

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

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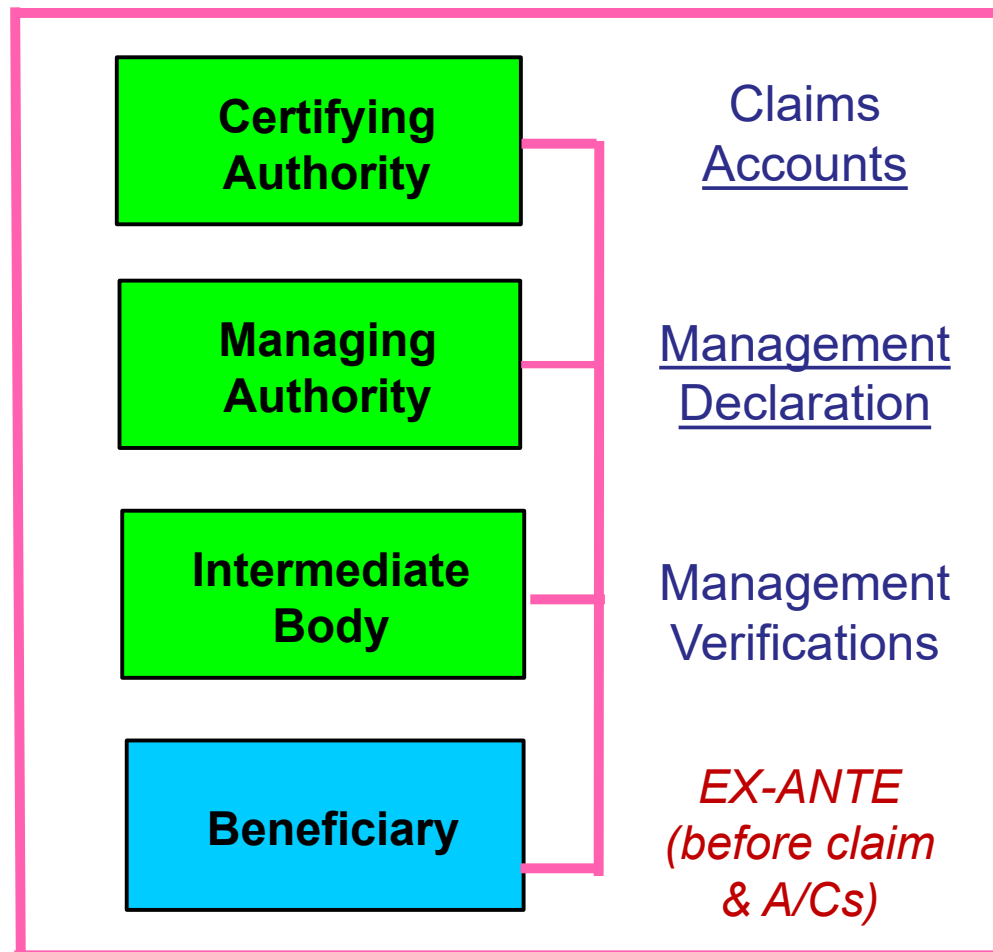
Contents of Presentation

- Architecture of management and control systems
- Management verifications
- Roles of the Audit Authority (AA)
 - Audit of Systems
 - Audit of Operations
- Emergency Covid Measures (2014-20) in Ireland
- Recovery and Resilience Facility
- Simplifications planned for 2021-2027

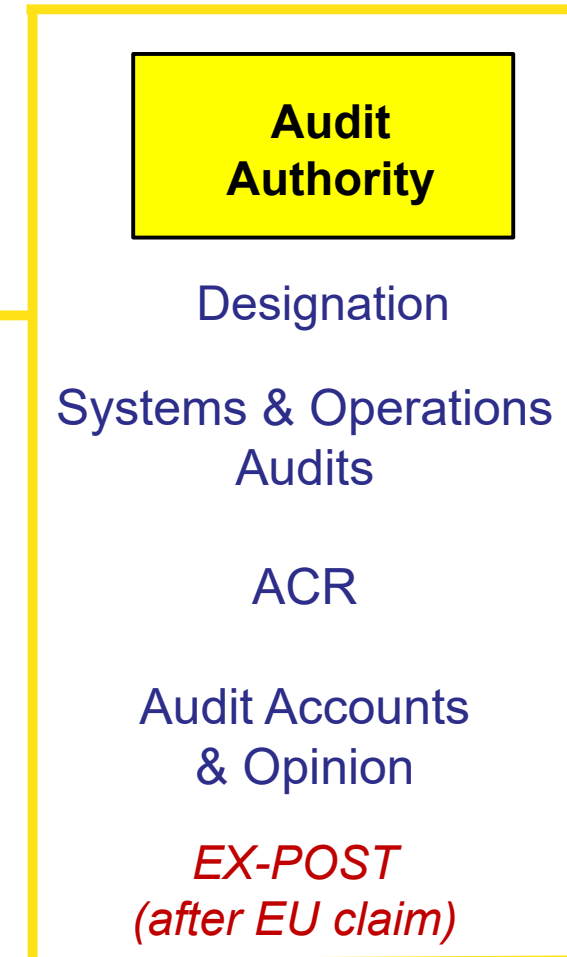


Management & Control / Audit 2014-20

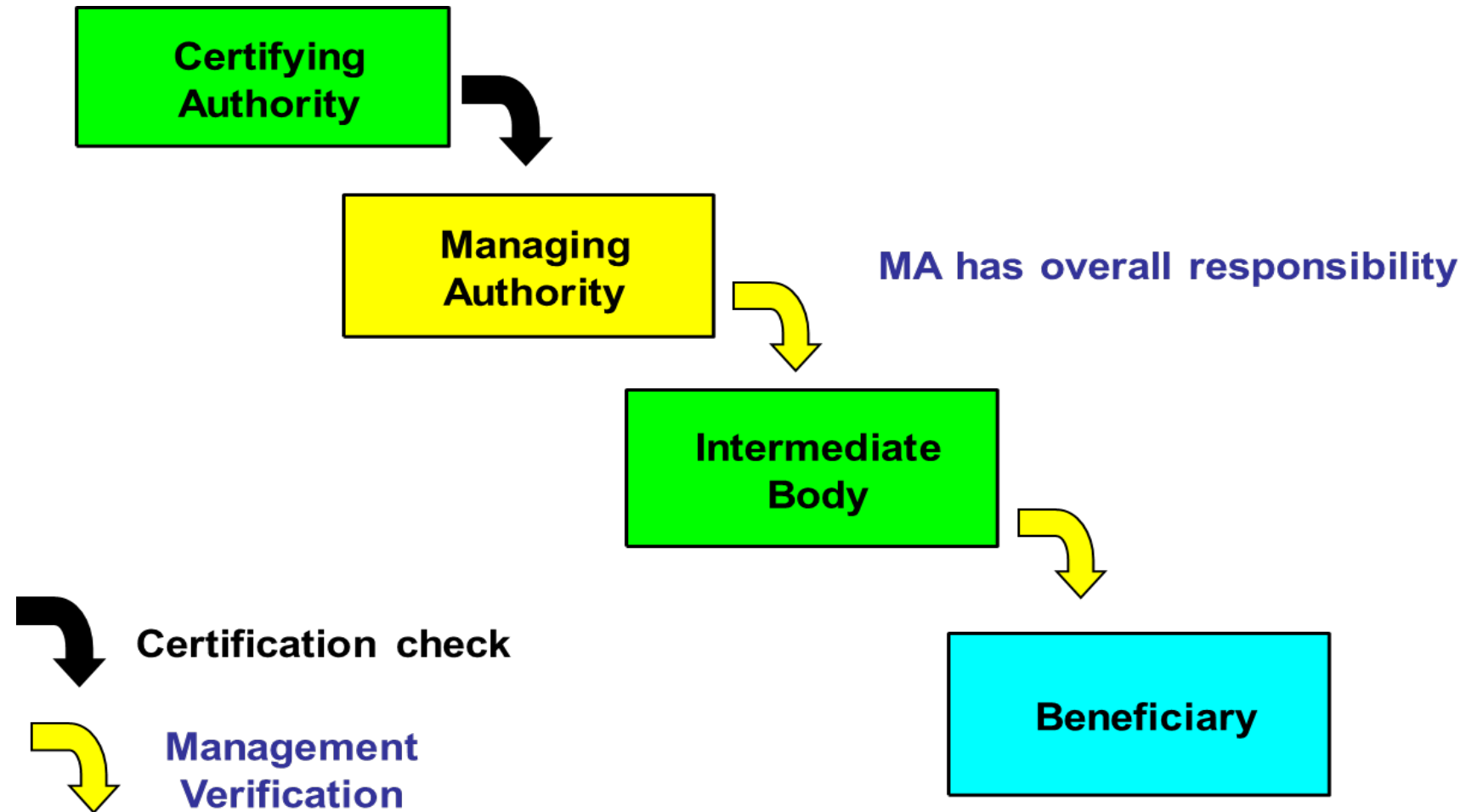
MANAGEMENT & CONTROL SYSTEMS



AUDIT



Management verifications in Ireland



Key functions - Audit authority (1)

- As Independent Audit Body, give an Opinion on **designation** of CA, MA
- 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 **audit Opinion**
- Submit **Annual Control Report** to the Commission by 15 February
 - legality and regularity of expenditure
 - effective functioning of MCS



Key functions - Audit Authority (2)

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:**
 - Expenditure in a/cs reconciles with actual expenditure and payment applications
 - Amounts withdrawn and recovered, to be recovered, recoverable in a/cs = amounts in CA accounting system and corresponding financial corrections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

(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

(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



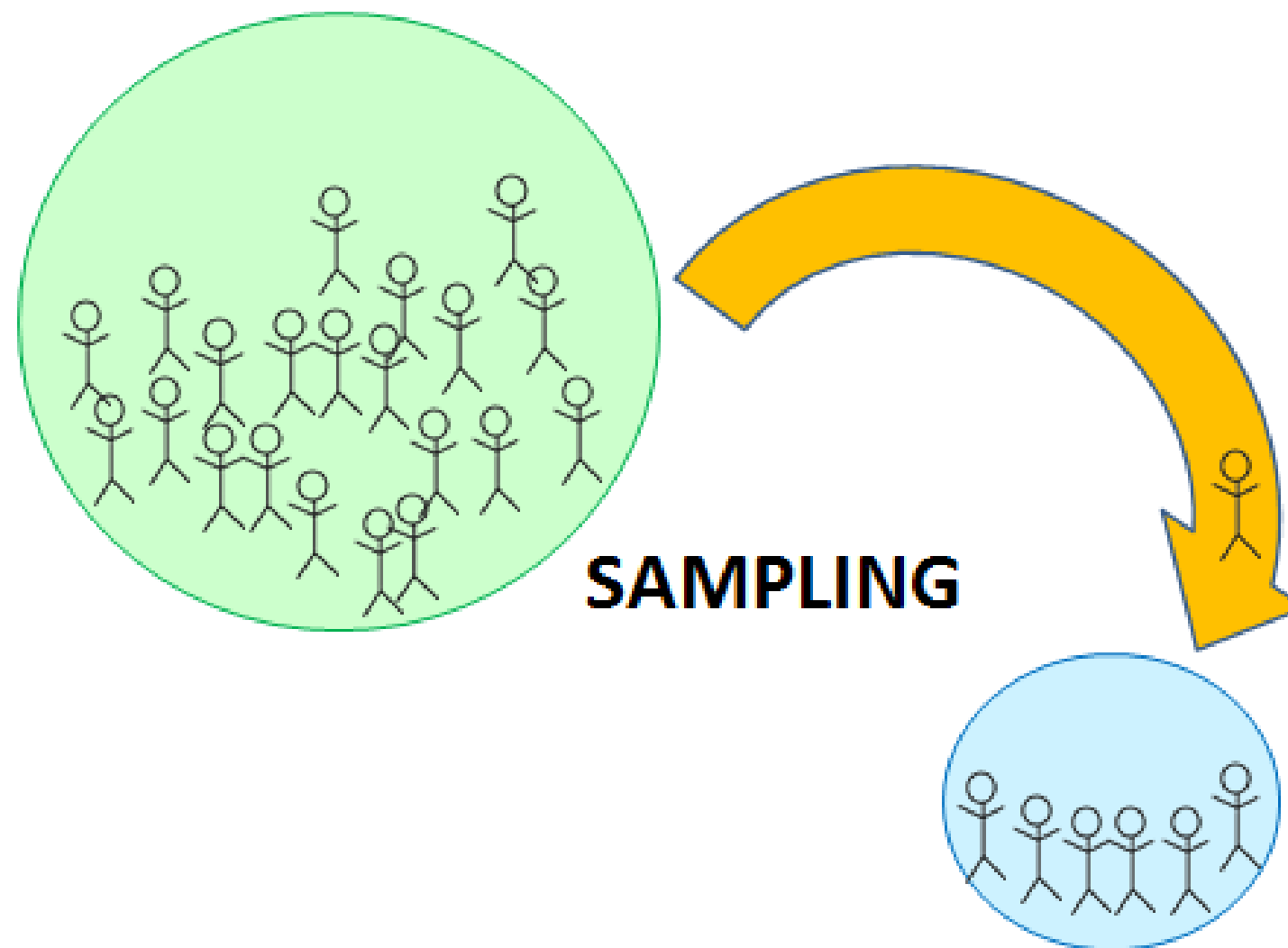
Systems Audits

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

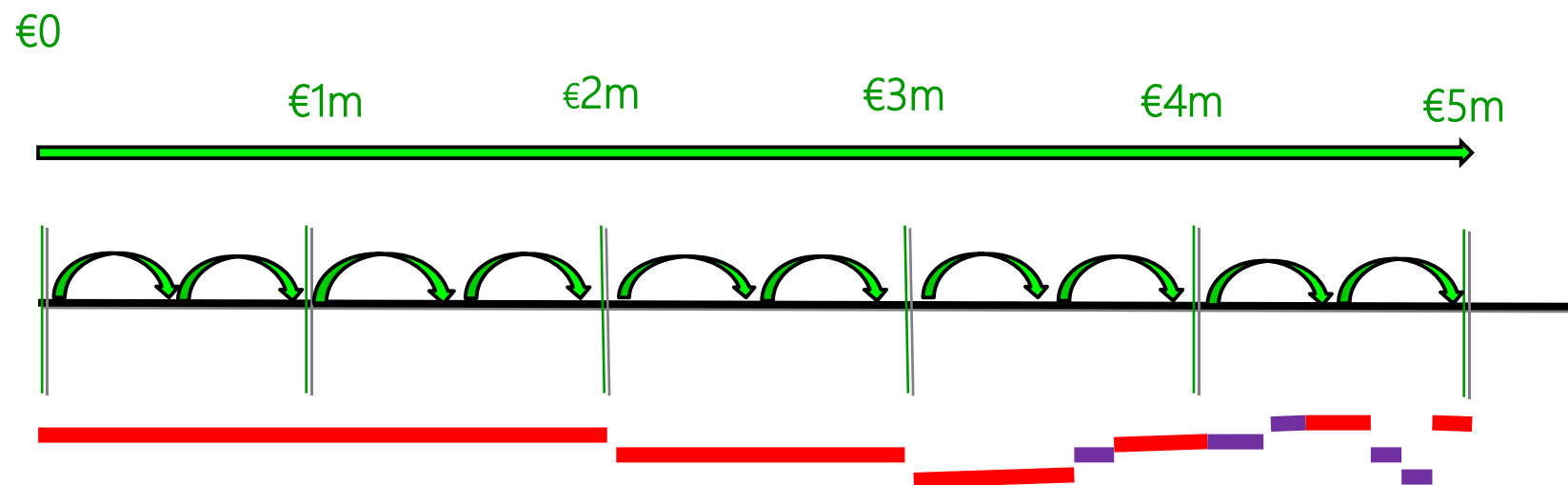
(Article 127(1) of CPR)

- 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.



Monetary Unit Sampling

Interval sampling



Sample interval - €0.5m



Projects "hit" (selected)



Projects "missed" (not sampled)



Risk v Random Sampling ...

Risk-based sampling	Random sampling
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; Article 27 DA)

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)

(Art. 127(7) CPR; Article 27 (2.a,b) DA)

- 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).
- 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)

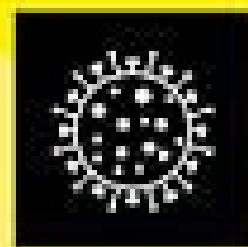
(Art. 127(7) CPR; Article 27 (5, 6) DA)

- 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.



Covid 19 - Ireland

2014-20 Application for ERDF Aid



Coronavirus
COVID-19

Covid Response Investment Initiative (CRII)
& EU Public Procurement Derogations



Covid Response Investment Initiative (CRII) 2014-20 Application for ERDF Aid

Redirection of EU Structural and Investment Funds

- The EU quickly redirected cohesion funds to help member states tackle the COVID-19 crisis
- **up to €28 billion of structural funds**, from 2014-2020 national envelopes not yet allocated to projects, are eligible for crisis response under **Coronavirus Response Investment Initiative (CRII)**
- member states can **transfer money between different funds** to meet their needs
- resources can be redirected to the **most affected regions** – change of the conditions on which regions are entitled to funding.
- member states can request up to **100% financing from the EU budget** between 1 July 2020 and 30 June 2021 for programmes dealing with the impact of the pandemic.
- **Ireland has re-directed unallocated expenditure of approximately €220m to CRII (PPEs)**
- **Has availed of public procurement for situation of “extreme urgency”.**



Public Procurement Derogations

- Derogations in Article 32(2)(c) of EU Procurement Directive 2014/24/EU defines ***cases of extreme urgency allowing for a negotiated procedure without publication.***
 - **EU Commission (01/04/2020) Guidance on Public Procurement during the Covid 19 Crisis (2020/c108/01).** This Guidance states that: *“Concretely, the negotiated procedure without publication allows public buyers to acquire supplies and services within the shortest possible timeframe.*
 - ***Section 2 of the Guidance: Choice of procedures and deadlines under the EU public procurement framework – especially in cases of (1) urgency and (2) extreme urgency***
- (1) Urgency – shortened deadlines (allow 10/15 days for offers)**
- an ‘accelerated’ open or restricted procedure ensures equal treatment/transparency
 - ensures competition even in cases of urgency.
 - Urgency render the applicable time limits under normal circumstances impracticable,
 - contracting authorities may shorten the deadlines applicable
 - to an open or a restricted public procurement procedure in line with the Directive



2. Extreme Urgency (Criteria)

2.3.1. *Events unforeseeable by the contracting authority in question*

- These events and their specific development has to be considered unforeseeable.
- The specific needs for hospitals / health institutions to provide treatment, equipment, PPE and additional beds & intensive care and hospital infrastructure etc. could certainly not be foreseen , therefore an unforeseeable event.

2.3.2. *Extreme urgency making compliance with general deadlines impossible*

- Speedy purchase meant it was impossible to use even accelerated open/restricted procedure (15/10 days for offers)
- Must be assessed on a **case-by-case basis** - likely in most cases as the infection curve rises.

2.3.3. *Causal link between the unforeseen event and the extreme urgency*

- Immediate needs of hospitals & health institutions in a very short timeframe the **causal link with the COVID not in doubt**.

2.3.4. *Only used in order to cover the gap until more stable solutions can be found*

- Negotiated procedures without prior publication may offer the possibility to meet immediate needs.
- They cover the gap **until more stable solutions can be found**, such as ... accelerated procedures.



Covid 19 - Ireland

2014-20 Application for ERDF Aid

Summary – Role of the Audit Authority in Ireland

- AA will be responsible for systems / operations audits ex post (after claim)
- In good faith, AA provided early advice to help identify risks prior to claim (a “designation” service!).
- Nothing we say removes our responsibility to report correct implementation during our audits.

Key issues as we (AA) see them:

- There must be a recorded justification of EXTREME URGENCY for each contract / purchase – i.e. a record of the contracting authority’s view that the four conditions (2.3.1 – 2.3.4) were met.
- If a contract is awarded to an existing supplier (neg. procedure / no notice) be careful to demonstrate no other immediate source and the product was technical fit and in time etc.
- We consider that the period March–May is generally safe – after that, ensure that still “extreme urgency”
- Issue a contract award notification (CAN) for publication in the EU Journal.



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

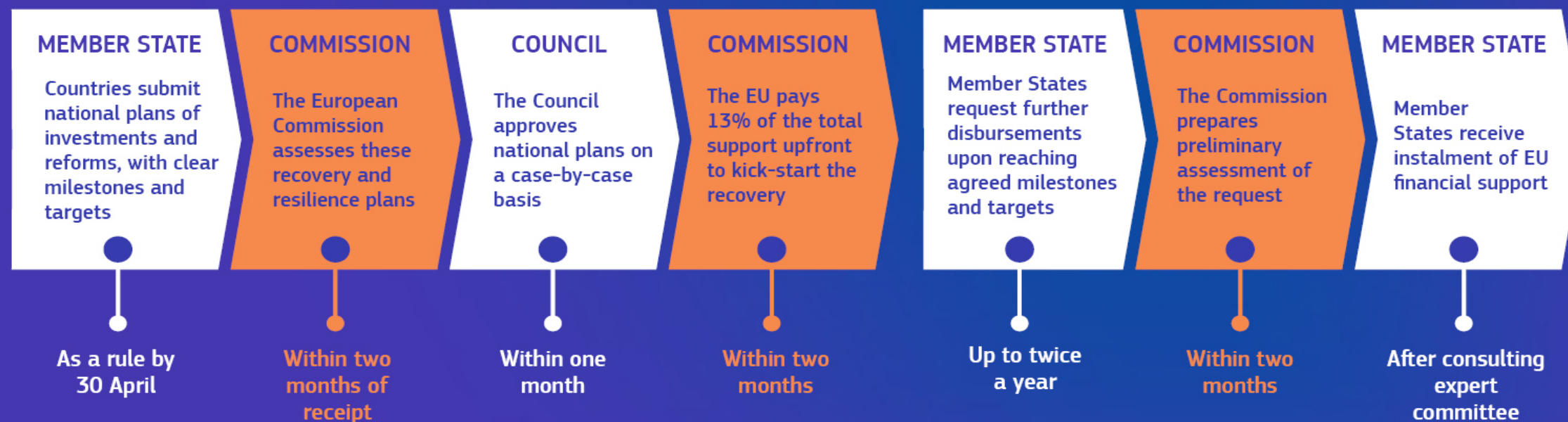
EDUCATION AND TRAINING TO SUPPORT DIGITAL SKILLS



RECOVERY AND RESILIENCE FACILITY

How will Member States access €672.5 billion in EU recovery funding?

Commission raises necessary funds on markets by issuing bonds



National Recovery and Resilience Plan
Public Consultation

February 2021



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
- Arrangements that aim to avoid double funding from the Facility and other Union programmes.
- Complies with the applicable Union and national law.
- regularly check that the financing provided has been properly used in accordance with all applicable rules,
- Each request for payment accompanied by a management declaration,
 - Assuring that funds were used for their intended purposes, that information is complete, accurate and reliable and
 - Control systems give the necessary assurances, as well as a summary of audits carried out.

**National Recovery and
Resilience Plan**
Public Consultation

February 2021



Main Control & Audit Requirements for RRF

- The MS Coordinating Body need to collect data on final recipients of funds.
- provide access to data & cooperate with investigations by the Commission, OLAF, Court of Auditors and, where applicable, EPPO.
- Keep records in accordance with Art. 132 of the Financial Regulation (Art. 22(2)(f)).
- Member States are also invited to use Arachne (single data-mining and risk-scoring tool) against fraud, conflict of interest and irregularities.
- Delegate responsibilities to “component” 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?



Main Control & Audit Requirements for RRF

Challenges?

- Is the lead ministry/body tasked with the overall coordination and/or monitoring of the plan indicated?
- Has this body a suitable mandate/authority (legal act, government decree, etc.) to exercise these tasks?
- Can this body demonstrate administrative capacity (staff numbers, staff profiles, institutional experience & expertise) to perform these tasks?
- Will this Body be responsible for verifying that the Member State has effectively fulfilled the milestones and targets indicated?
- 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? If not, is there clarity/assurance that these procedures will be put in place?



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) systems/bodies systems audits to be carried out within 9 months following 1st year of functioning (Art. 72)
- The audit work should focus on providing assurance on the functioning of the management and control system



Management verifications (Art. 68)

- **Management verifications shall be risk-based,**
- **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. 65 (1))

- 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. 68(1))
- Accounting function shall not comprise verifications at the level of beneficiaries (Art. 70)



Audit - continuity from 2014-20

- Audit Strategy, to be updated annually following the first ACR (Art. 72)
- System audits (Art. 71 (1))
- Audit of operations through statistical samples including legality and regularity and reliability of performance indicators (Art. 73)
- Audit on accounts (Art. 71(1))
- Similar ACR model and Audit Opinion (templates in Annexes)



Simplified audit work

- Grouping of OPs for sampling purposes using AA professional judgement (no condition of common MCS) (Art. 73(2))
- Possibility for non-statistical random sampling for population below 300 sampling items, 10% of the items to be audited (Art. 73(2))
- Possibility for EU off-the-shelf sampling methods
- EU level sample for ETC OPs (Art. 48 of ETC Reg.)



Retention of Documents

- Commission audits shall be carried out up to 3 calendar years following the acceptance of accounts (Art. 64 (2))
- Commission preliminary audit findings and audit reports to be transmitted within 3 months (Commission may use 3 additional months if necessary) (Art.64 (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. 76)



Enhanced proportionate arrangements (Arts. 77 to 79)

- 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.



QUESTIONS?



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