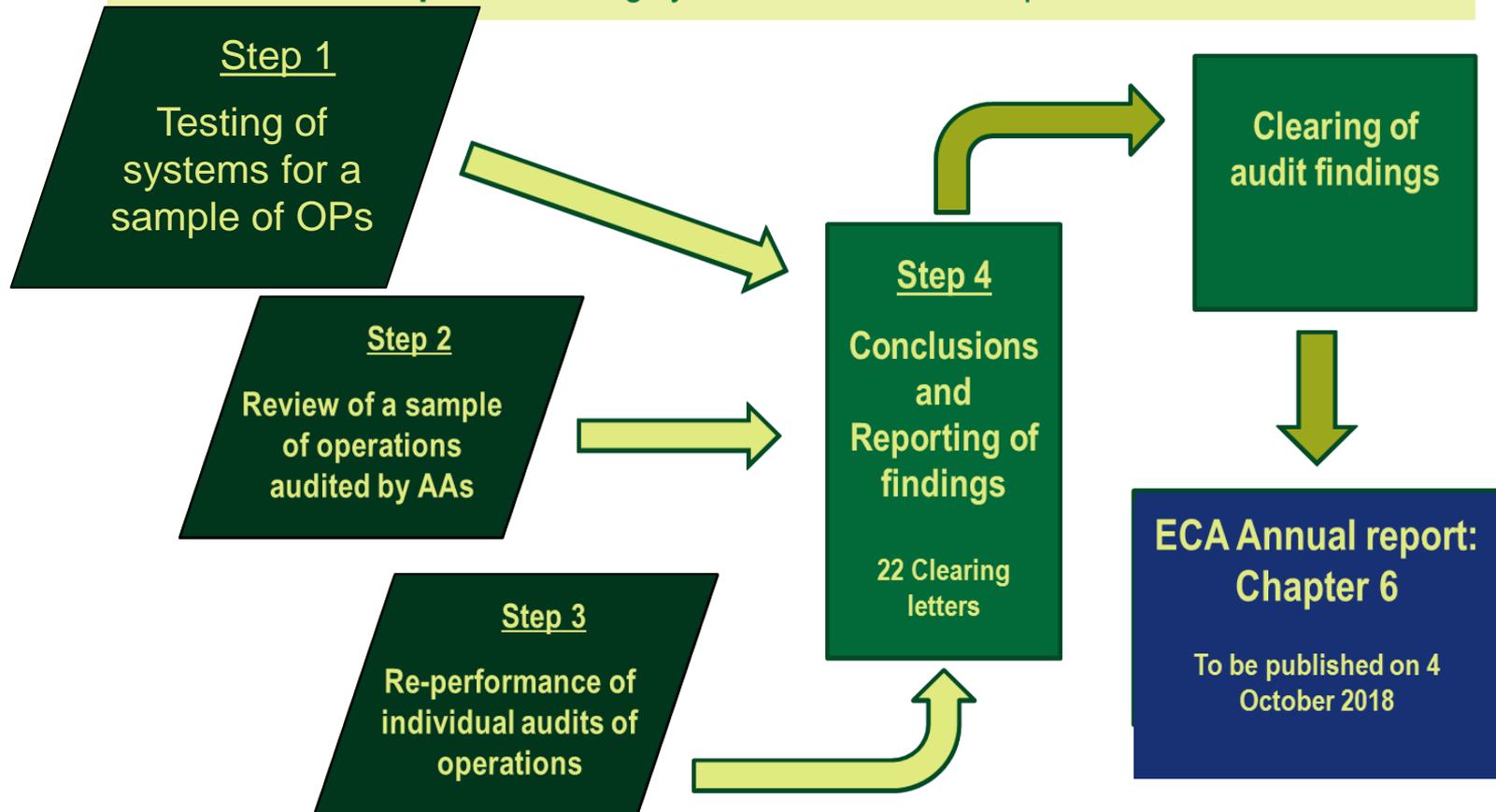


Content

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1. ECA's audit approach to the SoA audit of 2017 in Cohesion

The four audit steps: combining systems and audits of operations



2. The sample

Sample structured in two strata:

Total: 30 hits - 22 assurance/closure packages

51 OPs in 11 MS – 217 transactions

Stratum 1: 2014-2020 expenditure

- **20 hits at OP level:**
 - 12 assurance packages covering 29 OPs in 7 Member States
- **Within each OP (or group of OPs):**
 - A sample of operations audited by the AA
 - Exception: SME initiative where no checks had been done at the level of individual investments. Own sample: 30 investments.
- **Total:** 157 transactions

Stratum 2: 2007-2013 Closures:

- **10 hits at OP level:**
 - 10 closure packages covering 22 OPs in 7 Member States
- **Within each OP (or group of OPs)**
 - A sample of operations audited by the AA
- **Total:** 60 transactions

3. What they found

Audit steps 1 and 2: Testing of systems and review of AAs work

Main audit findings: Number and impact of errors for 2014-2020 transactions were higher than for 2007-2013 transactions

Legend: X packages in X MS

Main weaknesses reported:

1. Major weaknesses in sampling:
2. Insufficient coverage of check lists
3. Insufficient audit documentation
4. Non-detection of Q-errors
5. Insufficient quantification of errors
6. Errors calculating TER and RTER

Total

4 in 4 MS
8 in 7 MS
12 in 8 MS
12 in 6 MS
1 in 1 MS
5 in 4 MS

Stratum 1:

3 in 3 MS
4 in 4 MS
7 in 5 MS
8 in 4 MS
0 in 0 MS
4 in 4 MS

Stratum 2:

1 in 1 MS
4 in 4 MS
5 in 5 MS
4 in 4 MS
1 in 1 MS
1 in 4 MS

3. What they found

Audit steps 1 and 2: Testing of systems and review of AAs work

Main weaknesses in the sampling approach:

- ❑ Inconsistent definition of the sampling unit leading to an overrepresentation of some projects in the audit population.
- ❑ Insufficient sample size in multi-period sampling with no other adjustment
- ❑ Incorrect use of sampling parameters
- ❑ No checks at financial intermediary level in the SME initiative

Difficulty: To assess how these findings impact on the representativeness of the sample.

It is a matter of professional judgement

3. What they found

Audit steps 1 and 2: Testing of systems and review of AAs work

Main issues with coverage of check lists:

- ❑ SME initiative: the agreed upon procedure contract with the external auditor is insufficient to provide assurance. AA had no rights to complement the work at financial intermediary level
- ❑ Eligibility of major project expenditure: No check of prior submission of major project application.
- ❑ No question on Article 65.6: New provision forbidding retrospective projects.
- ❑ Insufficient coverage of compliance with public procurement and state aid rules
- ❑ Eligibility of participants for ESF projects
- ❑ Insufficient coverage on relevant aspects related to SCOs
- ❑ Insufficient coverage on the assessment of performance indicators

3. What they found

Audit steps 1 and 2: Testing of systems and review of AAs work

Main issues with audit documentation:

- ❑ Some derived from incomplete check lists (e.g. Article 65.6, public procurement, state aid, etc.)
- ❑ No indication on which items were subsampled and checked.
- ❑ Scope: No specification of the main eligibility conditions checked and which key documents served to assess it.
- ❑ Insufficient documentation when audit was carried out by an external provider.

3. What they found

Audit steps 1 and 2: Testing of systems and review of AAs work

Audit Criteria on audit documentation:

- ❑ ECA does not ask for an exhaustive documentation of all cost items checked, even if there is no error.
- ❑ BUT at least **some** of the **most relevant documents** for the expenditure audited that can show:
 - the **main eligibility criteria verified**
 - and **how these criteria are documented**.

Main Goal:

To enable a reviewer (within or outside the AA) to conclude on the extent and sufficiency of the checks done.

3. What they found

Audit steps 1 and 2: Testing of systems and review of AAs work

Consequence of insufficient audit documentation:

- ❑ ECA identified shortcomings with the scope, quality and documentation of the audit authorities' work in 121 transactions (56 %). The shortcomings related to 17 of the 22 assurance/closure packages we examined.
- ❑ This required them to re-perform the audit work. For 80 of these transactions (37 % of the total), this meant they had to visit the beneficiary.
- ❑ In 30 of the 121 transactions they re-performed, they found quantifiable errors that had not been previously identified by the audit authority. These related to 12 packages.

3. What they found

Audit steps 1 and 2: Testing of systems and review of AAs work

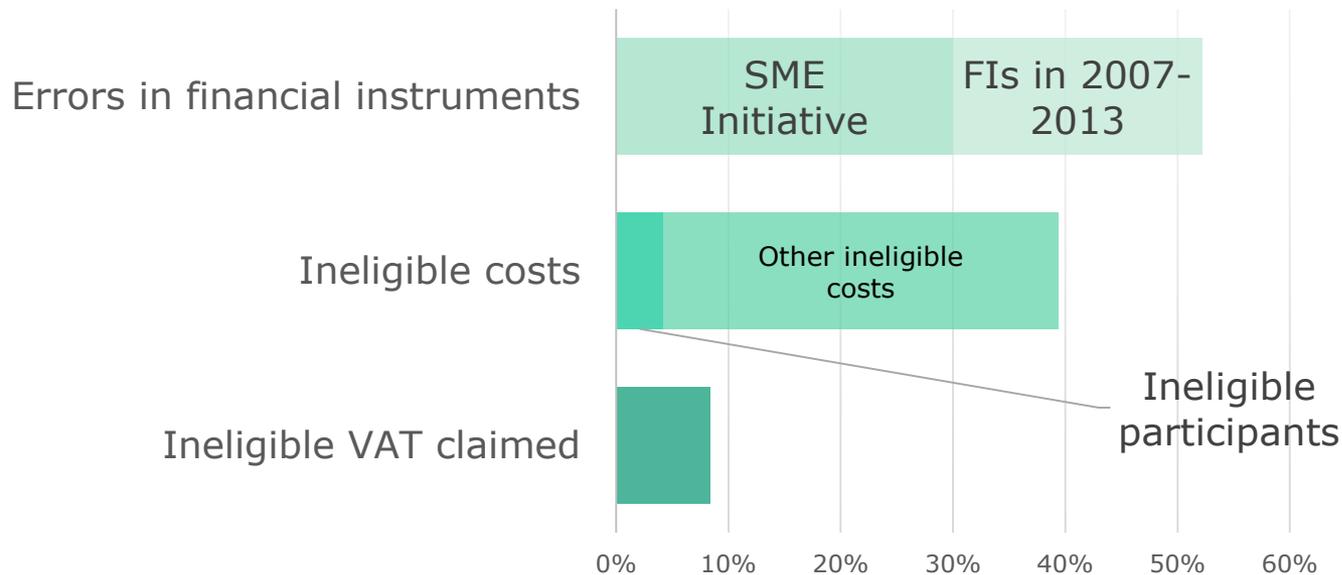
Errors in the calculation of the RTER:

- ❑ Inadequate treatment of High Value Items and known errors.
- ❑ Wrong extrapolation of specific audit results.
- ❑ RTER based on audited population and not on the final certified accounts (excluding Article 137.2 amounts).
- ❑ Advances to financial instruments and state aid projects are taken into account for the calculation of the TER and RTER.

3. What they found

Audit steps 2 and 3: Review and re-performance of operations

Main source of undetected errors



3. What they found

Audit steps 2 and 3: Review and re-performance of operations

Undetected errors in Financial Instruments (2014-2020):

- ❑ **SME initiative** was particularly problematic: 9 of the 30 investments were fully or partially ineligible.
 - ↪ Insufficient and/or inconsistent checks done by financial intermediaries on the main eligibility requirement: **TO BE AN SME** (EU definition).
 - ↪ EIF, as fund manager, did not provide appropriate guidance on how to perform those checks.
 - ↪ 4 investments were used for **ineligible activities** (e.g. re-financing of other loans or primary sector).
- ❑ Audit authority had no legal rights to carry out checks at financial intermediary level
- ❑ External auditor of the EIF did not carry out any audit on eligibility of investments

3. What they found

Audit steps 2 and 3: Review and re-performance of operations

Undetected errors in Financial Instruments (2007-2013):

- ❑ **Thematic audits did not detect errors** in two of the four 2007-2013 closures with financial instruments we audited.
 - ↪ Re-used funds were declared to the Commission as expenditure.
 - ↪ One financial instrument addressed primarily large companies.

3. What they found

Audit steps 2 and 3: Review and re-performance of operations

Main types of undetected ineligible costs (both periods):

- ❑ **Ineligible participants** in ESF and YEI projects
 - ↪ Due to insufficient checks on the NEET status for YEI
 - ↪ Weaknesses in the design on some projects: e.g. inconsistent definition of the threshold of poverty.
- ❑ **Irrecoverable VAT** in ESF and ERDF projects
 - ↪ Declaration of non-recovered costs, instead of non-recoverable
 - ↪ VAT declared for infrastructure projects that collect directly or indirectly VAT from users.
- ❑ Costs not in line with national eligibility rules or with the approval documents (e.g. Indirect costs, change of EU-contribution after project completion).

3. What they found

Main inconsistency in the design of the 2014-2020 management and control framework

- ❑ **Regulation is unclear on how to calculate the TER and RTER**
- ❑ **Non alignment of the definition of audit population for the specific case of financial instruments and state aid advances**
 - ↪ Audit authorities generally include advances to financial instruments and state aid projects in the audit population and take them into account for calculating the TER and RTER
 - ↪ Non consideration of eligible expenditure as disclosed in Annexes 6 and 7 of the annual accounts.
 - ↪ Insufficient audit scope for SME initiative.

3. What they found

Main inconsistency in the design of the 2014-2020 management and control framework (2)

- ❑ *Set-up for the 2014-2020 programming period aims to simplify the closure of OPs by introducing a procedure for the annual examination and acceptance of accounts that is similar to 'partial closure'.*

BUT

This can only work if the residual error rates reported by audit authorities are reliable and information is available that refers exclusively to eligible expenditure at closure (i.e. without advances).



Partial closure cannot take place for OPs that include financial instruments unless audit authorities carry out appropriate work at this level.

Thank you for your attention

Mark Schelfhout
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