

# ESF - audit aspects and experiences from ECA



**Prof. Dr. Hendrik Fehr**  
**Director – Liaison Officer of the Court**

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### **Disclaimer**

The statements and opinions in this presentation are those of the speaker and do not bind the European Court of Auditors



# Content

- Mission of the European Court of Auditors (ECA)
- Financial audit
- Management and control systems
- Compliance aspects
- Effectiveness of key controls
- Audit of projects
- Comparative results of annual report observations
- Social security systems ?
- Financial vs Performance audit



# Mission of the European Court of Auditors

The mission of the European Court of Auditors is to audit **independently** the collection and spending of **European Union funds** and, by so doing, to evaluate the way in which the European institutions discharge these duties.

The Court examines whether financial operations have been properly recorded, **legally and regularly** executed and managed with an eye to **economy, efficiency and effectiveness**.

In this way, the Court aims to contribute to **improving the financial management** of European Union funds at all levels, so as to ensure maximum value for money for the citizens of the Union.

The Court makes the results of its work known through the **publication** of relevant, objective and timely **reports**.



# KEY CONTROLS

- 1) clear definition, allocation and separation of functions
- 2) satisfactory management control procedures on operations
- 3) sufficient audit trail
- 4) adequate recovery procedures
- 5) reliability of expenditure certification



## KEY CONTROLS (continued)

- 6) implementation of independent checks
- 7) adequate organisation of checks
- 8) independence and auditing standards
- 9) systems and audit findings with a view to issuing closure declaration



# ASSESSMENT OF SYSTEMS

questions:

- works well, few or minor improvements required
- works, but improvements necessary
- does not work
  
- N.B.: at the time of the audit



# Annex 2 – 2002 Annual Report

Assessment by the Court of implementation of Commission Regulation (EC) No 438/01 in the Member States visited									
Commission Regulation (CE) No 438/01 - Implementation of Management and Control systems									
Key Audit Areas	1	2	3	4	5	6	7	8	9
Member State/Region/Fund	Clear definition, allocation and separation of functions (Article 3)	Satisfactory day-to-day procedures to verify legality and regularity of co-financed operations (Article 4)	Sufficient audit trail (Article 7)	Adequate recovery procedures (Article 8)	Assurance of reliability of certificates of expenditure (Article 9)	Progress of checks to cover at least 5% of total eligible expenditure (Article 10)	Adequate organisation of 5% checks (Articles 10-12)	Independence and auditing standards of body issuing declaration at closure of programme (Article 15)	Examination of management and control systems in preparation for providing declaration at closure of programme (Article 16)
Flanders (Belgium) ESF				(1)					
Sachsen-Anhalt (Germany) ESF				(1)					
Nord-Pas-de-Calais (France) ESF				(1)					
Lisboa e Vale do Tejo (PT) ESF				(1)					
Murcia (Spain) ESF				(1)					
West Wales and Valleys (UK) ESF				(1)					
Baden-Württemberg (D) ERDF				(1)					
Greece, Roads, etc. ERDF (2)				(1)					
Castilla-La Mancha (Spain) ERDF				(1)					
Oberösterreich (Austria) ERDF				(1)					
Portugal ERDF									
Scotland (UK) ERDF				(1)					
Crete (Greece) FEOGA Guidance (2)				(1)					
Valencia (Spain) FEOGA Guidance				(1)					
France outside Objective 1 FIFG				(1)					

**Structural measures  
Management and control systems**

- (a)  Works well, few or minor improvements required
- (b)  Works, but improvements necessary
- (c)  Does not work

For details see paragraphs 5.26 - 5.33.

(1) Procedures not tested as they have not had to operate.

(2) The same authorities are responsible for the implementation of the procedures in columns 5 to 9 for these programmes.



# Annex 1 – 2003 Annual Report

## Structural measures Management and control systems

Assessment by the Court of implementation of Commission Regulation (EC) No 438/01 in the Member States visited

Key Audit Areas	1	2	3	4	5	6	7	8	9
Member State/Region/Fund	Clear definition, allocation and separation of functions (Article 3)	Satisfactory day-to-day procedures to verify legality and regularity of co-financed operations (Article 4)	Sufficient audit trail (Article 7)	Adequate recovery procedures (Article 8)	Assurance of reliability of certificates of expenditure (Article 9)	Progress of checks to cover at least 5% of total eligible expenditure (Article 10)	Adequate organisation of 5% checks (Articles 10-12)	Independence and auditing standards of body issuing declaration at closure of programme (Article 15)	Examination of management and control systems in preparation for providing declaration at closure of programme (Article 16)
Thuringen (Germany) ESF	(a)	(b)	(a)	(1)	(b)	(c)	(c)	(a)	(b)
Netherlands ESF	(c)	(a)	(c)	(a)	(b)	(a)	(b)	(a)	(a)
Spain ESF	(a)	(a)	(a)	(1)	(c)	(c)	(c)	(a)	(b)
Greece ESF	(a)	(a)	(a)	(1)	(a)	(a)	(n/t)	(a)	(a)
Galicia (Spain) ERDF	(b)	(b)	(a)	(1)	(b)	(b)	(c)	(a)	(n/t)
Piemonte (Italy) ERDF	(a)	(c)	(b)	(1)	(c)	(a)	(a)	(a)	(a)
East Midlands (UK) ERDF	(a)	(c)	(a)	(1)	(c)	(b)	(b)	(b)	(a)
Hainault (Belgium) ERDF	(a)	(a)	(a)	(1)	(a)	(b)	(a)	(a)	(a)
Puglia (Italy) ERDF	(b)	(b)	(a)	(1)	(a)	(a)	(b)	(b)	(b)
Andalusia (Spain) EAGGF Guidance	(a)	(b)	(a)	(1)	(b)	(a)	(b)	(a)	(a)
Belgium FIFG Outside Objective 1	(b)	(b)	(c)	(1)	(c)	(b)	(a)	(a)	(a)

- (a)  Works well, few or minor improvements required
- (b)  Works, but improvements necessary
- (c)  Does not work

For details see paragraphs 5.47 - 5.54.

(1) Procedures not tested as they have not had to operate.

(n/t) Not tested.



# Annex 1 - 2004 Annual Report

## Structural measures Management and control systems

Assessment by the Court of implementation of Commission Regulation (EC) No 438/01 in the Member States visited									
Key Audit Areas	1	2	3	4	5	6	7	8	9
Member State/Region/Fund	Clear definition, allocation and separation of functions (Article 3)	Satisfactory day-to-day procedures to verify legality and regularity of co-financed operations (Article 4)	Sufficient audit trail (Article 7)	Adequate recovery procedures (Article 8)	Assurance of reliability of certificates of expenditure (Article 9)	Progress of checks to cover at least 5% of total eligible expenditure (Article 10)	Adequate organisation of 5% checks (Articles 10-12)	Independence and auditing standards of body issuing declaration at closure of programme (Article 15)	Examination of management and control systems in preparation for providing declaration at closure of programme (Article 16)
Belgium ESF	(a)	(a)	(b)	(a)	(c)	(a)	(b)	(a)	(a)
Italy (Sicily) ESF	(a)	(a)	(a)	(a)	(b)	(a)	(a)	(a)	(a)
Sweden ESF	(b)	(c)	(c)	(a)	(b)	(c)	(b)	(a)	(a)
Germany (Sachsen) ERDF	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)
France (Réunion) ERDF	(a)	(a)	(a)	(b)	(b)	(a)	(b)	(a)	(a)
United Kingdom (N-E England) ERDF	(a)	(c)	(b)	(a)	(c)	(a)	(a)	(a)	(a)
Portugal (Norte) ERDF	(b)	(a)	(a)	(b)	(a)	(a)	(a)	(a)	(a)
Greece ERDF-Interreg	(a)	(c)	(a)	(1)	(b)	(a)	(b)	(b)	(a)
Italy (Puglia) EAGGF Guidance	(c)	(b)	(a)	(a)	(c)	(a)	(b)	(a)	(a)

- (a)  Works well, few or minor improvements required
- (b)  Works, but improvements necessary
- (c)  Does not work

For details see paragraphs 5.15 - 5.20.

(1) Procedures not tested as they have not had to operate.

(n/t) Not tested.



# AR 2006

## ANNEX 6.1 – Categorisation of control systems

Programme	Assessments of the functioning of:				Control system is:
	Managing Authority	Paying Authority	Audit Body	Winding-up Body	
ESF – Objective 3 – Germany – North Rhine-Westphalia	Partially satisfactory	Satisfactory	Satisfactory	Partially satisfactory	Moderately effective
ESF – Objective 3 – Germany – Lower Saxony	Unsatisfactory	Partially satisfactory	Satisfactory	Satisfactory	Ineffective
ESF – Objective 3 – France – Midi Pyrénées	Unsatisfactory	Partially satisfactory	Unsatisfactory	Satisfactory	Ineffective
ESF – Objective 3 – France – Nord-Pas de Calais	Partially satisfactory	Satisfactory	Partially satisfactory	Satisfactory	Moderately effective
ESF – Objective 1, Education measures – Slovenia	Unsatisfactory	Unsatisfactory	Unsatisfactory	Partially satisfactory	Ineffective
ESF – Objective 1 – Germany – Thüringen	Partially satisfactory	Satisfactory	Partially satisfactory	Satisfactory	Moderately effective
ESF – Objective 1, Fomento del empleo – Spain	Unsatisfactory	Partially satisfactory	Unsatisfactory	Partially satisfactory	Ineffective
ESF – Objective 3 – UK – Scotland	Unsatisfactory	Unsatisfactory	Partially satisfactory	Satisfactory	Ineffective

*Legend:*

	Satisfactory
	Partially satisfactory
	Unsatisfactory



**Table 6.1 – Cross-tabulation of compliance by correctness of reimbursement<sup>(1)</sup>**

Projects where compliance errors were	Projects which were		Total
	incorrectly reimbursed	correctly reimbursed	
present	36 cases 20 %	45 cases 25 %	<b>81 cases</b> <b>46 %</b>
not present	41 cases 23 %	55 cases 31 %	<b>96 cases</b> <b>54 %</b>
<b>Total</b>	<b>77 cases</b> <b>44 %</b>	<b>100 cases</b> <b>56 %</b>	<b>177 cases</b> <b>100 %</b>

<sup>(1)</sup> This cross-tabulation is based on the Court's sample of projects. Since for each project in the sample one reimbursement was audited, the notion 'the sample of projects' and the notion 'the sample of reimbursements' can be used interchangeably.



**Table 6.2 – Cross-tabulation of reimbursement correctness by fund<sup>(1)</sup>**

Correctness of reimbursement	Fund				Total
	ERDF	ESF	EAGGF	Cohesion Fund	
Eligibility error	15 cases 19%	9 cases 15%	3 cases 10%	2 cases 20%	29 cases 16%
Occurrence error	5 cases 6%	7 cases 12%	0 cases 0%	1 case 10%	13 cases 7%
Accuracy error	2 cases 3%	7 cases 12%	1 case 3%	0 cases 0%	10 cases 6%
Multiple error	13 cases 17%	12 cases 20%	0 cases 0%	0 cases 0%	25 cases 14%
Correct reimbursement	42 cases 55%	25 cases 42%	26 cases 87%	7 cases 70%	100 cases 56%
<b>Total</b>	<b>77 cases 100%</b>	<b>60 cases 100%</b>	<b>30 cases 100%</b>	<b>10 cases 100%</b>	<b>177 cases 100%<sup>(2)</sup></b>

<sup>(1)</sup> This cross-tabulation is based on the Court's sample of projects.

<sup>(2)</sup> Columns for ERDF, ESF and total do not sum up to 100%. The differences are due to rounding.



**Table 6.4 – Effectiveness of control systems in the Court’s audit sample**

Control system	Fund				Total
	ERDF	ESF	EAGGF	Cohesion Fund	
Ineffective	5	5	2	1	13
Moderately effective	2	3	1	0	6
Effective	0	0	0	0	0
<b>Total</b>	<b>7</b>	<b>8</b>	<b>3</b>	<b>1</b>	<b>19</b>



**Table 6.5 – Evaluation of a sample of the Commission’s audits**

Rating of audit	Number of audits	
	DG REGIO	DG EMPL
There were major weaknesses in risk assessment.	0	0
There was adequate risk assessment, but the audit result was of little operational use.	1	0
There was adequate risk assessment and an operationally useful audit result, but no post-audit corrective action.	0	0
There was adequate risk assessment, an operationally useful audit result and corresponding post-audit corrective action <sup>(1)</sup> .	7	1
There were weaknesses in audit documentation making assessment of the audit result difficult <sup>(2)</sup> .	2	4
<b>Total</b>	<b>10</b>	<b>5</b>

<sup>(1)</sup> Follow-up associated with audit result is occasionally late.

<sup>(2)</sup> This is not a rating within the scale presented in Paragraph 6.23. The cases are included for completeness and also because incomplete documentation might be interpreted as an indication of a lack of an operationally useful audit result.



## FREQUENT PROBLEMS

- large number of small bodies
- large number of projects managed at the same time
- no analytical accounts
- accounts not professionally kept
- funds from various sources
- revenue not taken into account
- accounting and operating periods do not coincide



## SELECTION METHOD

- random sampling of the payments entered in the Commission's central accounts: 15-18 SF programmes, 6-7 ESF programmes
- within the programme search of homogeneous system, e.g. measure, via the hit-euro
- in the expenditure specifications for the selected measure random sub-sampling of 10 to 15 projects



# Structural Funds DAS 2006

« In Structural measures, the Court found that control systems in the Member States are generally ineffective or moderately effective, and that the Commission maintains only a moderately effective supervision to mitigate the risk that the control systems in the Member States fail to prevent overstated or ineligible expenditure. Therefore, the reimbursement of expenditure to structural policies projects is subject to material error. »



# Structural Funds

- **RISK**  
reimbursement of overstated or ineligible expenditure
- **MEMBER STATES CONTROL SYSTEMS**  
structural measures are implemented in and by the Member States, who take responsibility in the first instance for financial control
- **COMMISSION SUPERVISION**  
Commission implements the budget on its own responsibility  
Member States to cooperate
- **ERROR**  
material level: > 2 %  
in 2006: > 12 % (95 % confidence)



# Social security systems?

## Financial vs performance audit?

Other Structural funds

Internal Policies

FA: quantification

PA: quantification; qualification

- objectives
- cause/effect;
- evaluation

Combination PA/FA??



# Thank you for your attention



Hendrik Fehr

Tel: (+352) 43 98 45 503

Fax: (+352) 43 98 46 503

E-mail:

[hendrik.fehr@eca.europa.eu](mailto:hendrik.fehr@eca.europa.eu)

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