

Control and audit of ESI Funds 2014-20 & 2021-27

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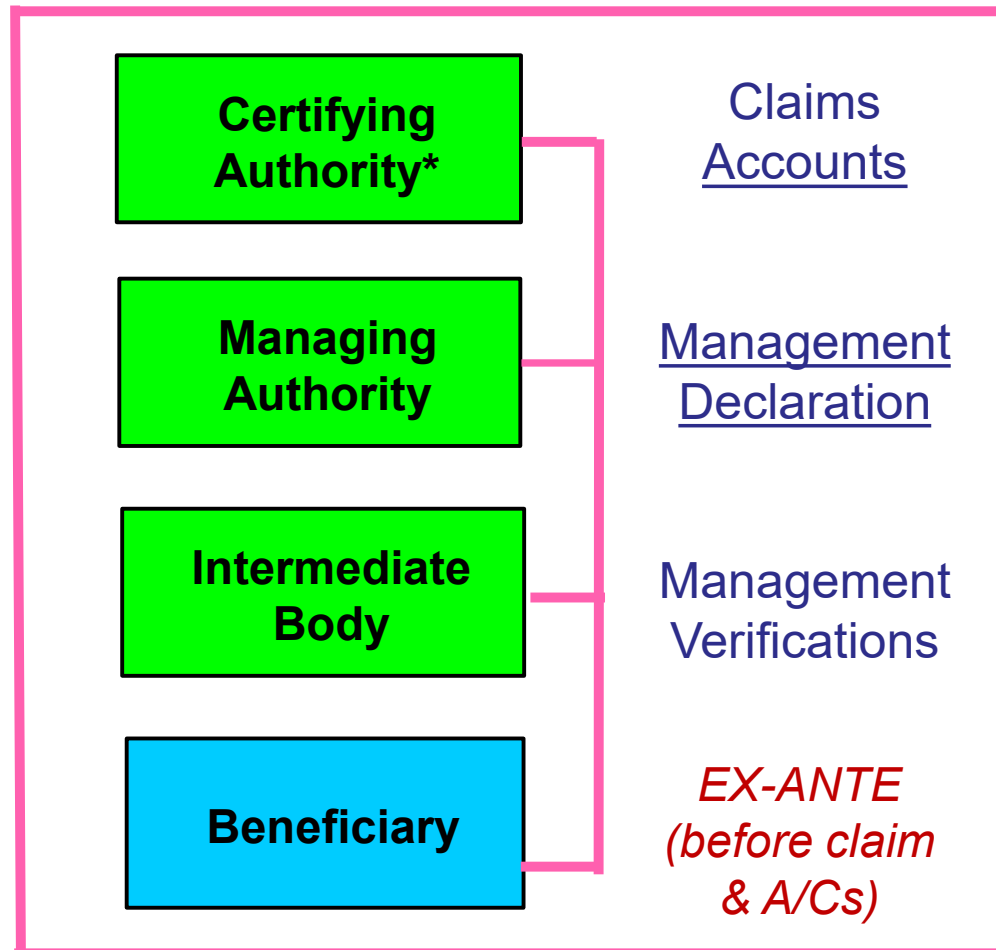
EIPA – November 2022



- Architecture of management and control systems
- Management verifications
- Key functions of the Audit Authority (AA)
 - Audit of Systems – new key requirements for 2021-27
 - Audit of Operations
 - Audit of Accounts
- Typology of Errors in ESI Funds
- Simplifications planned for 2021-2027
- Recovery and Resilience Fund – an introduction to essential elements



MANAGEMENT & CONTROL SYSTEMS



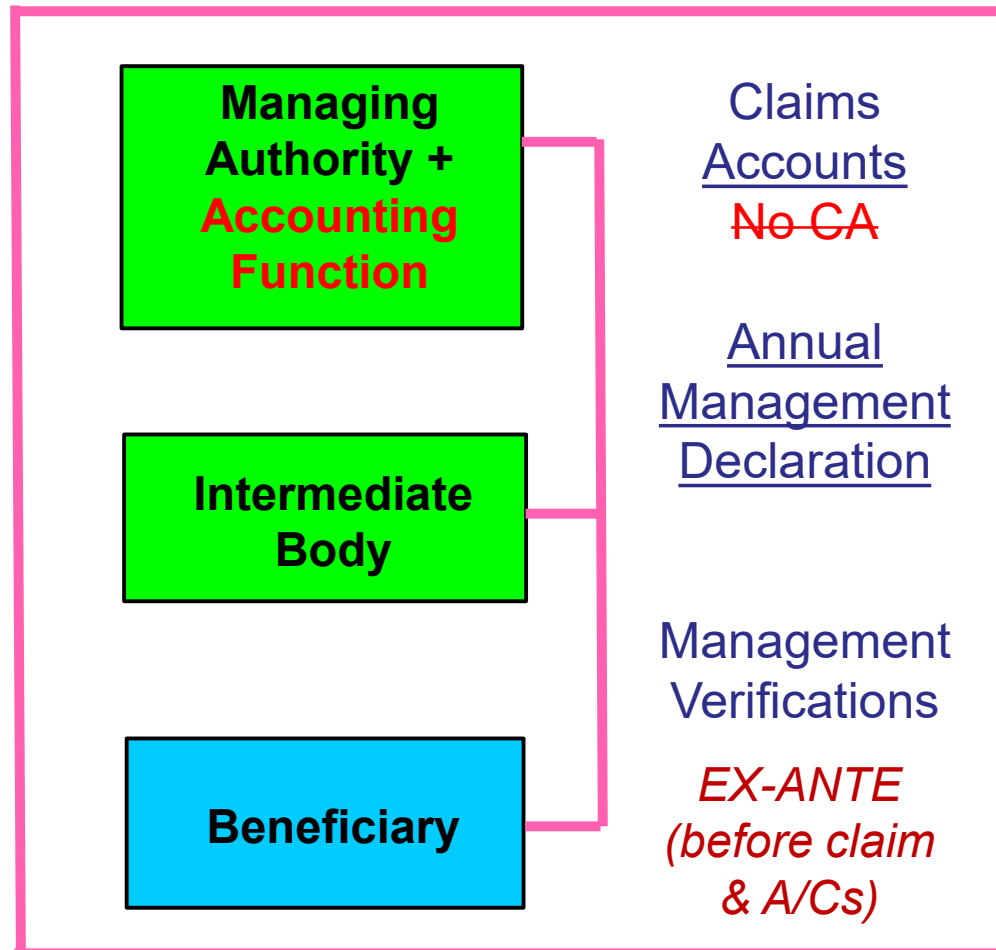
AUDIT



*EX-POST
(after EU claim)*



MANAGEMENT & CONTROL SYSTEMS

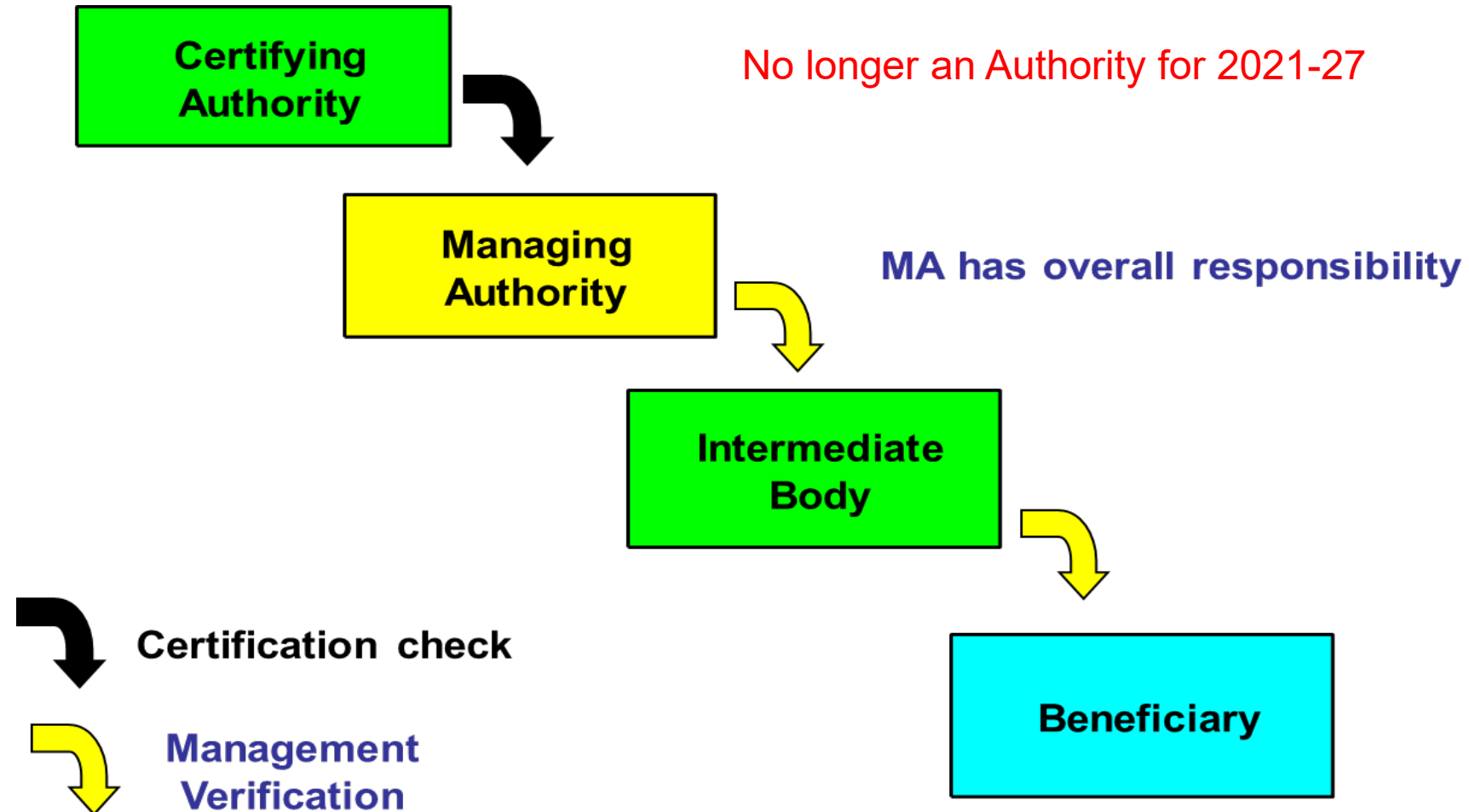


AUDIT



*EX-POST
(after EU claim)*





Functions of Audit authority (1)

(Ar. 77 of CPR 2021-27)

- As Independent Audit Body, give an Opinion on **designation** of CA, MA – no longer required in 2021-27
- Prepare an **Audit Strategy** at the beginning of the Programme Period
- Carry out **audits on systems**
- **Select sample** in reference to the accounting year (July n-1 to June n)
- Carry out **audits on operations sampled**
- Carry out **audits of the accounts** and provide **Annual audit Opinion**
- Submit **Annual Control Report** to the Commission by 15 February
 - legality and regularity of expenditure
 - effective functioning of MCS



Audit of Annual Accounts

- To provide reasonable assurance on amounts declared in Accounts:
 - **Completeness**
 - **Accuracy**
 - **Veracity (true)**
- Based largely on audits of operations, and, systems audits in CA
- **“True and Fair” view:**
 - Legality and regularity of expenditure in the Accounts - reconciles with actual expenditure and payment applications
 - Amounts withdrawn and recovered, to be recovered, recoverable in a/cs = amounts in accounting system and corresponding financial corrections
 - Expenditure excluded from a/cs due to on-going assessment (legal and regular)
 - Includes a statement - whether the audit work puts in doubt assertions made in the management declaration of the Managing Authority



Systems Audit KRs 2021-27

(i) CPR – Annex XI - Managing Authority

		Bodies/authorities concerned
1	Appropriate separation of functions and written arrangements for reporting, supervising and monitoring of delegated tasks to an intermediate body	Managing authority
2	Appropriate criteria and procedures for the selection of operations	Managing authority ¹
3	Appropriate information to beneficiaries on applicable conditions for support for the selected operations	Managing authority
4	Appropriate management verifications, including appropriate procedures for checking fulfilment of conditions for financing not linked to costs and for simplified cost options	Managing authority
5	Effective system to ensure that all documents necessary for the audit trail are held	Managing authority
6	Reliable electronic system (including links with electronic data exchange systems with beneficiaries) for recording and storing data for monitoring, evaluation, financial management, verifications and audits, including appropriate processes to ensure the security, integrity and confidentiality of the data and the authentication of users	Managing authority
7	Effective implementation of proportionate anti-fraud measures	Managing authority

Systems Audit KRs 2021-27

(ii) Managing Authority / Audit Authority

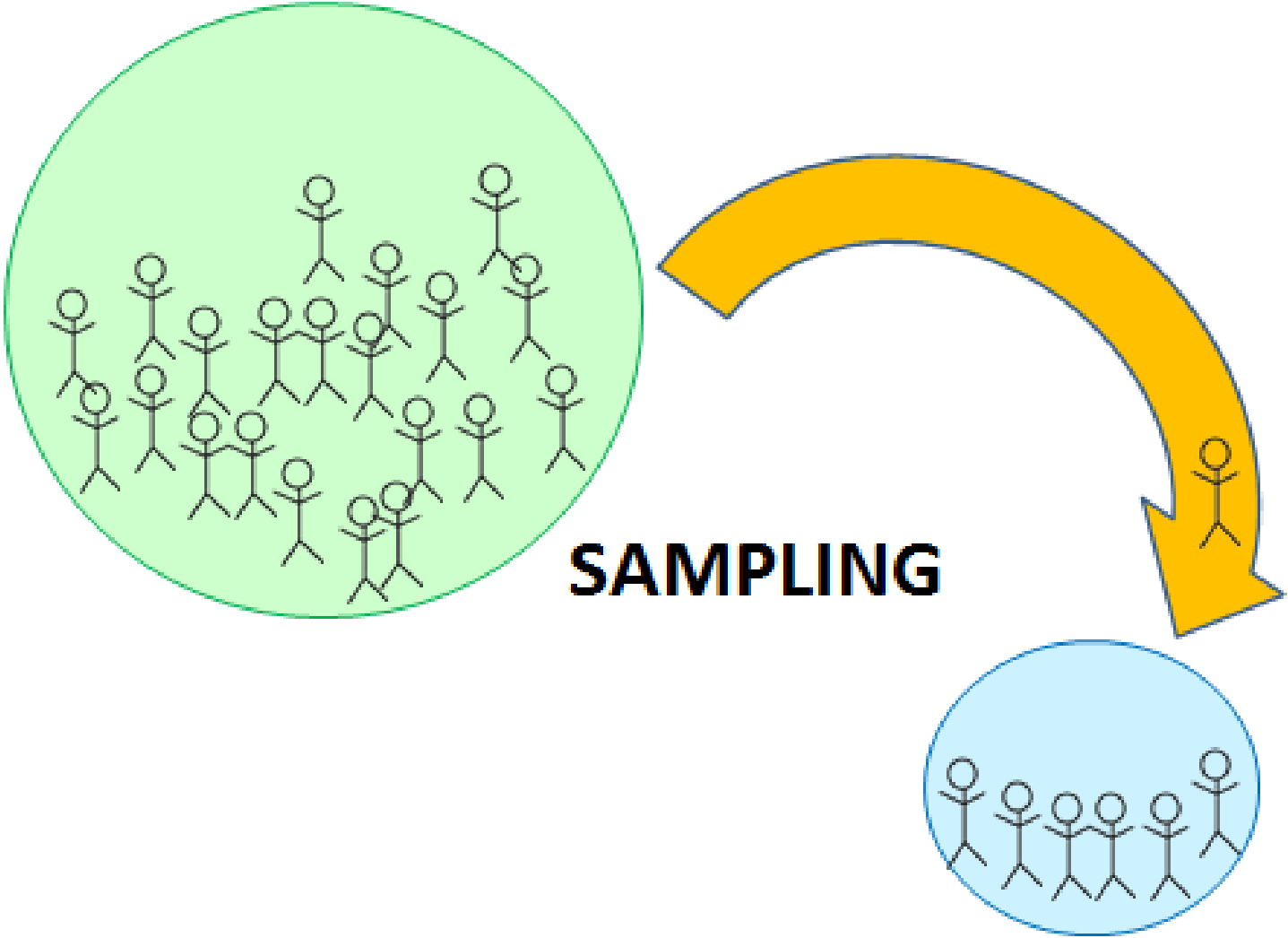
8	Appropriate procedures for drawing up the management declaration	Managing authority
9	Appropriate procedures for confirming that the expenditure entered into the accounts is legal and regular	Managing authority
10	Appropriate procedures for drawing up and submission of payment applications and of accounts and confirming completeness, accuracy and veracity of the accounts	Managing authority/ Body carrying out the accounting function
11	Appropriate separation of functions and functional independence between the audit authority (and any body carrying out audit work under the responsibility of the audit authority on which the audit authority relies and supervises, if applicable) and the other programme authorities and audit work carried out in accordance with internationally accepted audit standards	Audit authority
12	Appropriate system audits	Audit authority
13	Appropriate audits of operations	Audit authority
14	Appropriate audits of accounts	Audit authority
15	Appropriate procedures for providing a reliable audit opinion and for preparing the annual control report	Audit authority

Systems Audits

Categories of opinion

Category	Assessment
Category 1	Works <u>well</u> , only minor, or no , improvements needed
Category 2	Works, but some improvements are needed
Category 3	Works partially, substantial improvements are needed
Category 4	Essentially does not work

Sampling for Operations Audits



Audit Authority Sample selection

(Article 127(1) of CPR 2014-20)
(Article 79 of CPR 2021-27)

- AA must audit appropriate sample of operations from claimed expenditure
- Should be representative sample – generally based on statistical sampling
- Non-statistical sampling may **only** be used:
 - on professional judgement of AA in duly justified cases
 - in accordance with internationally accepted audit standards, and,
 - where number of operations in year is too small for statistical sample
 - non-statistical sample shall be sufficient to enable a valid audit opinion
 - **Non-statistical sample must cover;**
 - min. 5% of operations for which expenditure declared in accounting year,
 - min. 10% of expenditure declared during accounting year.

Risk v Random Sampling ...

Risk-based sampling (Verifications)	Random sampling (Audit)
If you want to find & fix a problem ...	If you want to give an objective, unbiased and representative opinion/error rate
Will point you in direction of 'bad' projects	Will select good and bad projects – every unit in population has chance of selection
Will skew the audit result / error rate	It will give a fair/accurate error rate because based on representative sample
More suited to control than audit	More suited to audit than control
Is subjective and reliant on professional judgement and risk tolerance	Is objective/logical and not overly reliant on professional judgement
Requires information about the nature of the project/operation, history, risks.	Can be applied to project financial data by means of Excel / IDEA



Audits of operations (1)

(Art. 127(7) CPR 2014-20)
(Art. 79 CPR 2021-27)

Audits of a sample of operations for each accounting year (1 July N-1 to 30 June N),

Audits of operations shall

- be carried out on the basis of supporting documents (audit trail)
and
- verify the legality and regularity of expenditure declared to the Commission;
- Project meets the OP selection criteria;
- has not been completed /fully implemented before the application for funding;
- has been implemented in accordance with approval decision;
- fulfils any conditions concerning functionality, use, and objectives to be attained;

Audits of operations (2)

- the expenditure declared to the EC corresponds to:
 - accounting records;
 - supporting documentation required to demonstrate an adequate audit trail;
- for expenditure declared based on **standard scales of unit costs or lump sums**
 - outputs & results underpinning payments to the beneficiary have been delivered;
 - participant data/records re outputs and results are consistent with the information submitted to the EC;
 - the required supporting documentation demonstrates an adequate audit trail.
- Audits shall also verify that the public contribution has been paid to the beneficiary < 90 days after Beneficiary claim (in accordance with Article 132(1) of CPR 2014-20).
- Audit may include on-the-spot verification of the physical implementation of operation.
- Audits shall verify the accuracy and completeness of the corresponding expenditure recorded by the CA in its accounting system.

Audits of operations (3)

(Art. 127(7) CPR; Article 27 (5, 6) DA)

- Where problems detected appear to be **systemic** - a risk for other operations in OP,
- the AA shall ensure
 - further examination, including, where necessary, additional audits
 - to establish the scale of such problems, and,
 - shall recommend the necessary corrective actions.
- Only expenditure examined in audits of operations = amount of expenditure audited, for the purposes of reporting annual coverage to the Commission.

Preparation of accounts (1)

Accounts submitted for each OP at the level of each priority axis including:

- Total eligible expenditure by beneficiaries to 30 June (in final payment claim by 31 July);
- Corresponding public expenditure incurred;
- Corresponding payments made to beneficiaries;
- Amounts withdrawn /recovered/ to be recovered, recoveries and irrecoverable amounts;
- Pre-financing paid to FEI and advances under State aid schemes;
- Reconcile final payment claim for the accounting year, and, accounts.

Where MS excludes expenditure that is subject to an on-going assessment on legality and regularity, it may include it in a future payment application if found to be regular.

Differences between **accounts** and **final cumulative payment application** for the accounting year may result from:

- Further management checks / corrections by MA;
- Further checks by CA and precautionary withdrawals to cross check the eligibility of expenditure;
- Corrections linked to audits by the AA (system audits, audits on operations, audits on the draft accounts);
- Corrections linked to EU audits.

= Any correction applied since the final payment application until the submission of the accounts (31 July - 15 Feb. N+1) – to be reconciled in the accounts.

- To provide reasonable assurance on amounts declared in Accounts:
 - Completeness
 - Accuracy
 - Veracity (true)
- Based largely on audits of operations, and, systems audits in CA
- “True and Fair” view:
 - Expenditure in a/cs reconciles with actual expenditure and payment applications
 - Amounts withdrawn and recovered, to be recovered, recoverable in a/cs = amounts in accounting system and corresponding financial corrections
 - Expenditure excluded from a/cs due to on-going assessment (legal and regular)

Unqualified Opinion (“true and fair view”)

- Reasonable assurance Accounts are true & fair, transactions are legal & regular
- ... no doubts about assertions in Management Declaration

Qualified Opinion (“true and fair view ... except for”)

- Reasonable assurance Accounts are true & fair, transactions are legal and regular
- **EXCEPT FOR ... the following (financial impact calculated)**
- ... no doubts about assertions in Management Declaration

Adverse Opinion (“do not give true and fair view”)

- **Accounts do not give a true and fair view**
- **No assurance** that transactions are legal and regular (**MCS not function properly**)
- **Audit work puts in doubt the assertions in the Management Declaration**

Disclaimer of opinion

- The audit authority may also include emphasis of matter, not affecting its opinion, as established by internationally accepted auditing standards. A disclaimer of opinion can be foreseen in exceptional cases.

Examination & acceptance of accounts (Commission)

Submission by 15 Feb N+1 of:

- Certified accounts (MA – 2021/27)
- Management declaration +
- Annual Summary of controls (MA);

- Annual Control Report +
- Audit Opinion on Accounts (AA)
 - true, fair, complete,
 - the proper functioning of systems
 - legality & regularity of expenditure,
 - consistency with the management declaration.

Examination and acceptance of account:

- an accounting process
- not covering legality and regularity of underlying transactions;
- EC assessment on the accounts and the related audit opinion.

Legality and regularity is assessed on the basis of remaining documents:

- Management Declaration,
- Annual Summary,
- Annual Control Report
- Audit Opinion.

Commission proposal

- To gather data from Audit Authorities on types of error
- To aggregate and analyse data at EU level (for all MS)
- Compare AA data with Commission findings
- Improve assessment of needs for further training
- Address ECA recommendation:
(Special Report 10/2015 on public Procurement):

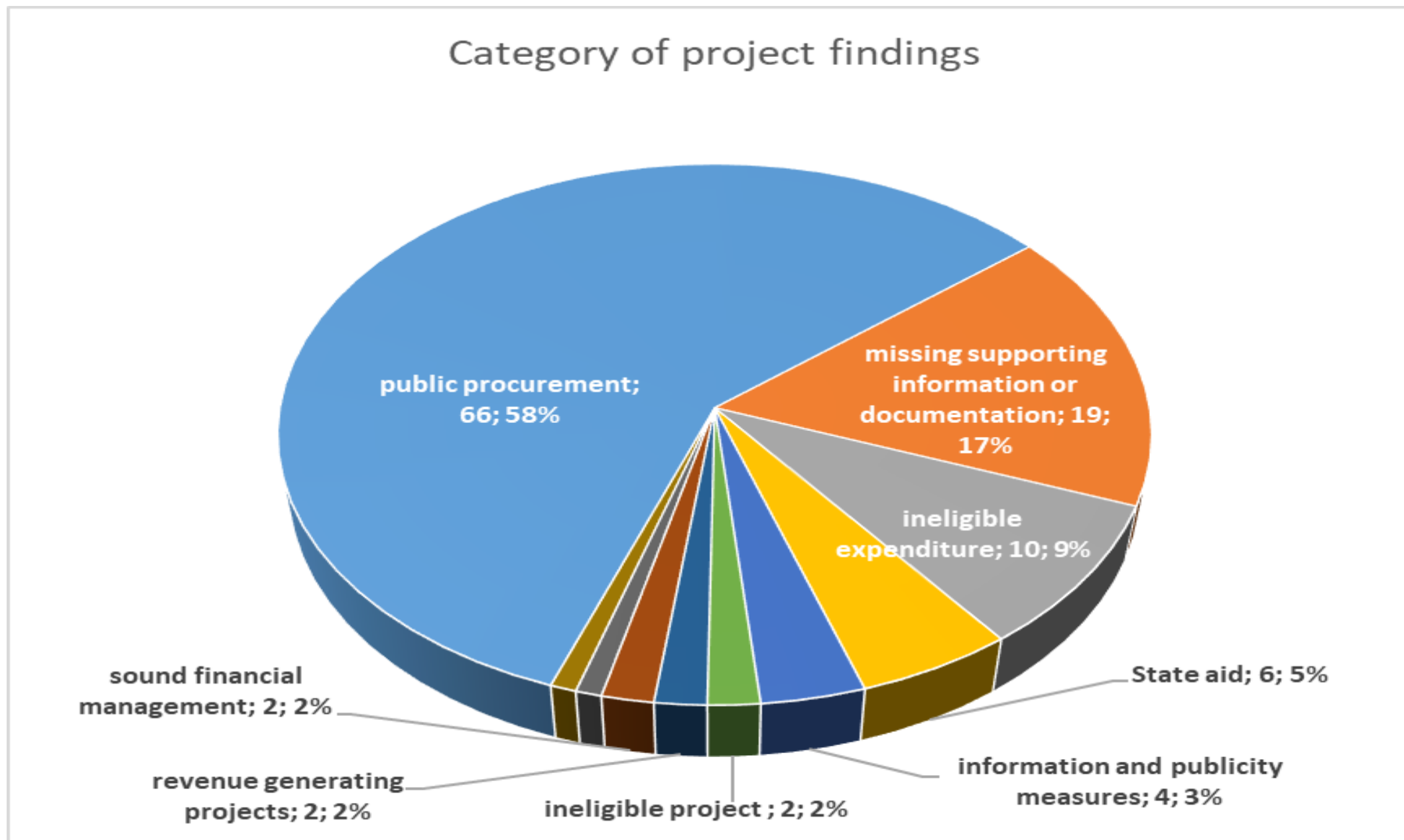
“The relevant authorities in Member States should develop and analyse their own databases on irregularities in the areas of cohesion policy, including those arising in public procurement, and should cooperate with the Commission to provide such data ...”

- Similar recommendation in ECA report on State Aid
- **Useful document for Authorities tasked with carrying out management verifications**



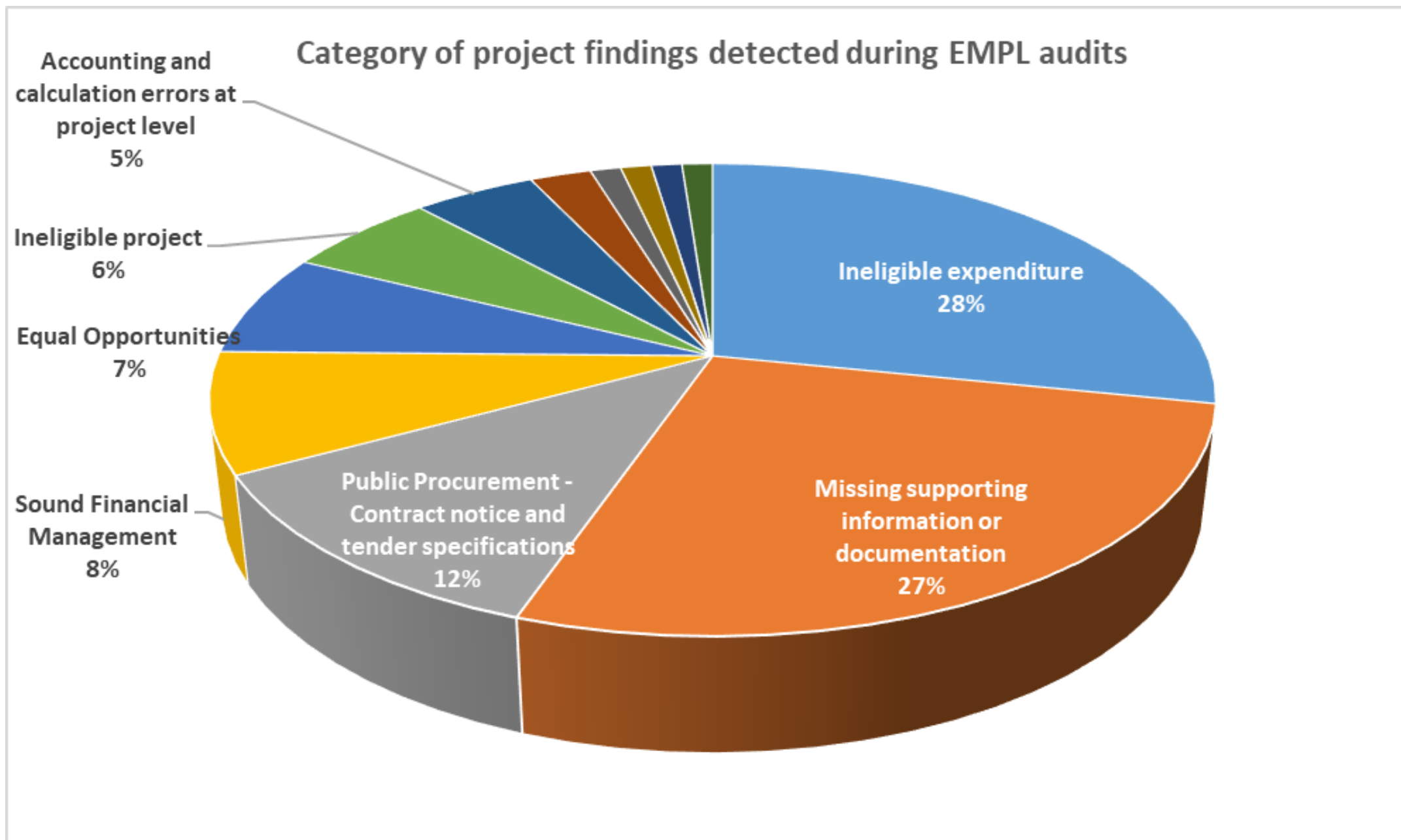
Results of Commission audits ERDF/CF

Findings from compliance audits additional to AAs



ESF compliance audits 2019 – Findings

Findings from compliance audits additional to AAs



15 categories and 75 sub-categories

1. **Public procurement** (25 sub-categories)
2. **State aid** (9 sub-categories)
3. **Revenue generating projects** (2 sub-categories)
4. **Financial instruments** (16 sub-categories)
5. **Missing supporting information / documentation**
(2 sub-categories)
6. **Ineligible Project**
7. **Accounting and calculations errors at project level**
8. **Other ineligible expenditure** (8 sub-categories)
9. **Environmental rules** (2 sub-categories)
10. **Equal opportunities**
11. **Information an publicity measures** (3 sub-categories)
12. **Standard Cost Options** (2 sub-categories)
13. **Sound financial management**
14. **Data protection**
15. **Performance indicators** (2 sub-categories)

Contract Notice and tender specifications

1. Lack of publication of contract notice
2. Artificial splitting of Works / services / supplies contracts
3. Non-compliance with time limits for receipt of tenders
4. Insufficient time for potential tenderers to obtain documentation
5. Lack of publication of extended time limits for receipts of tenders
6. Not justifying the use of negotiated procedure
7. Failure to state the selection criteria in the contract notice or tender specifications
8. Unlawful or discriminatory selection/award criteria or discriminatory technical specs.

2021-27 – Proposed simplifications ... Management & control, and audit

No Designation

- Early system audits will address the risk at beginning of the programming period
- For new (part of) Managing Authority/Accounting Functions - systems audits to be carried out within 21 months following 1st year of functioning (Art. 78(1))
- The audit work should focus on providing assurance on the functioning of the management and control system



- **Management verifications shall be risk-based (CPR Preamble, no.62)**
- **i.e. proportionate to risks identified**
 - Managing authority to prepare a risk management strategy
 - Both administrative and on-the-spot checks to be risk-based and to be completed by the submission of accounts



Accounting function (Art. 76)

- Accounting function to be performed by managing authority or another body identified as a programme authority
- MA to confirm that expenditure entered in the accounts is legal and regular (Art. 76(b))
- Accounting function shall not comprise verifications at the level of beneficiaries (Art. 76(2))



Audit - continuity from 2014-20

- Audit Strategy, to be updated annually following the first ACR (Art. 78 (1))
- System audits (Art. 77 (5))
- Audit of operations through statistical samples including legality and regularity and reliability of performance indicators (Art. 79)
- Audit on accounts (Art. 77(3))
- Similar ACR model and Audit Opinion (templates in Annexes)



- Grouping of OPs for sampling purposes using AA professional judgement (no condition of common MCS) (Art. 77(4) & Art. 79(2))
- Possibility for non-statistical random sampling for population below 300 sampling items, 10% of the items to be audited (Art. 79(2))
- Possibility for EU off-the-shelf sampling methods
- EU level sample for ETC OPs (Art. 48 of ETC Reg.)



- Commission audits shall be carried out up to 3 calendar years following the acceptance of accounts (Art. 70 (2))
- Commission preliminary audit findings and audit reports to be transmitted within 3 months (Commission may use 3 additional months if necessary) (Art.70 (4))
- Availability of documents: 5 years from 31/12 of the year in which the last payment by the managing authority to the beneficiary is made (Art. 82)



Enhanced proportionate arrangements (Arts. 83, 84)

- For **well-functioning OPs** even more proportionate arrangements.
 - Management verifications following national procedures.
 - No system audits.
 - Audit of operations: fixed random sample of 30 items for all concerned programmes in a Member State.
 - EC audit work limited to review / re-performance of audit authority's work at level of AA only.



RECOVERY AND RESILIENCE FACILITY

Flagship areas for investments and reforms

POWER UP

CLEAN TECHNOLOGIES AND RENEWABLES

RENOVATE

ENERGY EFFICIENCY OF BUILDINGS

RECHARGE AND REFUEL

SUSTAINABLE TRANSPORT AND CHARGING STATIONS

CONNECT

ROLL-OUT OF RAPID BROADBAND SERVICES

MODERNISE

DIGITALISATION OF PUBLIC ADMINISTRATION

SCALE-UP

DATA CLOUD CAPACITIES AND SUSTAINABLE PROCESSORS

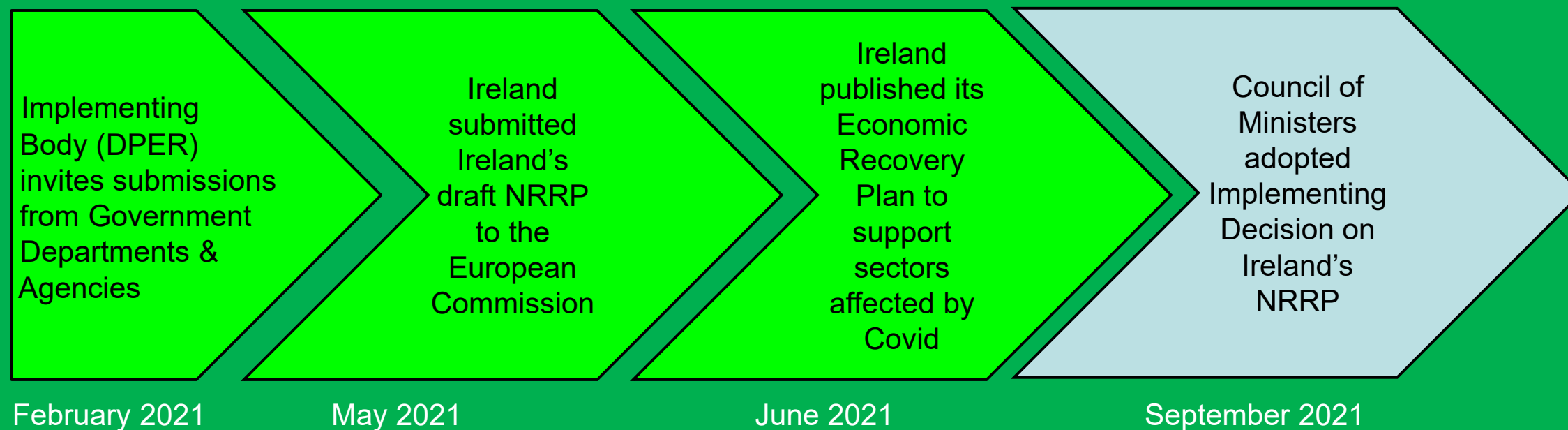
RESKILL AND UPSKILL

EDUCATION AND TRAINING TO SUPPORT DIGITAL SKILLS



National Recovery and Resilience Plan (NRRP)

Ireland will receive up to **€915 million** for its National Recovery and Resilience Plan between now and 2026. Further grants may be allocated in 2023.



National Recovery and Resilience Plan
Public Consultation

February 2021

Accountable Body	Investments (16)	Reforms (9)
Department of Communications, Climate Action and Environment	Derisking a Low Cost Residential Retrofit Loan Scheme Enhanced Rehabilitation of Peatlands	Climate Action and Low Carbon Development (amendment) Bill
Department of Enterprise, Trade and Employment	Accelerate Decarbonisation of the Enterprise Sector Programme to Drive Digital Transformation of Enterprises	Reducing Regulatory Barriers to Entrepreneurship.
Department of Transport	Future Electrification Investment in Cork commuter Rail	
Department of Social Protection	Work Placement Experience Programme	
Department of Finance		Aggressive Tax Planning / Base Broadening Carbon Tax /Pensions
Department of Health	Suite of eHealth Projects	Health Reforms (TBC)
Department of Further, Higher Education, Research, Innovation and Skills	National Grand Challenges Programme Solas Recovery Skills Response Programme Technological Universities Transformation Fund	Address Digital Divide and Enhancing Digital Skills (with D/Education and Skills)
Department of Housing, Local Government	River Basin Management Plan	Increase Provision of Social & Affordable Housing
Department of Education and Skills	Programme to Provide Digital Infrastructure and Funding to Schools	Address Digital Divide/ Digital Skills
Department of Justice		Anti-Money Laundering
Central Statistics Office	Provide online response for the census of population	
Office of the Government Chief Information Officer (OGCIO)	Using 5G technologies to drive a greener /innovative Ireland Development of a Shared Government Data Centre	
Office of Public Works (OPW)	Building Obsolescence Programme	

Main Control & Audit Requirements for RRF

- The RRF Regulation requires that Member States to outline arrangements for the monitoring and the implementation.
- Arrangements to prevent, detect and correct
 - corruption,
 - fraud and conflicts of interests
 - double funding
- Complies with the applicable Union and national law.
- Each request for payment accompanied by a management declaration,
 - Assuring that funds were used for their intended purposes, that information is complete, accurate & reliable
 - Control systems give the necessary assurances, as well as a summary of audits carried out.

Main Control & Audit Requirements for RRF

- The MS Coordinating Body (Implementing Body) need to collect data on final recipients of funds.
- provide access to data & cooperate with investigations by the Commission, OLAF, ECA & EPPO.
- Keep records in accordance with Art. 132 of the Financial Regulation (Art. 22(2)(f)).
- Member States invited to use Arachne (data-mining & risk-scoring tool) against fraud, conflict of interest and irregularities.
- Delegate responsibilities to “component” (Accountable) bodies, in particular;
 - How the different bodies involved will ensure that an audit trail is kept to the level of final recipients?
 - Is there an indication of how these bodies record the controls they carry out?
 - How will these bodies ensure that the necessary data on final recipients is gathered and stored?

Challenges?

- Has the Implementing Body a mandate/authority (legal act, government decree, etc.) to exercise these tasks?
- Can this body demonstrate administrative capacity (staff profiles, institutional experience & expertise)?
- Will the Implementing Body put an Data Depository (IT system) to record down to level of beneficiary?
- Will this include the effective use of Arachne?
- Will this Body be able to verify that Accountable Bodies have effectively achieved the milestones and targets?
- Is there a description of the procedures and data sources and indicators that this body will use to verify that milestones and targets are actually met?
- Will all these components be in place to make a first claim/declaration by the end of 2022

QUESTIONS?



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