



Central Audit Service
Ministry of Finance

Audit of EU-funds

PEMPAL study visit to the
Netherlands, Stan van Elten

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Relevant actors

There are 5 relevant actors for structural funds in the Netherlands:

- **Policy making department**

(Ministry of Social Affairs and Employment (ESF) and the Ministry of Economic Affairs (ERDF and FF))

- **Managing authority**

(Agency (ESF), Provinces (ERDF) and the Ministry of Economic Affairs (FF))

- **Certifying authority**

(Ministry of Economic Affairs)

- **Audit authority**

(Ministry of Finance)

- **Applicant**

Relevant partner outside the Netherlands: **European Commission**



Relevant regulations, guidelines and national rules

Most relevant European regulations

Period 2007-2013

- Regulation 1081/2006
- Regulation 1083/2006
- Regulation 1828/2006
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Period 2014-2020

- Regulation 1101/2014
- Regulation 1300/2013
- Regulation 1301/2013
- Regulation 1302/2013
- Regulation 1303/2013
- Regulation 1304/2013

Guidance documents (MCS, sampling) and COCOF-guidelines

National rules

- Subsidy scheme, operational program, national laws, manuals etc

Important: *translate these documents to norms/points to check*



Activities of the policy making department

The most important responsibilities of the policy making department is to:

- Analyze the “business” (regional development (ERDF), labour market situation (ESF), fishery needs (FF) etc)
- Determine which actions are needed to improve the situation in these fields
- Write the National Strategic Reference Framework
- Agree on the Operational Programme(s)
- Look after the evaluation of the actions in order to report about the results



Activities of the Managing authority

The most important activities are:

- **Write the Operational Programme**
- **Set up of the system**
- **Manage request for subsidy/advance payments from applicants**
- **Giving advise to applicants about all practical issues**
(subsidy conditions, eligibility of costs, accounting requirements)
- **Recognition of educations/trainings (“quality” assurance)**
- **Monitor visits of projects**
(risk based)
- **Perform audits**
(necessary to get evidence the correctness of the declaration)
- **Communication with all external auditors**
(certifying authority, audit authority, Netherlands Court of Audit, European Court of Audit and the European Commission)



Key requirements for the Managing Authority

The EC has defined eight key requirements for the MA, which are the basis for the quality of the Management Control System (MCS):

1. Adequate separation of functions and adequate systems for reporting and monitoring (if they entrust execution of tasks to another body)
2. **Appropriate selection of operations (essential KR)**
3. Adequate information to beneficiaries on applicable conditions for the selected operations
4. **Adequate management verifications (essential KR)**
5. **Effective system in place to ensure that all documents regarding expenditure and audits are held to ensure an adequate audit trail (essential KR)**
6. Reliable system for collecting, recording and storing data for monitoring, evaluation, financial management, verification and audit purposes, including links with electronic data exchange systems with beneficiaries
7. Effective procedures for implementation of proportionate anti-fraud measures
8. Appropriate procedures for drawing up the management declaration and annual summary of final audit reports and of controls carried out



Classification of KR's, AC's, authorities, overall system

There are four classifications:

- 1 - Works well
No, or only minor improvements are needed
- 2 - Works
Some improvements are needed.
- 3 - Works partially
Substantial improvements are needed
- 4 Essentially does not work

The final classification is based on the audit evidence, on the quality of the KR's and assessment criteria (AC's) and on professional judgement.



Audit approach of the Managing authority (1/6)

Relevant documents

- Audit plan
- Work programme
- Guideline for project administrations

The design of these documents is subject of discussion between MA, CA and AA. But: the MA is responsible for the result

Activities during the execution of the project

- Monitor visits; risk based
- Frequently contact with the applicant about the performance of the project and to inform or there are problems or that there is a need for an advice. This can also be the trigger to plan a monitor visit
- Arrange education sessions for applicants



Audit approach of the Managing authority (2/6)

Basic assumptions for activities based on the final claim

- **Important:** good risk analysis for each project, “knowing the business” and an audit approach in line with AA and CA approach
- **Two options:** Behind desk audits or on the spot audits
- **Dutch approach: Data based audit approach**
Reason : bad experiences with the system based approach
Consequence: no audits on the functioning of the internal control system of the applicant is needed
- **No integral audit**
Reason : not efficient, not necessary
- **Two selections**
 1. Critical amounts
 2. Representative amounts**Exception:** For some projects the MA uses statistical sampling (only for a few very large projects)



Audit approach of the Managing authority (3/6)

Critical amounts

- Large amounts
($> 0,5\%$ of the total costs in the final claim)
- All (potential) European public procurement procedures
- All strange or eye-catching/notable amounts
For instance:
 - the costs of a holiday
 - purchase price of a car

Consequences of irregularities in financial terms in the critical amounts selected

- Only the rejected amounts will be corrected
- No extrapolation, because the selection is integral and not random and therefore not representative



Audit approach of the Managing authority (4/6)

Representative amounts

- Same procedure for invoices, overhead costs, labour costs and participants
- Risk analysis
- Random (!) selection of amounts (invoices, overhead costs and labour costs) and random selection of participants
Selection size: Approximately 30% of the financial amount declared (in case of serious risks, the percentage will be higher); tool available to make the selection

Consequences of irregularities in the representative amounts:

- Incidental irregularities
(for instance: once in a while the responsible manager did not sign the timesheets for hours spend on the project)
- Systematic irregularities (all other irregularities)
- Possibly additional audit work is needed



Audit approach of the Managing authority (5/6)

Consequences of irregularities in financial terms

- Incidental irregularities
 - Only the rejected amounts will be corrected
 - No extrapolation
- Systematic irregularities
 - Extrapolation of the rejected amounts
 - Determine for which part of the final claim the irregularity is relevant (for the total claim, only for labour costs, only for invoices etc): that amount is the basis for the extrapolation
 - Linear extrapolation

An example:

Total final claim € 20.000 (= also the basis for extrapolation), audited amount € 1.000 and the irregularity is € 150 (= 15% of the audited amount)

Result of extrapolation: € 3.000 correction (15% of € 20.000)



Audit approach of the Managing authority (6/6)

Reporting

- Report of findings for every project in a draft report (including the (extrapolated) financial correction and the reasons why these corrections are made)
- Reaction of the auditee (only based on fully documented reactions corrections can be turned back)
- Final report (including the reaction of the auditee and the reaction of the MA or they agree or not)
- Ministerial order (if the project is finished) to communicate the subsidy amount to which the applicant is entitled



Key requirements for the Certifying Authority

The EC has defined five key requirements for the CA, which are the basis for the quality of their work:

1. Adequate separation of functions and adequate systems for reporting and monitoring (if they entrust execution of tasks to another body)
2. Appropriate procedures for drawing up and submitting payment applications
3. Appropriate computerised records of expenditure declared and of the corresponding public contribution are maintained
4. Appropriate and complete account of amounts recoverable, recovered and withdrawn
5. Appropriate procedures for drawing up and certifying the completeness, accuracy and veracity of the annual accounts (**essential KR**)



Activities of the Certifying authority

- Audit on the correctness of the statement of expenditure
 - in accordance with the information about the projects
 - good functioning of the procedures of the Managing authority
 - arithmetic correctness
- Audit on the completeness of the information in the annexes (reporting to OLAF and withdrawals)
- The CA is free in their choice of an audit approach; for instance to visit projects or not



Key requirements for the Audit Authority

The EC has defined five key requirements for the AA, which are the basis for the quality of our work:

1. Adequate separation of functions and adequate systems for ensuring that any other body that carries out audits in accordance with the programme audit strategy has the necessary functional independence and takes account of internationally accepted audit standards
2. Adequate system audits (**essential KR**)
3. Adequate audits of operations (**essential KR**)
4. Adequate audit of accounts
5. Adequate procedures for providing a reliable audit opinion and for preparing the annual control report (**essential KR**)



Activities of the Audit authority (1/8)

The Central Audit Service of the Ministry of Finance is appointed as the Audit Authority for all structural funds by the council of ministers

Tasks:

Initial - Designation audit

Yearly - The three (yearly) core functions of the Audit authority are:

- Auditing and giving an opinion on the work done by the Certifying Authority
- System audits (including an opinion) at the Managing Authority
- Project audits



Activities of the Audit authority (2/8)

Auditing the work done by the Certifying Authority

- System audit
 - audit plan
 - work programme
 - procedures
- Audit of the files
 - Most important: audit trail and enough evidence



Activities of the Audit authority (3/8)

Systemaudit at the Managing authority

- Assessment of the quality of: the audit plan, work programme and procedures
- All eight key requirements
 - audit intensity can vary according to the specific situation
- Questionnaire
 - based on the EC-regulations and on the Self assessment tool
- Tests of the procedures
 - limited selection of projects to determine or the functioning of the procedures is according to the article 71 description (is the description of the MA-procedures)



Activities of the Audit authority (4/8)

Project audits

- Comparable to the approach of the Managing authority
- Relevant regulation: EC-regulations, the Dutch subsidy scheme, national laws
- Relevant documents:
 - audit plan
 - work programme
(contains all relevant audit criteria mentioned in the European regulations and the Dutch laws)
 - selection plan



Activities of the Audit authority (5/8)

Project audits; headlines of the audit plan (1 of 4)

- Required: an auditable project administration
- Starting point: audit files of the Managing authority
- Activities:
 - critical analysis of the financial figures
 - selection of amounts to be audited (critical and a-select); standardized quantity with an extension in case of irregularities
 - evaluation of irregularities
- Critical analysis of the financial figures
 - Leads to: critical selection of amounts to be audited
 - what are striking or strange amounts/descriptions
 - how is the partitioning of the costs in relation to the cost categories



Activities of the Audit authority (6/8)

Project audits: headlines of the audit plan (2 of 4)

Selection of projects is based on the sampling guide of the EC

- Starting point: statement of expenditure and the results of the system audit
- Determine the materiality of the statement of expenditure and define the “large” projects (professional judgement)
- Score 2 for the system audit means: 25% confidence; the other 70% confidence comes out of the project audits
- According to the choice of a statistical approach or a non-statistical approach:
 - select the “large” projects and 10% of the other projects (based on a score 2 for the MCS);
 - select the “large” projects and take a statistical sample out of the remaining projects (be aware of the stratification options)



Activities of the Audit authority (7/8)

Project audits; headlines of the audit plan (3 of 4)

- Selection of amounts to be audited within a project (a-select)
Headlines:
 - determine the relevant cost categories
 - select large amounts (> € 25.000) because of the fact that these need a kind of procurement procedure (for ERDF in the Netherlands); this includes also all (potential) European public procurement procedures
 - participants (ESF related): select up to a maximum of 4%
 - hours: select about 20% of the people and 35% of the value (partly integral audit and partly a selection of hours from the selected people)
 - invoices: select about 20% of the quantity and 35% of the value
 - overhead: same selection criteria as used for hours and invoices



Activities of the Audit authority (8/8)

Project audits; headlines of the audit plan (4 of 4)

- Enlargement in case of irregularities
 - choose between an integral audit on the specific irregularity or a relatively small extension of the selection
 - goal of the selection is to assure or the irregularities are systematic or incidental
- Evaluation of irregularities
 - critical selection: only the rejected amounts will be corrected
 - a-select selection:
 - in case of incidental irregularities: only the rejected amounts
 - in case of systematic irregularities: extrapolation or COCOF



Specific topics (1/2)

1. Public procurement
 2. State aid
 3. Equal opportunities
 4. Environmental rules
 5. Cross financing
- Subsidy application: the applicant signs that he doesn't receive other European subsidies
 - Subsidy agreement: mentions the prohibition of cross financing
 - Analysis of projects/subjects with a risk of double financing: for ESF and EFRO this has been done in the National Strategic Reference Framework
 - Ask information from an other department: if the managing authority has doubts than they gather information by other departments (weakness: no central register available)



Specific topics (2/2)

- 6. Financial Engineering Instruments
- 7. Revenue generating projects



Essential aspects for internal auditors (1 of 2)

1. Create a project transcending platform with MA, CA and AA for professional meetings about (the interpretation of) norms to get clearness for all parties (including the applicants)
2. Create a database with (interpretation of) norms/criteria and communicate them to all actors (also to the applicants)
3. Make clear risk analysis for the total programma and for each project; these are the basis for the spearheads of your audits
4. Line up your work plan for the audit criteria with the AA
5. Choose a clear course of action for the moment you put a project in the payment claim:
 - only after an on the spot audit?
 - also after a behind desk audit?
 - only finished projects?
 - define your relevant criteria to minimize the risk of errors!!!



Essential aspects for internal auditors (2 of 2)

6. Be reasonable, but not too friendly to the applicants during your audits; if something is not according to regulations/laws, make a correction and don't try to find unreasonable explanations to avoid a correction
7. Maintain a good and open relationship with the European Commission, the AA and the CA: a good cooperation based on mutual trust between all actors is very important;
8. Follow your work plan and ensure that:
 - there is a good audit trail (documentation is very important);
 - there are good motivations for your decisions or for deviations from your work plan;
 - you make a good and transparent evaluation (including documentation/audit trail)
9. Ensure that there is enough capacity available to perform the necessary management verifications



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QUESTIONS?

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