

ESF Training Seminar



Reinforced role for the Audit Authority

2007 - 2013

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ESF Audit Authority

European Social Fund Financial Control Unit

A Unit established by the Department of Enterprise Trade and Employment and part financed by the European Union
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9th December 2009

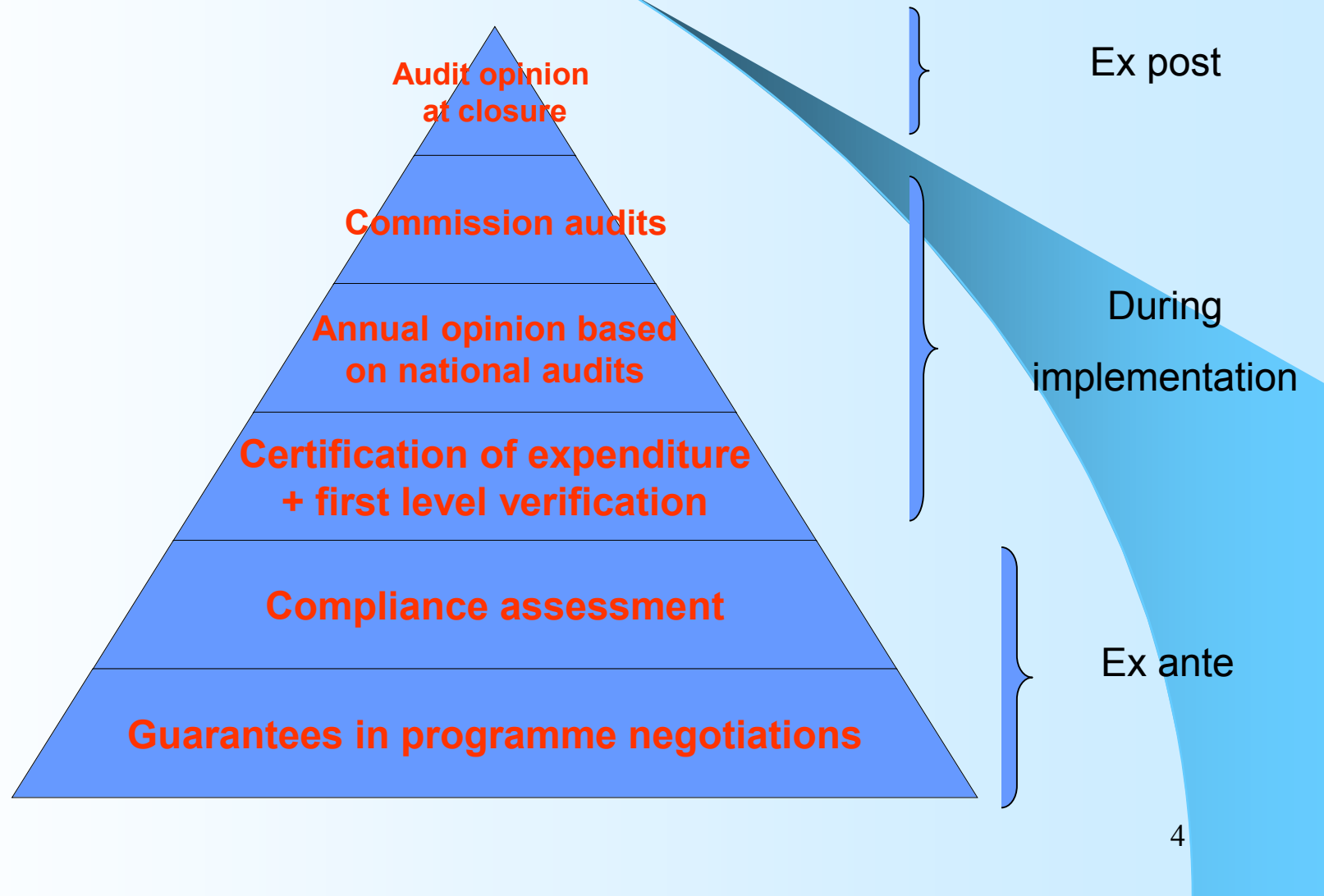
Volume of spending

For Ireland €375 million ESF in 2007-2013 due to be spent mainly by Department of Education and Science, FAS, Department of Justice Equality and Law Reform and Department of Social and Family Affairs

The Regulations –

- Structure and size of the Regulations:
 - Council Regulation (EC) 1083/2006
 - 108 Articles and 4 Annexes
 - Council Regulation 1260/1999
 - 56 Articles and no Annexes
 - Commission Regulation 1828/2006
 - 55 Articles and 23 Annexes
 - Commission Regulation 438/2001
 - 23 Articles and 5 Annexes

How assurance will be built up 2007-2013



Shared Management - Division of responsibility

● Member State responsible for:

- Setting 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 involves

- Satisfying itself “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

Organisation of the control and audit framework 2007-2013



What is your role in the National Cascade?

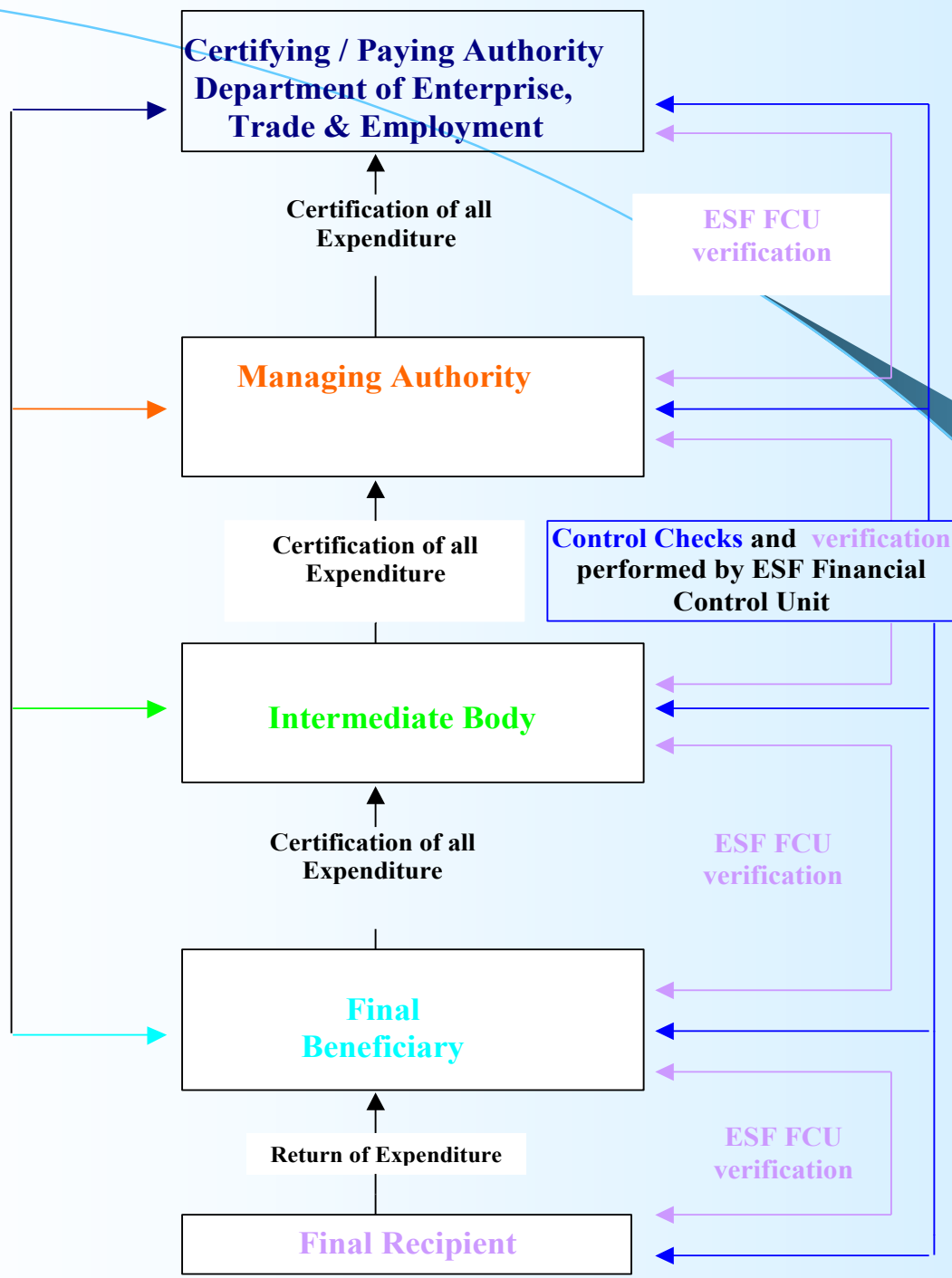


***System based
Audit by DETE
and Management
Checks**

**System based
Audit by
Managing
Authority
and Management
Checks**

**System based
Audit by
Intermediate
Body
and Management
Checks**

System based



Managing Authority (1/2)

- 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

Managing Authority (2/2)

- Other responsibilities
 - To inform beneficiaries of all conditions for funding, including the time limit for execution
 - To satisfy itself (before grant approval) that beneficiary has capacity to fulfil conditions
 - Administrative verifications on all payment requests
 - Written standards and proper recording of checks

Art. 13 Implementation Regulation

Certifying Authority (1/2)

- 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 ESF and national rules

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

Certifying Authority (2/2)

- Maintaining computerised accounting records
- Keeping accounts of amounts recoverable and amounts recovered

Art. 61 of C.R.

- Sending to Commission annual reports on amounts recoverable, recovered and withdrawn following cancellation

Art. 20 Implementation Regulation

ESF Audit Authority - Introduction

- **Who:** ESF Financial Control Unit, Department of Enterprise Trade and Employment
- **Statute:** functionally independent of Managing and Certifying Authority
- **Scope:** Human Capital Investment Operational Programme
- **Delegation:** Cascade Internal Audit Units
- **Overall task:** to provide each year an opinion and annual control report on the effective functioning of the management and control system and the correctness of declared expenditure

Audit Authority - Functions

1. (Organisation of) systems audits by Cascade Internal Audit Units
2. (Organisation of) audits of operations by ESF FCU
3. Presented an audit strategy in 2008
4. Annual control report + opinion
5. Submitting a partial or final closure declaration
6. Ensure use of internationally accepted audit standards
7. Ensure independence and supervision of other audit bodies

Also - ESF Compliance Assessment Body

Audit Authority – Audit Strategy

(Art. 62 (1) c 1083/2006 and Art. 18 1828/2006)

- **A Planning document:** contributes to high quality annual control reports, audit opinions and closure declarations; covers whole programming period
- **Deadline for presentation:** Accepted by EU Commission December 2008
- **Model Audit Strategy:** annex V Reg. 1828/2006 = minimum requirements
- Annual (or more frequent) updates

Audit Authority – Systems audits by Cascade Internal Audit Units

(Art. 62 (1) a 1083/2006)

- **Objective:** To verify effective functioning of management and control systems of the OP + evaluation of the reliability of the system (high/average/low)
- **Scope:**
 - evaluation of key internal control elements
 - audit of horizontal issues eg procurement, publicity, eligibility
- Main authorities and intermediate bodies covered as early as possible by ESF FCU and Cascade Internal Audit units
- Audit period : July n to June n+1 (for report by 31/12/n+1)

Audit Authority uses work of Cascade audit bodies – standards for assessment (1)

- ISA 600
- Internal audit services (ISA 610 + INTOSAI 25)
 - Objectivity/independence
 - Professional competence/Size
 - Evidence recording/supervision/reviews
 - Internal audit coverage
- External experts (ISA 620 + INTOSAI 25)
 - Competence/reputation/standing
 - Relation to auditee/independence
 - Auditors own assessment

Main elements of ISA 600

- Due care in selecting the other auditor
- Independence
- Professional competence
- Proper working relationships between principal auditor and other auditor
- Reporting: Form and content
- Review of the work of the other auditor

Review of Cascade audits

What would you look at ?

- Are the scope, objectives and audit criteria adequate?
- Was work done according to planned scope and objectives?
- Is there adequate documentation & working papers?
- Are conclusions adequate in relation to work done?
- Report: *is the* -
 - Format & content adequate, clear, concise?
 - Described: Scope, objectives, audit criteria and work done?
 - Opinion consistent with findings?
 - Signed? Who ?
- Adequate follow up done ?
- Reperform the audit?

Audits of operations by ESF FCU - Objectives

(Art. 62 (1) b 1083/2006, Art. 16-17 1828/2006 + annex IV)

Audits shall verify that:

- Operations meet selection criteria for the OP
- Operations implemented according to approval decision
- Expenditure declared corresponds to accounting records and supporting documentation
- Compliant with Community and national rules
- Public contribution paid to the beneficiary

Further examination in case systemic issues appear

Audits of operations by ESF FCU - Objectives

(Art. 62 (1) b 1083/2006, Art. 16-17 1828/2006 + annex IV)

- **Sampling:**
 - Method in accordance with IAAS and to be documented
 - Non statistical random sample with materiality ($\leq 2\%$)
- **Complementary sample**
 - In case of specific risks or insufficient coverage
- **Timetable:**
 - random sample reference period: Jan. - Dec. year n
 - audit period: 01 July-30 June year n + 1
 - annual control report: by 31/12/n + 1

Compliance Assessment

(Art. 71 (2) 1083/2006 and Art. 25 1828/2006 + annex XII + Guidance note on Compliance Assessment)

- Accepted by EU Commission in 2008.

Key recommendations:

- 2000 – 2006 audit recommendations to be implemented
- Procedures manuals to reflect:
 - Department of Finance Structural Funds Circular 12 of 2008
 - Department of Enterprise Trade and Employment 2008 eligibility Circular for ESF
 - www.esf.ie
 - Procedures for regular review and update of procedures manual

Compliance Assessment

(Art. 71 (2) 1083/2006 and Art. 25 1828/2006 + annex XII + Guidance note on Compliance Assessment)

- Scope: Ex-ante assessment of the set up of management and control system (Articles 58-62 of EC 1083/2006)
- Systems description provided by the ESF Managing Authority
- *EU guide on Compliance Assessment-*

*It should be noted that this exercise refers to the **adequacy of the design** of the management and control systems, which means that the Commission expects an opinion on the **set up** of the systems and not on their **practical effectiveness** at this stage.*

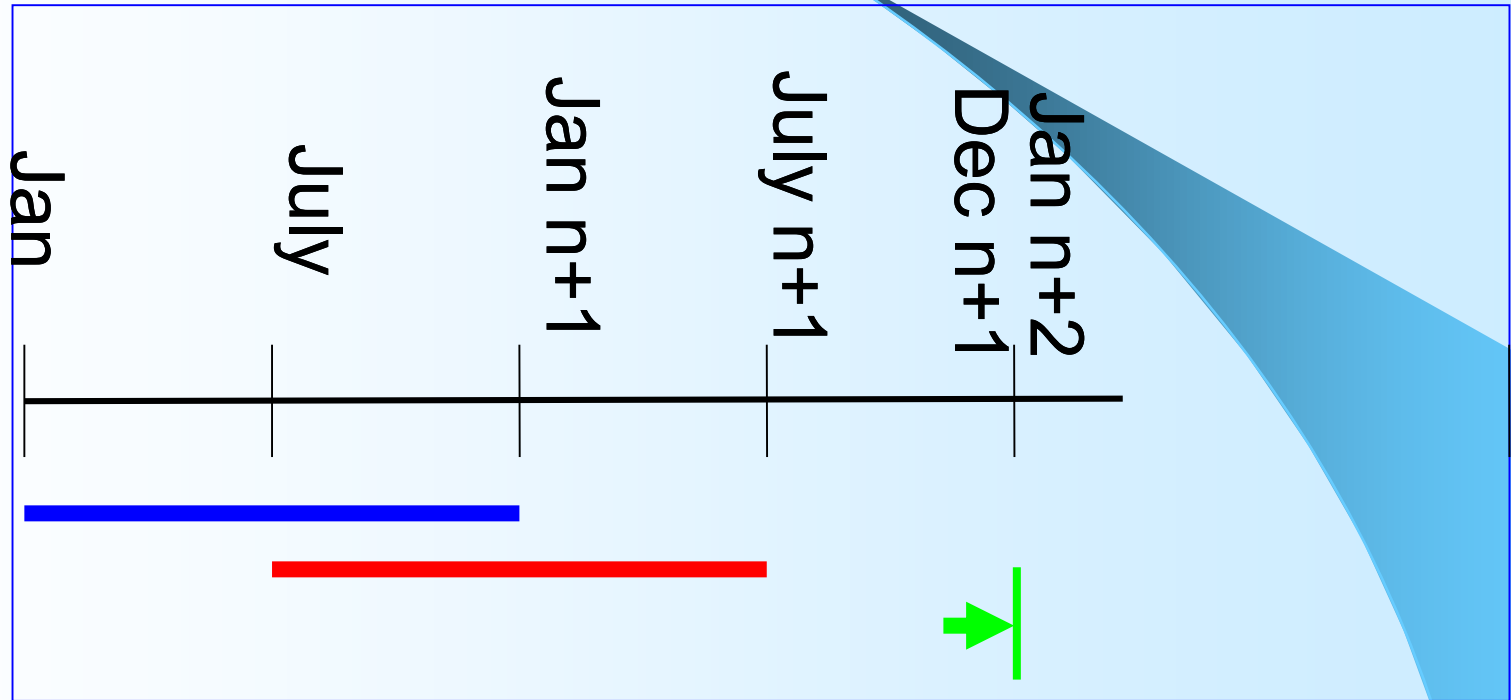
Annual Control Report

(Art. 62 (1) d (i) 1083/2006, Art. 18 (2) 1828/2006 + annex VI)

- Established and signed by ESF FCU as Audit Authority
- Reporting of expenditure by 31/12 in year n, audited between 01/07 (n) – 30/06 (n+1), **report to be delivered by 31/12 (n+1)**
- Report 31/12/2009 covers 01/07/08-30/06/09
- Model Report (annex VI Reg. 1828/2006) sets minimum requirements

Annual Control Report

(Art.62 (1) d (i) 1083/2006, Art.17 (3) and 18 (2) 1828/2006 + annex VI)



Reference period

Report deadline

Audit period

Annual Control report – Model

- : Model annual control report Introduction
 - Changes in management and control systems
 - Changes to audit strategy
 - Systems audits
 - Audits of samples of operations
 - Co-ordination between audit bodies and supervisory work of the audit authority
 - Follow-up of previous years' audit activity
 - Other Information (if applicable)
 - Table declared expenditure and sample audits

Obligation to report on error rates

- Requirements to provide error rates
 - Prescribed in EC 1828/2006:
 - Annex VI Model Annual Control Report
 - Annex VIII Model Final Control Report
 - Closure declaration
- Why to report on error rates?
 - Indication of the quality of the management and control system
 - Closure of a programme project
- Calculation of the error rate

Audit Opinion: Which assurance is to be provided on what (1/4)

- 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.

Audit opinion: 'Reasonable Assurance' (2/4)

- 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%)

Audit Opinion - Legality and Regularity (3/4)

- Reasonable assurance on legality and regularity of underlying transactions:
 - Legality and regularity : The (financial) audit objective of legality and regularity seeks to ensure that a transaction conforms to the applicable laws and regulations and is covered by sufficient budgetary appropriations.

Types of audit opinions (4/4)

- Unqualified, Qualified , Adverse
- Reasons for qualified and adverse opinions are to be explained
- Impact of a qualified opinion needs to be quantified
- No quantification of an adverse opinion

Closure declaration

(Art. 62 (1) e 1083/2006, Art. 18 (3) 1828/2006 + annex VIII)

- (updated) audit strategy + annual control report + opinion = continuous control process => **preparation for closure**
- AA provides **declaration** on validity of payment claim + **legality and regularity of underlying transactions** in final statement of expenditure + **final control report** at the latest by **31/03/2017**
- Based on all audit work carried out under the responsibility of AA
- Model: annex VIII Reg.1828/2006
- Document retention period: 3 years following closure

Conclusions (1/3)

- EC is accountable to EU Budget Authorities the Shared Management Concept makes MS responsible for implementation of the Cohesion Policy including ESF
- Strong Partnership between EC and MS to deliver assurance on the legality and regularity of expenditure
- Commission needs the assurance from the MS on the correct implementation
- Change in the concept: more responsibility given to MS **and** Commission will rely more on the work of the MS

Conclusions (2/3)

- An enforced role is given in the Regulation to the MS as regards to provide assurance to the Commission:
 - Ex-ante Compliance assessment of systems by MS
 - Assurance on declared expenditure not only to be given at winding up stage but on an annual basis in the form of an annual audit opinion
- Commission will rely more on audit work of Member States
 - Single audit concept

Conclusions 3/3

- **Changes in the regularity framework 2007-2013**
 - The responsibilities for the MA and the CA essentially remain the same
 - More detailed requirements defined as regards to the Audit Authority
 - Audit strategy at set up + annual updates
 - Models for opinions, error rates etc
 - Statistical & Non Statistical sampling prescribed in the Regulation
 - Demonstrate link between systems audits and audits on operations

Guidance

ESF claims may be adjusted based on findings of National Authorities without loss of ESF to Ireland

Guidance –

See www.esf.ie and www.etenders.ie

if not clear - contact the ESF MA, CA or AA

The following are common errors found in ESF claims:

- Evidence of publicity
- Record retention and format
- Match-funding statements
- Claims and Returns
- Applications
- Debtors reports
- Audit trail
- Eligibility – eg recoverable VAT, bank interest, capital
- Over financing
- Treatment of errors / Irregularities
- Accruals
- Trainee attendance
- Trainer costs
- Voluntary organisations
- Procurement rules not followed

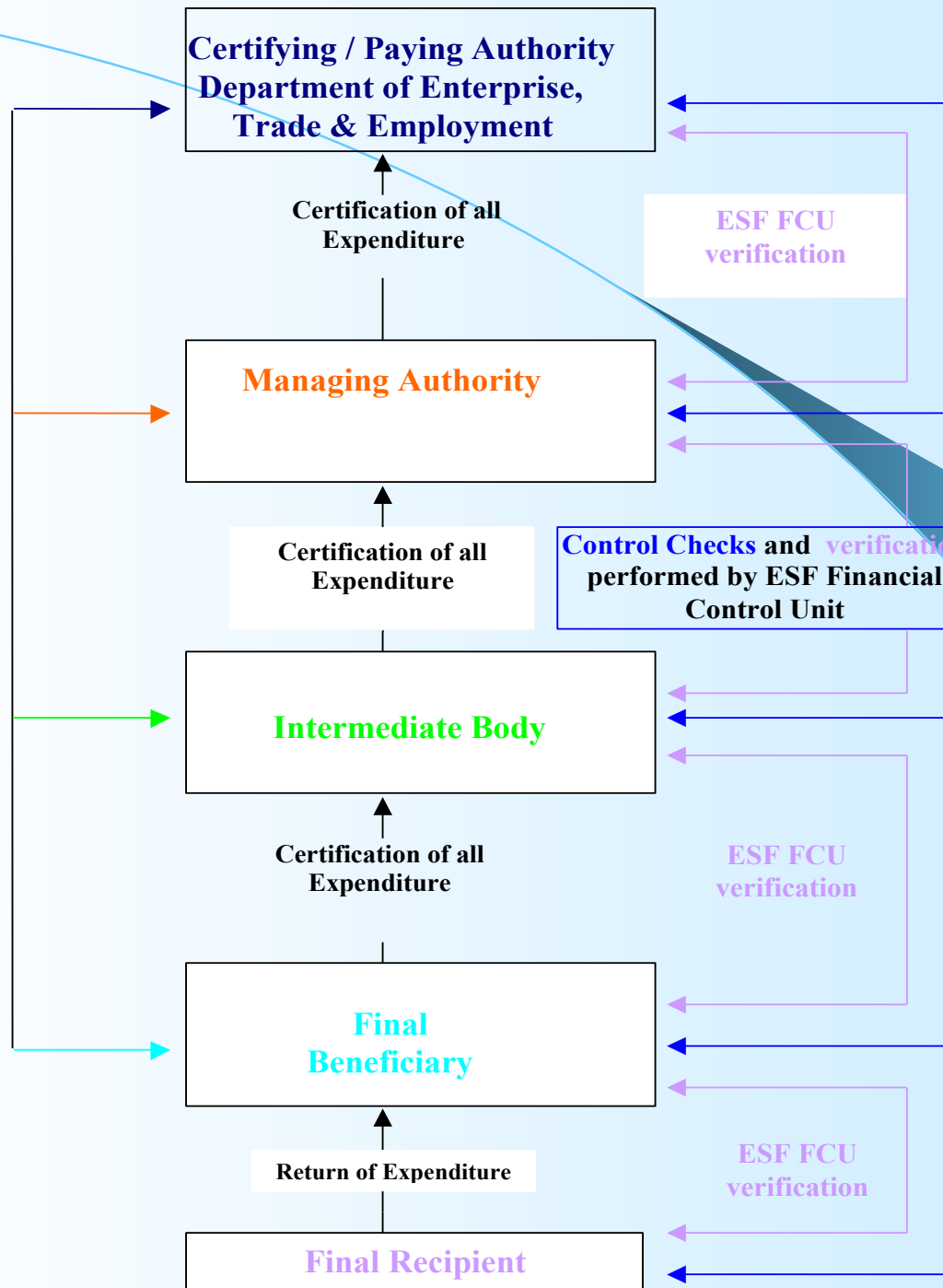
ESF Cascade Structure 2007 - 2013

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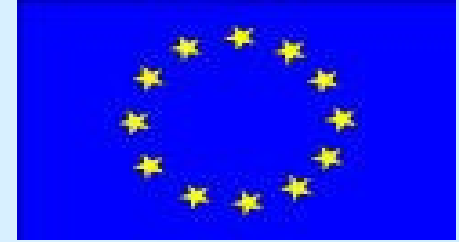


Contact:



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Thank you for your attention!

Questions & Answers