

Preparation and starting phase of ETC programs

Overview and assessment of Management and Control Systems

Challenges posed and lessons learnt

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Introduction

Department ERDF-Financial Control:

- responsible for 9 Operational Programs objective Convergence (1) and Regional Competitiveness (8)
- Audit Authority for 6 ETC programs
 - 4 bilateral ETC programs (with Czech Republic, Germany, Hungary and Slovak Republic)
 - 2 transnational programs (ALPINE Space II and CENTRAL)
- Audit Body for 2 further bilateral ETC programs (Slovenia, Italy)
- Member of Group of Auditors for South-East-Europe, INTERREG IVC, INTERACT, ESPON II, URBACT II

Content

- Description of Management and Control Systems (DMCS)
 - Responsibility
 - Content + Details to be described
 - Timing
- Assessment of the Description
 - Checklist
 - Cooperation with Group of Auditors
 - Experiences made with External Experts
- General and additional challenges
- Room for improvement for the future

DMCS – Responsibility

- New Managing Authorities
- Very demanding exercise – requirements from EC not **‘ETC-tailor-made’** (mainly mainstream)
- Overburdened with requirements
 - which processes have to be described
 - organizational responsibilities not clear from the beginning (e.g. relationship with JTS, control bodies)
 - which documents are part of the DMCS
 - co-ordination with participating MS
 - short time period for presentation to the Compliance Assessment Body

DMCS – content + details

- For **bilateral programs** it was unclear
 - are Intermediate Bodies ‘allowed’ – in reality they exist, according to the interpretation of the Commission they are non-existent ⇒ only one MA
 - minimum requirements for Control Bodies acc. article 13 of reg. (EC) 1080/2006 – first level control or management verification?
 - Eligibility rules ⇒ **one set of program specific rules** is in reality not realized ⇒ in reality national rules are applicable as well

DMCS – content + details

- For **bilateral programs** it was unclear
 - Language problems ⇒ the MA does not receive all relevant national documents in its language – translation of national legal acts required – this costs time and money!
 - Unclear status of Small Project Funds: projects or systems? Have they to be described in the DMCS?
 - Answer from the Commission: either this or that, but the AA has to perform a system audit as soon as the program has started ⇒ this is then rather a sub-system than a project!

DMCS – content + details

- For **transnational programs**
 - similar problems as bilateral programs with additional higher degree of complexity
 - co-ordination with participating MS very time-consuming – problems when one or more MS do not deliver their contributions in time
 - definition of program specific eligibility rules more complicated (as more MS participate)
 - different control systems acc. Art. 13 of reg. (EC) 1080/2006 has a very high degree of diversity ☺
 - responsibility of MS for their control system sometimes unclear ⇒ **quality control needed**

DMCS – what was probably helpful

- The AA as Compliance Assessment Body may:
 - give information on minimum requirements for bodies and processes to be described – what means the regulation (Minimum Index - Annex XII of reg. (EC) 1828/2006)
 - Invite the MA to develop templates; e.g. for audit trail description, questionnaire/template for description of the FLC system – centralized vs. decentralized systems (e.g. country questionnaire)
 - Invite the MA to lay down minimum requirements for control reports and checklists

DMCS – what was probably helpful

- The AA as Compliance Assessment Body may:
 - invite the MA to harmonize requirements with other ETC programs (e.g. one single template for first level control-report applicable for several programs)
 - suggest to develop precise eligibility rules ⇨ in case they are to ‘undefined’ ⇨ problems in the future are foreseeable
 - offer informal meeting before the official compliance assessment starts for clarification of open questions ⇨ this may facilitate the procedure and speed up the assessment phase.

DMCS – timing

- Generally speaking:
 - experiences show that (almost) all ETC programs had serious delays in presenting the DMCS to the CAB – the 12 month deadline was not met at all
 - The CAB needs also time – coordination with members of the GoA necessary.
 - New members of GoA also had their difficulties in understanding the Compliance Assessment exercise!
 - Pressure on CAB was very high as the deadline of 24 months after approval of the OP (advances have to be paid back, in case no acceptable declaration of expenditure is sent by the CA)

DMCS – timing

- Additionally the AA where facing the following problems:
 - The audit strategies have had to be presented within 9 month after approval of the OP ⇒ but not even a simplistic draft of the DMCS were available at this time
 - Indication of system-audits and sample checks was very artificial and vague – sometimes it was not clear how many FLC-bodies will be involved
 - Serious Audit Planning was not possible
 - Failure of successful delivery of DMCS ⇒ the AA/CAB would have been held responsible for

Assessment of the DMCS

- Standardized checklists were helpful
- A common ETC-specific checklist and model report from the EC would have been helpful (each AA/CAB had to invent the wheel again)
- Standardized descriptions of bodies and processes facilitated the compliance assessment process
- Flowcharts demonstrate the processes better than 'epic elaborates'.

Assessment of the DMCS

- Interviews and discussions with the relevant bodies facilitated the delivery of better DMSC (processes where clearer described – general but with necessary details)
- Ad-hoc and informal co-operation with the members of the GoA was helpful and indispensable

Experiences with External Experts

- Simply: annoying
- ETC-complexity (many MS involved with different systems) was too demanding
- Extreme delays in delivery of work-packages
- Extreme high need of meetings with the AA/CAB for clarification
- Finally: termination of contract and finalization of CA by AA itself (with assistance of GoA)

General and additional challenges

After the Compliance Assessment life didn't become easier for AA's:

- Organization and supervision of system audits and sample checks as well as preparation of annual control reports and audit opinions sometimes feels like **'mission impossible'**
- The regulatory framework is inappropriate for ETC programs:
 - Sample taking – extrapolation of error-rate!
 - Necessary clarifications are missing!

Lessons learnt

- The description of the Management and Control system should be made by the MA in parallel with the preparation of the program
- Harmonization and standardization can facilitate the life of all program bodies
- The Compliance Assessment exercise was a cumbersome one ⇒ but it pays off now during system audits
- Weakest link was and is the FLC

Room for improvement for the future

- Within the regulatory framework the EC should recognize the characteristics of ETC and the complexity of such programs
- The Commission should not fundamentally change the system and the principles - only minor adjustments when needed should be made – reduce complexity
- Existing descriptions should be used and amended where necessary
 - No new processes, no additional details!

Room for improvement for the future

- The **EC** should deliver:
 - Clear, precise and detailed eligibility rules which are applicable for all ETC-programs – one set of good and practical rules!
 - Comprehensive and applicable audit methodology for ETC Audit Authorities – checklists, templates, model reports etc.
 - Methodology and clarification on First-Level Control Processes – manuals, checklists, templates

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