



**Lowlands and Uplands Scotland ERDF and ESF Programmes 2007 - 2013
Programme Monitoring Committee**

ESF ACTION PLAN TO MEET N+2 2010

1. Introduction

- 1.1 This paper provides the Committee with an update on the development of an ESF Action Plan for achieving N+2 in 2010. The need for an Action Plan was raised by Commission colleagues at the last Monitoring Committee in March. A copy of the Action Plan was submitted to the Commission at the start of May.

2. Management and Control System Approval

- 2.1 A draft Management and Control System (MCS) for the Scottish European funded projects was agreed on 11 December 2009 when the Scottish Authorities received an Acceptance Letter (ref 011627) signed by Jose Palma Andres from DG Regio on behalf of the Commission.
- 2.2 Although the MCS was not officially approved until December 2009 the Scottish Government took steps to implement the new compliance regime as early as July 2009 following our initial meeting with Commission officials in Brussels. This entailed working closely with the Intermediate Administrative Bodies (IAB's) to help develop the control systems. In particular the administrative check and the sampling of expenditure to verify the existence of an adequate audit trail. This system is being revised by further guidance in 2010 as we refine the systems.
- 2.3 All expenditure declared to the Commission will be in accordance with this MCS.

3. A Short Description Of Management And Control System, Compliance System, Staff Training, Etc.

3.1 The Compliance Monitoring System

Projects will be rigorously assessed by means of a four-stage compliance process conforming to the requirements of Article 60 of Commission Regulation 1083/2006. Details of project selection and appraisal processes are given in separate Guidance available via Scottish Government and Intermediate Administration Body (IAB for LUPS is ESEP Ltd) websites.

The four stages of checking set out below cover project implementation, submission of financial claims by sponsors and on-the-spot verifications.

3.2 Stage 1: Desk Based Checks

The first stage of the process involves desk-based checks by the IABs and MA and will draw heavily on the information available through the Eurosyst IT system. Progress Reports and Claims (PRC) with transaction lists will be passed to the IABs. All PRCs will be checked to ensure the eligibility of items on the transaction list and that defrayal dates are correct. IABs will carry out an additional check of eligible expenditure across cost headings in each claim using a random and representative sampling methodology based on EC guidance as per COCOF paper 08/0020/01-EN. This will be checked against source documents. Subsequent claims may not be processed if requested documentation is missing or expenditure cannot be verified. Checks will be recorded and documentation will be held in an agreed data carrier for an agreed period of time. The MA will carry out a quality control of the desk-based checks through on-site visits to the IAB.

3.3 Stage 2: On-The-Spot Visits Under Article 60b

The second level of control consists of on-the-spot verifications. Visit will be carried out by the MA portfolio managers, experienced compliance managers (formerly members of Scottish Government Verification and Compliance team) and IAB programme managers. Prior to any officers undertaking an on-the-spot-verification, they will attend an intensive training course that has been developed with input from the MA and IAB and supported by appropriate experts in, for example, procurement, state aids, finance and accounting. (See below).

European Social Fund (ESF) projects typically involve a limited number of sponsors with a multiplicity of similar projects, as well as some large strategic projects which may involve a significant number of partners or may be tendered and paid on the basis of results. There will also be one project using a Flat Rate costing methodology based on Unit Costs. We shall aim to ensure that projects from 100% of all sponsors are visited, on the understanding that, if significant or potentially systemic errors are identified in one project from a particular sponsor, checks on further projects sponsored by that organisation may be made to see if there is a case for extrapolation of the finding. If a sponsor has more than 1 project then a single project will be randomly selected from the list of projects and this will be the project visited. Visits will be spread across the lifetime of the programme in order to ensure that an acceptable level of expenditure is verified on-site and that projects are visited at different stages of the project lifecycle.

The on-the-spot checks will verify the reality of expenditure and check compliance with the previously approved guidance on project selection and appraisal as well as tendering/procurement, state aids, horizontal themes, revenue generation, outcomes and publicity. Beneficiary costs will also be checked, if appropriate. A minimum of 20% of expenditure declared at the time of the visit will be verified on-site, with a sample of declared expenditure selected prior to the visit, and financial checks will include a systems audit of the final recipient, where appropriate. In order to achieve greater consistency, visiting officers will hold a wash-up meeting with the project sponsor on the day of the visit and highlight any issues identified. Where appropriate, all will agree the follow-up actions required and set out a timescale for resolution – maximum of 20 working days. When no issues remain to be resolved or the timescale has elapsed, a report will be issued to the project sponsor within a further 20 working days. The report will detail any issues and explain the next steps. MA will undertake any necessary recovery action.

The level of checking set out above is indicative and is proposed at the beginning of the programme in the absence of evidence levels and accuracy of claims and error rates. While it represents the clear intention, it is subject to change in the light of experience. If the evidence emerging from stage 3 supports an adjustment to the level or type of checks required, the MA will propose and agree amendments with the Audit Body (Scottish Government Internal Audit Division).

3.4 Stage 3: Analysis of Findings from the Compliance Checks at Stages 1 and 2

The issues arising from Stages 1 and 2 will be examined at regular Compliance Monitoring Group Meetings, at which the Managing Authority, Certifying Authority, Intermediate Administration Body and Audit Authority will be represented. (See section below). These meetings allow us to identify common or potentially systemic errors and assess the quality of information provided by the checks. The Audit Authority will attend in an advisory capacity and will offer insight to findings emerging from Article 62 work. These meetings will also allow exchange of information and best practice and ensure a consistent approach is taken by all parties involved in compliance checks. One of the key outputs of this meeting will be to determine whether the level and type of checking is sufficient to offer the level of assurance on the reality and eligibility of the expenditure, as required by the regulation.

3.5 Stage 4: Article 62 Work by Audit Authority

Scottish Government Internal Audit Division acts as the Audit Authority (AA) in terms of Article 62 of EC Regulation 1083/2006. Its functions are as follows:

- Ensuring that audits are carried out to verify the effective functioning of the management and control system;
- Ensuring that audits are carried out on operations on the basis of an appropriate sample to verify expenditure declared;
- Presenting to the Commission within nine months of the approval of the operational programme, an Audit Strategy covering the bodies which will perform the audits, the methods used, the sampling method for audits on operations and the indicative planning of audits to ensure that the main bodies are audited and that audits are spread evenly throughout the programming period.

3.6 Article 60(b) Desk Based Financial Checks

Every financial claim received will have at least 20% of the expenditure checked to source documents. This may also through up other issues around the delivery of the project or the eligibility of some elements of the project. Such issues will be taken forward jointly by the IAB and the MA Portfolio Manager for the project. If this raises wider issues this can be taken up in the Technical and Operational Group, or in the Compliance Group.

3.7 Article 60(b) On-The-Spot Checks - Timing

By the end of 2009 we had carried out 5 Art 60(b) on the spot ESF checks. By the end of the programme the Managing Authority will have carried out an Article 60b on the spot check on every organisation once in life of the Programme, but this does not hold up claims processing. A further 30 of these on- the-spot checks will be carried out during 2010. These on the spot checks are led by the Managing Authority Portfolio Manager and Compliance Manager along with IAB managers.

3.8 Training of the MA and IAB Staff to Carry Out Article 60(b) On-The-Spot Verifications

During the course of 2009 the IAB in conjunction with Scottish Government experts developed an accredited training course for all staff involved in an on-the-spot visit. The training course consists of a number of modules covering the following items:

- ♦ Planning and preparation
- ♦ Project Management and Administration (Risk Assessment/Management)
- ♦ Physical Progress – Indicators and Targets
- ♦ Monitoring Compliance
- ♦ Understanding Financial Management
- ♦ Eligibility and National Rules
- ♦ Financial Management checks
- ♦ Reporting and Follow-up
- ♦ Community Planning Partnerships (CPP's)

3.9 The Compliance Monitoring Group

The Compliance Monitoring Group was set up in the autumn of 2009 and held its first meeting on 01 December 2009. The remit of the Compliance Monitoring Group is as follows:

- To share information on the administrative checks and on-the-spot visits carried out by the MA, CA, IAB and AA. This includes the provision of a summary of the errors at progress report/claims stage, as well as details of the on-the-spot visits carried out, a summary of the conclusions, best practice found, as well as indicating whether any systemic errors and/or irregularities were identified, particularly where these might be relevant to other Programmes/Funds. All audit missions and their findings will also be discussed. The MA, CA, IAB and AA will detail what actions they have taken to address any of the issues noted. The methodologies for sampling organisations/projects, selecting projects/transactions under the terms of Article 60(b) will be reviewed at the monitoring meeting on an annual basis.

- These meetings form part of an integral part of the compliance process which the MA has put in place. Monitoring meetings will bring together the results from the various management and control activities across the Scottish European Structural Fund Programmes. This ensures that issues can be addressed in an agreed and considered manner and implemented across all funds as appropriate. It also provides for the exchange of information and best practice.
- Finally, it confirms the stringency of the controls in place to enable the CA to submit a Payment Request to the Commission, and the AA to give the annual assurance required under Articles 58-62 of Council Regulation 1083/2006 and Section 3 of Council Regulation (EC) 1828/2006.

4. Advice Issued to Beneficiaries on Claims and Compliance Issues

- 4.1 A number of Article 60B audits have been carried out in 2009 on organisations which have received ESF funds and during these audits a wash-up meeting was held with the beneficiaries where any compliance issues were highlighted and timescales set for responding to the 60B audit team. In addition to the formalised 60B audit process, the IAB and MA provided regular feedback and advice to beneficiaries regarding ESF eligible activity.
- 4.2 The IAB also released a Link-UP Newsletter which is distributed through ESEP's website (<http://www.esep.co.uk/05-di-linkup.html>) and by a subscription e-mail service – Issue 4 of the Link-UP Newsletter had an article on 'Claims, Compliance, Completion and Processing' giving advice to beneficiaries on the rigorous monitoring and compliance systems in place for the 2007-13 programmes.

5. Workshops on Claims for Beneficiaries

- 5.1 Claims workshops are planned for end May. This will be targeted at all approved project sponsors and will cover the latest changes in claims processing, verification and up-front compliance.

6. Systems Checks on Beneficiaries

- 6.1 Some of the largest ESF projects approved so far are 13 Community Planning Partnership Plans. In these cases 2 Compliance Managers from the Managing Authority have visited all 13 to do on-the-spot systems checks.

7. Notifications to Commission

- 7.1 There was 1 notification to the Commission regarding State Aids exemption under the General Block Exemption Regulation (GBER) for Priority 2 LUPS ESF projects, a more detailed note is given under 2.2.2 Competition Policy and State Aids.

8. Current Position On Verifying Declarable Expenditure

8.1 Community Planning Partnerships

The MA has appointed a new Portfolio Manager to concentrate on the claims and progress reports for the 13 CPPs.

8.2 Position as at end April 2010 for CPPs

8.1.1 Commitment

13 Projects have been awarded £52,405,938 ESF and £13,550,293 ERDF.

8.1.2 Contracted

13 CPPs have put in and have accepted NOCs totalling £38,614,616 ESF and £11,169,041 ERDF.

9. Round 1,2 and 3 Challenge Funded Projects

Seven full time additional ESEP Staff to be in place by June/July. The recruitment process commenced in April and interviews are scheduled to take place in May/June. In addition, ESEP have already appointed 3 external contractors to assist staff with verification work for the next 3 months.

10. Position as at End April 2010

10.1 Commitment.

287 projects have been awarded £105,673,542 ESF.

10.2 Contracted

205 projects have accepted offer letters totalling £66,278,785 ESF.

10.3 Declared to Commission

Total Eligible Expenditure at end 2009 €39,810,163.20 and total Grant Requested €16,898,592.47

11. N+2 Report to Commission will be made monthly by the Certifying Authority.

11.1 Update of Plan for Catching up verifications

A number of meetings have taken place between the Managing Authority and the IAB, most recently one on 29th April attended by the Head of the European Structural Funds Division and the Chief Executive of ESEP Ltd at which a full action plan was discussed. This will be finalised on Wednesday 5th May 2010.

**Mabel Hildebrand
Scottish Government
Tel: 0300 244 1117
Email: mabel.hildebrand@scotland.gsi.gov.uk**

30 April 2010