

Audit Findings 2007-2013

The Irish Experience so far ...

Dermot Byrne / Paul Herron
ERDF Audit Authority - Ireland



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European Financial Stability Facility



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- Introduction – ERDF Audit Authority, Ireland
- Audits of Operations
- Audits of Systems
- Follow-up of Recommendations



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Introduction

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ERDF Programmes under remit of AA

Operational Programme	Type	National Public Funding €	ERDF Funding €	Rate %
Border Midland & Western Region	National	228,758,838	228,758,838	50
Southern & Eastern Region	National	220,396,466	146,603,534	40
Ireland Wales Programme - Interreg 4A	ETC	17,565,099	52,695,295	75



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- Audit Authority for – Ireland Wales Programme – Interreg 4A.

- Member of Group of Auditors for:
 - Interreg 4A – Ireland / Northern Ireland / Scotland
 - Interreg 4B – North West Europe
 - Interreg 4B – Northern Periphery
 - Interreg 4B – Atlantic Areas
 - Interreg 4C – Interregional
 - ESPON



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- Attached to Ministry of Finance & funded from Technical Assistance
- All 7 professional staff are qualified accountants:
 - Head of Unit / 2 Audit Managers / 4 Auditors
- Continuation of Ireland Wales 2000-06, but AA role now in Ireland
- All audits carried out by AA staff, except:
 - Audit of operations of project partners in Wales (EFAT)
 - Systems audit of management verifications in Wales (EFAT)
 - IT security audit outsourced to specialist firm



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Quality Control / Peer Review

- Decision not to contract out audits to private sector firms
- Service Level Agreement with GoA Partner in Wales (EFAT)
 - Audit Engagement Letter
 - Audit Programmes
 - Format of audit reports
 - Reporting time schedules
- Two Way Peer Review (Exchange of Files with Welsh Audit Body)
- Results of review to be discussed at GoA



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Audits of Operations



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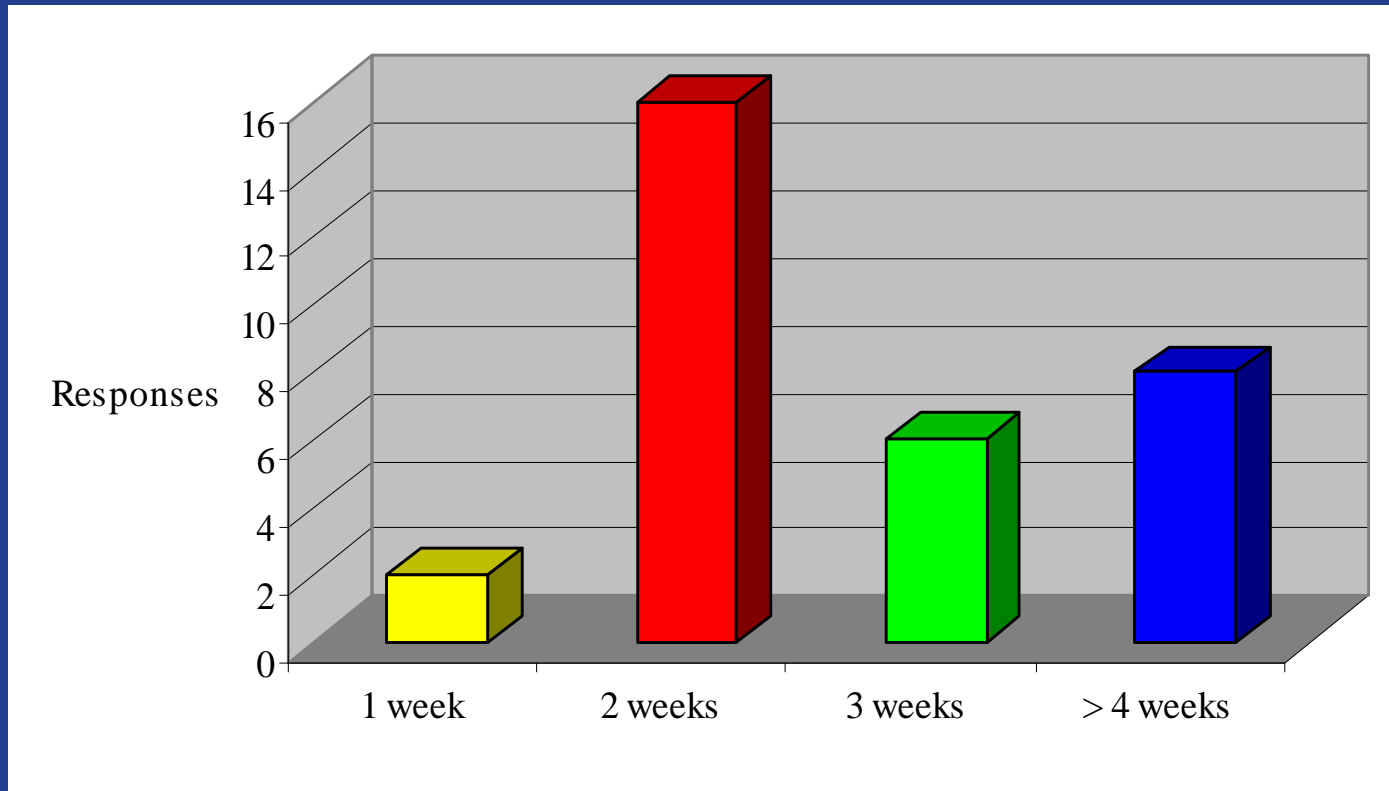
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Survey of EU Audit Authorities

Response times to draft audit reports

Survey of 31 Audit Authorities in 2009/2010



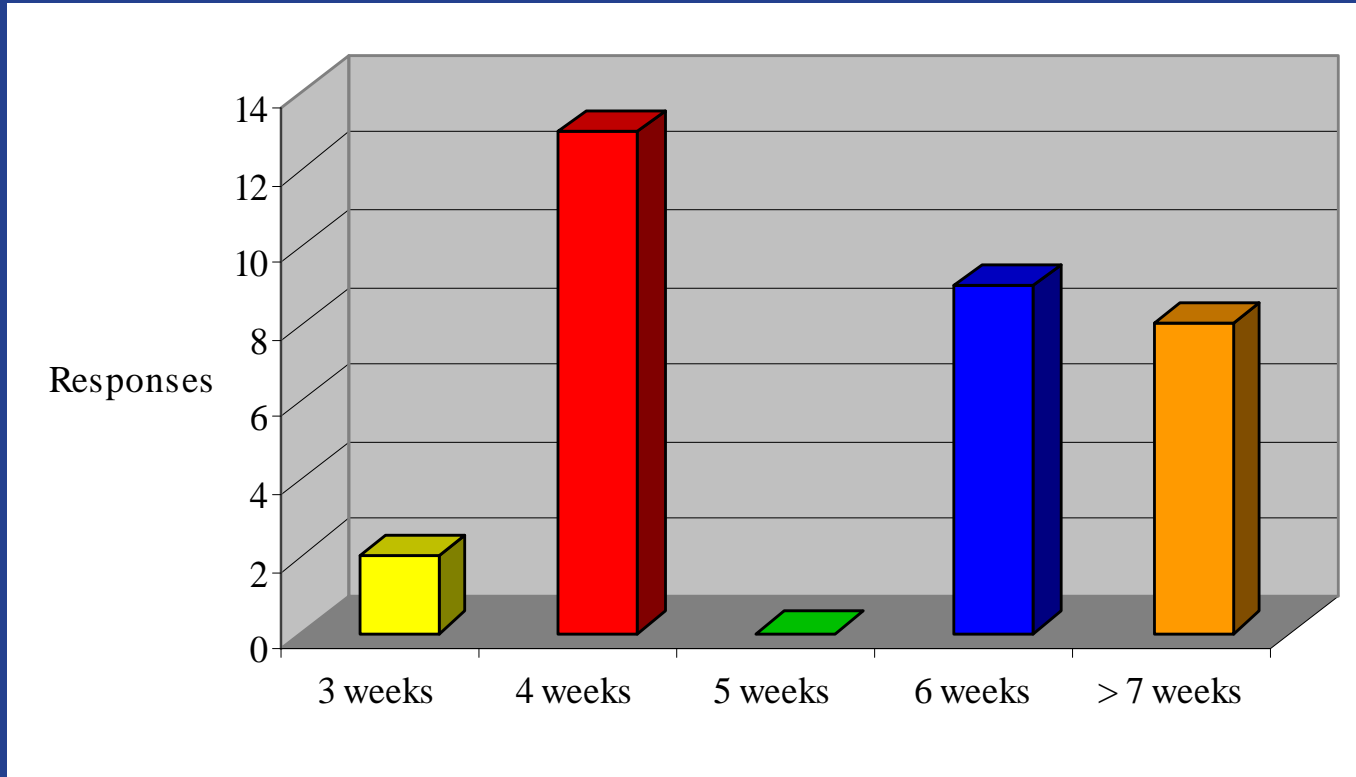
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Survey of EU Audit Authorities

Final Audit Report – how long after fieldwork?



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Audit Reports – Time Frames in Ireland

Task	Body Responsible	Maximum Target Date
Audit Fieldwork for Operation	Audit Authority	1 week (average)
Issue of Draft Operations Audit Report	Audit Authority	4 weeks after completion of fieldwork
Response to Draft Report	Public Beneficiary Body	4 weeks After receipt of Draft Operations Audit Report
Issue of Final Operations Audit Report	Audit Authority	2 weeks following receipt of response



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Reporting protocols

- Individual Operations Audit Reports do not get transmitted to SFC
- Copy to CA, MA, IB and audited body
- Findings / Recommendation / Error rates are summarised in ACR
- Operations Audit Reports are:
 - Exceptions based
 - Brief



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Operations Audit Report Format

- Project Information
- Regulatory Framework (Refer to Art 62.1b and Art 16)
- Objectives / Scope of Audit
- Executive Summary
- Principal Results from the Audit
- Systemic Issue
- Details of the Audit



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Executive Summary - Audit Report

Article 62(1)(d) Requirement for Annual Control Report		Information to be reported
a.	Total Eligible Expenditure Declared by Operation	€
b.	Value of Expenditure Verified by Audit of Operation	€
c.	Percentage of Expenditure Verified by Audit	%
d.	Total Irregular Expenditure Identified	€
e.	Total Error Rate from Audit	%
f.	Principal Results of Audit	See Appendix 1
g.	Irregularity Reports Requested	?
h.	Details of any Systemic Problems and Measures taken	?



Operations Audits - findings & corrections

- Audit Trail (Missing documentation)
 - Generally a correction of amount in missing document
- Eligibility Issues (Non compliance with eligibility rules)
 - Correction of ineligible expenditure
- Public Procurement (breach of national / EU public procurement guidelines)
 - Flat rate correction based on COCOF Guideline (07-0037-03)
- Publicity (non compliance with EU publicity rules)
 - Mainly recommendations for improvement – no significant correction



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Reporting of Financial Errors in ACR Ireland Wales INTERREG 4A

- Sampled 3 Operations (6 audits) for the 2009 audit reference period
- Financial errors were discovered in 4 of the 6 project partner audits
- Error rate of 2.93%
- ACR was prepared and approved at the GoA in early December
- Irregularities adjusted in next claim before end of 2010 – however the ACR error rate is reported as found.
- Residual error rate for 2009 is revised in subsequent ACR's (2010, 2011 etc.)



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Common Public Procurement Breaches

- Three Most Common Breaches:
 - 1) Failure to have a competitive process
 - 2) Additional Costs
 - 3) Non compliance with selection criteria
- Majority of corrections are for contracts below the EU thresholds
- Current debate with MA's/JTS

If the beneficiary body is from the private sector, is it fair to penalise them for breaches in “Public Procurement Guidelines”?



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COCOF Guide - No 21: Adequate advertising and transparency

- COCOF recommends a correction – 25% of value of contract
- Footnote 3 - Refers to Commission Interpretative Communication 2006/C 179/02:

“If there is a **very modest economic interest at stake**, a contract award would be of no interest to economic operators located in other Member States, the fundamental freedoms are ... too uncertain and indirect to warrant application of the standards.....therefore no ...financial corrections”
- MA / JTS disagree with the 25% correction for a direct award, even though national procurement rules require 3 quotations if contract > €5,000.
- Commission Interpretive Communication (2006/C 179/02) states that it is the **responsibility of the contracting authority** to decide. Should AA step in ?



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COCOF Guide - No 21: Adequate advertising and transparency

Scenario

If a body directly awarded a consultancy contract to a company for €30,000 (EU Services Threshold €193,000) – does this constitute a “modest economic interest” ?

Questions?

- What value constitutes “Modest Economic Interest”?
- Is value different for works, services and supplies?
- The interpretative note states that geographical location should be taken into consideration for modest economic interest.



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Republic
of Ireland

480km

Geographical location:

Which city would be close
enough to 'UK' to constitute
"modest economic interest" ?



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Audits of Systems



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Programme for Systems Audits

- Audit Authority Staff benefit from testing the management & control systems when performing operations audits.
- Closely follow the methodology COCOF Guide (08/0019/00)
 - 7 MA/IB Key Requirements
 - 4 CA/IB Key Requirements
- Audit Strategy – to address all 11 between 2009, 2010 and 2011.
- Risk Assessment to prioritise key requirements to complete in 2009.
- Audit Opinion for 2009 and 2010 carried a limitation “not all the system audit key requirements had been subject to audit”.



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Key Requirements - priorities

AUTHORITY	KR NO.	KEY REQUIREMENT	YEAR
MA/JTS	1	Clear definition, allocation and separation of functions within MA/JTS	2010
MA/JTS	2	Adequate procedures for selection of operations	2010
MA/JTS	3	Adequate information and strategy to provide guidance to beneficiaries	2010
JTS/WEFO	4	Adequate Management Verifications	2009
MA/JTS	5	Adequate Audit Trail	2009
MA/JTS	6	Reliable accounting, monitoring & financial reporting systems (computerized).	2009
MA/JTS	7	Preventative & corrective action for systemic errors detected by the audit.	2011
CA	1	Clear definition, allocation and separation of functions - certifying authority.	2010
CA	2	Adequate audit trail and computerised system.	2010
CA	3	Arrangements for the certification of expenditure to be reliable and sound.	2009
CA	4	Satisfactory arrangements for keeping an account of amounts recoverable and for recovery of undue payments.	2011



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MA / JTS

- Article 60 functions and responsibilities not fully defined and allocated to specific staff.
- Calls for applications not advertised in printed media in Wales
- No system of appeal for rejected applications
- Administrative verifications not exhaustive
- No risk-based methodology for selecting projects for management verifications
- CA and AA did not have direct access to IT system
- IT system not yet subject to an independent security audit



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Certifying Authority

- Functions of Certifying Authority not clearly allocated individual staff
- Absence of step by step guide for generation of Certificate and Statement of expenditure and Application for Interim Payment (Annex X)
- Concern that financial information used to prepare statement of expenditure does not reconcile to the IT system



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Follow Up of Recommendations



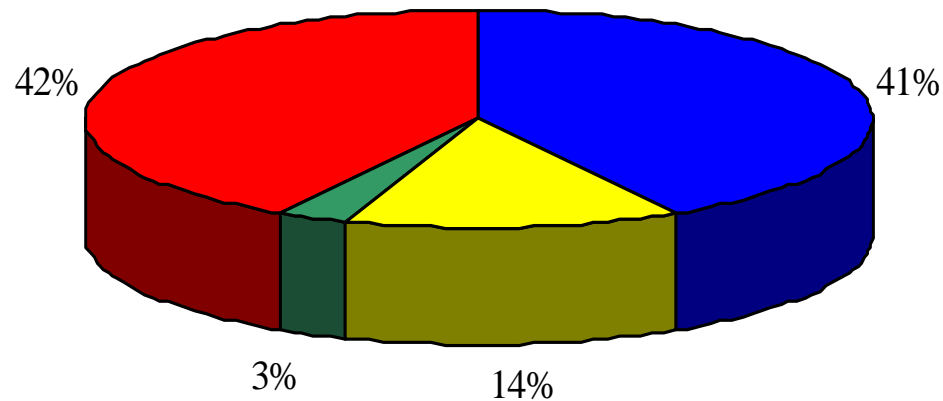
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Survey - who assists AA to follow up recommendations?

Survey of 31 Audit Authorities 2009/2010



■ Managing Authorities ■ Intermediate Bodies
■ Beneficiary Bodies ■ Combination of all 3



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Following Up Recommendations

- Principal recommendations from systems audits should be included in ACR.
- For Operations Audits:
 - Findings involving financial irregularities included in Appendix to ACR
 - Judgement required “what is considered a principal finding?”
- ACR recommendations followed up next / subsequent years
 - Outstanding / Cleared / Partially Cleared
- If not addressed - growing list of recommendations to follow up
- If large number of operations audits, AA’s must work closely with MA’s/JTS
- Needs cooperation of MA/JTS as AA may not be able to revisit every operation/recommendation.



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Contact the Audit Authority



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