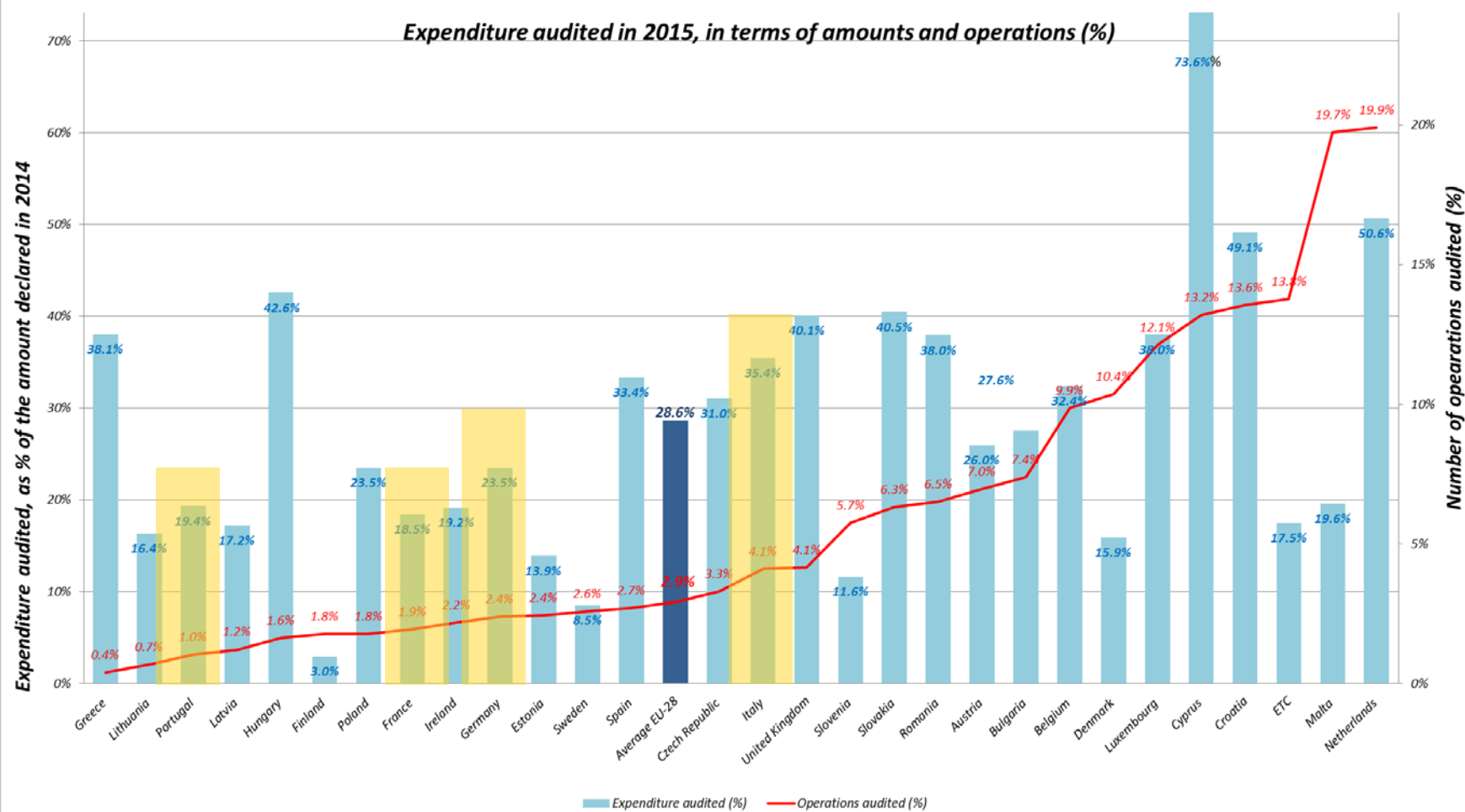
Audits of operations (representative sample) *in 2015 (2014 exp.)*

	No OPs	No operations	No operations audited	% audited operations	% audited (amount)
ERDF / CF (incl ETC)	322	249 361	7 294	<3%	29%
Average /OP		774	23		
ESF	118	832 025	4 976	<1%	15%
Average /OP		7 051	42		

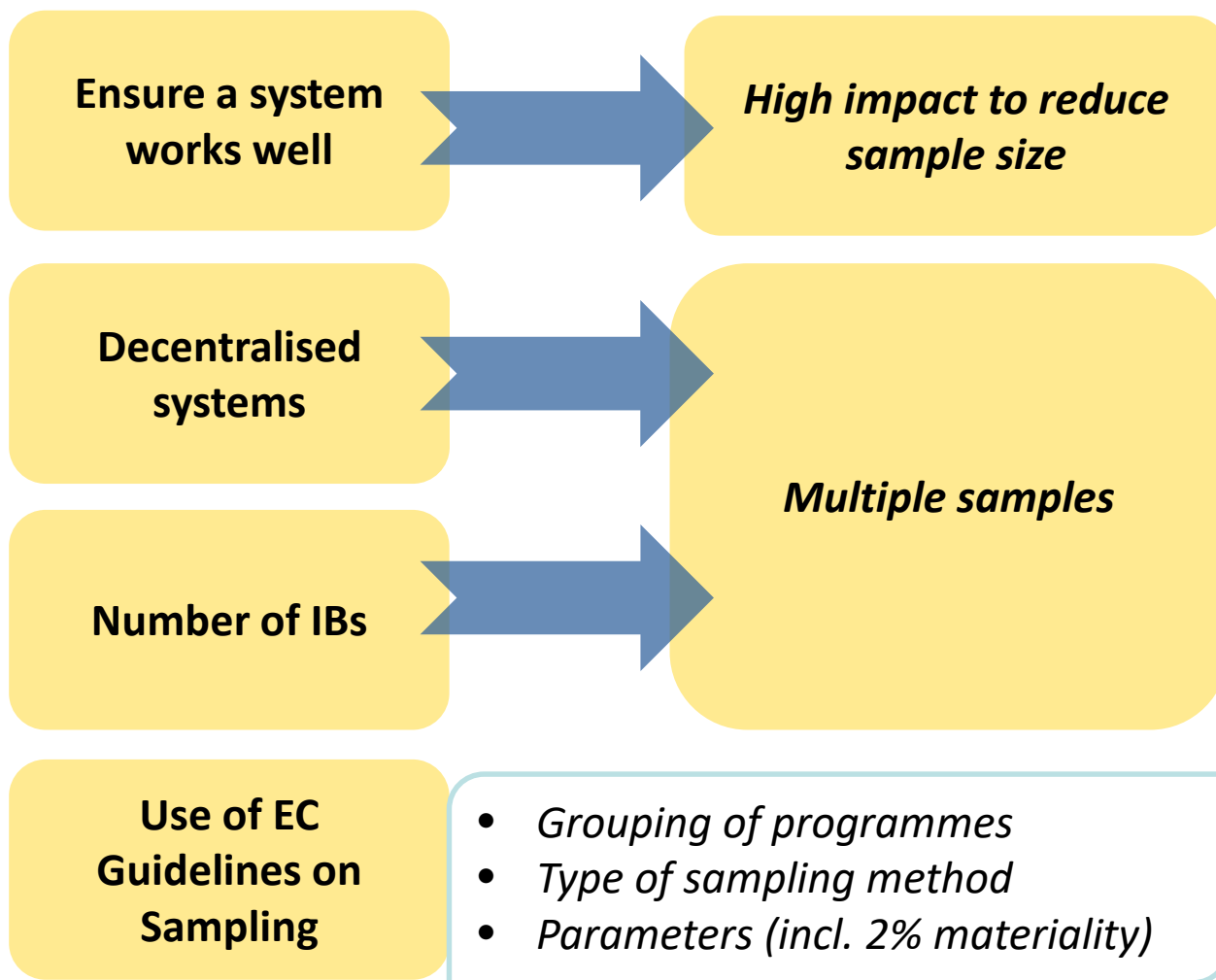
AA audits ERDF/CF



Expenditure audited in 2015, in terms of amounts and operations (%)



Factors influencing the number of audits



Challenges for AA



- *Ensure **continuous training** of audit staff*
- ***Time pressure** to complete work by annual audit opinion*
- *Need to ensure **a strong contradictory procedure***
- *Legal challenge of **certain audit results** (e.g. public procurement offices vs EC guidelines, SCO methodologies)*

Single audit concept – How does it work in practice



	Operational auditors (FTE)	No. of Programmes (2007-2013)	No. of Operations (approx. 2015 exp.)
REGIO	48	322	250 000
EMPL	33	118	830 000

EC aims at relying on audit authorities

Scope & priorities

1. Review work of AA
 2. Audit MA and IBs on risk basis
- ✗ Individual projects / beneficiaries are rarely audited

Sources and method

- ✓ Desk review of system audit reports &
- ✓ Annual Control Reports
- ✓ On-the-spot audits (risk based)
- ✓ Early preventive system audits (2014-2020)

EC audits in 2015 (2007-2013)



2015	REGIO	EMPL
No of audits per year (average) incl. fact finding	85	60
in 2015		
No of audits (incl. fact finding ACR)	88	51
No of operations audited	90	136
% of operations audited by EC	0.04%	0.02%

Source: AAR 2015

Auditors are not only auditing...



Audit community

- 3 multilateral **Technical meetings** per year
- Annual bilateral co-ordination / **ad-hoc meetings**
- **Annual Homologues Group** meeting
- Sharing of best practices, REGIO TAIEX Peer-to-Peer

State Aid, FI & public p.

- **State Aid, public procurement, financial instrument seminars** in Member States
- Targeted work-shops e.g. SCO inter-service consultation
- Sharing of **checklist**

Auditors are not only auditing...



Performance focus

- Preventive audit of **Performance data indicators**
- **Self-assessment tool**
- **Performance audits** (e.g. YEI)

Anti-Fraud

- 19 **Anti-Fraud** seminars;
- Development and implementation of Arachne tool, including 25 presentation in Member States



Contribution to Simplification

- **Simplification** seminars on **SCO** in most Member States
- **SCO ex-ante validation** in 2007-2013
- Development of **Art 14§1** Delegated Act (ESF)
- Development of **EU level SCO** "off-the-shelf"
- Support to **SCO Transnational network**
- Guidance and hands-on support to Member States

2014-2020: Early Preventive System audit

- scope of the audits was enlarged in order to **identify gold-plating**

Auditors are not only auditing...



Share audit findings



Consistent interpretation

- ✓ Guidelines for determining financial corrections for non-compliance with public procurement rules
- ✓ Presentation in various fora of MCS related matters (EGSIF, ESF TWG, CA network, Interact....)

Capacity building

Identify gold plating in audit plan

Provide advice when designing SCO schemes

AA
encouraged
and most
are willing to
follow

CONCLUSION



- Between 2000-2006 programming period and 2007-2013 the improvement of the system allowed **error rate to decrease by 2/3rds =>**
from around 16% in 2006 to 5,2% in 2015

THANKS TO

- *Strengthening of the Management and Control System*

Need for RIGHT BALANCE

Audit and controls / reduction of the error rate

Tolerable level of error / cost of control

2. 6th Meeting of the HLG **on Monitoring Simplification for Beneficiaries of** **ESI Funds**

on Cross-cutting audit issues

ref. HLG_16_0015_04 30/01/2017

Comments and recommendations

6th Meeting Cross-cutting audit issues



OVERVIEW of key Comments & Recommendations:

- Recognition of improvement in **quality and professionalization** which contributed to significant decrease of error rates,
- **Single audit principle** constitutes a positive step forward, but the overall control and audit burden remain too high.
 - **ensuring a **balanced** approach to audit and controls of ESI Funds is a prerequisite for success of any simplification effort**
 - **Key elements** of such best practices include:
 - i. **Good cooperation and communication** channel between managing and audit authorities,
 - ii. **High quality** management verifications which can be relied upon by the AA in its work, and
 - iii. **Strong** contradictory procedure,
- **Fostering trust** among those who are controlled or audited and those who control or audit them,

6th Meeting Cross-cutting audit issues



- Strengthening the **preventive role** of audit:
 - i. **educational** role of audit by identifying good practices and facilitating peer-to-peer activities;
 - ii. **methodological** role of audit by encouraging national and European auditors to be involved in the preparation of systems
 - iii. **advisory** function by providing timely recommendations on how to improve the system and how to change the procedures (Deadlines)
- Increasing clarity of rules and legal certainty,
- Ensuring accountability and quality of audit work

6th Meeting Cross-cutting audit issues



- **Proportionality** and more reliance on national systems (**Subsidiarity**) will:
 - i. **Help** beneficiaries, who - being at the bottom of the audit/control pyramid - are ultimately bearing the biggest burden.
 - ii. **Enhanced** audit and control
 - iii. also result both in **Lower** error rates
 - iv. Better focus on **results**,
 - v. Improving **performance** of interventions

22 HLG recommendations on cross-cutting audit issues

7 recommendations with some of the identified actions already implemented



- ❖ 12 recommendations with further actions to be implemented
- ❖ 7 partial actions considered as not feasible or to be assessed for post 2020

A detailed action plan to implement the pertinent measures still feasible in 2014-2020 was prepared and presented to the High Level Group

3. Action Plan & Actions in place with the contribution of the Audit authorities

3. Action Plan



HLG recommendations already under implementation

Rec	Recommendation	Actions already implemented
1	Educational role of audit/identify good practices/gold-plating	Already done through different channels: TMs with AAs, auditors to report by exception
2	Methodological role of audit	GN 2014-2020 discussed already from 2013. EC checklists to identify gold-plating
3	Sharing audit results	Three annual technical meetings with AAs, Joint typology of errors, Seminars EAFRD
4	Advisory role of audit	Internal deadlines of 3 months to send reports, deadlines for interruptions
5	Improved quality check	EC and many national auditors are externally certified, strong quality review
6	Ensure non-retroactivity	Clarified to AAs that Article 27 (2) has no retroactivity effect
7	Respect deadlines, accelerating audits	Final audit reports 2014-2020 decouple from follow up, EC draft reports in 3 months
8	Use of efficient contradictory procedure	Audits follows a supervision cascade. Follow-up is reviewed by many different levels
9		
10	Regular exchange of experience and knowledge	See Recommendation No. 1
11	Irregularity does not mean fraud	Highlighted in EAFRDF audit reports/ECA uses a disclaimer
12	Transition period when implement guidelines	Normal used practice
13	No question MA to apply financial corrections	MS first responsible , then EC. Guidelines lead services but mitigating factors
14		
15		
16	Application of single audit principle	EC promotes single audit approach. Audit strategies (Cohesion and EAFRD) reflect that
17		
18	Use of international audit standards	Already regulatory requirement. EC Audit Services have external certification
19	Review of financial correction rates	Rates are in 2014-2020 defined in the Regulation. Re-assess the rates for post-2020
20	Refrain using interruptions and suspensions	EC applies the principle of proportionality when proposing corrective measures
21		
22	Mobility between audit and implementation units	Mobility implemented by EC. Beneficiaries participates contradictory national level

Actions not considered feasible

- R.8 Empowerment of auditors in hearings: need for corporate decision
- R.9 Arbitrator. Not at EU level, to be envisaged at national level.
EARDF: independent Conciliation Body,
Cohesion: interruption committee reviews all info for corporate position
- R.21 Definition of irregularity and the way it is applied

Actions to be assessed for post 2020

- R.14 Extra legal requirements by OP: reflect specific needs and institutional and environmental specificities
- R.15 Harmonised definition of innovation. Not EU level, best tackled at MS level (eligibility rules)
- R.17 Practical effect of the fulfilment of ex-ante conditionalities
- R.19 Flat rates in Delegated Act to be reviewed based on any new judgments

Actions to be implemented

- R1/10 Develop a tool to register audit findings and good practices and present to EGESIF / ESF TWG / AGRI paying agencies
- R.3 Propose managing authorities to use the new audit common typology of errors
- R.4 Strict monitoring of deadlines EC/AA/CB audit reports
- R.5 Systematic analysis by EC/AA/CB of dropped findings
- R.6 ACM-repeat clarification of non-retroactivity (art. 27(2))
- R.8 ACM-repeat to AA importance of contradictory process also at national level

Actions to be implemented

- R.11 Clarify in cover letters irregularity / fraud as done by AGRI
- R.12 Grant a transition period for any new guidance
- R.16 Makes further steps with ECA to single audit / use all possibilities under 2014-2020 / post 2020
- R.19 Public procurement errors: Need for common level playing field EC-ECA-MS; align guidelines to 2014 Directives
- R.20 Interruptions/suspensions to be adapted to 2014-2020 framework (10% retention)

6 additional recommendations on audit issues in HLG Gold-plating report

Rec	Recommendation	Actions already implemented
3	Auditors to take account of specificities (grants, FIs, SCOs)	Audit findings are specific to scope(FIs, SCOS,..)
4	For ETC, auditors to make comparative analysis	National auditors ETC audit, few EC audits
8	Ensure equal treatment across DGs and MS	2014-2020: DA fixes criteria on serious deficiencies; MCS guidances in place
10	Support MS for Public Procurement and State aid	Action Plans are under implementation for Public Procurement and State aid
16	Expanding scope of Art.148 and raise the thresholds	Clarification to AAs on Art 148. EC audits on risk basis
17	Auditors to apply preventive ex-ante approach	Designation audit is preventive

Actions to be implemented

- R.3 Regularly update and circulate Q&A to Member States
- R.4 Use INTERACT to disseminate audit ETC/mainstream results
- R.8 Discussions at EGEFIF for specific clarification points
- R.10 Use expert groups on Public Procurement and State aid
- R.16 Discussions in trilogues on omnibus (Council position) - safeguard
- R.17 Continue audits at early stage of implementation (EPSA missions)

3. Actions in place with the contribution of AAs



- Linked to EU audit practice and audit burden, as a follow-up to the recommendations of the 6th Meeting HLG
 - **Reflection groups integrated by AAs representatives**

The purpose is to:

1. Strengthen and harmonise audit practices within the audit community;
2. Ensure robust contradictory procedures with auditees;
3. Share best practices and find ways to reduce the audit burden for both our AAs and for auditees within our current legal framework.



RG n° 1 - Ways to disseminate better audit results to MAs (good/bad practices), at national and EU levels, with a view to avoid repetition of errors/enhance MA/IB/beneficiaries' administrative capacity
(HU, ST, BG, UK_Scotland)

RG n° 2 - Timeframe for establishing/finalising audit findings and conclusions, including applied practices to organise the contradictory procedure for system audits/audits of operations
(MT, UK_England & UK_Wales)

RG n° 3 - Quality review (procedures and steps) and systemic analysis of reasons for dropped findings
(AT,PT,IE,LT)

3. Actions in place with the contribution of AAs



Reflection groups

RG n° 4 - Ways to improve relationships with auditees/MAs (including feasibility for an arbitration body at national level)

(SE, CZ, DK)

RG n° 5 - Reducing the required audit work by making best use of management verifications (including the issue of the statistics about errors that could have been detected by MA)

(NE, HR, FR, DE, IE, LV)

Interested? 😊

REGIO-AUDIT-COORDINATION@ec.europa.eu

Thank you for your attention!

Useful links:

<https://ec.europa.eu/futurium/en/simplify-esif>

http://ec.europa.eu/regional_policy/en/policy/how/improving-investment/high-level-group-simplification

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