



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

THE POST APPROVAL COMPLIANCE SYSTEM – COMPLIANCE UP-FRONT

1. Introduction

- 1.1 The purpose of this paper is to summarise the compliance arrangements that will apply to the delivery of the 2 ERDF and 2 ESF programmes in Scotland.
- 1.2 The PMC will be aware of the difficult audit environment that has been a feature of the later years of the 2000-2006 Programmes. The additional work brought about by the delivery of Action Plans and follow-up audits placed a considerable strain on the resources available to deliver the programmes at all levels, including within project sponsors. The Managing Authority (MA) is determined to ensure that we learn from that period and put in place, from the outset, a proportionate strategy that will offer audit authorities at all levels the level of assurance required.

2. The Compliance System

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

2.2.1 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 20% of the value of eligible expenditure across cost headings in each claim using an agreed sampling methodology. This will be checked against source documents. Subsequent claims will 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 check through on-site visits

2.2.1 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 external experts.

As European Social Fund (ESF) projects typically involve a limited number of sponsors with a multiplicity of similar projects, while European Regional Development Fund (ERDF) projects tend to be dissimilar ones from different sponsors, a different approach will be adopted for selecting projects for on-the-spot visits for the two separate funds. In respect of ESF, we shall aim to ensure that projects from 100% of all sponsors are visited, on the understanding that, if significant 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. In respect of ERDF, we shall aim to visit 100% of projects. 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.

In the case of both funds, 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 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. When no issues remain to be resolved or the timescale has elapsed, a report will be issued to the project sponsor. If any issues in the report require a response from the project sponsor, they will normally be given 20 days to close off all issues. The MA will undertake any necessary recovery action and ensure all reports are closed satisfactorily. The project sponsor will be informed of the outcome of all issues in writing.

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 Internal Audit Services.

2.2.3 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 Monitoring Meetings, at which the Managing Authority, Certifying Authority, Intermediate Administration Body and Audit Authority will be represented. These meetings will be chaired by Deputy Head of European Structural Funds Division and will allow us to identify common 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.

2.2.4 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. Recommendation

3.1 The Committee are invited to:

- 3.1.1 note the compliance system that has been established for the 2007-13 European Structural Funds programmes.

Mark Ashton
Scottish Government
Tel: 0141 242 5821
Email: mark.ashton@scotland.gsi.gov.uk

May 2009