

DIRECTORATE-GENERAL FOR INTERNAL POLICIES

POLICY DEPARTMENT **D**
BUDGETARY AFFAIRS

Budgets

Budgetary Control



**What are the implications
of the current legislation
for cost effectiveness and
quality control in
structural fund spending?
What role for
performance auditing?**

STUDY



DIRECTORATE GENERAL FOR INTERNAL POLICIES
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Abstract:

The EU policy on economic and social cohesion represents one third of the total EU budget in the FP 2007-2013. The concomitant result of the enlargement on 1 May 2004 is that regional disparities have doubled.

The purpose of the study is to evaluate cost-effectiveness of actions in different Member States, by analysing their value-for-money aspect, sustainability and long-term benefits and taking into account their control mechanisms and audit effectiveness. The study concludes, amongst others, that it is more efficient if audit focuses on compliance rather than on performance, and that the current programming period has witnessed a substantial increase in the audit effort. Furthermore, the benefits of audit in terms of identifying and preventing irregularities have been recognized with the need of stronger cooperation and coordination between different audit levels in future. A case study has also confirmed the need for the regulatory framework to be more stable in order to avoid irregularities.

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Glossary

AA	Audit Authority
CICC	CICC - Commission Interministérielle de Coordination des Contrôles
DG Empl	Directorate General Employment, Social Affairs and Equal Opportunities
DG Regio	Directorate General Regional Policy
EC	European Commission
ECA	European Court of Auditors
EP	European Parliament
ERDF	European Regional Development Fund
ESF	European Social Fund
EU	European Union
MCS	Management and Control Systems
MS	Member State
OLAF	European Anti-Fraud Office
OP	Operational Programme
SAI	Supreme Audit Institution
SCF	Structural and Cohesion Funds
SF	Structural Funds
TA	Technical Assistance
00-06	Programming Period 2000-2006
07-13	Programming Period 2007-2013

Executive summary

This assessment has been prepared during December 2010 to August 2011 for the European Parliament's Committee on Budgetary Control (EP).

Objectives and approach

The study focuses on the audit arrangements for the Structural Funds and the Cohesion Fund (SCF) with a specific focus on the following issues:

- Responsibilities for audit and coordination between different audit levels;
- Audit approach - balance between compliance (respect of regulatory / formal requirements) and performance auditing (achieving objectives);
- Audit outcomes in relation to SCF efficiency, effectiveness, impact and sustainability;
- Audit costs: what are the costs and can the costs of audit be considered justified by the benefits of audit?

The ultimate objective pursued by this study is to identify opportunities for improving SCF audit, mainly by reducing the associated burden in terms of the auditor's and the auditee's effort, e.g. by avoiding a duplication of audit efforts whilst maintaining the quality of audit as an external and independent validation of compliance and performance.

The assessment aims to contribute to the ongoing discussions on the future Structural Funds programming period 2014-20, considering in particular that both the Member States and the European Commission (EC) have voiced support for reducing the administrative burden associated with the SCF, including in the area of SCF audit.

Member State contributions to the latest Cohesion report show strong support for 'incremental' change. Whilst the current framework is not considered ideal, the Member States have devoted significant efforts for establishing the current systems, and fear that a substantial review of the framework would cause comparatively more burden than continuing to operate the current system.

The EP has also voiced support for a rationalisation of the control requirements: for example, via the '*contracts of confidence*' approach '*so as to be able to scale down*

checks on systems that have proved their worth in combating errors and fraud.¹ Along similar lines the EP's recent report on the Cohesion Report supports the concepts of proportionality, 'single audit approach', and generally advocates for more harmonisation and simplification of the regulatory requirements.²

The methodology adopted for delivering this assessment combines desk research, stakeholder consultations, case studies and survey work. Case studies were conducted to provide in-depth insights (in Spain, the United Kingdom, Greece, Denmark, France, Germany, the Czech Republic and the Netherlands). Moreover, a survey was addressed to the Member States' designated SCF Audit Authorities (AAs).

The following paragraphs note key findings and related conclusions and recommendations.

Findings

The regulatory framework for SCF audit is set out in the SCF General Regulation. This includes elements of proportionality in relation to SCF audit. The main actors include the EC and the Member States' designated Audit Authorities, however, the European Court of Auditors (ECA) and the Member States' Supreme Audit Institutions (and regional level audit institutions) also conduct audits on the SCF. Most Member States have organised the SCF audit function at the central level with one AA covering all Operational Programmes, however, some Member States have adopted a more decentralised approach involving regional-level AAs (e.g. in Germany, Italy and Spain).

The overall focus of SCF audit remains on compliance audit rather than performance audit. The SCF regulatory framework sets the basis for this focus on compliance. Whilst more performance audit on the SCF is generally supported, a series of important limitations remain, e.g. limited resources, limited expertise, lack of standards, doubts over using performance audit as a basis for financial corrections. The assessment of performance is thus mainly considered a task for evaluators.

The current SCF audit' focus on compliance explains the rather limited case study feedback in terms of audit findings on the efficiency, effectiveness, impact and sustainability of the SCF. Stakeholder consultations point to the SCF regulatory

¹ European Parliament, Opinion of the Committee on Regional Development for the Committee on Budgetary Control on discharge in respect of the implementation of the European Union general budget for the financial year 2009, Section III – Commission and executive agencies (SEC(2010)0963 - C7-0211/2010 - (2010/2142(DEC)), 22 March 2011, pages 3-4

² European Parliament, Report on the Commission's fifth Cohesion Report and the strategy for post-2013 cohesion policy (2011/2035(INI)), 6 June 2011

framework as the main reason for this. However, some AAs have included effectiveness and sustainability issues in their SCF audits with promising results.

The current programming period has witnessed a substantial increase in the audit effort, e.g. case study feedback shows that audits cover between 30% and 60% of expenditure in 2010 (as compared with the required 5% coverage in 2000-2006). This is explained by the required sampling method (*'statistical method'*).

With the increasing audit effort, audit costs have also increased. An EC study estimated audit cost for 2007-2013 at €1.05 billion, or €2700 for every €1 million of funding (only ERDF and CF). More recent data shows a range of costs, e.g. €1300 per €1 million of funding in Germany (ERDF), €12221 to 30512 per €1 million of funding in the Netherlands (covering all control costs), or €17707 per €1 million of funding in the UK (ERDF).

The main approach to address increasing audit costs, is enhanced cooperation and coordination between auditors at different levels. Whilst overall feedback on the cooperation / coordination between the auditors (EC, Member States, ECA) is positive, there is room for further enhancing cooperation and coordination with a view to allowing EU auditors (EC and ECA) to rely more on Member State audit findings.

Conclusions and recommendations

SCF audit focuses on compliance rather than on performance, and the current programming period has witnessed a substantial increase in the audit effort (implying increased audit costs). This is mainly explained with the current regulatory framework's sampling approach (statistical method) entailing larger audit samples than in the past. The benefits of audit in terms of identifying and preventing irregularities are recognised, however, case study work points to the complex regulatory framework as one of the key causes - as one of the interviewees put it: *'the system produces irregularities'*. Case study work also confirms the need for the regulatory framework to be more stable in order to avoid irregularities (i.e. incremental change instead of major reviews for every programming period). Moreover, case study work shows that irregularities are often caused by the fact that the regulatory requirements allow room for different interpretations.

Whilst the regulatory framework provides for elements of proportionality, the requirement of independence of different institutions involved in SCF audit constrains coordination and cooperation.

AA and case study feedback on coordination and cooperation is generally positive (cooperation between the Member States, the EC and the ECA), however, feedback

also suggests that there might be room for further improvement. Indeed, a large majority of survey respondents notes support for enhancing coordination / cooperation between different audit levels. Moreover, the AAs voice strong support for enhancing proportionality, i.e. aligning audit requirements with programme size. Survey respondents also support a stronger alignment of audit requirements with a programme's performance in terms of compliance. Finally, a majority of survey respondents also support the introduction or strengthening of elements of performance audit.

Section 1 - Introduction

This assessment has been prepared by Blomeyer & Sanz in response to Order Form IP/D/ALL/FWC/2009-056/LOT2/C2/SC1 implementing Framework Service Contract IP/D/ALL/FWC/2009-056 for external expertise in the area of Cohesion policy for the European Parliament's Committee on Budgetary Control.

The introduction briefly presents the assessment's objectives (section 1.1), the methodology (section 1.2) and this report's structure (section 1.3).

1.1 Objectives

The study focuses on the audit arrangements for the Structural Funds and the Cohesion Fund (SCF).

A recent paper on accountability in relation to the SCF differentiates between 'financial accountability' and 'performance accountability':

*'...**financial accountability**, relates to the control and elimination of waste and corruption and involves compliance with legal procedures, as well as the use of external audit mechanisms. In contrast, **performance accountability** emphasises improvement and learning, drawing partly on legal, regulatory and policy frameworks, but also on instruments such as benchmarking, monitoring and evaluation'.³*

Audit is traditionally considered an instrument in the wider framework of financial accountability. However, the emerging concept of 'performance audit' shows a development from strictly financial accountability towards performance accountability (implying tensions with other existing instruments of performance accountability, such as evaluation).

³ Sara Davies and Laura Polverari, Financial Accountability and European Union Cohesion Policy, Regional Studies, 10 January 2011, page 2. Bold font by the authors of this report.

The present assessment aims to shed light on the nature of SCF audit. More specifically, the following key issues are considered:

- 🔊 **Responsibilities for audit and coordination between different audit levels:** What is the involvement of national and regional audit institutions in SCF audit? How is SCF audit coordinated between the different levels (i.e. between the European Court of Auditors (ECA), the European Commission (EC), the SCF programmes' designated Audit Authorities (AA), and other Member State audit institutions). The assessment focuses on the SCF audit function as set out in the Structural Funds General Regulation,⁴ however, the role of the Member State audit institutions (e.g. Supreme Audit Institutions or regional audit institutions) is also addressed as they can also audit interventions supported with the Structural Funds under their wider remit of auditing public funds.
- 🔊 **Audit approach:** With regard to the audit approach, the main interest is in understanding the balance between compliance (respect of regulatory / formal requirements) and performance auditing (achieving objectives). Back in 2007, Danuta Hübner, former EC member responsible for regional policy refers to this as follows: *'Essentially, the question on which you suggest we should reflect is whether the taxpayer is more interested in getting assurance on compliance or on performance? Is it more important to know whether the funds have been used in a way which is legal and regular or in a way which is effective and efficient representing good values for money?'*⁵
- 🔊 **Audit outcomes:** To illustrate the added value of SCF audit, a series of case studies will provide examples of the main audit findings concerning the efficiency, effectiveness, impact and sustainability of SCF support.
- 🔊 **Audit costs:** The assessment finally asks whether the costs of audit can be considered justified by the benefits of audit? The above noted paper refers to *'tensions that can emerge between accountability and other values, such as policy effectiveness and efficiency'*.⁶ Moreover, the paper notes a series of issues: increased management and control effort, drawing resources from other more content related tasks; the reluctance of SCF administrators to select applicants with limited previous SCF experience, and the reluctance of potential beneficiaries to apply because of the management and control effort; duplication

⁴ Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999

⁵ Danuta Hübner, The challenge of auditing EU funds, SPEECH/07/633, Seminar on "The future of public audit in the EU", in the framework of the celebrations of the 30th anniversary of the European Court of Auditors Luxembourg, 18 October 2007, page 2

⁶ Sara Davies and Laura Polverari, Financial Accountability and European Union Cohesion Policy, Regional Studies, 10 January 2011, page 3

in management and control efforts between the national / regional and European level etc.⁷ Finally, it is also noted that *'research is (...) needed on the effects of financial control and audit on the misuse of funds and error rates'* (noting the limited availability of systematical data demonstrating that increased audit requirements have contributed to reduced irregularity rates).⁸

The ultimate objective pursued by this study is to identify opportunities for improving SCF audit, mainly by reducing the associated burden in terms of the auditor's and the auditee's effort, e.g. by avoiding a duplication of audit efforts whilst maintaining the quality of audit as an external and independent validation of compliance and performance.

The assessment aims to contribute to the ongoing discussions on the future SCF programming period 2014-20.

In this context the EC and Member States have noted the need for reducing the administrative burden associated with the SCF, including in the area of SCF audit. The EC's latest cohesion report thus asks: *'How can the audit process be simplified and how can audits by Member States and the Commission be better integrated, whilst maintaining a high level of assurance on expenditure co-financed?'*⁹

Member State contributions to the latest Cohesion report show strong support for 'incremental' change. Whilst the current framework is not considered ideal, the Member States have devoted significant efforts for establishing the 07-13 systems, and fear that a substantial review of the framework would cause comparatively more burden than operating the current system. However, several options for incremental change are proposed, with a strong emphasis on more proportionality and a genuine alignment of audit activity with the 'single audit' concept. The following two figures show Member State positions in relation to this question:

⁷ Sara Davies and Laura Polverari, Financial Accountability and European Union Cohesion Policy, Regional Studies, 10 January 2011, page 8

⁸ Sara Davies and Laura Polverari, Financial Accountability and European Union Cohesion Policy, Regional Studies, 10 January 2011, page 9

⁹ EC, Fifth report on economic, social and territorial cohesion, November 2010, page XXXII

Figure 1 - Member State support for audit reform (number of Member States supporting a specific reform option)¹⁰

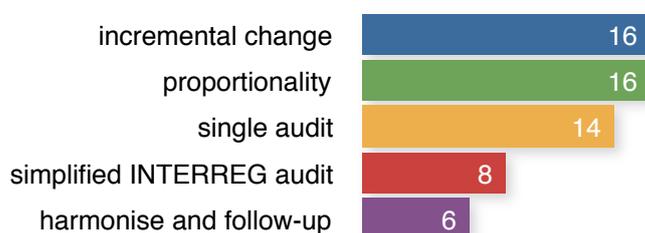


Figure 2 - Member State contributions to the EC’s Cohesion report¹¹

Member State	Maintain current audit rules ('evolution instead of revolution') / avoid changes during a programming period / resolve interpretation issues more quickly	Establish uniform / simplified audit requirements for Territorial Cooperation programmes across the EU	Enhanced coordination between audit levels - single audit approach (Poland: limit EC audits to performance audit, Slovakia: limit EC audits to ex-ante audits)	Proportionality / Audit intensity to depend on performance of management and control bodies (consider track record / 'contract of confidence') and size of programme	EC to harmonise approach to controls and audits (and strengthen mechanisms for audit follow-up) (Slovakia: harmonise EC and Member State audit methodology)
Austria	✓	✓			
Belgium	✓		✓	✓	✓
Cyprus		✓		✓	
Czech Republic	✓	✓			✓
Denmark	✓		✓	✓	
Estonia	✓	✓	✓	✓	
Finland		✓	✓	✓	✓
France	✓	✓		✓	
Germany	✓			✓	
Greece			✓	✓	
Hungary	✓	✓	✓	✓	✓
Ireland	✓			✓	✓

¹⁰ Selection of Member State national government contributions. See http://ec.europa.eu/regional_policy/consultation/5cr/answers_en.cfm.

¹¹ Selection of Member State national government contributions. See http://ec.europa.eu/regional_policy/consultation/5cr/answers_en.cfm. Two additional proposals not mentioned in the table include the use of Cohesion policy funds to build the capacity of auditors (Denmark), and the differentiation of tolerable risk of error for Cohesion policy (Greece, Hungary, UK)

Member State	Maintain current audit rules ('evolution instead of revolution') / avoid changes during a programming period / resolve interpretation issues more quickly	Establish uniform / simplified audit requirements for Territorial Cooperation programmes across the EU	Enhanced coordination between audit levels - single audit approach (Poland: limit EC audits to performance audit, Slovakia: limit EC audits to ex-ante audits)	Proportionality / Audit intensity to depend on performance of management and control bodies (consider track record / 'contract of confidence') and size of programme	EC to harmonise approach to controls and audits (and strengthen mechanisms for audit follow-up) (Slovakia: harmonise EC and Member State audit methodology)
Italy			✓		
Latvia			✓	✓	
Lithuania				✓	
Luxembourg	✓				
Malta			✓	✓	
Netherlands	✓		✓	✓	
Poland	✓	✓	✓		
Portugal	✓		✓	✓	
Slovakia	✓				✓
Spain	✓				
Sweden	✓		✓		
UK			✓	✓	

The European Parliament has also voiced support for a rationalisation of the control requirements: for example, via the 'contracts of confidence' approach *'so as to be able to scale down checks on systems that have proved their worth in combating errors and fraud'*.¹² Along similar lines the Parliament's recent report on the Cohesion Report supports the concepts of proportionality, 'single audit approach', and generally advocates for more harmonisation and simplification of the regulatory requirements.¹³

¹² European Parliament, Opinion of the Committee on Regional Development for the Committee on Budgetary Control on discharge in respect of the implementation of the European Union general budget for the financial year 2009, Section III – Commission and executive agencies (SEC(2010)0963 - C7-0211/2010 - (2010/2142(DEC))), 22 March 2011, pages 3-4. The contracts of confidence are agreements between the EC and a MS or regional SF authority on the quality of the concerned authority's audit work and enabling the EC to rely on national / regional audit work. For the 00-06 programming period, contracts of confidence were established in Wales, Austria, Denmark, Estonia, Slovenia and Portugal. See European Commission communication on contracts of confidence (SEC(2004)632/2), 18 May 2004.

¹³ European Parliament, Report on the Commission's fifth Cohesion Report and the strategy for post-2013 cohesion policy (2011/2035(INI)), 6 June 2011

1.2 Methodology

The methodology adopted for delivering this assessment combines desk research, stakeholder consultations, case studies and survey work:

- Desk research aimed to identify the key issues surrounding SCF audit, and to establish the basis for subsequent stakeholder consultations, and case study and survey work. A list of the main documentation consulted is presented in Annex 2.
- Consultations included the ECA, the EC and Member State stakeholders. In this context the authors of this study wish to express their gratitude to the stakeholders for sharing documentation, and making their time available for interviews. Stakeholder consultations are noted in Annex 1.
- A series of case studies was then conducted to provide more in-depth insights (Operational Programmes (OP) in Spain, the UK, Greece, Denmark, France, Germany, the Czech Republic and the Netherlands). Case studies have focused on SCF audit at different levels, including both, SCF audit conducted by the designated SCF AAs, and SCF audit conducted by some of the Member States' Supreme Audit Institutions (SAIs).
- Finally, this information was used to allow for stakeholder feedback in the framework of a comprehensive survey. The survey was addressed to the Member States' designated SCF AAs. In total 46 AAs from 20 Member States answered the survey (about 43% of the target group).¹⁴

1.3 Report structure

Besides the present introduction (Section 1), the report comprises five main sections:

- Section 2 sets the context by presenting the regulatory framework for SCF audit and noting SCF audit responsibilities.
- Section 3 assesses the audit approach (balance between compliance and performance auditing).
- Section 4 reflects on the audit outcomes.
- Section 5 discusses the audit effort including reflections on audit cost.
- Section 6 presents the assessment's overall conclusions and recommendations.

¹⁴ Austria, Belgium, Bulgaria, Czech Republic, Denmark, Estonia, Finland, Germany, Greece, Hungary, Ireland, Italy, Lithuania, Malta, Netherlands, Portugal, Romania, Slovenia, Spain and the United Kingdom.

Section 2 - The context

This section briefly explores a series of introductory issues.

This includes a summary of the regulatory framework for SCF audit (section 2.1), and a presentation of the institutions involved in SCF audit (section 2.2).

The following paragraph summarises the main findings in relation to the context for SCF audit:

The regulatory framework for SCF audit is set out in the SCF General Regulation. This includes elements of proportionality in relation to SCF audit. The main actors include the European Commission and the Member States' designated Audit Authorities, however, the European Court of Auditors and the Member States' Supreme Audit Institutions (and regional level) also conduct audits on the SCF. Most Member States have organised the SCF audit function at the central level with one Audit Authority covering all Operational Programmes, however, some Member States have adopted a more decentralised approach involving regional-level Audit Authorities (e.g. in Germany, Italy and Spain).

2.1 The regulatory framework for SCF audit

This section introduces the regulatory framework specifically foreseen for SCF audit as elaborated in the SCF General Regulation.

The SCF General Regulation sets the regulatory framework for SCF audit in Title IV (Articles 58 to 74).¹⁵ The following figure presents an overview of the main provisions on SCF audit.

¹⁵ Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999

Figure 3 - SCF General Regulation audit specifications

Article	Content
58 <i>'General principles of the management and control systems'</i>	Notes that the OP management and control systems should make <i>'arrangements for auditing the functioning of the systems'</i>
59 <i>'Designation of authorities'</i>	Provides that the Member States shall designate for each OP <i>'an audit authority...responsible for verifying the effective functioning of the management and control system'</i>
62 <i>'Functions of the audit authority'</i>	<p>Details the different AA functions, namely:</p> <ul style="list-style-type: none"> (a) verifying the effective functioning of the OPs' management and control systems (b) auditing operations on the basis of an appropriate sample to verify expenditure declared (c) preparing an audit strategy (2008) (d) preparing an annual control report and related opinion (2008-2015) (e) preparing the closure declaration (2017) <p>Stipulates that the AA work <i>'takes account of internationally accepted audit standards'</i></p>
72 <i>'Responsibilities of the Commission'</i>	<p>Allows the EC to audit the effective functioning of the systems</p> <p>Provides for the EC's right to carry out <i>'on-the-spot audits to verify the effectiveness functioning of the management and control systems, which may include audits on operations'</i></p> <p>Gives the EC the right <i>'to require a Member State to carry out an on-the-spot audit to verify the effective functioning of systems or the correctness of one or more transactions'</i></p>
73 <i>'Cooperation with the audit authorities of the Member States'</i>	<p>Foresees cooperation between the EC and the Member States <i>'to coordinate their respective audit plans and audit methods....exchange the results of audits...in order to make the best possible use of resources and to avoid unjustified duplication of work'</i></p> <p>Organises annual meetings between the EC and the AAs</p> <p>Provides for the EC's audit focus on OPs where there are doubts on the effective functioning of the management and control systems (e.g. reservations, audit strategy not satisfactory etc.): <i>'For those programmes, the Commission may conclude that it can rely principally on the opinion (of the Audit Authority)...and that it will carry out its own on-the-spot audits only if there is evidence to suggest shortcomings...'</i></p>

2.2 Institutions involved in SCF audit

This section presents the institutions involved in SCF audit, both at the EU level (section 2.2.1), and at the Member State level (section 2.2.2).

2.2.1 EU level

At the EU level, two actors have a role in the audit of the SCF, namely the ECA and the EC.



European Court of Auditors

In line with Treaty articles 246 to 248, the ECA reviews SCF expenditure in the framework of its annual '*Statement of Assurance*' (more commonly referred to under the French acronym DAS for '*Déclaration d'Assurance*'). Audit results are published in the annual reports on the implementation of the budget, with a specific chapter focusing on the SCF (chapter 'Cohesion').¹⁶ The focus of this audit work is on compliance and financial audit.

To provide an example of the scope of the ECA's audit work, in its latest annual report on the implementation of the budget, ECA audited a sample of 180 interim and final payments for SCF projects as well as the systems for 21 programmes (16 OPs for the 2007-13 programming period / four OPs and one Community Initiative for the 2000-06 programming period).¹⁷

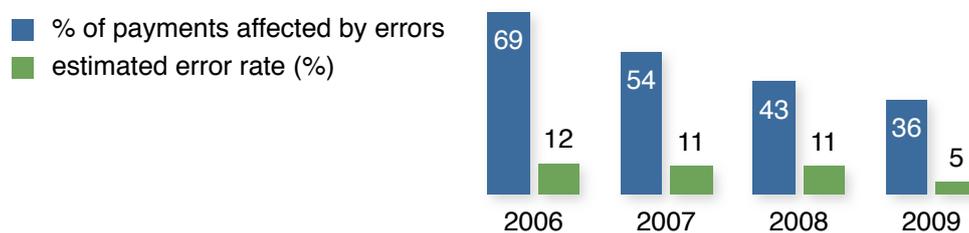
The following figure summarises the main findings of the ECA's last four annual reports.

¹⁶ See for example the ECA's latest report: Annual Report on the implementation of the budget in 2009, published in November 2010, Official Journal, C303, 9 November 2010

¹⁷ ECA, Annual Report on the implementation of the budget in 2009, Official Journal, C303, 9 November 2010, page 100

Figure 4 - ECA annual reports 2006 to 2009 - key SCF findings¹⁸

	2006	2007	2008	2009
% of tested payments affected by errors	69%	54%	43%	36%
estimated error rate	12%	11%	11%	over 5%
types of error			public procurement, eligibility rules	



Whilst a significant number of tested payments is still affected by errors (36% in 2009), over the four years shown above, the percentage of payments affected by errors and the error rate have experienced an important reduction.

Finally, ECA also audits the SCF in the framework of its Special Reports. This focuses on performance audit. In the years 2004 to 2010, ECA has published ten Special Reports related to the SCF (see section 3.1.1).

European Commission

As noted in section 2.1, the EC is mainly responsible for (a) auditing the effective functioning of the systems, (b) carry out *‘on-the-spot audits to verify the effectiveness functioning of the management and control systems, which may include audits on operations’*, and (c) has the right *‘to require a Member State to*

¹⁸ ECA annual reports on the implementation of the budget in 2006, 2007, 2008 and 2009

carry out an on-the-spot audit to verify the effective functioning of systems or the correctness of one or more transactions'.¹⁹

The EC describes its role as '*supervisory*' and organises its function on the basis of an '*audit strategy*' (supported with risk assessments) and a '*rolling audit plan*' (updated annually).²⁰

It is worthwhile noting that the EC's audit strategy includes an element of proportionality, i.e. its audit work focuses on the OPs for which the related audit opinion has identified a deficiency; for the OPs supported by a 'positive' audit opinion, the EC '*may conclude that it can rely principally on the opinion*'.²¹ To some extent this implies that the previous programming period's 'Contracts of Confidence' have been integrated into the SCF regulatory framework.

The EC's actual audit work can be summarised as follows.²²

Figure 5 - EC SCF audit tasks

- At the start of the programming period the EC approves the OPs' compliance assessments (in total, there are 317 compliance assessments) and audit strategies.
- During programme implementation the EC supervises the correct functioning of the OP audit systems by reviewing relevant documentation (Member State system audits, annual control reports) and maintaining an exchange with the Member State auditors (e.g. annual control coordination meetings). Moreover the EC performs on-the-spot enquiries to review the functioning of the Audit Authorities. Finally, where the EC has identified a specific risk, it carries out its own audits.
- At the end of the programming period, the EC reviews all relevant documentation on the OPs' closure and may perform ex-post closure audits.

¹⁹ Article 72, Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999

²⁰ EC, DG Regional Policy 2010 Annual Activity Report, 2011, page 25

²¹ Article 72 (2 and 3), Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999

²² EC, DG Regional Policy 2010 Annual Activity Report, 2011, page 26

To illustrate the EC's audit effort, the following information shows the audit effort for DG Regio (ERDF and CF in the 07-13 programming period).²³

Figure 6 - DG Regio's SCF audit effort

- By the end of 2010, 26 DG Regio staff worked on finance and control, and 56 on internal and external audit (only shared management programmes such as the SCF). This represents 29% of total DG Regio staff working on shared management expenditure, and about 25% of total DG Regio staff.¹⁹
- By the end of 2010, DG Regio had reviewed a total of 316 compliance assessments (out of 317) and 311 audit strategies (out of 311).
- In 2010, DG Regio analysed 565 audit reports, 298 annual control reports and related audit opinions.
- Moreover, in 2010, DG Regio conducted 84 audit missions to review the work of a selection of AAs and assess their reliability (as part of the EC's effort to identify 'reliable' OPs in line with Article 723 (2 and 3)).
- For OPs with identified risks, 12 missions were carried out covering 33 OPs. In addition, 4 missions were carried out on Territorial Cooperation OPs.
- As one of the main outcomes of its audit work, DG Regio interrupted payment deadlines in cases where audit work identified deficiencies (Articles 91). In 2010, 49 payment claims were interrupted (concerning 31 OPs in 7 Member States) and with a value of €2.15 billion.
- Finally, DG Regio decided or agreed with the Member States on financial corrections worth €0.92 million affecting four Member States (for the SCF in 07-13).

2.2.2 Member State level

This section includes an overview of the organisation of SCF audit in the Member States. This is supported with information from the case studies in the Member States.

As noted in the introduction, the assessment focuses on the SCF audit function as set out in the General Regulation. It is, however, important to note that SCF interventions

²³ EC, DG Regional Policy 2010 Annual Activity Report, 2011, pages 27 to 34

can also be audited in the context of the Member States' general arrangements for the audit of public funds, i.e. by the SAIs, and in some Member States also by regional level audit institutions (e.g. in Germany or Spain). Indeed, case study work has shown a significant level of SAI audit activity focussing on the SCF.

Overview

The AA can be considered one of the main 'innovations' in the current programming period. In the 2000-06 programming period, the audit function was less developed with the main focus on the winding up declaration. In 07-13, the AA is one of the three main OP implementation structures: '*a national, regional or local public authority or body, functionally independent of the managing authority and the certifying authority, designated by the Member State for each operational programme and responsible for verifying the effective functioning of the management and control system*'.²⁴ The AA ensures the establishment and delivery of an audit strategy and prepares the annual control report, together with an opinion on the functioning of the management and control systems. The AA is also a key player with regard to the ex-ante compliance assessment process, since the report and opinion on the SCF management and control systems falls under its remit (Article 71).²⁵

In 2010, the authors of this study conducted a study on SCF management and control systems. The following information on the AA function was prepared in this context, and updated for this study.²⁶

A review of the 434 OPs helped identify a total of 106 AA, comprising 38 national institutions and 68 regional institutions. The Member States have adopted different models for the organisation of the AA function:

For the Convergence and Competitiveness OPs, the large majority of Member States have organised the AA exclusively at central level (one authority covering all SF): e.g. Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Latvia, Lithuania, Luxembourg, Malta, The Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, and Sweden. In these Member States, it is either the Ministry of Finance that hosts the AA, e.g. Bulgaria, Czech Republic, Estonia, Finland, Greece etc. or an institution that is

²⁴ Articles 59 and 62, Council Regulation (EC) No 1083/2006 of 11 July 2006

²⁵ Blomeyer & Sanz for the European Parliament, Member State difficulties with Structural Funds management and control systems in the programming period 2007-13, May 2010, pages 21-22

²⁶ Blomeyer & Sanz for the European Parliament, Member State difficulties with Structural Funds management and control systems in the programming period 2007-13, May 2010, pages 21-22

not dependent of a specific ministry, e.g. Cyprus, France, Hungary etc. In Denmark the function is assigned to a line ministry (the Danish Enterprise and Construction Authority under the Ministry of Economic and Business Affairs).

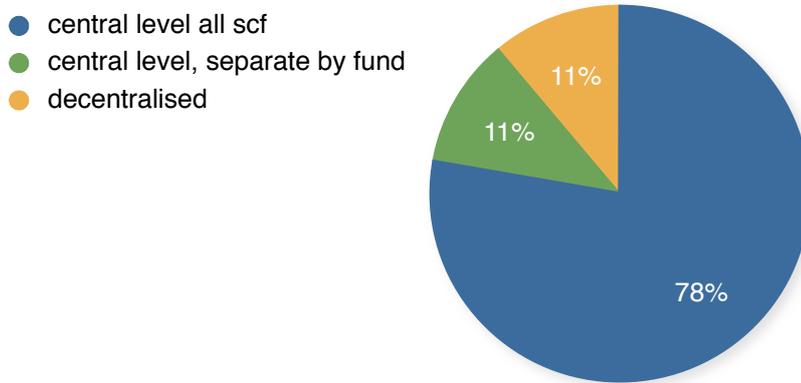
Austria and Ireland have also established central-level AA, however, there are separate AA for the Convergence and Competitiveness OPs.

In Germany and Italy, the AA function is organised at the regional level for the regional OPs and at national level for the national or pluri-regional OPs. In the case of the German and Italian regional OPs, the audit function is generally covered by one authority for both the Convergence and Competitiveness objectives (only the German regions of Bayern, Brandenburg, Bremen and Hessen have established separate AA for the two funds). Out of Germany's 20 regional AA, 16 are organised within the regional ministry of finance or economy, whilst in Italy the AA is generally organised within the regional presidency.

In Spain, the AA function is distributed between the central and regional level depending on whether the concerned funds are related to central or regional level policy competences. Moreover, where both levels are involved in a specific policy area, the central level assumes the AA function. In total, the audit of the 52 Spanish OPs or OPs with Spanish participation is ensured by 22 different AAs (see also section 5.3.3).

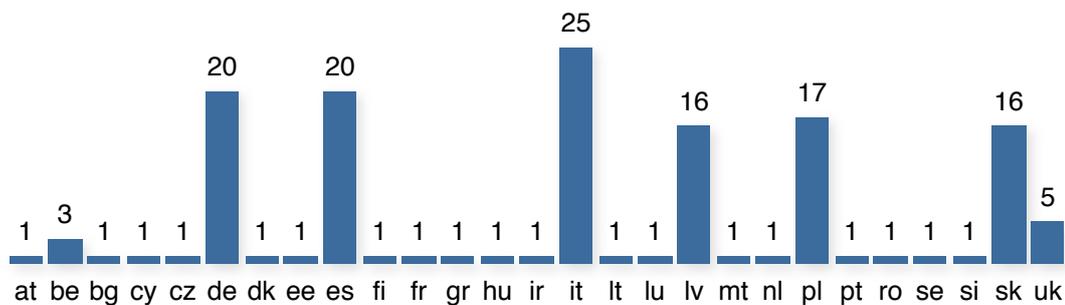
The Territorial Cooperation OPs are generally covered by the central-level AA for the ERDF programmes or the AAs responsible for both, the ERDF and the ESF (e.g. Austria, the Czech Republic, Denmark, France, Greece, Hungary, Ireland, Luxembourg, Poland, Portugal, Romania, Slovakia, Slovenia, Sweden). However, there are exceptions: in Germany, Italy, Belgium, Finland, Ireland and Spain there are regional AAs for the Territorial Cooperation OPs (however, not for all OPs); In Estonia, Lithuania and the Netherlands, there are central-level AAs that are not involved in the other Objectives.

Figure 7 - Organisation of audit authorities for the Convergence and Competitiveness programmes (% of Member States)



A recent study has counted the number of bodies involved in SCF audit in the Member States.²⁷

Figure 8 - Number of Member State bodies involved in programme audit (number of bodies)



Examples

To illustrate this section, the following boxes present audit arrangements for two OPs, namely one OP from a Member State with a more centralised approach to

²⁷ SWECO, on behalf of the European Commission, DG Regional Policy, Regional governance in the context of globalisation - reviewing governance mechanisms & administrative costs, 16 June 2010, page 21

SCF audit (the French ERDF OP for Rhône-Alpes), and one OP from a Member State with a more decentralised audit approach (the German ERDF OP for Nordrhein-Westfalen).

Rhône-Alpes ERDF OP

The designated AA for the SCF is the national-level “Inter-ministerial Commission for the Coordination of Controls” (CICC - Commission Interministérielle de Coordination des Contrôles), based in Paris. Its competences are those listed in the Regulation 1083/2006.

The CICC comprises six members. Four of the members are General Inspectors (Inspecteurs Généraux) from the Ministries of Finance, the Interior, Social Affairs and Agriculture. The other two members are an ex-Préfet (Head/President) from one of the regions, and an ex-General Treasurer (Head of Finance) from one of the regions. Both must be retired to avoid conflicts of interest, and are not involved in any decisions related to their previous regions.

The CICC is responsible for two types of audit, ‘System Audits’ and the ‘Audit of Operations’:

- **System Audits:** The CICC carried out a system audit in the Rhône-Alpes region in January 2011. This involved mobilising personnel from the four different Ministries that make up the CICC who spent around 10 days in the region, to check that the procedures and management systems in place conform to the Regulations.
- **Audit of Operations:** This is carried out by auditors who are based in the region. On average, there are two auditors in each region. However, due to cut-backs, there is just one auditor in the Rhône-Alpes region to carry out the Audit of Operations. The auditor is based within, but is separate from, the regional Prefecture, and works on behalf of the CICC.

The CICC in Paris defines the sample of projects to be audited per year (based on a sample selected by computer modelling, and based on the declaration of spending made to the EC), the methodology (providing model proformas to complete), and the timetable. These details are then communicated to the regional auditor who carries out the audits, visiting each sampled project within the region in the given timeframe.

The Audit of Operations has two phases: the first involves checking the audit trail within the ‘Service Instructeur’, the service that has instructed and certified the expenditure related to the project; and secondly, within the beneficiary, checking that the project conforms to the grant letter, that expenditure is justified for accounting purposes, and that all obligations, for example relating to publicity, have been respected. A draft report is sent to the ‘service instructeur’, with any questions that need addressing.

Following their response, the final report of the Audit of Operations is sent to the CICC in Paris for validation. The CICC in Paris then summarises all the reports from the different regions in France into an overall Final Report for the EC.

Nordrhein-Westfalen ERDF OP

The region of Nordrhein-Westfalen's State Ministry of Finance, Unit I D 4 (European Financial Control) has been entrusted to operate as the AA. In contrast to the 2000-2006 period, no sub-ordinated institutions are involved and all audits are to be carried out by own staff of Unit I D 4. The NRW State Ministry of Finance is an authority but essentially not a regional institution in a sense of a court of auditors.³

Further to that there is a 100% coverage of first-level control (in accordance to Article 13 Regulation 1828/2006) that is carried out by the Managing Authority and sub-ordinated intermediate agencies, such as the NRW.Bank.

Besides being entrusted with the task of the Certifying Authority (in accordance to Article 61, Regulation 1083/2006) the NRW.Bank is additionally assigned the task of quality control (described in the "Article 71 report" pp. 31 ff). This "Quality Management Authority" is entrusted with tasks of the Managing Authority in the sample-based on-the-spot verifications (Article 60b, Regulation 1083/2006). It carries out system checks combined with in-depth on-the-spot checks and additional on-site random audits in intermediate agencies and of beneficiaries. The results of these activities are reports on quality management and corresponding recommendations for the Managing Authority. The Managing Authority may use the findings of those reports to decide on payments or to stop payments. These reports are also submitted to the Certifying Authority (represented itself by the NRW.Bank) and the Audit Authority. The institutions or beneficiaries addressed by those checks also receive a report with the specific recommendations. Minimum 15% of the operations are subject to the additional audits carried out by the Quality Control Authority.

Hence, at a first glimpse there appears substantial duplication in the system audits and on-the-spot checks carried out by the NRW.Bank and the AA, and – from the viewpoint of the respective subject audited - the only clearly visible difference between these two authorities is that the quality control authority is working on behalf and directly linked to the Managing Authority while the AA is formally independent. The criterion of independence of the AA is often understood as connected with the EC rather than with the regional authorities.⁵

The regional court of audit (Landesrechnungshof, LRH) interprets the role of the "Quality Management Authority" as second- level-control, while the AA and the Managing Authority define these tasks as regular first-level-control activities.

Furthermore, this authority for quality management is itself subject to the system audits carried out by the AA, leading to further effort in system audits. The role of this outsourced control institution has been criticised by the LRH as inefficient and costly⁷.

The AA of the NRW OP has a different opinion regarding the "Quality Control Authority". They interpret the tasks entrusted to the NRW.Bank as the regular first level control activities in accordance to Article 13, Regulation 1828/2006, that are under the responsibility of the Managing Authority and only outsourced to the NRW.Bank. The apparently erroneous understanding on the part of the LRH, namely that the Quality Management Authority is executing second-level-control audits, is related to the provisions of Article 60 b (Regulation 1083/2006) that seems to be overlooked by the LRH. This article describes the random checks of the Managing Authority within the first level control. Consequently, it is therefore not an additional activity. The only issue, where in this case the Audit Authority and the LRH agree, is the question of cost efficiency in creating such an additional body.

Section 3 - The audit approach

This section provides an assessment of the wider approach to SCF audit. This explores in particular the balance between compliance and performance auditing. This balance is explored at the EU level, i.e. ECA and EC (section 3.1) and at the Member State level (section 3.2).

The following paragraph summarises the main findings in relation to the audit approach:

The overall focus of SCF audit remains on compliance audit rather than performance audit. The SCF regulatory framework sets the basis for this focus on compliance. Whilst more performance audit on the SCF is generally supported, a series of important limitations remain, e.g. limited resources, limited expertise, lack of standards, doubts over using performance audit as a basis for financial corrections. The assessment of performance is thus mainly considered a task for evaluators.

3.1 EU level

This section discusses the approach to SCF audit at the EU level, i.e. the approach adopted by the ECA (section 3.1.1) and the EC (section 3.1.2).

3.1.1 The European Court of Auditors

In its Annual Activity Reports, ECA differentiates between three different types of audit, no matter the policy area concerned:²⁸

²⁸ ECA, Annual Activity Report 2007, 2008, page 11

- 🔊 **Financial audit:** *Do the accounts present fairly, in all material respects, the financial position, results and cash flow for the year, in accordance with the applicable financial reporting framework?*
- 🔊 **Compliance audit:** *Are activities, financial transactions and information, in all material respects, in compliance with the legal and regulatory frameworks which govern them?*
- 🔊 **Performance audit:** *Is the financial management sound, i.e. are the funds used kept to a minimum (economy), are the results achieved with the least possible resources (efficiency) and have objectives been met (effectiveness)?²⁹*

Whilst the ECA's annual reports on the general EU budget are mainly based on financial and compliance audits, the ECA's Special Reports publish the results of performance audits.³⁰

Figure 9 - ECA Special Reports 2004-2011³¹

Year	Number of special reports	Special reports focussing on the SCF
2004	10	4/2004 on the programming of the Community Initiative concerning trans-European cooperation - Interreg III
2005	6	6/2005 on the trans-european network for transport (TEN-T)
2006	11	10/2006 on ex post evaluations of Objectives 1 and 3 programmes 1994-1999 (Structural Funds) 1/2006 on the contribution of the European Social Fund in combating early school leaving
2007	9	1/2007 The implementation of the mid-term processes - Structural Funds 2000-06
2008	12	1/2008 The procedures for the preliminary examination and evaluation of major investment projects for the 1994–1999 and 2000–2006 programming periods

²⁹ The ECA Performance Audit Manual defines performance audit as follows: 'A performance audit is an audit of sound financial management, namely of the economy, efficiency and effectiveness with which the Commission and/or other audited entities have used Community funds in carrying out their responsibilities'. ECA, Performance Audit Manual, 2006, page 8

³⁰ ECA, Annual Activity Report 2007, 2008, page 18

³¹ ECA, Annual Activity Reports 2007, 2008, 2009, 2010 and ECA Work Programme 2011

Year	Number of special reports	Special reports focussing on the SCF
2009	18	3/2009 The effectiveness of Structural Measures spending on waste water treatment for the 1994–99 and 2000–06 programme periods 17/2009 Vocational training actions for women co-financed by the European Social Fund
2010	14	9/2010 Is EU Structural Measures spending on the supply of water for domestic consumption used to best effect? 8/2010 Improving transport performance on Trans-European rail axes: Have EU rail infrastructure investments been effective?
2011	20	ERDF co-financed tourism projects E-government

In late 2006, ECA adopted a *'performance audit manual'*, and the year 2007 is noted as the first year that this resource is available to its auditors (ECA also notes related internal capacity building).³²

Performance audit is described as follows: *'In performance audit, the Court uses a variety of audit methodologies to assess management and monitoring systems and information on performance against criteria derived from legislation and the principles of sound financial management'*.³³

The Performance Audit Manual can be considered well designed to prepare the ECA for working on the SCF, since some of the concepts for assessing performance are defined in line with the EC DG Regio approach to evaluating the effectiveness and impact of the SCF.³⁴ Note, however, that the manual does not include any specific guidance focussing on different policy areas, i.e. there is no specific guidance on auditing the performance of the SCF.

In 2007, Danuta Hübner referred to the ECA's emerging efforts with performance audit: *'The re-organisation by the Court of its audit teams to give a higher profile to the task of*

³² ECA, Annual Activity Report 2007, 2008, page 32

³³ ECA, Annual Activity Report 2007, 2008, page 12

³⁴ ECA, Performance Audit Manual, page 4

performance audits is quite recent.³⁵ Indeed, the organisation charts for 2007 and 2008 show separate structures: ‘*Structural policies - performance audit*’ and ‘*Structural policies - financial audit*’.

A 2008 peer review refers to the relevance of stronger performance auditing.: ‘*key external stakeholders consider that topics selected for audit could sometimes focus on areas of greater relevance, significance, or risk. Some expressed the view that delays in completing and reporting on the results of performance audits makes it difficult to consider audit results when updating policies or regulations*’.³⁶

Performance audits are constrained by resource allocations for compliance / financial audits, and stakeholders ask for the Court to produce more special reports.³⁷ The peer review notes in particular that the preparation of special reports is more time consuming than intended (the ECA standard foresees 18 months, the peer review of 9 special reports shows an average of 29 months per report).³⁸

In 2009, ECA restructured its Audit Group II, differentiating between the following five:³⁹

- ‘Structural policies — Financial audit’;
- ‘Transport, research and energy — Financial audit’;
- ‘Transport and energy — Performance audit’;
- Environment, society and welfare, tourism and culture — Performance audit’;
- ‘Human capital, technology and innovation, enterprises, ICT and information society, technical assistance — Performance audit’.

In 2011, the ECA Journal reports: ‘*Performance aspects are in general excluded in financial audit activities – even in on-the-spot controls -, although for the ECA’s “clients” it may be equally, if not more, important to know what was achieved with the funds (as concluded in one ECA report some years ago: “It is not only important to know how much had been spent but for what”). The risk of a certain “compartmentalization” of auditors exists and other SAIs have taken a step backwards to merge FA and PP after a couple of years of experience of it.*’⁴⁰

³⁵ Danuta Hübner, The challenge of auditing EU funds, SPEECH/07/633, Seminar on "The future of public audit in the EU", in the framework of the celebrations of the 30th anniversary of the European Court of Auditors Luxembourg, 18 October 2007, page 2

³⁶ ECA, International Peer Review of the European Court of Auditors, 2008, point 59

³⁷ ECA, International Peer Review of the European Court of Auditors, 2008, point 29

³⁸ ECA, International Peer Review of the European Court of Auditors, 2008, point 61

³⁹ ECA, Annual Activity Report 2009, 2010, page 17

⁴⁰ ECA, Reflections of a recently retired court director, Journal February 2011, page 14

Overall, it appears that there is an increasing focus on performance audit, however, this remains somewhat limited by resource constraints. In this context a new ECA member has recently noted *'It is too early for me to identify areas which might need improvement but I can mention areas in which I am particularly interested. One area is performance audit. The citizens of Europe are very interested in what the EU can do to improve their daily lives. They often tell us that Europe is too remote, that Europe feels far away. To the extent that the ECA through its mandate can help the Commission, the Council and the Parliament to improve the effectiveness of the EU, we can help address some of the citizens' concerns.'*⁴¹

3.1.2 The European Commission

The focus of the EC's SCF audit activity is largely on compliance aspects.

As noted in section 2.1 above, the SCF regulatory framework foresees an audit function for the EC that focuses on the verification of the effective functioning of SCF implementation systems.⁴² Indeed the General Regulation's Article 72:

- Allows the EC to audit the effective functioning of the systems
- Provides for the EC's right to carry out *'on-the-spot audits to verify the effectiveness functioning of the management and control systems, which may include audits on operations'*
- Gives the EC the right *'to require a Member State to carry out an on-the-spot audit to verify the effective functioning of systems or the correctness of one or more transactions'*

In a recent Management Plan, the EC defines the focus as follows: *'to promote good governance in relation to the implementation of programmes and projects in order to contribute to the sound financial management of Community funds. The audit work executed leads to recommendations whose implementation can lead to improved administrative capacity, the introduction of good practice into processes for programme and project implementation and better control of the funds.'*⁴³

⁴¹ ECA, Interview with Mr Gijs de Vries, new member of the Court, Journal March 2011, page 6

⁴² Article 72, Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999

⁴³ EC, Management Plan 2010, Final Version, 10 May 2010

The EC has repeatedly confirmed its audit focus (on compliance): *‘Within the Structural Funds Directorate Generals of the Commission, whilst there is an analysis underway as to whether the evaluation work is a sufficient means to obtain assurance on sound financial management – that is economy, efficiency and effectiveness – there is neither sufficient availability of resources nor the special expertise in the field to undertake performance audits in the near future’*.⁴⁴

The EC’s focus on compliance does not imply a disregard for performance. On the contrary, substantial efforts are dedicated to reviewing the performance of the SCF, however, this remains mainly a role for evaluation (the General Regulation’s Article 49 focuses on EC evaluation activity with a specific focus on the OPs’ performance in terms of effectiveness and impact).

3.2 Member State level

This section explores the Member States’ approach to SCF audit, drawing mainly on the case studies conducted for this assignment (section 3.2.1), as well as wider survey feedback (section 3.2.2).

3.2.1 Case studies

Case study feedback indicates that the focus of SCF audit remains on compliance auditing. Whilst most stakeholders have expressed their support for a stronger emphasis on performance audit, this is limited by resource constraints as well as limited expertise with assessing performance (generally considered a task for evaluation).



France - Rhône-Alpes

For example, the AA for the Rhône-Alpes ERDF OP (CICC) felt that their audit effort focuses on compliance, that is, respecting the regulatory and formal requirements of the OP, as stated in Article 60 of Regulation 1093. Their main concern is whether certified expenditure is eligible. They feel that the skills of an

⁴⁴ Danuta Hübner, The challenge of auditing EU funds, SPEECH/07/633, Seminar on "The future of public audit in the EU", in the framework of the celebrations of the 30th anniversary of the European Court of Auditors Luxembourg, 18 October 2007, page 2

auditor don't cover the field of performance assessment, as these are closer to evaluation skills. At the regional level, respondents felt that assessing the performance of individual projects is important, to check that they have achieved their objectives, as well as looking at compliance, whether they have met regulatory requirements. For example, if a project has been completed and aimed to create five jobs in its lifetime, the CICC regional auditor will check that the project has actually recruited five people. However, it is not the auditor's role to check on the performance of the OP as a whole, and whether it has achieved its broader objectives, or whether the projects selected are appropriate to achieve the overall objectives of the OP.



Denmark

The Danish Supreme Audit Authority 'Rigsrevisionen' has a long-standing tradition of performance auditing, including in the area of the Structural Funds. Indeed, performance audit is more developed in the area of the Structural Funds than for some of the other audit areas under the remit of Rigsrevisionen (where the emphasis is more on financial / compliance audit). The current organisation of Rigsrevisionen (separate units in charge of performance audit and financial audit) has taken shape back in 1998 in order to allow for increased specialisation by type of auditing approach. Since then, Rigsrevisionen has prepared some 15 to 20 special reports per year focusing on performance issues.



UK- North East of England

As far as the AA is concerned, ERDF audit currently focuses on compliance. The Internal Audit Service of the Department for Communities and Local Government notes that auditing of ESF has moved more towards performance audit (outcomes). However, there is a significant difference between the structure of the ESF and the ERDF in England which would make the adoption of the same approach problematic with respect to the ERDF. The ESF in England has moved away from grant funding numerous small projects and instead focuses on a small number of large contracts/ projects. This facilitates the development of a 'global' set of indicators and systems for assessing performance. In contrast, the ERDF provides funding for numerous projects, which implies that different performance indicators would need to be developed for each project, and possibly different systems for applying them, thus complicating audit. [Note: projects must have indicators for evaluation purposes. However, such indicators might not be adequate for audit, which requires a level of precision that is not necessarily

expected for evaluation, which tends to be more flexible and subjective in the use and interpretation of indicators]. Outcome based audit would enhance transparency and assessment of value for money.

Germany - Nordrhein-Westfalen

The AA is not in a position to carry out genuine performance audits in a sense of the work of chartered accountants. However, the Audit Authority examines appropriation of grants and the adequacy of their use as long as respective secondary clauses of the state budget code (LHO) apply. The German budget law (BHO/LHO) clearly distinguishes between a public service or delivery order that is ruled by §55 BHO/LHO and a grant to private or public agents (§44 BHO/LHO). In the latter case, beneficiaries are rewarded as they act as agents in the general social interest (creating or safeguarding employment, improving infrastructure for local economic competitiveness, improving the environment etc.). In the former case adequate tender procedures should ensure a most efficient delivery of a defined product or service. Here, the tendering authority is the client, while in the latter case it is not a client but a funding agency. The outcome of funding is not a specified service or product. However it can be categorized by secondary clauses related to §44 BHO/LHO. These secondary clauses are relevant for audits as they define and restrict the mandate of performance audits.

As an example to illustrate the mandate of the AA: If a grant approval letter had stipulated the creation of 500 m² developed business area (in accordance to the respective result indicators of the programme) and in fact only 80 m² were developed, this would formally entail clawbacks of funds spent.

Programme evaluation reports dealing with the ERDF Programme, where the performance of the programme is at the centre of analysis, are acknowledged. Results and recommendations are widely used for risk analyses within the auditing procedures.

Principally, the International Standards on Auditing are applied. The so-called Audit Directive of 17 May 2006 enforces the use of the International Standards on Auditing for all statutory audits to be performed in the EU.

Spain

Spain's central level AA notes an exclusive focus on compliance audit. The regulatory framework for SCF audit is considered to have 'motivated' the focus on

compliance. In the framework of the SCF, performance audits are considered to be a task for evaluators, and relevant skills are not considered sufficiently developed within the AA. It is also noted that performance audits have a more subjective character, and that there are no common criteria for drawing conclusions from the results of a performance audits, i.e. it is not considered feasible to link the results of a performance audit to financial corrections in the same ways as a compliance audit.

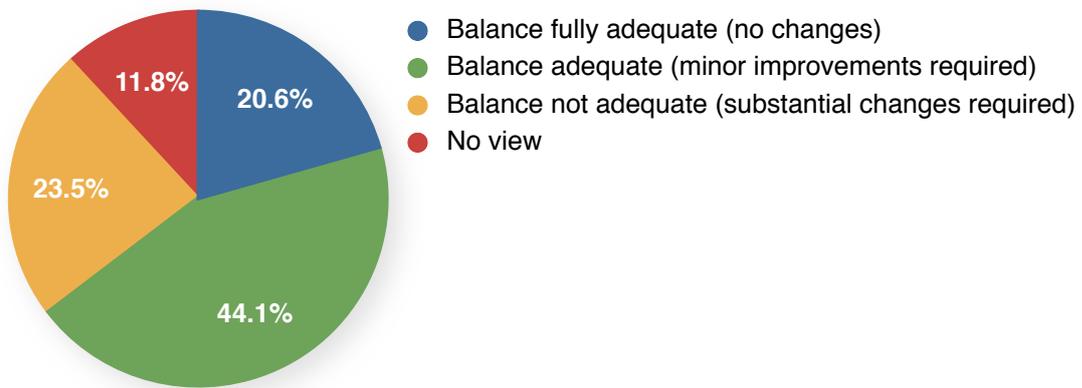
Greece

Greece's AA clearly concentrates on elements of compliance, i.e. checking the extent to which expenditure respects regulatory and formal requirements. Performance auditing is nearly non-existent, limited to an examination of whether objectives have been achieved in the narrow sense (effectiveness), without going into the examination of detailed issues related to efficiency, impact or sustainability.

3.2.2 Survey feedback

As noted in the introduction, the authors of this study carried out a survey addressed to the SCF AAs. A majority of survey respondents considers that a balance between the different types of audit has largely been achieved with regard to the SCF. Indeed, some 21% of survey respondents consider current arrangements as fully adequate and 44% as adequate (with only minor improvements required). Finally, 23.5% of survey respondents consider that substantial improvements are required, suggesting specifically that performance audit should be strengthened.

Figure 10 - Do you consider that current audit requirements have achieved a balance between different types of audit, i.e. financial, compliance and performance audit?



Section 4 - Audit outcomes

This section provides feedback on SCF audit findings in terms of efficiency (section 4.1), effectiveness and impact (section 4.2), and sustainability (section 4.3). To some extent, this illustrates the actual focus of SCF audit. In particular, the presence of audit findings on effectiveness and impact can be considered an indicator for a focus on performance audit.

The section mainly draws on the eight case studies.

The following paragraph summarises the main findings in relation to the outcomes of SCF audit:

As noted in the previous section, current SCF audit largely focuses on compliance. This explains the rather limited case study feedback in terms of audit findings on efficiency, effectiveness, impact and sustainability. Stakeholder consultations point to the SCF regulatory framework as the main reason for this. However, some Audit Authorities have included effectiveness and sustainability issues in their SCF audits with promising results.

Figure 11 - Case study feedback on audit outcomes - audit coverage of efficiency, effectiveness, impact and sustainability

	AA reviews:		
	efficiency	effectiveness and impact	sustainability
Czech Republic	✓	✓	-
Denmark	✓	✓	-
France	-	✓	✓
Germany	-	✓	✓
Greece	-	✓	-
Spain	-	✓	-
UK	-	✓	-

4.1 Efficiency

Case study work explored the question as to whether the audit work of the AA or the SAIs provided evidence showing that existing SCF results could have been achieved at lower costs (or more results at the same cost).

Denmark

The SAI's coverage of the Structural Funds has included assessments of efficiency (*'cost consciousness of projects and partnerships'*), and overall feedback for the 07-13 programming period confirms satisfactory results (whilst some problems have also been observed, these are not found to be of general nature).

France - Rhône-Alpes

With regard to the Rhône-Alpes ERDF OP, the AA indicated that a review of efficiency would involve taking a cost-benefit approach, which isn't the aim of the audit, as set out in the Regulations. It was felt that this approach wouldn't be feasible, given the complexity of the SCF regulatory framework.

UK - North East of England

The AA for the ERDF does not focus on efficiency issues.

Czech Republic - Central Bohemia

100% of the applications are already subject to an ex-ante assessment of efficiency within the first level of control. The AA (2nd level of control) either confirms efficiency or confirms deviations from the ex-ante established efficiency. Here the central question has been: Was there money wasted or was it well allocated? In this connection, also the eligibility criteria and rules for project selection are regarded. The major question is: "Are they adequate and do they reveal anything on addressing efficiency (incentive or sanction)?" According to the representatives of the AA, the OP Central Bohemia has been the best performing programme among all Czech SCF OPs in terms of efficiency.

As regards the SAI, audits covering the OP Central Bohemia concluded with more critical results. Especially in the sector of infrastructure development, there

were insufficiencies in project selection. Until 2009, the Managing Authority also failed to apply the monitoring criteria and provide assessment according to the proper financial management principles. This may have a serious influence on efficiency.

Germany - Nordrhein-Westfalen

The evidence of efficiency is not the purpose of the audits. The role and mandate of the AA is limited and very similar as compared its mandate for performance audits (see above).

The AA is assigned to examine the purpose of an operation. The adequacy of the grant must be substantiated in the application and the first level control (approval letter). It is not the mandate of the AA to assess opportunity costs of a project, i.e. whether there have been better alternatives to absorb the funds or whether with less money the same objectives could have been achieved. As regards the system audits, the transaction costs of the institutional organisation are subject to efficiency considerations. Apart from the AA, also the Landesrechnungshof (the regional level audit institution) addresses such kind of system efficiency audits.⁴⁵

Greece

The AAs audit work does not examine efficiency. AA feedback notes that there are no indicators to measure efficiency available to them, and that the EC itself is finding its step in this area, currently trying to develop a method to check efficiency. Rather, it is the ECA audits that are more concerned with examining efficiency issues.

4.2 Effectiveness and impact

Case study work looking at effectiveness asked whether there was any audit evidence for the SCF achieving results (in relation to project's or programme's immediate objectives). Case study work looking at impact asked whether there was any evidence for the SCF achieving intended impacts (in relation to a project's or programme's wider objectives).

⁴⁵ Cf the a.m. audit of the administrative system of the ERDF OP NRW (LRH Annual Report 2009)

Denmark

The SAI confirms overall effectiveness in relation to the Structural Funds in Denmark, e.g. supported SMEs have increased their innovative competences.

Whilst the SAI considers that it is still too early to conclude on impact (in April 2011), systems are established to ensure impact and relevant measurement tools are in place (e.g. the Danish Enterprise and Construction Agency has developed a detailed performance measurement system describing global, specific and operational goals). Overall, it is noted that the Structural Funds only represent a modest proportion of wider national efforts, and the Structural Funds will therefore only have a comparatively small impact on the Danish economy.

France - Rhône-Alpes

The AA checks not only that the money has been spent, but that the objective of each operation has been achieved, for example, that the bridge has been built or the SME start-up unit has been set up. So in this respect, they check that the projects achieve the results that were foreseen. In France, it has been standard practice to undertake such administrative controls since 1962 (called ‘contrôle de service fait’), although the Structural Fund checks are more rigorous than national requirements. This French notion of ‘contrôle de service fait’ was introduced into the 00-06 programme Regulations (Article 4 of Regulation 1260) and carried over into the current 07-13 Regulations (Article 13 of Regulation 1083). It means that each project audited by the AA must be visited to check that the project was carried out as planned.

The auditor also checks that the project falls under the right axe and measure, but there is no assessment of whether the project funded was appropriate to achieve the overall objectives of the programme. For example, in the Rhône-Alpes region, there has been a policy to distribute Structural Funds to different beneficiaries throughout the region, rather than concentrating funds in particular areas. The audit doesn’t make a judgement on whether this is the right approach or not.

The CICC and regional auditing bodies do not check evidence relating to impact. They do not see it as their role. They check that the number of people programmed to receive training have actually been trained, but not whether they then went on to find work, or whether the training has had an overall impact on the labour market and local economy. This would be the role of an evaluation.

For example, the Structural Funds have cofinanced the installation of fibre optic cable to provide broadband internet access to the remote areas of the Rhône-Alpes region. This will have had an impact on the region, in terms of facilitating economic activity, but it is not an issue that has been addressed through the audit.

UK - North East of England

The AA for the ERDF does not focus on effectiveness or impact issues.

Czech Republic - Central Bohemia

Effectiveness is examined to a limited extent within the formal mandate (see above). The AA assesses the adequacy of the application and the physical goals stated. Indicators are monitored at the programme and project level. These indicators are quantified. The programme stakeholders and the beneficiaries are therefore obliged to their defined goals. In system audits the AA examines the indicator system also from the viewpoint of feasibility and realism in relation to the financial allocations. In on site audits the application and the stated goals (these are mostly quantified indicators such as additional jobs or additional square meters of business area) are examined. Any ex-post difference will be closer looked at, but the main criterion is the indicator and its quantification. The Managing Authority is asked for a statement in case of major deviations. The AA has no mandate to further reflect on reasons and to look at some kind of extended effectiveness, such as additional or alternative indirect effects. This is the responsibility of the Managing Authority.

There is no mandate of the AA to examine impacts of operations and the programme (e.g. net employment or economic growth). Only simple effectiveness is looked at. Through the system audits, the AA aims to contribute indirectly to better achievements of intended impacts.

Germany - Nordrhein-Westfalen

Effectiveness is examined to a limited extent within the formal mandate (see above). The AA assesses the adequacy of the application and the physical goals stated. Further to that the related achievements in the sense of the selection criteria and the agreed goals are checked. If results turn out to fall short of quantified goals, reasons for that are not examined by the AA. The AA is also not

in a position to assess the utility of operations (including indirect or unintended results), going beyond a simple effectiveness analysis. If an operation turns out to be rather effective, but not in the sense of its original goals or the formal indicators, there could be the opportunity to revise the original approval letter. But such revisions need to be substantiated by evidence and must be based on a respective agreement with the Managing Authority.

There is no mandate of the AA to examine impacts of operations and the programme (e.g. net employment or economic growth). Through the system audits, the AA may contribute indirectly to better achievements of intended impacts.

Through the system audits and the resulting conclusions on adequacy, programme impacts or impacts from single operations may be enhanced. If, for example, the implementation system of a specific intervention appears to be ineffective in the sense of ignoring important selection criteria, an improved compliance will probably lead to better impacts. It is not the mandate of the AA to monitor transmission mechanisms between effects and impacts.



Greece

The AA's approach is first of all to examine the legality and eligibility of expenditure and then, to examine effectiveness at project level. This entails examining the extent to which each project has been completed in relation to its intended outputs and whether it is functional.

For example, in the case of an infrastructure project such as the construction of a road, a recent audit showed that while the road was constructed as planned, the connecting side-roads that would have been constructed with national funding were not completed. Even though the side roads did not concern EU funding, this omission/delay was rendering the EU-funded part of the project non-functional. Hence, the audit contained recommendations for the side roads to be completed as soon as possible.

The AA does not examine the area of impact in its audits, while there are no plans to incorporate the examination of impact in future audits.

4.3 Sustainability

Finally, case study work also looked at audit findings on SCF sustainability.

France - Rhône-Alpes

The CICC at the regional level looks at the sustainability of projects, as there is a requirement that activities should continue for at least an additional five years, after the end of the project. The CICC looks for evidence that projects will continue in the future, as if they don't meet this requirement, the project would be subject to clawback.

UK - North East of England

The AA for the ERDF does not focus on sustainability issues.

Germany - Nordrhein-Westfalen

The consideration of sustainability is more relevant to audits than the assessment of impacts or efficiency.

The audits in accordance to Article 62, Regulation 1083/2006, have to consider the capability of co-financing on the part of the beneficiaries until 2015. Audits do not look at the capability of self-financing beyond 2015. Since funds are earmarked for a defined purpose, only the appropriation of funds is being assessed. The quality of administrative systems (including organization) and the cost of administration (labour and investment) are subject to the system audits and are thus relevant for sustainability. Likewise, the selection criteria and the selection processes of operations are subject to audits. If criteria, processes and funding rules do not suggest sustainable policies, the AA may intervene to improve the systems.

Greece

The AA does not examine the area of sustainability in its audits and there are no immediate plans to consider sustainability in future audits.

Section 5 - The audit effort

This section provides information on the 'volume' of SCF audit (5.1) the cost of SCF audit (section 5.2), and possible measures to reduce costs (section 5.3). This section draws on desk research, case study and survey feedback.

The following paragraphs note the main findings for this section:

The current programming period has witnessed a substantial increase in the audit effort, e.g. case study feedback shows that audits covering between 30% and 60% of expenditure in 2010 (as compared with the required 5% coverage in 00-06). This is explained by the required sampling method ('statistical method').

With the increasing audit effort, audit costs have increased. An EC study estimated audit cost for 07-13 at €1.05 billion, or €2700 for every €1 million of funding (only ERDF and CF). More recent data shows a range of costs, e.g. €1300 per €1 million of funding in the DE (ERDF), €12221 to 30512 per €1 million of funding in the NL (covering all control costs), or €17707 per €1 million of funding in the UK (ERDF).

The main approach to address increasing audit costs, is enhanced cooperation and coordination between auditors at different levels. Whilst overall feedback on the cooperation / coordination between the auditors (EC, Member States, ECA) is positive, there is room for further enhancing cooperation and coordination with a view to allowing EU auditors (EC and ECA) to rely more on Member State audit findings.

5.1 The 'volume' of SCF audit

This section discusses the volume of SCF audit in the 07-13 programming period. Stakeholder consultations have focussed on assessing whether current SCF audit requirements imply an increased audit effort as compared to the 00-06 programming period.

France - Rhône-Alpes

In the Rhône-Alpes region, the first audit of the 07-13 programme was carried out in 2010. During that year, a total of 15.82% of total eligible expenditure was audited. In addition, the CICC in Paris undertook a system audit in the region in January 2011, auditing 27 projects, bringing the percentage of total eligible expenditure audited to 31.21%. It is anticipated that these figures will be much greater in 2011, as there are more projects to be audited.

The Managing Authority commented that as a result of these different audits, they had the impression that the programme was constantly being audited at different levels. There was a feeling that this not only increased the administrative burden, but also potentially led to duplicating efforts.

By way of comparison, for the Audit of Operations nationally, the CICC selected projects for auditing that totalled 45% of certified ERDF expenditure in 2010 (that covered the period 2007-2009). In 2011, the Audit of Operations nationally is likely to cover between 25%-30% of ERDF expenditure (a total of around 150 projects). This compares with just 5% of ERDF expenditure audited in the previous programming period 2000-2006.

UK - North East of England

The AA is in its second year of project audits. For 2008-2009 declarations, it has planned 225 audits. In 2010 it audited 30% of declared expenditure. The AA notes that the move to statistical sampling (compared with the 5% approach for the 2000-2006 period) tends to result in a large sample, which means that ERDF auditing costs have actually increased.

Germany - Nordrhein-Westfalen

The first audit was carried out in 2010. Because of the large financial volume of applications in the field of financial engineering (seed capital funds etc.) a relatively large share of the expenditure reported was audited. Since the approach of monetary unit sampling has been used there is essentially a larger share of expenditure covered (since every x^{th} monetary unit is to be audited it happens that bigger operations are emphasized in the sample).⁴⁶ The coverage in 2010 was 64% of the total eligible cost. For 2011, 46% of the expenditure will

⁴⁶ The approach is based on the Poisson distribution of the amount of misstatement. The disadvantage of monetary unit sampling is that smaller operations may be skipped in the sampling procedure.

be audited, what is in accordance to the rule (Article 17 and annex IV, Regulation 1828/2006). The number of samples in 2010 was 87 operations (including the large financial engineering projects), in 2011 there will be 103 operations to be covered by Article 62 audits.

The required effort for second level control has extremely increased as compared to the programming cycle 2000-2006. In that period, second level control covered minimum 5% of the expenditure reported. Hence, in the forerunner programme ERDF Objective 2 NRW 2000-2006 just 170 operations in total were audited until 31 December 2008. The overall audit effort for the current period therefore appears disproportionately high. In terms of a cost-benefit relation the term “overkill” has been considered appropriate to describe the situation.

The sampling is to be done in accordance to Article 17 of the provisions of the Regulation 1828/2006. Basically, the auditing procedure follows a two-step approach. The first step consists of the assessment of the reliability of the systems. This will shed light on the control risk. The size of the sample of audits of operations (second step) will be decided on the basis of the results of the first step. Apart from the pure statistical approach of sampling, within the eventual sample heuristics may be applied. This may have an influence on a decision to enlarge the sample. But this is an internal provision, not required from the part of the EU.



Spain

Spain’s central level AA (Intervención General de la Administración del Estado) reports a significant increase in the SCF audit effort. This is explained with the statistical method resulting in samples far larger than the previous programming period’s 5% samples. For example in the 2009-2010 SCF audit exercise for the 19 regional ERDF OPs, audited expenditure accounts for over 50% of total expenditure. In particular, the INTERREG and smaller OPs are considered to be affected by a disproportional audit effort.

In this context, Spain’s central level AA emphasises that the increased audit effort has not resulted in the identification of any new problems. Overall, it is considered that the level of irregularities is less affected by the audit effort than by the level of complexity of the regulatory framework. More stable systems (i.e. less change from one programming period to the next) would entail a more substantial reduction of irregularities than any increase in the audit effort.

Greece

During the previous programming period, the respective target was 5% of final expenditure. The aim for the current programming period 07-13 is for audits to cover an 'adequate' proportion of final expenditure, which will in any event be higher than 5% of final expenditure. This implies that for some major infrastructure interventions, 15-20% of total expenditure will be audited, while in interventions with smaller budgets, the volume audited will be lower. The following example is in no way indicative of how the final picture will evolve, but during the first audit period (2009), the proportion of SCF expenditure audited was in the region of 50%. This was largely due to the fact that during this first audit period, a small number of big projects were implemented and audited, corresponding a high proportion of expenditure covered through audits.

5.2 The cost of audit

This section discusses the cost of SCF audit, and asks whether the costs of current SCF audit efforts can be considered proportional to their value in terms of identifying irregularities and other benefits?

The section shows findings from a recent EC study on the costs of SCF implementation (section 5.2.1); notes preliminary considerations from a recent 'parallel audit' conducted by the the Working Group Structural Funds IV (section 5.2.2), and presents case study and survey feedback (5.2.3).

5.2.1 EC research into the costs of SCF management

A recent EC study has shed some light on the cost of SCF audit to Member State authorities (covering only the ERDF and CF).⁴⁷

The study estimated the total cost of ERDF and CF administration in the Member States at €12.5 billion for 2007-13.

⁴⁷ SWECO, on behalf of the European Commission, DG Regional Policy, Regional governance in the context of globalisation - reviewing governance mechanisms & administrative costs, 16 June 2010. Note that information on the audit function is largely based on estimates since this activity was only about to start when the relevant data was collected.

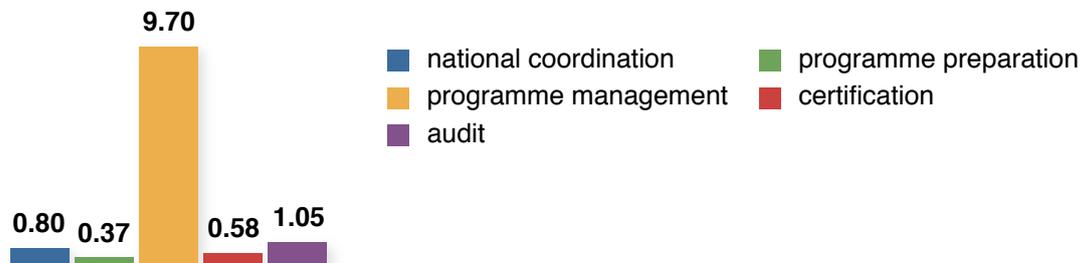
Audit costs are estimated at €1.05 billion and represent 8.4% of total cost. For each €1 million of ERDF and CF funding, €2700 are spent on audit activity.

Whilst the study concludes that ‘*administrative costs of cohesion policy are reasonable*’, it is acknowledged that this conclusion is not based on a systematic comparison with other policy fields (different definitions employed in other policy fields, substantial number of estimations).⁴⁸

Figure 12 - Administrative costs of ERDF and CF management (percentage of different tasks out of total ERDF and CF administration cost in the Member States)⁴⁹



Figure 13 - Administrative costs of ERDF and CF management (in €billion)⁵⁰



⁴⁸ SWECO, on behalf of the European Commission, DG Regional Policy, Regional governance in the context of globalisation - reviewing governance mechanisms & administrative costs, 16 June 2010, pages 8-9

⁴⁹ SWECO, on behalf of the European Commission, DG Regional Policy, Regional governance in the context of globalisation - reviewing governance mechanisms & administrative costs, 16 June 2010, page 6

⁵⁰ SWECO, on behalf of the European Commission, DG Regional Policy, Regional governance in the context of globalisation - reviewing governance mechanisms & administrative costs, 16 June 2010, page 6

5.2.2 Parallel Audit findings

Can the above noted €1.05 billion of audit cost be considered ‘justified’ in the light of audit benefits?

A first approximation to answering this question consists of comparing audit costs with financial corrections resulting from audit work. Along this line, the latest EC DG Regio Annual Activity report notes €6.7 billion of ‘*Cumulative financial corrections for ERDF/CF imposed on Member States by EU audits in the period 2000-2010*’.⁵¹

A recent ‘Parallel Audit’ by the Working Group Structural Funds IV established by the Contact Committee of the Presidents of the Supreme Audit Institutions and the ECA has focused on estimating the costs and benefits of ERDF and ESF controls (covering control activity of the Managing-, Certifying- and Audit Authorities) in 07-13.⁵² The parallel audit applied two methods to establish the cost of control, i.e. cost-unit accounting and cost-centre accounting.

The detailed results are not yet published for all participating Member States, however, first results are available for some Member States.

For Poland, the main benefits are noted as follows: (a) ‘*the main financial benefit afforded by carrying out controls (...) is the value of the ERDF funds allocated for the implementation of the ROPs that are audited*’ and (b) ‘*the amounts withdrawn following cancellation of part or all of the cofinancing in a project, amounts to be recovered and amounts resulting from mistakes with regard to the eligibility of expenditure*’.

Moreover, a series of ‘*non-financial benefits*’ are noted:

⁵¹ ‘*Financial corrections (...) include corrections decided by the Commission or agreed by the Member States for ERDF/CF, as a result of Commission and Court of Auditors audits or OLAF investigations*’. EC, DG Regional Policy 2010 Annual Activity Report , 2011, page 48

⁵² ECA, Estimating the costs and benefits of controls carried out within the framework of the management and control system of the EU Structural Funds, ECA Journal July / August 2011, page 37. Parallel audits are defined as follows: ‘*Parallel audits are conducted simultaneously by Supreme Audit Institutions in a few or even several Member States. Each State applies its own audit procedure but does so in accordance with a single mutually agreed audit programme*’. This Parallel Audit involved Germany, Slovenia, Bulgaria, Hungary, Italy, Austria, Portugal, Slovakia, the Czech Republic and the Netherlands; Finland, Poland, Latvia, Malta and the ECA participated as observers.

- *performance of tasks in accordance with the legal requirements;*
- *improvement in the implementation of programmes;*
- *effective means of dissemination of information and less preoccupation with the supervision of documentation;*
- *clear division of competences and responsibilities within an institution, precise delimitation of powers and responsibilities of staff and increased responsibility of staff for tasks performed;*
- *timeliness of tasks performed is ensured;*
- *savings in time and human resources resulting from efficient use of an institution's resources;*
- *introduction of mechanisms for the detection and rectification of irregularities and continuous improvement of the tasks performed.*

The Netherlands SAI has recently presented its findings from the Parallel Audit in the Netherlands (focus on three OPs and covering funding under these three OPs in the years 2007-2009, i.e. a total of SF funding and national co-financing of €1219.2 million).⁵³ Applying the cost centre model, total control costs amount to €37.2 million; applying the standard cost model, total control costs amount to €14.9 million. For each €1 million of programme funding, between €12221 and €30512 are spent on audit activity.

Looking at the benefits of control activity, the report notes: '*The audit revealed several quantitative benefits of controls relating to, for example, the number of irregularities, the size of financial corrections and recoveries and the error rate. Only limited qualitative benefits of controls were named*', however, limited conclusive evidence is provided, partially due to the limited reliability of data (and in the case of the audit function, the limited volume of audit work in the early years of the OPs' implementation).

⁵³ Algemene Rekenkamer, EU Trend Report 2011, 5 April 2011, pages 66 to 73.

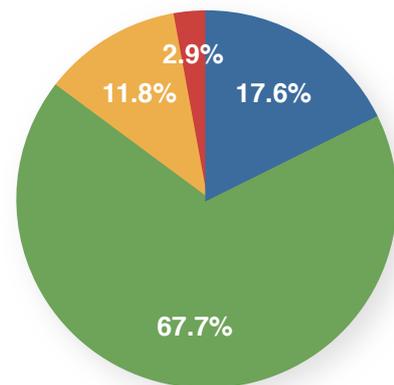
5.2.3 Case study and survey feedback

Survey feedback

A large majority of survey respondents (85%) considers that the audit effort is justified in the light of benefits. Indeed 17.6% of survey respondents consider current audit arrangements as fully cost effective. 67.7% of survey respondents consider current audit arrangements as somewhat cost effective (with some improvements required). Only 11.8% of survey respondents suggest that current audit arrangements are not considered cost effective, and that substantial improvements are required.

Figure 14 - Do you consider that the current audit effort is justified in the light of benefits in terms of identifying irregularities / recovering related funds?

- Fully cost effective (no changes needed)
- Somewhat cost effective (some changes required)
- Not cost effective (substantial changes needed)
- No view



France - Rhône-Alpes

For the System Audit, which is coordinated by the CICC in Paris, the audits take around 8-10 working days in the region, involving 3-5 people per fund. So the System Audit of the Rhône-Alpes region in January 2011 took around 80 person days in the region (10 days x 4 people x 2 Structural Funds). In addition, considerable time is spent preparing the audit, drafting a report, requesting clarifications, integrating the replies and writing the final report. The total time needed depends on the complexity of the issues, and the replies that are received from the Managing Authority.

At the regional level for the Rhône-Alpes region, there are 4.5 FTEs working on audit and control: 1 FTE working on the Operational Programme at SGAR, for the

CICC, 1 FTE at DRFIP, 1 FTE at SGAR, 0.5 FTE at the Region and 1 FTE at Oséo (a “service instructeur”, a public bank that finances SMEs). These are all “2nd level” controls, as the “1st level” will have been carried out by the “Service” when they receive the initial request for reimbursement accompanied by receipts.

When looking at the numbers of FTE involved in auditing the SF, it is important to consider the size of the region, and the size of the programme being audited. In a small region, there will be less need for auditors.

The CICC in Paris feels that it is very difficult to say what the right proportions are, between the cost of the audit and the amount of money that is reclaimed through irregularities. They feel that the EC believes that the ratio should be equal: 1 euro spent on auditing should bring in at least 1 euro of repayment through spotting irregularities. But the CICC feels that this hasn't got any scientific statistical basis, and doesn't take into account other issues that are related to auditing, such as the potential for institutional learning. For example, by spending two euros instead of one, it might be possible to improve the systems through using the audit as a learning process, so that the quality of the programme improves in the future.

The answer relates to the role of the audit, and whether it is about both avoiding as well as detecting irregularities. The preventative role is not generally costed in. An auditor might not necessarily detect irregularities, but can prevent money being lost due to fraud, through a ‘policing’ role.

One of the key issues relates to the efficiency of an auditor's work. **If you increase the number of auditors, you will find more irregularities. However, if there was time to provide more advice on interpreting the Regulations and other preventative measures for those involved in Structural Fund programmes, there might be less irregularities. The Regulations are so complex that they produce irregularities.** So the CICC find this a very difficult question.

They give the example of financial engineering and creating new financial instruments (such as JESSICA), which they feel is an excellent way of financing SMEs, and then recycling the funds after a number of years. There are four Articles in the Regulations relating to financial engineering; there is also a Guidance note of 60 pages, and the CICC have just received a further 100 pages of Guidance on applying the Regulations. They find it difficult to assess whether the cost of following the 160 pages of Guidance is in proportion to the irregularities that they will identify.

UK - North East of England

For the financial year 2010-11, the cost of audit is estimated to be £1.7 million (about €1.9 million at the July 2013 exchange rate). This compares with total OP funding (EU and cofinancing) of about €107.3 for 2010.⁵⁴ For each €1 million of programme funding, about €17707 are spent on audit activity.

There is more to assessing the value of audit than simply considering the monetary value of identified irregularities. It is difficult to put a value on some of the benefits of audit. For example, the AA has identified cases where procurement has taken place without fully following correct procedures (e.g. lack of transparency); while the procurement outcome was considered appropriate, it was not clear how the decision had been reached. In this instance, it is difficult to put a monetary value on the identified irregularity since the Audit Authority's finding benefits not only the project in question, but it also contributes to ensuring optimal transparency in future procurement decisions of other projects. Thus audit activity helps to maintain standards in general, and it is difficult to put a monetary value on this.

Czech Republic - Central Bohemia

It was not possible to specify the cost of audits. The representatives of the AA found this question confusing. Identification of irregularities and their monetary value cannot be related to audit cost. Consequently, if irregularities are at zero, any audit would be uneconomic in the retrospective view. In the AA altogether 32 auditors and auxiliary staff is employed. Out of them, for the OP Central Bohemia, four people are employed. In addition to them external field staff is employed.

According to the AA, the costs incurred in the audit activities are adequate and reasonable. There has been the need to improve the systems. This implied some increasing costs for system audits. In order to comply to the respective provisions of the Council Regulation 1083/2006, the cost and effort is deemed adequate.

Germany - Nordrhein-Westfalen

The annual budget for the "Article 62 audits" is €304,500.- on average. Out of this, €284,000.- are allocated for personnel. The cost of audits make up 0.13% of

⁵⁴ Dividing the total value of the OP for 2007-13 (€751,397,840) by the number of years during which the OP is operational.

total eligible expenditure of the sample audited, i.e. €1,300.- per €1 million of total eligible expenditure.

The cost proportion of system and operation audits for the OP Nordrhein-Westfalen is approximately 50/50. For the OP Nordrhein-Westfalen less than 2% of the expenditure audited (maximum materiality level) was inappropriate. Therefore, the appraisal result for the first audit period for the OP was positive without restrictions.

In the opinion of the AA, costs of operation audits are disproportionately high. While there was still scope of improvement of coverage during the 00-06 period where only a minimum of 5% of expenditure was subject to audits, the provisions for the current programming cycle appear excessively costly. Costs of system audits remain in a reasonable scope, although the regional audit institution (Landesrechnungshof) has criticized the large number of involved sub-ordinated implementation agencies, entailing a large effort in system audits.

Under the current provisions there is little scope to reduce costs. However, the AAy pleads for the application of more modern and efficient audit approaches (e.g. DG Budget 2006, *Welcome to the World of PIFC: Public Internal Financial Control*, Brussels). A departure from simple statistical sampling methods is recommended.

Spain

Whilst the exact cost of SCF audit is not known, Spain's central level AA notes that costs have increased substantially in the current programming period. The division dealing with SCF audit employs some 30 staff with additional subcontracting of private sector auditors.

Greece

AA interviewees were not able to provide an annual budget, since the budget for the authority is included within more general public expenditure budget lines.

However, AA interviewees were of the view that the costs of current control and audit efforts are more than proportional compared to the value of the irregularities that control and audit helps identify.

The AA estimates that during 2010, audits identified €17 million of non-eligible expenditure out of the total expenditure effectuated during the year in the context

of the National Strategic Reference Framework. Extrapolating this amount, corresponds to a projected error in the region of 5.6% for the whole programming period.

Interviewees noted that the AA audits, apart from the actual errors and non-eligible expenditure they identify, also act in a preventive manner, thus further reducing the cost of audits, thanks to the potential errors that are prevented in view of the prospect of an audit.

The AA also makes great efforts to reduce the costs of audits. This is mostly due to the dire public financial situation of Greece in recent months. In order to address this situation, all public bodies in Greece are experiencing cost reductions. The same applies to the AA, leading to reductions in the cost of control and audit. Indicatively:

- Staff costs have been cut by 30% during the past year (this is due to reductions in salaries and benefits experienced by all civil servants in Greece).
- Staff numbers are being reduced and staff members that leave the AA are not being replaced so the same work load is being carried out by fewer staff. This again is a general trend in the Greek public sector, since many civil servants have chosen to retire in view of recent salary cuts. At the same time, a rule has been introduced foreseeing that only one person will be recruited for every five people leaving public service, which in practice is translated into one recruitment versus seven departures.
- Last but not least, the AA itself is making efforts to reduce the cost of each audit mission by reducing the number of staff members that goes on mission.

5.3 Measures to reduce audit costs

This section explores possible measures to reduce the overall cost of SCF audit. The main approach to reduce costs is to enhance coordination between different audit institutions (i.e. single audit approach).

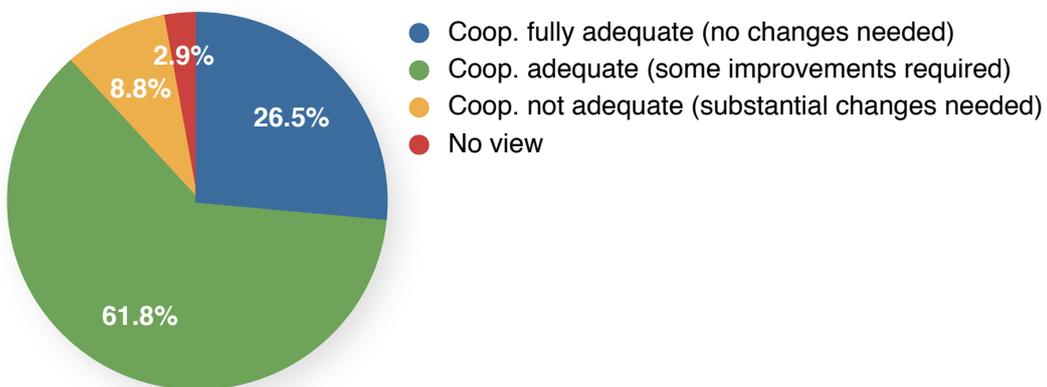
This section reviews coordination between the EC and the Member States (section 5.3.1) between the ECA and the Member States (section 5.3.2), and within Member States (section 5.3.2).

5.3.1 Cooperation between the EC and Member State audit

Survey feedback

Survey respondents largely consider the existing coordination arrangements between the EC and the Member States as adequate. About 62% of the respondents consider that cooperation is adequate and that only minor improvements are required, and 26% consider that cooperation is fully adequate with no changes required. Only about 9% of survey respondents suggest that substantial improvements are required

Figure 15 - Do you consider the current arrangements for audit coordination / cooperation between the EC and the Member State (i.e. Audit Authorities) as adequate?



France - Rhône-Alpes

In relation to coordination with the EC, for a number of years the central level AA (CICC) in Paris had what they felt was a relatively efficient system of cooperation and coordination with the EC. Each year there was a bilateral meeting, during which they discussed their respective planned audits. They checked whether the two audits overlapped. To avoid double auditing, either one organisation deleted it from their list, or the two organisations went and audited the project together, with just one final report that was co-authored by the two institutions. It meant that there was the best coverage possible with the available resources, and it seemed to work well. However, for the 07-13 period, this coordinated auditing approach hasn't continued. The approach of the EC is now to re-audit the regions that the CICC has already audited, to check that the audit has been carried out correctly. The CICC in Paris finds it difficult to explain to the Managing Authorities

that they have to be audited twice, and questions whether this is a good use of resources.

UK - North East of England

In the context of the current financial perspective (07-13), DG Regio has adjusted its focus somewhat. It now focuses more on the systems and approach of the AA rather than on direct audits of projects. This arrangement is working well. There were two or three missions by DG Regio in 2010 to review the work of the AA; one of which reviewed the AA's work on the North East of England Competitiveness and Employment OP. DG Regio has provided helpful feedback.

Spain

Spain's central level AA notes good coordination with the EC, noting in particular DG Regio efforts to coordinate its audit visits in a way that they do not coincide with other tasks of the AA. Whilst coordination is not considered an issue, the AA notes that the number of visits is not perceived to be aligned with the functioning of the systems (i.e. significant EC audit effort, no matter the performance of a specific OP). In this context it is questioned to which extent the EC is making use of the possibility to reduce its audit effort for OPs supported by a 'positive' audit opinion, and where the EC '*may conclude that it can rely principally on the opinion*'.⁵⁵

Greece

In what concerns audits in Greece carried out by the EC, in these cases, the EC undertakes communication with the subjects of the audit directly, without the mediation of the AA. During the audits however, AA staff members accompany EC staff members purely as observers. After the EC audit is completed, the EC sends its audit report and recommendations to the AA. Upon receipt of the audit report, the AA notifies the audited organisations of the findings and recommendations made by the EC and assists the audited organisation in compiling its responses to the content of the audit report. The AA also helps the audited organisations to follow up on the recommendations made by the EC.

⁵⁵ Article 72 (2 and 3), Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999

From its part, the EC does make some efforts to alleviate the overlapping of controls by ensuring that audits by the EC and by the national AA do not fall in the same month. Moreover, during the current programming period and for the past two years, the EC has been overseeing the work of the AA, with the longer term aim of satisfying itself that AA audits are reliable and can eventually replace EC audits. The AA is so far proving a reliable partner and as a result, the EC can envisage reducing its own audits in Greece in the future.

5.3.2 Cooperation between the ECA and national audit bodies

The Contact Committee

Cooperation between the ECA and Member State national or regional audit authorities is provided for under Treaty Article 287(3).⁵⁶ This is mainly developed in the framework of the so-called Contact Committee, meeting for the first time in 1960, and with a focus on setting common standards between the SAIs (and ECA upon its membership of the Contact Committee in 1978):

*'The Contact Committee is an assembly of the Heads of the Supreme Audit Institutions of the EU Member States (MS) and of the European Court of Auditors. It is an autonomous, independent and non-political assembly which meets every year. (...) The liaison officers of EU SAIs and the European Court of Auditors meet twice a year in order to prepare the meetings of the Contact Committee and to provide an active network of professional contacts around Europe. The Contact Committee sets up working groups on general and specific issues of common interest. A task force was created by the liaison officers in order to assist them in dealing with issues specifically related to audit cooperation.'*⁵⁷

Concerning the SCF, the Contact Committee promotes joint audit and research. Further to a first mandate in 2000, a working group on the SCF was established *'with the purpose of obtaining an accurate, correct and documented description*

⁵⁶ Lisbon Treaty Article 287(3) (former article 248(3)) *'In the Member States the audit shall be carried out in liaison with national audit bodies or, if these do not have the necessary powers, with the competent national departments. The Court of Auditors and the national audit bodies of the Member States shall cooperate in a spirit of trust while maintaining their independence. These bodies or departments shall inform the Court of Auditors whether they intend to take part in the audit'*

⁵⁷ <http://eca.europa.eu/portal/page/portal/contactcommittee/presentation>

of the procedures implemented in the Member States to manage and control the Structural Funds'.⁵⁸ In the following years, several assessments were carried out (2004: Parallel Audit on SCF control; 2006: SCF irregularities; 2008 SCF performance). Finally, in 2008 the working group was asked to look at the cost of SCF control (see section 5.2.2).⁵⁹

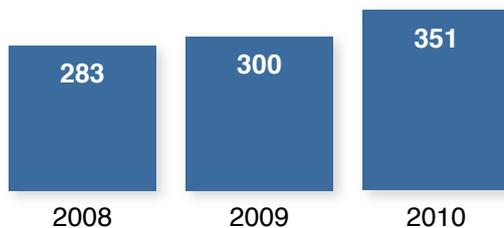


Joint Audits

ECA conducts audit visits to the Member States to establish evidence for its different audits. *'Within the EU, the audit visits are often made in liaison with the Supreme Audit Institutions of the Member States visited, who provide useful logistical and practical support'*.⁶⁰

The following two figures show the number of ECA missions to the Member States in the period 2008 to 2010 and related budget figures (note that the figures are not limited to missions focussing on the SCF). Figure 16 shows a steady increase in the number of missions from 283 missions in 2008 to 351 missions in 2010. Figure 17 shows that the mission budget has increased from €3 million in 2007 to €3.45 million in 2010.

Figure 16 - ECA missions to Member States 2008 to 2010 (number of missions)⁶¹

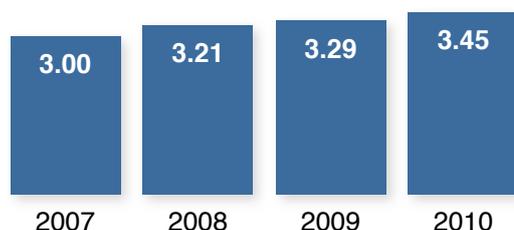


⁵⁸ <http://eca.europa.eu/portal/page/portal/contactcommittee/workinggroups/reportsproductsofworkinggroups>

⁵⁹ <http://eca.europa.eu/portal/page/portal/contactcommittee/workinggroups/reportsproductsofworkinggroups>

⁶⁰ ECA, Annual Activity Report for 2008, 2009, pages 47-48, ECA, Annual Activity Report for 2009, 2010, page 47

⁶¹ ECA, Annual Activity Reports 2008 to 2010

Figure 17 - ECA mission budget 2007 to 2010 (million EURO final appropriations)⁶²

In 2010, the authors of this study conducted a study on SCF management and control.⁶³ This showed that the strengthened audit requirements in the current programming period are considered to place a significant burden on Member State resources dedicated to operating the management and control systems, and that there might be room for enhancing the coordination of the activities of the different audit levels (ECA, EC, Member State central and regional audits).⁶⁴ Indeed, the lecture of some Member State audit reports suggested that there is not much joint activity. For example, the German region of Saxony's audit court notes that whilst joint or parallel audits with the ECA are possible, no use has been made of this possibility.⁶⁵ Similarly, a passage in the Danish Court of Auditors' report on the audit of EU funds in Denmark suggests that there might be scope for more cooperation between audit authorities at national and EU level.⁶⁶

Note that ECA's 2009-2012 strategy includes two main goals, including 'Increasing efficiency by making best use of our resources', however, there is no explicit reference to enhanced cooperation / coordination with other auditors (e.g. Member State SCF AAs).⁶⁷

⁶² ECA, Annual Activity Reports 2007 to 2010

⁶³ Blomeyer & Sanz for the European Parliament, Member State difficulties with Structural Funds management and control systems in the programming period 2007-13, May 2010, pages 72-73

⁶⁴ See also the European Court of Auditors, Opinion No 2/2004 of the Court of Auditors of the European Communities on the 'single audit' model (and a proposal for a Community internal control framework), (2004/C 107/01) 30 April 2004, page 2

⁶⁵ 'Grundsätzlich sind gemeinsame oder auch parallele Prüfungen zwischen SRH und ERH möglich. Beide haben hiervon noch keinen Gebrauch gemacht' (In principle, joint or parallel audits between the regional court and the ECA are possible, however, no use has been made of this possibility) Sächsischer Rechnungshof (Court of Auditors, Region of Saxony), Jahresbericht 2007, 15 November 2007, page 158

⁶⁶ Rigsrevisionen, Memorandum to the Danish Public Accounts Committee on administration and audit of EU funds in Denmark and the European Court of Auditors Annual Report on 2007, January 2009, page 6: 'I am also of the opinion that a strengthened cooperation between the supreme audit institutions and the Court will enhance the quality of auditing and optimize the use of available resources.'

⁶⁷ ECA, Audit Strategy 2009-2012, Summary, January 2009, page 2

In this context, ECA noted that it is *'in the process of examining how it can undertake a pilot project for coordinated audits with the Supreme Audit Institutions (SAI) of the Czech Republic, Denmark and the Netherlands. The concept of coordinated audits consists in sharing the audit tasks relating to a specific area in a Member State with the competent SAI using a common audit approach. For "traditional" audits undertaken by the Court, in Member States (...) the SAIs function as contact points in the Countries concerned to ensure that all relevant and requested information is provided to the ECA. The SAIs can choose to participate in the audits. Not all choose to do so. The ECA does not keep statistics of this as these audits are under the sole responsibility of the ECA and thus as such not joint or coordinated.'*⁶⁸

In March 2010, the ECA Journal reports: *'Enhanced cooperation with national institutions is supported by the ECA. It is also a concept discussed within the Think-Tank created in the ECA. The issue is to assess in how far the ECA can rely on the work carried out in the Member States and then how to find a modus operandi. In this moment, the Court continues to explore **if, and to what extent, opinions produced by national audit bodies on systems and/or the legality and regularity of income and expenditure may constitute audit evidence on which the Court can place reliance.** In this respect the Court is participating in a pilot project of joint audits with other Supreme Audit Institutions of EU Member States.'*⁶⁹

ECA feedback on this study confirms that the pilot joint audit with the Netherlands and the Czech Republic is still underway with outcomes to be reported in ECA's report on the budget in 2010 (to be published in November 2011).⁷⁰ The audits are conducted on the basis of Memoranda of Understanding,⁷¹ detailing each side's role in the process, and the thematic focus of this pilot initiative is on the legality and regularity of agricultural expenditure in 2010.⁷²

Denmark finally decided not to participate in the joint audit. Interview feedback from the Danish SAI (Rigsrevisionen) indicates that whilst the SAI was interested

⁶⁸ ECA e-mail message to the framework contractor, 13 January 2010

⁶⁹ ECA, Journal, March 2010, page 9. Bold font by the authors of this report.

⁷⁰ Telephone conversation with ECA, 22 February 2011. See also ECA, Annual Activity Report 2010, page 23: *'In 2010, the court started a pilot project involving coordinated compliance audits of EU agriculture spending with the SAIs of the Netherlands and the Czech Republic. The pilot project will be completed in 2011'*.

⁷¹ http://www.courtsofaudit.com/english/News/Newsitems/2010/07/Co_operation_between_the_Netherlands_Court_of_Audit_and_the_European_Court_of_Auditors

⁷² ECA, Presentation of the 2011 Work Programme of the ECA to the Committee on Budgetary Control of the European Parliament, ECA Journal, March 2011, page 10

to enhance cooperation with ECA, it was not possible to agree on the methodology for joint audit work with ECA. Indeed, whilst Rigsrevisionen has adopted a strong performance-oriented approach, it was felt that ECA pursues a more statistical approach. In general terms, Rigsrevisionen recommends a more strategic approach to SCF audit, as it is considered that resources can be used more efficiently by enhancing cooperation (enhanced trust between different audit institutions to be demonstrated by using each other's audit findings) and focussing on performance.

Whilst stakeholder feedback generally indicates a strong interest in exploring cooperation opportunities there are also critical voices. For example, the ECA member for Austria recently noted in relation to the joint audits: *'Although the national Courts of Auditors are independent, the results of the audits nevertheless do have a domestic impact. One could, for example, blame the Austrian Court of auditors for damaging its own country if certain shortcomings uncovered during the audit led to demands for repayment from the Commission.... However, I would welcome strengthened joint performance and effectiveness audits, in which both parties act together but the respective independence is assured'*.⁷³

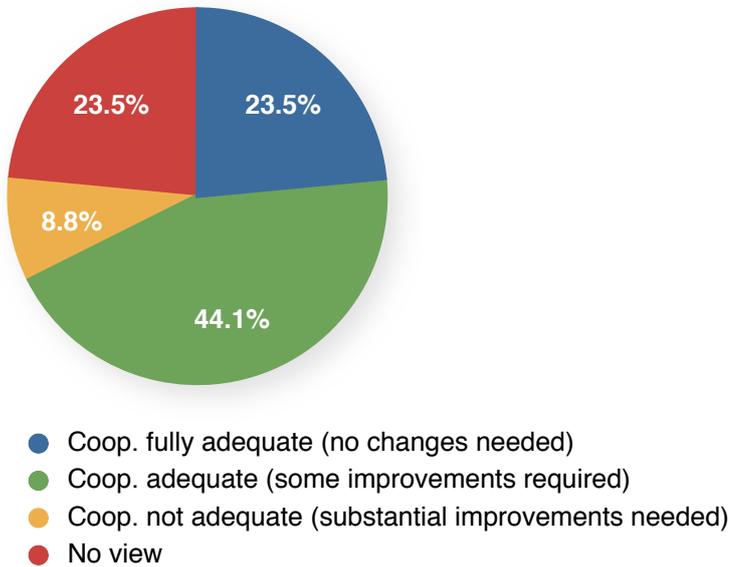


Survey and case study feedback

Survey respondents consider that cooperation arrangements with the ECA are largely adequate. 23.5% of survey respondents consider that cooperation is fully adequate and 44% of survey respondents consider that cooperation is adequate with only minor improvements required. Only about 9% suggest that cooperation is not considered adequate and that substantial improvements are required.

⁷³ ECA, Interview with Harald Wögerbauer, member of the European Court of Auditor from Austria, ECA Journal, July 2011, page 13

Figure 18 - Do you consider the current arrangements for audit coordination / cooperation between the ECA and the Member State (i.e. AAs, Member State SAIs) as adequate?



France - Rhône-Alpes

Neither the AA in Paris (CICC), nor the CICC regional auditor in the Rhône-Alpes region were aware of any coordination mechanisms with the ECA, or of any plans for coordinated audits with the ECA in the future. Similarly, the ECA has also decided to re-audit those regions that the CICC has already audited. ECA argues that their computer model chooses which projects and regions to audit, leaving little room for coordination. The CICC understands that they need to have a statistical approach, but feels that the ECA could take a different approach and avoid re-auditing.

Some time ago, the ECA would visit the CICC in Paris before they carried out an audit of a programme, and would then go back to the CICC afterwards, to debrief them on the findings. This would generate useful discussion about the region and its programme. This was good practice at the time, but doesn't happen anymore. The CICC in Paris feels that there could usefully be a discussion between themselves and the ECA over how the CICC works, to exchange ideas about good practice and the workings of the audits at the national and regional levels.

Czech Republic

From its assessment of supervisory and control systems, the ECA drew the conclusion that “Cohesion” remains the most problematic area, where the error rate is estimated at over 5%, i.e., far higher than the error rate in other areas. This shows that the audit methods and criteria between the AA and the ECA seem to differ strongly. Further to that, the ECA repeatedly stated that the legality and regularity of transactions in Cohesion Policy was significantly influenced by vague legal requirements (e.g. eligibility rules).

The ECA finds that a large number of the sums paid as costs on Cohesion projects contained errors, thus a large number of projects was over-reimbursed. The proportion of projects affected by errors (minor plus major ones) in the representative statistical sample has been around 50% on average. The ECA estimated that, as in 2007, at least 11% of total costs reimbursed in Cohesion projects should not have been reimbursed.

According to an analysis conducted by the ECA, a significant proportion of the estimated error rate is accounted for by eligibility errors, which are the most common type of quantifiable error in the audit sample (projects or beneficiaries did not meet the conditions of the specific fund, serious failure in respecting procurement rules, ineligible costs claimed to be reimbursed, shortcomings in tender and contract award procedures, violation of publicity rules).

It is to be stressed that the results and conclusions of the ECA and the Czech SAI with respect to EU Cohesion Policy interventions in the Czech Republic are quite similar. Unlike the ECA, the Czech SAI does not select an audited sample of transactions by statistical methods, so the identified error rate in projects cannot be extrapolated to an entire Operational Programme. However, it is possible to generalise the audit findings to some extent. Like the ECA, the SAI has found irregularities in public procurement, compliance to eligibility conditions and publicity rules (see further below).⁷⁴

While in 2010 the AA has certified the ROP Central Bohemia to be free of irregularities and error, the findings of the ECA (and the SAI) do not suggest that the audits carried out by the AA always meet the standards of proper auditing. The AA was criticized by DG Regio’s audit department because it apparently did not systematically monitor coverage of the key requirements and the underlying assessment criteria from the systems audits and it is therefore questionable whether the AA had adequate information for the annual audits. Further to that, based on the review of projects audited in the OP Central Bohemia, the EC

⁷⁴ SAO 2010, op. cit., pp. 41 ff.

auditors have concluded that the checklist is not sufficient to ensure legality and regularity of the expenditure. Among many other issues it was criticised that the conclusion of the reports from audits on the OP Central Bohemia reads: '*There were no findings*'.⁷⁵ **Hence, at least for the Czech programmes there is substantial justification to maintain a system of several independent tiers of control for the time being. If there were more co-ordination between the AA and the different courts (ECA, SAI), more irregularities and fraud would possibly remain undiscovered.**

Greece

Currently, there are no coordination mechanisms between the Greek AA and the ECA, and no coordinated audits with the ECA are foreseen for the future. The reason given for this lack of coordination is the fact that neither the Greek AA, nor the ECA are allowed to diverge from the randomness of their sample. Coordinated audits would mean that either the Greek AA or the ECA should change their sample if they found that both were planning to carry out the same audit. However, regulations do not allow such diversions from the random sample.

Moreover, it is the view of the AA interviewees that the aims and methods of the AA and ECA audits are different and there is thus no overlap, even if both institutions carry out the same audit. More specifically:

- The ECA does not carry out a control of all expenditure when auditing an action, like the AA is required to do,
- The ECA does not have to thoroughly examine physical outputs, which is again something that AA is required to do,
- Most significantly, the ECA audits focus more on performance, while the AA audits focus purely on legality and efficiency.
- While the auditing principles are the same for AA and for the ECA, the audit methodology of the two institutions varies.

It was the view of the AA interviewees that it should rather be the ECA that would be better placed to make sure that the ECA and national audits do not overlap,

⁷⁵ The Audit Unit of the DG Regio has carried out a system audit addressing the Audit Authority in the Ministry of Finance (i.e. auditing the Audit Authority). The findings mentioned and several further ones show substantial shortcomings on the part of the Audit Authority (cf. Petrik and Agardi 2010).

because the AA has no degree of freedom to diverge from its random sample for audits.

The cooperation that does take place between the European and national audit institutions takes the form of mediating in the communication between the European audit institutions and the subjects of the audits in Greece. In particular, the ECA uses the support of the Greek SAI when they organise ECA audits in Greece. In these cases, the Greek SAI acts as a mediator and undertakes the communication with the subjects of the audit, concerning the organizational aspects of the ECA Audit.

5.3.3 Cooperation within Member States

France - Rhône-Alpes

Besides the central-level AA, two regional-level authorities are involved in SCF control:

- Management Quality Control (CQG - Contrôle Qualité Gestion): This is the responsibility of the Managing Authority, the Europe Unit (“Mission Europe”) of the General Secretariat for Regional Affairs (SGAR - Secrétariat Général pour les Affaires Régionales). The aim of the CQG is to check that the instructions for managing the programme have been followed.
- Certification Quality Control (CQC - Contrôle Qualité Certification): This is the responsibility of the Certifying Authority, which is the Regional Directorate of Public Finance (DRFIP - Direction Régionale des Finances Publiques), part of the Ministry of Finance, based in the regions. The aim of the CQC is to check that the spending detailed in the audit certificate matches the details in the grant letter, that the spending is eligible and is justified by receipts.

The sampling process for the Audit of Operations is carried out by the CICC in Paris, and the list of selected projects is sent to the CICC representative in the Rhône-Alpes region. Within the region, this list is then passed on to the Certifying and Managing Authorities, so that any overlaps between sampled projects in the different organisations can be identified. If overlaps are identified, DRFIP or SGAR select other projects to audit, as the CICC’s sample is fixed.

There is therefore good coordination between the three organisations involved within the region, to help avoid overlaps in their audit work. Similarly, the findings of the three different audits (Audit of Operations, CQC and CQG) are transferred between the three organisations, so that recommendations from one audit can be monitored by the others.

In terms of the actual auditing work, there is a network of experts within the region, that the auditors can call on, if they feel they need additional guidance, for example, in interpreting legal texts. The three organisations involved in audit and control within the region share this network of experts, and so they minimise doubling up of efforts to address certain problems. They feel that this network is very effective in helping to reduce overlaps in their work.

The CICC regional auditors throughout France have also established a virtual network to exchange experience and advice when issues arise in their region. This support network has been very helpful in addressing particular issues that other regions have faced, and has helped to avoid 're-inventing the wheel' when particular circumstances arise. There is also an annual meeting of all CICC regional auditors throughout France, although it was felt that the one-day format, just once a year, was not long enough for all the relevant issues to be discussed.

Denmark

The Danish SAI ensures an efficient use of resources by making use of the findings of other internal and external auditors. The SAI reviews the findings from EC audits or from the AA (Danish Enterprise and Construction Authority), and also conducts regular meetings with the AA to ensure that there is no duplication. This preparatory work facilitates risk analysis.

Whilst the SAI cooperates with the ECA (joining ECA audit visits), it is not considered that ECA's audit work in the context of the annual statement of assurance considers any SAI or AA findings (ECA applies a statistical approach). Feedback on EC audits shows that the EC considers the Danish AA findings (e.g. in the context of sample visits).

The SAI is engaged in exchanges of experience at European and international level, e.g. with the SAIs of the UK, Poland, Norway and Canada (recent cooperation with Poland focused on the Structural Funds support for the environment).⁷⁶

⁷⁶ Rigsrevisionen, Report to the Public Accounts Committee on the audit of EU Funds in Denmark in 2009, November 2010, page 29

Finally, the SAI notes that its limited resources: about six auditors work on EU funds including the Structural Funds; Structural Funds audit ‘consumes’ about two full-time equivalent staff for two months per year. This explains why resources need to be used as efficiently as possible, thus the emphasis on constructive cooperation between different audit levels, and a strong focus of performance audit on the basis of risk assessment.

UK - North East of England

The AA (Internal Audit Service of the Department for Communities and Local Government) notes that there is no overlap, and no opportunity for co-ordination between it and the UK’s SAI, i.e. the National Audit Office, since the roles and responsibilities of the two bodies are completely different. The National Audit Office covers structural funds to the extent that these are the responsibility of the departments and bodies that it audits. The National Audit Office notes that while it does not co-ordinate with the bodies that it audits, it does avoid overlap as far as possible. This is done by carrying out a scoping study when planning an audit in order to identify all relevant reports, research, studies, etc. that are available, including those from internal auditors, EC auditors, the ECA, academic institutions, etc. The National Audit Office then assesses the extent to which existing work covers the subject in question, and the extent to which the National Audit Office can rely on it (e.g. the reliability of the methodology and the data used). Provided that the National Audit Office is satisfied with the coverage and quality of such work, it will rely on these rather than repeating previous work. For example, it would avoid re-checking an ERDF-funded project that has already been audited by the AA, provided that it is satisfied with the quality of the work carried out by the AA.

However, there are currently no major strategic initiatives envisaged with regard to the reduction of audit costs for the North East of England Competitiveness and Employment operational programme. However, one possible approach might be to have a single audit body for ERDF, ESF, and EAGGF.

The AA notes that there is no communication between the ERDF AAs for England, Scotland, and Wales. While not suggesting that the AA role for the three countries should be combined, there is perhaps scope for increased sharing of experiences and comparison of approaches, etc.



Czech Republic

The AA works in accordance to the Council Regulation 1083/2006. It thus has to ensure compliance to the EU cohesion policy system. There is no organised coordination mechanism between the AA and the Czech SAI. According to the interviewees in the Ministry of Finance, the SAI does not apply a random sample approach of selection, and the SAI audit activities are based on completely different rules and criteria. If there were a coordination mechanism, the criterion of independence could be violated. Hence, it is impossible to rule-out multiple audits of beneficiaries, and it is also impossible to rule-out contradictory results of audits of the same project. A coordination mechanism between both authorities would be therefore even inconsistent. Cooperation is limited to mutual acknowledgement of audit results and reading of the reports. The SAI supports exchange of information. Moreover, the SAI annual audit plan for the given budgetary year (including the changes and additions) is published in the Bulletin of the SAI. All this has no influence on reducing samples but may just be used for heuristic purposes. Further to that, the AA is itself potential subject to SAI audits just as it is also subject to audits by DG Regio and audits by the ECA.

According to the representatives of the AA the problem is less a matter of reducing costs. Rather it is a matter of a better institutional set-up of the AA. A recent meeting at the European Institute of Public Administration spelled out important recommendations that apply to all OPs, but specifically for the Czech programmes. Formally, the AA within the Ministry of Finance is an independent body. However, in reality its independence might be constrained, since people working in the Ministry of Finance are colleagues and sometimes friends. Hence, information is transferred among all departments of the Ministry. Even informal talk can influence decisions on audits or interpretation of their results. This clearly undermines independence. More independence or some sort of an independent and locally separated authority would be superior. Further to that, colleagues in the field (external field staff) are not fully committed to the AA. More corporate identity of the AA would be needed.



Germany - Nordrhein-Westfalen

The regional AA is obliged to the provisions of Article 62 and the provisions of the implementation regulation. Theoretically, the different audit institutions (state level, national and EU) could ask for information about the sample audited by the AA to adjust their own samples. But in fact all authorities have to comply to their regulations defining the standards, therefore there is only little scope for any part to adjust samples in a way to manipulate the statistically determined composition

and to induce some sort of “efficiency”. It is also to be stressed that approval letters for funding include the obligation of the beneficiary to grant access to documents and premises to the AA, the ECA, DG Regio and the regional audit institution.

It is true that there might arise an accumulation of controls from different authorities in certain operations; further to that results and conclusions of the audits are not essentially identical, sometimes even contradictory⁷⁷, but there is little scope to improve the situation under the present provisions.

Spain

In Spain, the central-level IGAE has been designated as the AA for Spain’s six national OPs, two multiregional OPs, 19 regional ERDF OPs, and three territorial cooperation OPs. Regional-level authorities have been designated as AA for 20 OPs (the 19 regional ESF OPs and one territorial cooperation programme). Two further territorial cooperation OPs with Spanish participation are managed by a French central-level authority (OP Mediterranean Programme) and by a Portuguese central-level authority (OP Atlantic Area). In total, the audit of the 52 Spanish OPs or OPs with Spanish participation is ensured by 22 different AAs. The complex arrangements have been criticised, as they imply a significant coordination effort between different authorities.⁷⁸ Coordination is being ensured by the General Commission for Coordination (Comisión General de Coordinación), comprising representatives from the central level AA and from 19 regional level AAs. The latter have established a working group of a smaller number of AA representatives with the function of establishing common methodologies, e.g. for the approach to systems audit or the sampling approach.

⁷⁷ Cf. Frank Schulz et al. 2009, Akquisition und Bewirtschaftung europäischer Fördermittel: Klärung praktischer Fragen im Umgang mit der Akquisition und Abrechnung von EU-Fördermitteln - Veranstaltungen der Innovationsagentur Stadtbau NRW, Dortmund, pp.19 f. (examples of the URBAN II programme)

⁷⁸ IGAE, XVII Jornadas de presupuestación, contabilidad y control publico, Mayo 2009, page 290

Section 6 - Conclusions and recommendations

This section notes the main conclusions and recommendations.

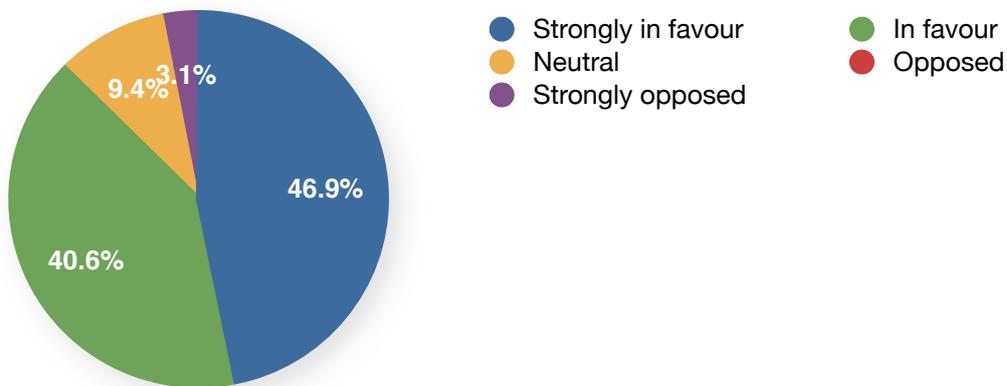
SCF audit focuses on compliance rather than on performance, and the current programming period has witnessed a substantial increase in the audit effort (implying increased audit costs). This is mainly explained with the current regulatory framework's sampling approach (statistical method) entailing substantially larger audit samples than in the past (5% in the 00-06 programming period). The benefits of audit in terms of identifying and preventing irregularities are recognised, however, case study work points to the complex regulatory framework as one of the key causes for irregularities - as one of the interviewees put it: *'the system produces irregularities'*. Case study work also confirms the need for the regulatory framework to be more stable in order to avoid irregularities (i.e. incremental change instead of major reviews for every programming period). Moreover, case study work shows that irregularities are often caused by the fact that the regulatory requirements allow room for different interpretations. In this context the Netherlands proposed: *'The Commission should resolve interpretation questions more quickly and more uniformly and improve access to its answers, possibly with an IT-system.'*⁷⁹

Whilst the regulatory framework provides for elements of proportionality (e.g. in the way that the EC organises its audit focus), the requirement of independence of different institutions involved in SCF audit (AAs, SAIs, EC, ECA) constrains coordination and cooperation.

AA and case study feedback on coordination and cooperation is generally positive (cooperation between the EC and the Member States, cooperation between the ECA and the Member States), however, feedback also suggests that there might be room for further improvement. Indeed, a large majority of survey respondents notes support for enhancing coordination / cooperation between different audit levels (47% strongly in favour; 41% in favour).

⁷⁹ Government of the Netherlands, The future of Cohesion Policy, Response to the public consultation on the future of Cohesion Policy in the conclusions to the Fifth Cohesion Report, 4 February 2011, page 14

Figure 19 - Please indicate your support for enhancing coordination / cooperation between different audit levels, i.e. the single audit approach.

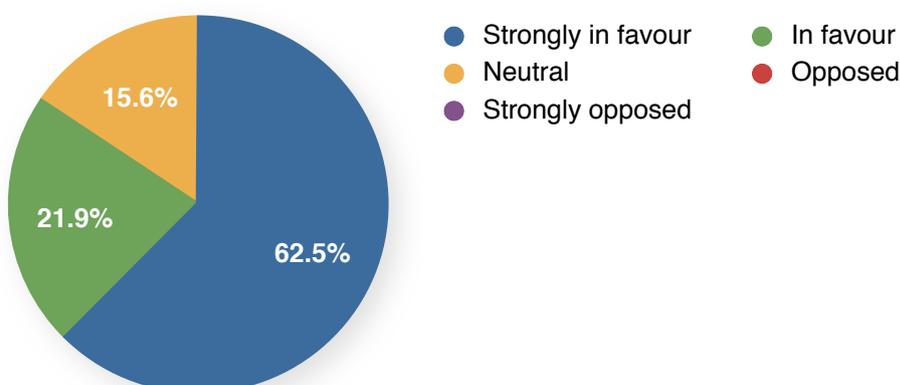


Case study work has pointed to numerous examples for enhancing coordination and cooperation, for example, the French recommendation for debriefing meetings following an ECA audit.

In this context the European Parliament has recommended a review of the governance of SCF audit with the EC to limit its activity to supervision: *‘a standardised application of the single information, single audit (SISA)- model at all audit levels to avoid duplication of audits and over-control; urges the Commission to issue a single audit manual including all the guidance notes produced so far’*.⁸⁰

Moreover, the AAs voice strong support for enhancing proportionality, i.e. aligning audit requirements with OP size (62.5% strongly in favour; 21.9% in favour).

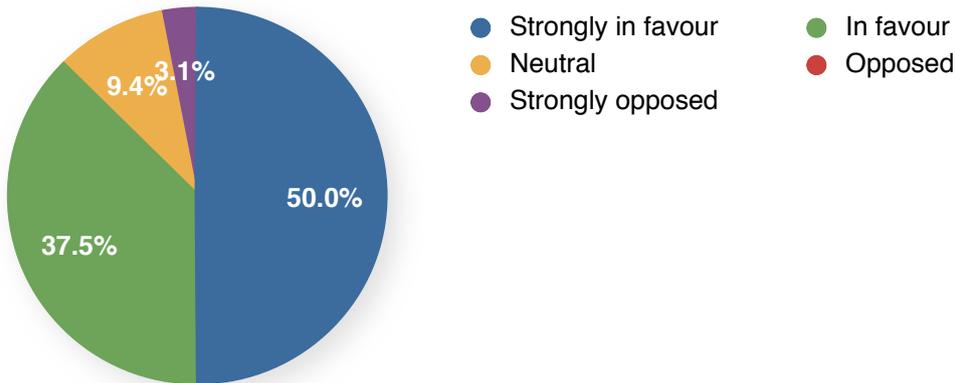
Figure 20 - Please indicate your support for enhancing proportionality, i.e. aligning audit requirements with the size of a programme.



⁸⁰ European Parliament, Report on good governance with regards to the EU regional policy: procedures of assistance and control by the European Commission, 7 October 2010, page 9

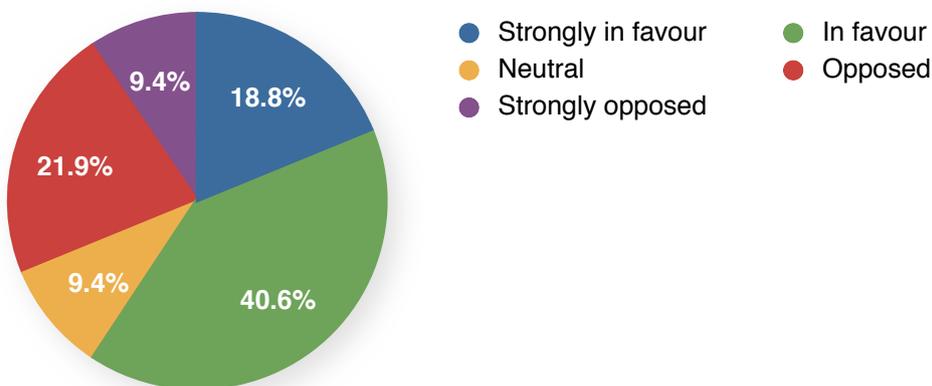
Survey respondents also support a stronger alignment of audit requirements with an OP’s performance in terms of compliance (50% strongly in favour; 37.5% in favour).

Figure 21 - Please indicate your support for aligning audit requirements with the performance of a programme in terms of compliance (reducing audit requirements for programmes that have shown high levels of compliance; contracts of confidence for programmes with a strong track record of compliance).



Finally, a majority of survey respondents also support the introduction or strengthening of elements of performance audit (18.8% strongly in favour; 40.6%% in favour). It is however noteworthy that this option also attracts some opposition, with 21.9% of respondents opposed, and 9.4% strongly opposed to strengthening SCF performance audit.

Figure 22 - Please indicate your support for introducing / strengthening elements of performance audit (as compared with compliance or financial audit).



Annex 1 - Stakeholders

The following list notes stakeholders consulted (in alphabetical order):

Jaroslavá Amblerova, Ministry of Finance, Prague

Mme. Monique Autin, Regional coordinator of Structural Funds Auditing, Rhône-Alpes region (CICC)

M. Laurent Badiou, European Social Fund, Rhône-Alpes region, DIRECCTE

Mme. Marion Boulay-Guillaumeau, « Chef de Service » Certifying Authority, Rhône-Alpes region (DRFIP)

Mme. Simone Briand, SGAR, Rhône-Alpes region, « adjointe chargée de mission Europe »

Petr Burian, Ministry of Finance, Prague

M. Christian Chabra, SGAR, Managing Authority, Rhône-Alpes region

Davide Corner, National Audit Office, UK

Mr Dikopoulos, Committee of Budgetary Control, EDEL

Matthias Fischer, Managing Authority, Wirtschaftsministerium North Rhine-Westphalia

Jeppe Hvidberg, Advisor, Rigsrevisionen, Denmark

Petr Jirman, DG Regio, Directorate Audits

M. Jean-Pierre Jochum, President (CICC)

Manfred Kraff, Director, European Court of Auditors, Directorate Audit and audit supervision - Financial & compliance audit

Michala Krakauer, Director, Rigsrevisionen, Denmark

Ms Koutava, Unit D International Relations, Greek Court of Audit

M. André Leprince-Granger, Advisor to the President (CICC)

Elena Luengo, División de Control Financiero de Fondos Comunitarios, Oficina Nacional de Auditoría, Intervención General de la Administración del Estado

M. Daniel Métayer, Member of the administrative team (CICC)

Joachim Michelmann, North Rhine-Westphalia - Bank, ERDF quality audits

Ken Michie, Auditor, Internal Audit Service of the Department for Communities and Local Government

Ms Nezi, Committee of Budgetary Control, EDEL

Ms Dr Niemeyer, President Landesrechnungshof NRW

Tomáš Novotny, Managing Authority, OP Central Bohemia

Josef Polak, Supreme Audit Office, Prague

Ms Rodzinski, Landesrechnungshof NRW

Jan Roubinek, Ministry of Finance, Prague

Maria Angeles Salvades, División de Control Financiero de Fondos Comunitarios, Oficina Nacional de Auditoria, Intervención General de la Administración del Estado

María del Carmen Serrano De la Hoz, Auditora Nacional Jefe de División de Control Financiero de Fondos Comunitarios, Oficina Nacional de Auditoria, Intervención General de la Administración del Estado

Milan Smid, European Court of Auditors, Directorate Structural Policies, Transport and Energy

Mme. Anne Laure Soleilhavoup, SGAR, Rhône-Alpes region, « chargée de mission Europe »

Ms Tourkolia, Director, Committee of Budgetary Control, EDEL

Werner Ubbenhorst, ERDF Audit Authority, Finanzministerium North Rhine-Westphalia

Vaggelis Vekris, Director, Unit D26, Services of Budgetary Control, Ministry of the Economy

Patrick Wamper, ERDF Audit Authority, Finanzministerium North Rhine-Westphalia

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