



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

### AUDIT AUTHORITY REPORT AND ROLE

#### 1. Purpose

- 1.1 To advise the Committee of the role of the designated Audit Authority and to report on progress on planned and audit activities undertaken to date.

#### 2. Background

- 2.1 The Scottish Government's Internal Audit Division (IAD) has been designated, for the purposes of the European Social Fund (ESF) and the European Regional Development Fund (ERDF), as the Audit Authority responsible for carrying out tasks under Article 62 of Council Regulation (EC) No. 1083/2006. These tasks include, but are not restricted to:

- ensuring that audits are carried out under internationally accepted audit standards to verify the effective functioning of the EC approved management and control system of the operational programme
- ensuring that audits are carried out on operations on the basis of an appropriate sample to verify expenditure declared (Article 62b) checks
- presenting to the Commission an audit strategy covering the audits referred to in the preceding bullet points
- submitting to the Commission an Annual Control Report (ACR) and opinion setting out the findings of the audits carried out during the previous 12 month-period ending on 30 June and providing an opinion as to whether the approved management and control system is functioning effectively
- submitting to the Commission by 31 March 2017 a closure declaration assessing the validity of the application for payment of the final balance and the legality and regularity of the underlying transactions covered by the final statement of expenditure, supported by a final control report.

- 2.2 The ACR covering the period up to 30 June 2009 was submitted to the Commission in February 2010. A copy of the ACR and Opinion is attached as **Annex 1**.

#### 3. Planning

- 3.1 The first stage in audit planning is to carry out an Audit Needs Assessment (ANA) for each body involved in Programme delivery. The ANA covers a 5 year rolling period and European Structural Fund Division's own assessment of the risks that threaten the achievement of

business objectives forms a significant part of its formulation. In developing the ANA, consideration has to be given to the frequency of audit reviews, the types of review to be undertaken (e.g. full systems review, key control testing etc) and available resources. In addition, plans cater for any “mandatory reviews” some of which may, or may not, attract a high risk score e.g. EC compliance and also give consideration to ensuring low scoring audits are given adequate audit coverage over the longer term.

**3.2** The ANA is therefore drawn together without any overriding constraints and identifies:

- all auditable activities within the audited body;
- the relative priority of the identified auditable areas based on an assessment of the risk and materiality associated with each auditable area (to assist on this process a Risk Assessment Model has been developed which allows auditable areas to be ranked according to their relative risk score); and
- the resources necessary to fulfil the audit plan within the agreed period.

**3.3** Periodic plans are then compiled from the ANA. The Periodic Plan consists of an annual plan for the forthcoming financial year supplemented with a provisional plan for the first 6 months of the following year to allow flexibility to respond to unforeseen circumstances. The draft plan is considered and approved by the Finance and Sustainable Growth Audit Committee (FSGAC) and a copy of the current plan is attached as **Annex 2**.

#### **4. Audit Strategy**

**4.1** Within this approach, and in compliance with EC regulatory requirements, an Audit Strategy has also been developed for taking forward Audit Authority work across the Structural Funds Programmes. This strategy shows coverage more generally over the full Programme period. The current Strategy, a copy of which is attached at **Annex 3** was approved by the FSGAC in February 2010. To facilitate transmission electronically, the annexes have been removed, but they can be provided if desired.

#### **5. Report of IAD Work in 2010/2011**

**5.1** Because of the work that IAD had to complete in closing the 2000-06 Programmes, work on the 2007-13 Programmes was delayed. At the UK Co-ordination meeting in June 2010, the EC stressed that the delay in starting work on these Programmes presented a significant threat to on-going funding and as a consequence, IAD resources have been re-allocated to EC work and 2 of the 4 audits scheduled for 2010/11 (LUPS Systems for Approving Projects, and MA Compliance with Article 60 of Council Regulation (EC) No.1083/2006) have now been completed with draft reports about to issue to ESFD. With closure of the 2000-06 Programmes now complete, the Team primarily responsible for ESF and ERDF has recently started work on reviewing MA Compliance Monitoring of IAB Contracts.

**5.2** So far as the Article 62b checks, (audit of operations) are concerned, it is the view of EC auditors that all of these must be completed by the end of the calendar year. Significant efforts are being made to comply with this to avoid sanctions being applied. The strategy governing this checking is attached as **Annex 4**.

**6. Recommendations**

**6.1** The Committee is invited to:

6.1.1 note the foregoing and offer any comments.

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