Ways to Optimize Internal Control of EU Funds

18-20 February, 2020
Ljubljana
Training Objectives, Methodology, Scope and Sources of Information

Objectives
Learning the following concepts:

▪ lessons learned from audit and control in the 2014-2020 programming period
▪ EC MFF 2021 – challenges to be addressed
▪ Internal and external control and audit of EU funds in the programming post-2020 period
▪ Increasing efficiency of control and audits
▪ Internal control system providing reasonable assurance for achievement of set objectives
▪ Optimised Internal Control
▪ Financial Instruments
▪ Simplified Cost Options
▪ Achieving value for money principle when implementing EU budget
▪ Sound financial management principle - absorption and controlling EU funds
▪ Protecting EU and national financial interest; preventing and reporting irregularities

Methodology
Our training uses the following methods:

▪ classroom lecturing
▪ solving of practical case studies
▪ discussions and brain-storming sessions
▪ sharing different countries working practices, experience and feedback

Scope
EU Budget – 2014 – 2020 and 2021 - 2027
Revenue – limited
Expenditure
▪ ESIF (without CAP)
▪ IPA

Sources of Information
▪ EU Regulations, draft regulations
▪ Commission reports, OLAF Reports
▪ ECA Reports

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Rules of the Training

We agree that we want to listen to what everyone says!

.... one speaker at a time...

Please, feel free to ask any questions/clarification throughout the training session!
Content

ICS AND SCO

• EU BUDGET OVERVIEW
• INTERNAL CONTROL BASICS
• EU FUNDS AND INTERNAL CONTROL
  • IPA
  • ESIF
• OPTIMISED INTERNAL CONTROL
  • SIMPLIFIED COST OPTIONS
• TOWARDS A BETTER FUTURE: 2021 – 2027
  • IPA
  • ESIF

IRREGULARITIES AND FRAUD

• WHAT'S NEW IN THE PERIOD 2021 – 2027
• ANNUAL REPORTS OF ECA – OPINION AND ERROR RATES
• OLAF REPORTS - STATISTICS ON IRREGULARITIES AND FRAUD
• CONCEPT OF IRREGULARITY, FRAUD AND CORRUPTION
• STAGES OF THE PROCEDURE
• CLASSIFICATION OF IRREGULARITIES
• GROUP EXERCISES, CASE STUDIES

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EU Budget - Overview
Evolution of main policy areas in the EU budget

- Common Agricultural Policy and Fisheries
- Economic, Social and Territorial Cohesion
- Other Programmes
- European Public Administration

*Adjusted for 1995 enlargement
Source: European Commission

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EU Budget - Overview
MFF 2014 - 2020

MFF 2014-2020

IPA

- Competitiveness for growth and jobs
- Economic, social and territorial cooperation
- Sustainable growth: Natural resources
- Security and citizenship
- Global Europe
- Administration

MFF 2014 2014 – 2020: over 1 trillion euro
EU Population: 507 (– 65) million people
MFF Decreases – 3.5 % comparing to 2007 – 2013
Natural resources: (-) 11.3 %
Security: (+) 27%
EU Budget - Overview

MFF 2014 - 2020

FINANCIAL FRAMEWORK OF THE EU
- Period: 7 years (since 1988)
- Limits of Payment: up to 1.24% of GNI
- Limits of Commitment: up to 1.31% of GNI
- New Legislation Package

ANNUAL BUDGETS

REVENUE (Own Resources):
- GNI based – 74%
- Traditional – 10%
- VAT based – 10%
- Others – 6%
- 2/3rds of the revenue comes from: FR, DE, IT, ES and UK

Principals of the Budget of the EU:
UNITY AND BUDGET ACCURACY
ANNULARITY:
- Commitment Appropriations/Payment Appropriations
- Differentiated Appropriations/Non-Differentiated Appropriations

UNIT OF ACCOUNT
EQUILIBRIUM
UNIVERSALITY
SPECIFICATION (Titles, Chapters and Articles)

SOUND FINANCIAL MANAGEMENTS:
- Economy
- Efficiency
- Effectiveness

TRANSPARENCY
EU Budget - Overview
MFF 2021 - 2027

- Raising the own resources ceiling from 1.20 % to 1.29 % GNI (inclusion of the EDF, increases in budgetary guarantees, and the UK’s withdrawal from the EU)

- MFF 2014-2020 vs. 2021-2027
- 1.3 Trillion – current prices
- EDF (0.03%) – included
- Streamlined programmes – from 58 to 37 – External Action and IPA
- Research, Innovation, Digital x 1.6
- Youth x 2.2
- LIFE Climate & Environment x 1.7
- Migration & Borders x 2.6
- Security x 1.8
- External action x 1.3
MFF 2021 - 2027

Change between the current and the new MFFs

<table>
<thead>
<tr>
<th>Category</th>
<th>In euros</th>
<th>In %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural Resources and Environment</td>
<td>- 63 billion</td>
<td>- 16 %</td>
</tr>
<tr>
<td>Cohesion and Values</td>
<td>+ 4.7 billion</td>
<td>+ 1 %</td>
</tr>
<tr>
<td>European Public Administration</td>
<td>+ 4.8 billion</td>
<td>+ 7 %</td>
</tr>
<tr>
<td>Neighbourhood and the World</td>
<td>+ 12.6 billion</td>
<td>+ 13 %</td>
</tr>
<tr>
<td>Single Market, Innovation and Digital</td>
<td>+ 49.9 billion</td>
<td>+ 43 %</td>
</tr>
<tr>
<td>Migration and Border Management + Security and Defence</td>
<td>+ 43.1 billion</td>
<td>+ 359 %</td>
</tr>
</tbody>
</table>
EU Budget - Overview

MFF 2021 - 2027

What is new in Revenue:

MODERNISATION OF EXISTING OWN RESOURCES

- Value Added Tax-based: simplified
- Traditional Own Resources (mainly Customs duties): Lower collection costs (from 20% to 10%)
- GNI-based contribution: Smaller share

NEW OWN RESOURCES

- Common Consolidated Corporate Tax Base
- 20% of revenues from emissions trading system
- National contribution based on non-recycled plastic packaging waste

OTHER REVENUE

- Seigniorage (External assigned revenue for new Investment Stabilisation Function)
- Revenues of new European Travel Information and Authorisation System

NO REBATES

- Phasing out mechanism

HIGHER OWN RESOURCES SEALING

- From currently 1.2% of GNI to 1.29% of GNI
EU Budget - Overview
MFF 2021 - 2027

DIRECT MANAGEMENT
• EC delegations or Implementing Agencies

SHARED MANAGEMENT (ESIF)
• With Member states

INDIRECT MANAGEMENT (IPA)
• Budget execution tasks are delegates to third countries, international organisations or EIB and EIF

Fiscal Implications of Structural Reforms

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Sound Financial Management

Legal basis:
Financial Regulation (EC) No 1046 of 2018

Definition: EC Budget Appropriations have to comply with:

Economy - the resources used by the institution for the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and at the best price

Efficiency - the best relationship between resources employed and results achieved

Effectiveness - attaining the set specific objectives set and achieving the set results

• Focus of Performance
• Ex-ante Objectives – Performance Indicators
• Specific, measurable, attainable, relevant and time-bound objectives - SMART
• Both ex-ante and retrospective evaluation
• Relevant, accepted, credible, easy and robust indicators

• Protection of financial interests
• Proportionality of administrative costs
• User-friendly procedures

Funded by the European Union.

Fiscal Implications of Structural Reforms
Sound Financial Management of EU funds

MAIN RISKS

• Legality and regularity of expenditure
  Funds not spent as intended, for the purposes and according to the rules established

• Reliability of accounts
  Funds may not be accounted for properly in the annual financial accounts

• Economy, efficiency and effectiveness
  Funds are not spent according to the principles of sound financial management

• EU added value
  Funds may not add value and the expected benefits may not materialise
Sound Financial Management of EU funds

What goes wrong

- **Eligibility rules**
  Too much requirements – control systems may not be sufficient to check compliance

- **Public procurement rules**
  Fraud or incompetence = financial corrections

- **Capacity of responsible authorities**

- **EU and national budgets**
  Multi-annual programmes are carried under annual budgets

- **Quality of data and information**
  Monitoring, financial and performance management may be based on incomplete or unreliable information
Internal control - basics
Internal control - basics

The COSO Model

The Committee of Sponsoring Organizations’ (COSO)

Internal control - process, designed to provide "reasonable assurance" regarding the achievement of objectives in the following categories:

Operations: effective and efficient use of its resources

Reporting: reliability of reporting

Compliance: compliance with applicable laws and regulations

The COSO internal control framework consists of five interrelated components derived from the way management runs a business

Source: The Committee of Sponsoring Organizations

Fiscal Implications of Structural Reforms

Funded by the European Union.
Internal control - basics
The COSO Model

Control Environment
1. Demonstrates commitment to integrity and ethical values
2. Exercises oversight responsibility
3. Establishes structure, authority and responsibility
4. Demonstrates commitment to competence
5. Enforces accountability
6. Specifies suitable objectives
7. Identifies and analyzes risk
8. Assesses fraud risk
9. Identifies and analyzes significant change

Risk Assessment
10. Selects and develops control activities
11. Selects and develops general controls over technology
12. Deploys through policies and procedures

Control Activities
13. Uses relevant information
14. Communicates internally
15. Communicates externally

Information & Communication
16. Conducts ongoing and/or separate evaluations
17. Evaluates and communicates deficiencies

Monitoring Activities
PUBLIC INTERNAL CONTROL

- Performance management - focus on effectiveness, efficiency and economy
- Centralized and hierarchical sector with multiple layers of control
- Specific purchasing and procurement requirements
- Specific requirements for accounting and reporting on operations with public finances
- Specific characteristics of governmental budgeting
- Specific characteristics of human resources management
INTERNAL CONTROL - BASICS

Internal control considerations

GROUP SESSION – Case studies

1. Duration: Up to 20 minutes

2. Please make WORKING GROUPS You will receive print-out and task

3. Gather together and solve the task Time for discussion: 10 minutes.

4. One (or more) representatives of each group presents the outcome. Time - up to 10 minutes
EU FUNDS AND INTERNAL CONTROL – HOW THEY GO ALONG
Internal Control

EC FINANCIAL REGULATION No 2018/1046

Article 36 Internal control of budget implementation

1. Pursuant to the principle of sound financial management, the budget shall be implemented in compliance with the effective and efficient internal control appropriate to each method of implementation, and in accordance with the relevant sector-specific rules.

2. For the purposes of budget implementation, internal control shall be applied at all levels of management and shall be designed to provide reasonable assurance of achieving the following objectives:

(a) effectiveness, efficiency and economy of operations
(b) reliability of reporting
(c) safeguarding of assets and information;
(d) prevention, detection, correction and follow-up of fraud and irregularities
(e) adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments concerned.
Internal Control

EC FINANCIAL REGULATION No 2018/1046

Article 36 Internal control of budget implementation

3. Effective internal control shall be based on best international practices and include, in particular, the following elements:

(a) segregation of tasks
(b) an appropriate risk management and control strategy that includes control at recipient level
(c) avoidance of conflict of interests;
(d) adequate audit trails and data integrity in data systems;
(e) procedures for monitoring effectiveness and efficiency
(f) procedures for follow-up of identified internal control weaknesses and exceptions
(g) periodic assessment of the sound functioning of the internal control system.
Internal Control

EC FINANCIAL REGULATION No 2018/1046

Article 36 Internal control of budget implementation

..4. Efficient internal control shall be based on the following elements:

(a) the implementation of an appropriate risk management and control strategy coordinated among appropriate actors involved in the control chain

(b) the accessibility for all appropriate actors in the control chain of the results of controls carried out

(c) reliance, where appropriate, on management declarations of implementation partners and on independent audit opinions, provided that the quality of the underlying work is adequate and acceptable and that it was performed in accordance with agreed standards

(d) the timely application of corrective measures including, where appropriate, dissuasive penalties

(e) clear and unambiguous legislation underlying the policies concerned, including basic acts on the elements of the internal control

(f) the elimination of multiple controls;

(g) the improvement of the cost benefit ratio of controls.
Internal Control

EC FINANCIAL REGULATION No 2018/1046

Article 36 Internal control of budget implementation

...5. If, during implementation, the level of error is persistently high, the Commission shall:

• identify the weaknesses in the control systems
• analyze the costs and benefits of possible corrective measures and take or propose appropriate action, such:
  • as simplification of the applicable provisions
  • improvement of the control systems and redesign of the programme or delivery systems.
Internal Control

IPA

IPA II IMPLEMENTING REGULATION No 447/2014, Article 13

The IPA II beneficiary shall guarantee a level of protection of the financial interests of the Union equivalent to that required under Regulation (EU, Euratom) No 966/2012 and Delegated Regulation (EU) No 1268/2012 and shall set up the necessary structures ensuring the effective functioning of internal control systems.

The management, control, supervision and audit systems set up in the IPA II beneficiary shall provide for an effective internal control system which includes at least the following five areas:

- Control environment
- Risk management
- Control activities
- Information and communication
- Monitoring activities.

IPA FRAMEWORK AGREEMENT

Article 12 Conditions for entrusting the IPA II beneficiary with budget implementation tasks

In order to protect the financial interests of the Union, the IPA II beneficiary shall:

(a) set up and ensure the functioning of an effective and efficient internal control system;

ANNEX B - Internal Control Framework
IPAFiscal Implications of Structural Reforms

1. Control environment

- Ethics and integrity policies
  - integrity and ethical values
  - avoid conflicts of interests
- Supervision by management of tasks delegated to subordinates
- Structures, reporting lines, and authorities and responsibilities
- Staff planning, recruitment, retention, training and appraisal
  - mission statements, job descriptions (financial limits)
  - "sensitive posts" - rotation policies
  - trainings

- Accountability for allocated tasks and responsibilities
  - performance evaluation of staff
  - reward or disciplinary actions
  - performance measures, incentives
  - conflicting objectives
IPA Internal Control Framework

2. Risk Management
   - objective setting
   - risk identification, assessment and response
   - fraud risk
   - identification and assessment of changes affecting the system of internal controls

3. Control activities
   - Control activities
   - Selection and development of control activities
   - Security control activities
   - Policies and procedures related to control activities
IPA Internal Control Framework

4. Information and communication

Information to support functioning of internal controls
- correct, sufficient, accessible, protected, and verifiable and retained in order to be used in
- assessment of internal controls and achievement of objectives

Internal communication
- staff / management
- "whistle-blower" hotlines

External communication
- to communicate required information
- ensuring inbound communication channels
- all the substantial changes in the MCS after their accreditation and entrustment

5. Monitoring of internal control framework

- on-going and specific monitoring
- monitoring the control system by the responsible management
- internal audit
- monitoring of the technical services and delegated bodies
- prevent and detect fraud and irregularity
- deficiencies – corrective actions
General principles of management and control systems - ESIF

• compliance with the principle of separation of functions between and within the bodies
• procedures for ensuring the correctness and regularity of expenditure declared
• computerized systems for accounting, for the storage and transmission of financial data and data on indicators, for monitoring and for reporting
• systems for reporting and monitoring where the body responsible entrusts execution of tasks to another body
• arrangements for auditing the functioning of the management and control systems
• systems and procedures to ensure an adequate audit trail
• prevention, detection and correction of irregularities, including fraud, and the recovery of amounts unduly paid
Internal control environment as designation criterion - ESIF

- **organizational structure** covering the functions and ensuring respect of the principle of separation of functions
- Framework for delegation of tasks
- Reporting and monitoring procedures for irregularities and for the recovery of amounts unduly paid
- Plan for allocation of appropriate human resources at different levels and for different functions in the organization
Internal Control

Supervision of the ICS - IPA

IPA FWA, Annex A, Clause 2 (4) (d): The NAO, supported by the NAO SO shall:

• ensure the existence as well as effective functioning of the internal control systems for the implementation of IPA II assistance

• NAO shall keep the management and operating structure under constant supervision (14(1) of the IPA FWA).

• NAO may require improvements in the ICS or apply financial adjustments

• NAO may withdraw the national accreditation

• reviews the programming and implementation capacities of staff within operating structures

NAO supervision of the ICS in the context of the above tools/outcomes from procedures are:

• Administrative verification of the received documents

• On-the-spot verifications – NAO SO planning and report

• Analysis of the submitted information
Internal Control

Supervision of the ICS - IPA

Main tools for supervision of the ICS are actually the existing procedures for:

- Irregularities
- Risks Management
- Changes in the ICS
- Exceptions from the approved MoP
- ICS Weaknesses

Audit Reports

Internal Audits of the Operating Structure
- Annual Plan / Internal Audit Reports

External Audits Reports
- Audit Authority Reports
- External EC and national audit/control bodies reports

Management Declarations

- NAO Management Declaration
- format of the IPA FWA – Annex C

NAO submits to the EC the documents as per Art. 59 (2) of the IPA FWA

- Annual financial reports and statements
- NAO Management Declaration
- Summary of the Internal Audit Reports/Follow-up of AA Reports/MS checks
Self- Assessment of the IPA MCS
GUIDANCE NOTE ON ENTRUSTMENT PROCEDURE for IMBC - December 2018

The full Self-Assessment Report, including the Self-Assessment Questionnaire (its Section 4), is presented to the EC in all of the following occasions:

- First Request for EBIT (2014 – 2020)
- Subsequent Request for EBIT – Annual Country Programmes (2014 – 2020)
- Annual reporting on the design and functioning of the MCS - together with the MD

<table>
<thead>
<tr>
<th>Type of reporting document</th>
<th>Occasion of reporting</th>
<th>First Request for EBIT (2014 – 2020)</th>
<th>Subsequent Request for EBIT – Annual Country Programmes (2014 – 2020)</th>
<th>Annual reporting on the design and functioning of the MCS - together with the MD</th>
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</thead>
<tbody>
<tr>
<td>Self-Assessment Report</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td>Self-Assessment Questionnaire Table</td>
<td>Yes, part of the Report Template – Section 4</td>
<td>Yes, part of the Report Template – Section 4</td>
<td><em>In the design part underline the changes</em></td>
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Self- Assessment of the MCS

Self-Assessment Report

The outline of the Report on Self-Assessment format has the following nine main sections:

(1) Introduction
   (1.1) Background information
   (1.2) Institutional set up and regulatory framework

(2) Methodology for self-assessment and documentation references

(3) Changes in management control system

(4) Overview of internal control framework following annex B of the framework agreement (Self-Assessment Questionnaire)
   (4.1) Overall assessment - Questionnaire
   (4.2) Detailed Assessment

(5) Assessment of the accounting system

(6) Assessment of the contractual procedures

(7) Assessment of ex-post publication of information on recipients of IPA II assistance

(8) Assessment of protection of personal data policy

(9) Follow-up of audit authority findings & recommendations

(10) Follow-up of EC MCS findings & recommendations

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Self- Assessment of the MCS

Self-Assessment Questionnaire

<table>
<thead>
<tr>
<th>Internal control framework</th>
<th>Conclusion</th>
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<tbody>
<tr>
<td></td>
<td>Design compliance</td>
<td>Operating effectiveness</td>
</tr>
<tr>
<td>1. Control environment</td>
<td></td>
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<tr>
<td>(a) Ethics and integrity policies</td>
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<td>(b) Supervision by management of tasks delegated to subordinates</td>
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<td>(c) Establishment of structures, reporting lines, and authorities and responsibilities</td>
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<td>(d) Staff planning, recruitment, retention, training and appraisal</td>
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<tr>
<td>(e) Accountability for allocated tasks and responsibilities</td>
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<tr>
<td>2. Risk management</td>
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<tr>
<td>(a) Objective setting</td>
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<td>(b) Risk identification, assessment and response</td>
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<td>(c) Fraud risk</td>
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<td>(d) Identification and assessment of changes affecting the system of internal controls</td>
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<td>3. Control activities</td>
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<tr>
<td>(a) Selection and development of control activities</td>
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<td></td>
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<tr>
<td>(b) Security of control activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) Policies and procedures related to control activities</td>
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<tr>
<td>4. Information and communication</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Information to support functioning of internal controls</td>
<td></td>
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<tr>
<td>(b) Internal communication</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) External communication</td>
<td></td>
<td></td>
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<tr>
<td>5. Monitoring of internal control framework</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) On-going and specific monitoring</td>
<td></td>
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<tr>
<td>(b) Assessment, recording and communication of internal control deficiencies</td>
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</table>

The Self-assessment questionnaire for each requirement of Annex B of the FWA, the assessment describes in detail:

- **Design compliance**
  - list of legal basis / procedures and a summary they regulate)
  - substantial changes that
  - conclusions on design compliance - if partial or non-compliance: which parts of the requirement are not described by the legal basis / procedures

- **Operating effectiveness (operating controls)**
  - description of the application of control
  - conclusions on operating effectiveness – partial/non-compliance: which parts of requirement are not operating as described by the legal basis / procedures; corrective actions, deadlines
Internal Control

Supervision of the ICS - IPA

IPARD Agency Management Declaration

Declarative Part (effective and efficient functioning of the ICS/ accounting/ administrative capacity)

Annex I Data related to contracts, payment claims, reductions and exclusions:

- table A “List of Contracts and Annexes”
- table B “List of Payment Claims”
- table C “Ex-ante Controls – reductions and exclusions”
- table D “Ex-post Controls – reductions and exclusions”
- table E “Summary”

Annex II Table with Late Payments

Annex III Summary of the Internal Audit Reports and Follow-up of the AA Reports

Annex IV Workload Analysis of the IA
The three lines of defence

Internal control system

Operational management
Risk management and compliance
Independent assurance
Internal audit

Cohesion Policy / IPA

Audit Authority
Certifying Authority
Managing Authority

Audit Authority
NAO / Management structure
CFCU / IPARD Agency

External audit / Regulator
European Commission / ECA

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ESIF – delivery and control

Shared management

Demand for

Multi-level control system

Effective controls

Prevention

Single audit

Integration of the multi-level control system

Each level of control builds on the preceding one
ESIF vs. IPA – management and control architecture

MONITORING COMMITTEE
- AUDIT AUTHORITY
- CERTIFYING AUTHORITY
- MANAGING AUTHORITY
- INTERMEDIATE BODY
- FUND OF FUNDS

COORDINATING BODY
- MANAGING AUTHORITY
- INTERMEDIATE BODY

NAO / MANAGEMENT STRUCTURE
- CFCU
- IPA Units

MONITORING COMMITTEE
- AUDIT AUTHORITY
- IPARD AGENCY

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Responsible bodies CP - functions

• Monitoring Committee
  ▪ review progress in implementation
  ▪ approve methodology and criteria for selection of operations
  ▪ approve amendment of programmes

• Managing Authority
  ▪ selection of operations
  ▪ financial management and control of the programme - verification
  ▪ programme management – implementation reports, collection and storage of data
Responsible bodies CP - functions

• **Certifying Authority**
  ▪ drawing up and submitting payment applications
  ▪ drawing up the accounts
  ▪ certify the completeness, accuracy and veracity of the accounts and the legality and regularity of expenditure
  ▪ maintaining accounting records of expenditure declared to the Commission

• **Audit Authority** - audit opinion on
  ▪ completeness, accuracy and veracity of the annual accounts
  ▪ proper functioning of the internal control system
  ▪ legality and regularity of expenditure
IPA II KEY ACTORS

European Commission

IPA Monitoring Committee

IPA Sectoral Committee

National IPA Coordinator (NIPAC)

National Authorising Officer (NAO)

Management Structure

Internal Audit

NAO Support Office

National Fund

Operating Structures

CFCU

IPA Units

Internal Audit

Audit Authority

reporting

audit, control

management and control system (MCS)

Internal control system (ICS)

RECEPIENTS / CONTRACTORS

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## Building up assurance

<table>
<thead>
<tr>
<th>Ex-post</th>
<th>Implementation</th>
<th>Ex-ante</th>
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</thead>
<tbody>
<tr>
<td>Audit opinion at closure</td>
<td>EC audits</td>
<td>Compliance assessment</td>
</tr>
<tr>
<td>National audits (Audit Authority)</td>
<td>Certification of expenditure</td>
<td>Programme negotiations</td>
</tr>
<tr>
<td>Management verifications</td>
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</tbody>
</table>
Grant specifics

• Grants
  ▪ non-exchange transactions
  ▪ inherently risky

• Risk level factors
  ▪ amount of resources involved
  ▪ level of new activities and any innovations
  ▪ financial standing of the beneficiary and the quality of its governance
  ▪ track record of the beneficiary in managing similar projects and handling grants of a similar value (and maybe complexity), etc.

• Key risk types
  ▪ Financial risks incl. corruption, fraud, moral hazard
  ▪ Reputational risks
  ▪ Performance risks

Controls should reflect specific risks
# Grants - key risk types and controls - examples

<table>
<thead>
<tr>
<th>Risk type</th>
<th>Risk</th>
<th>Control</th>
</tr>
</thead>
</table>
| Reputational                      | Grant awards are politically motivated, with politicians favouring one part of the community in particular | Codes of Conduct and Register of Interests  
Award decisions made by Panel |
| Performance                       | Grantee is unable to start activity on time and deliver the expected goods and services | Applications require submission of work plan and job descriptions. Assessment process takes account of grantee’s capacity and its mobilization plan. |
| Setting eligibility terms, conditions and criteria | Award criteria are not fair, objective and transparent  
Eligibility criteria are inadequate | Inclusion of grant’s terms and conditions in every contract  
Definitions of eligibility for beneficiaries and outcomes |
## Grants - key risk types and controls - examples

<table>
<thead>
<tr>
<th>Risk type</th>
<th>Risk</th>
<th>Control</th>
</tr>
</thead>
</table>
| Accountability of resources        | Grant resources are used inefficiently, inappropriately, or fraudulently  
Account reporting is inadequate or inaccurate  
Monitoring and reporting are inaccurate or insufficient. | Grant terms and conditions  
Disbursement controls, such as dual endorsement  
Books and records to support account reporting  
Management reporting controls and oversight  
Grantor oversight  
Legal enforcement against fraud. |
| Program Evaluation and Closing     | Program objectives were not met  
Resources were used in a way that was not intended. | Program closing procedures  
Program evaluation process  
Performance metrics |
Financial instruments specifics

- Investing in growth requires mobilization of private finance
- Emphasis on the role of private sector in leveraging investment
- Revolving nature - use of the same funds in several cycles
- Forms
  - Equity / risk capital
  - Debt instruments – loans, guarantees, risk sharing with financial institutions

Key risk areas

- Accounting for the use of EU funds
- Supervision and ownership of the instruments
- Insufficient leverage and fund-revolving provisions
- Possible excessive allocations being committed to FIs
- Possible unjustified preferential private sector treatment
- Unclear eligibility conditions
Towards a better future
2021 – 2027

Commission: “Both the European Parliament and the HLG call for a streamlining of control and audit with a view to reducing the administrative costs of Member States and the administrative burden on beneficiaries during the post 2020 programme period.”

ECA: “Overall our assessment shows that the European Commission’s proposal (2021 - 2027) has succeeded in simplifying the text, but the focus on value for money has not been increased and the accountability arrangements have in part been significantly weakened”

As regards administrative burden for beneficiaries, a significant source of complexity is gold-plating (i.e. requirements imposed at national level which go beyond those set out in the regulations). The Commission’s ex-post evaluation for the 2007-2013 period and a study carried out on behalf of the EP suggest that almost one third of avoidable burden is due to inefficiencies in national implementation and gold-plating.
The 2017 Residual Error Rate (0.67%) for the DG is very satisfactory. This is a strong signal that the pyramid of controls put in place at all the levels of the DG are functioning:

- Estimation of the Residual Error Rate (‘RER’) in DG NEAR:
  - assess the main control objective of the DG
  - evaluate the effectiveness of the overall control framework
  - measure the residual errors not detected by the overall control system
  - forms an important part of the information when signing the Declaration of Assurance

- REP indicator is designed to and to. It has to remain below 2% of the total amount of the transactions under review.

- Monetary unit sampling of minimum 720 intervals in a population of closed contracts in the period September 2016 to August 2017

In 2017, the DG NEAR residual error rate is as follows:

- The weighted upper error rate is 2.33% and the lower error rate is 0.06% (95% confidence)
Instrument for Pre-accession Assistance III

2018 COMMISSION IMPACT ASSESSMENT

- external actions streamlining into one instrument
- IPA should remain a self-standing instrument

LEGISLATION

- COM (2018) 465 final Proposal for a Regulation establishing the Instrument for Pre-accession Assistance (IPA III)

Expected

- Commission Implementing Act: IPA III
  - uniform conditions for the IPA implementation
  - specific conditions and structures for indirect management
  - IPA programming framework

PURPOSE

- preparing candidate countries and potential candidates for Union membership
- IPA III - clearly positioned in the context of the new Western Balkans Strategy

EXTERNAL ACTION INSTRUMENTS MID-TERM REVIEW

- IPA II has served its purpose and was considered relevant
- Only minimal changes are proposed - the objectives should be restructured in line with the overall aim of measuring performance
Instrument for Pre-accession Assistance III

MORE INVESTMENTS AND LEVERAGE OF FUNDS

- Mobilising strategic investments in connectivity of infrastructure, SMEs, energy efficiency, innovation and digital economy
- Crowding in private investments via the External Action Guarantee which will have the capacity to guarantee investments up to €60 billion worldwide including in IPA beneficiaries

EUROPEAN FUND FOR SUSTAINABLE DEVELOPMENT PLUS (EFSD+)

- The EFSD+ and the External Action Guarantee may support financing and investment operations in partner countries
- The EFSD+ constitute an integrated financial package supplying financing capacity in the form of: grants, budgetary guarantees and financial instruments
- The governance for EFSD+ operations - Western Balkans Investment Framework

EXTERNAL ACTION GUARANTEE

- The External Action Guarantee, will:
  - support EFSD+ operations
  - macro-financial assistance to address balance of payments crises (political challenges and economic instability) and loans (EUR 60 billion, incl. EUR 14 billion - macro-financial assistance loans)
- The funding for IPA countries operations under the EFSD+ and for the provisioning of the External Action Guarantee shall be financed from the Regulation IPA
- the European Investment Bank - a natural partner for the External Action Guarantee implementation
Instrument for Pre-accession Assistance III

FUNDING 2021-2027
- 14.5 billion Euro (current prices)
- 13% increase compared to current funding

SUBSIDIARITY
- Intensive use of Twinning and TAIEX (Technical Assistance and Information Exchange instrument)

TERRITORIAL COOPERATION
- cross-border programmes, transnational and inter-regional cooperation programmes and macro-regional strategies

MORE INVESTMENTS AND LEVERAGE OF FUNDS
- Mobilising strategic investments (connectivity of infrastructure, SMEs, energy efficiency, innovation and digital economy)
- Crowding in private investments via External Action Guarantee - to guarantee investments €60 billion worldwide incl. in IPA beneficiaries

IMPLEMENTING MEASURES AND METHODS
Regarding the management modes, there are no fundamental changes are foreseen
- direct management or
- indirect management (entrustment – full or partial delegation; ex ante pillar assessment)
- Territorial cooperation with Member States will be managed in shared management in accordance with the ETC Regulation
- annual or multi-annual action plans and measures (for a period of up to seven years)
- Indirect management with partner countries will continue to be encouraged in programmes preparing the beneficiaries for the management of structural funds notably in the area of rural and agriculture development
Instrument for Pre-accession Assistance
IPA III

INSTRUMENTS AND DELIVERY MODE
all types of financing foreseen in Financial Regulation will be included in the IPA III

- Grants
- Procurement
- Prizes
- Contributions to EU Trust funds
- Sector budget support
- Financial instruments and budgetary guarantees

SIMPLIFIED COST OPTIONS
to the extent possible, IPA III foresees the use for simplified forms of contribution

(1) Reimbursement of eligible costs
- lump-sums
- unit costs
- flat-rates

(2) Financing not linked to costs for contributions, where relevant
Instrument for Pre-accession Assistance
IPA III

External assistance internal control / management process is designed to provide reasonable assurance regarding the achievement of objectives in the:

• effectiveness and efficiency of the operations
• reliability of the financial reporting and
• compliance with the relevant legislative and procedural framework

To ensure the effectiveness and efficiency of the operations (and to mitigate the high level of risk in the external assistance environment):

• wide Strategic Policy and Planning process
• Internal audit environment
• Other Internal Control Framework element

GROUP SESSION

1. Duration: Up to 30 minutes

2. Please make WORKING GROUPS
You will receive print-out and task

3. Gather together and solve the task
Time for discussion: 15 minutes.

4. One (or more) representatives of each group will present the outcome. Time for presentation of the answers – overall - up to 15 minutes
Proportionate control – control implications

- ESIF - no certification

† Streamlining the coverage and scope of work between CA and MA

† Appropriate in case of extended use of SCOs

- Elimination of an of ex-ante control layer
- MA will bear full responsibility for confirming legality and regularity of expenditure – are they ready?
Rule of Law

- protection of the Union's budget in case of generalized deficiencies as regards the rule of law in the Member States
- the respect for the rule of law as an essential precondition for sound financial management and effective EU funding
- covered in a self-standing regulation based on Article 322 TFEU
Proportionate control – control implications

• Single audit principle
  ▪ Extended to cover the relationship between audit and MAs, not only between AA and EC
  ▪ Expected to reduce administrative burden on beneficiaries
  ▪ Can auditors rely on the work of other auditors and control bodies
  ▪ Can there be risk to independence
Proportionate control – control implications

- Management verifications
  - Introduction of risk-based approach to administrative verifications

- Enhanced proportionate arrangements
  - Reliance on national management and control systems
  - Increases the role of the national control and audit bodies – internal audit and Court of Auditors
Building up assurance 2021-2027

Ex-post
Audit opinion at closure

Implementation
EC audits
National audits (Audit Authority)
Certification of expenditure
Management verifications

Ex-ante
Compliance assessment
Programme negotiations
Efficient Internal Control
Success factors

• prevention
  ▪ dissemination of information
  ▪ guidance and training to management and control bodies
  ▪ guidance and training to beneficiaries
Success factors

Efficient use of audit

- **oversight**
  - Are we doing what we are intended to do
  - identify inappropriate, inefficient, illegal, fraudulent acts

- **detection**
  - identify and reduce conditions that allow corruption

- **deterrence**
  - assessing performance, identifying best practices

- **insight**
  - identifying trends and bringing attention to emerging challenges

- **foresight**
  - system audits to assess the adequacy of risk management systems and controls
  - performance audits
  - financial / regularity audits
  - advisory, assistance, investigative services
Success factors

Harmonization of rules

- national and EU rules
- similar approach followed for all funds at national level and EU level (to the extent allowed by the Regulations)
- working towards creating common approach and interpretation of applicable rules by all management and control bodies (national and EU)
Success factors

Investing in people
- capacity of managing and control bodies and of the beneficiaries
- sustainability
- efficient partnership

E-cohesion
- streamlining of processes and documentation
- lower administrative burden
Success factors

Do your homework

- sufficient and adequate budget flows (pre-financing, co-financing, beneficiary financial stability)
- expropriation procedures of land and real estate, environmental permissions, etc., etc.
- simple, transparent and unified tender procedures
- cooperation at all levels of government (central and local)
Highlights BG experience

Lessons learnt

- The ESIF Management Law and UMIS2020 – influential instruments for achieving harmonization
- E-procedures as the most effective tool for reducing administrative burden
- Importance of measures for strengthening the administrative capacity
- Overlapping controls and gold plating – main enemies of effective and efficient implementation
- Challenges related to appeals of public procurement procedures

Factors for success

- Early start of the implementations stage
- Finding the right balance between sound financial management and simplification
- Ensuring sustainability of the capacity built for CP implementation
- Building capacity for policy making and evaluation
- Making better use of the SCOs, incl. through the provisions foreseen in the new draft regulations
Highlights BG experience

• The ESIF Management Law
  ▪ Harmonization of applicable rules to all five ESIF at national level
• Simplified rules for application and selection
  ▪ Budget lines and system projects
• The relationship between the beneficiary and the MA is governed by administrative law
  ▪ Clearer rules for appeal
• E-procedures
  ▪ Standardisation of procedures and documents
  ▪ Submission of documents in electronic format
  ▪ Faster and transparent administrative proceedings
  ▪ Better and safer audit trial
• Simplified cost options
  ▪ Obligatory use of flat rate for project management costs
  ▪ Obligatory use in projects with beneficiaries from the state administration
IPA II
Optimization of the Internal Control – Country Experience

GROUP SESSION – Case studies

1. Duration: Up to 60 minutes

2. Please make WORKING GROUPS You will receive print-out and task

3. Gather together and solve the task
   Time for discussion: 30 minutes

4. One (or more) representatives of each group will present the outcome

5. Time - up to 30 minutes
Post 2020 shared management

Main objectives of the new legislative proposals

- Simplification
- Flexibility of policy delivery
- Strengthened alignment between funding and EU priorities
Simplification - lessons learnt

over-complex management, control and audit systems

- administrative uncertainty
- delays in implementation
- disincentive for applying for support

⇒ call for simplification, especially in terms of audit and control procedures
Simplification - lessons learnt

administrative inefficiencies leading to burden to beneficiaries

need for clear arrangements for the scope and frequency of management verifications

call for more efficient and effective controls
balance between ease of implementation and effectiveness
Simplification – main areas for 2021-2027

• **Alignment of rules** between different EU Funds
• **Stable yet flexible framework** - no re-appointment of institutions; easier modification of programmes
• **Extension of the single audit principle**
• **Reliance on national management and control systems** and procedures to a much larger extent
• **Focus on results through use of SCOs**, both as form of support to programmes and forms of grants to beneficiaries
Simplification – areas and deficiencies

- Rules and regulations
  - Proliferation of rules and complexity
  - Inconsistencies and lack of legal certainty
- Management and control
  - Overlapping
  - Disproportionate
  - Different interpretation of rules
- Large number of programmes leading to complex institutional arrangements
Simplification – practical aspects

• greater use of simplified cost options could reduce total administrative costs by 20-25% if these options are applied across the board

• proportionate approach to control and audits could imply a major reduction in the number of verifications and the audit burden for “low risk” programmes could reduce total administrative costs of the ERDF and the Cohesion Fund by 2-3%
Simplification – control implications

**Simplification**

† reduced administrative burden and efficiency savings

– greater risks to compliance with the rules and to sound financial management

**Simplified cost options and financing not linked to costs**

† shift focus from spending to results

– may lead to reimbursement above or below actual level of costs incurred

– create risks to achieving value for money
SCOs – general principles

Form of grants (and repayable assistance)
Form of Union contribution (for 2021-2027 period)

Consider using them when:

- Implementation is focused on end product and results rather than on inputs
- It is difficult to check the expenses actually incurred (lots of small expenses with little overall impact on results)
- Sound data on financial and physical implementation of operations is available
- There is a risk that accounting documents may not be kept
- Standard operations
SCOs – main types

FLAT RATE

Specific categories of eligible costs which are clearly identified in advance are calculated by applying a percentage, fixed ex ante to one or several other categories of eligible costs.

Best suited to costs that are relatively low and for which verification is costly.
SCOs – main types

**FLAT RATE**

Three types of categories of costs:

- **Type 1**: categories of eligible costs on whose basis the rate is to be applied to calculate the eligible amounts.
- **Type 2**: categories of eligible costs that will be calculated with the flat rate.
- **Type 3**: where relevant, other categories of eligible costs: the rate is not applied to them and they are not calculated with the flat rate.
SCO - main types

**FLAT RATE**

- **Direct costs** - directly related to an individual activity of the entity and the link can clearly be demonstrated

- **Indirect costs** - costs which are not or cannot be connected directly to an individual activity of the entity (i.e. administrative expenses, management costs, recruitment expenses, costs for the accountant or the cleaner, etc.; telephone, water or electricity expenses, and so on)

- **Staff costs** - the costs deriving from an agreement between employer and employee or service contracts for external staff (provided that these costs are clearly identifiable)
SCOs – main types

**FLAT RATE**

Examples:

- flat rate for indirect costs of up to 15 % of eligible direct staff costs
- flat rate for direct staff costs of up to 20 % of the direct costs other than the staff costs of the operation
- flat rate of up to 40 % of eligible direct staff costs to cover the remaining eligible costs of an operation
SCOs – main types

STANDARD SCALES OF UNIT COSTS

All or part of the eligible costs of an operation will be calculated on the basis of quantified activities, input, outputs or results multiplied by standard scales of unit costs established in advance.

To be used when it is easy to identify:

- Quantities related to the activity
- The standard scale of the unit cost
SCOs – main types

STANDARD SCALES OF UNIT COSTS

Could be:

• Process based – covering through a best approximation the real costs of delivering an operation

• Outcome-based – output or result

Criteria for choice of activities/outcomes/results

• Should reflect the type of the financed operation

• The impact of any external factors should be minimized

• Availability of data
SCOs – main types

STANDARD SCALES OF UNIT COSTS

Examples:

• hourly rate for staff costs by dividing the latest documented annual gross employment costs by 1720 hours (for persons working full time)

• physical adaptation of housing for disabled people – price of an adaptation (i.e. bathroom or washroom)

• postdoctoral researcher mobility - annual cost of a researcher to acquire postdoctoral degree abroad
SCOs – main types

LUMP SUMS

All or part of eligible costs of an operation are calculated on the basis of a pre-established lump sum in accordance with predefined terms of agreement on activities and/or outputs. The grant is paid if the predefined terms of agreement on activities and/or outputs are completed.

“The lump sum possibility is an application of the proportionality principle aiming at alleviating the administrative workload for small operations and giving NGOs (but not exclusively NGOs) better access to the ESI Funds. That is the reason why lump sums falling within the scope of Article 67(1) (c) CPR are restricted to amounts below EUR 100 000 of public contribution.” (EGESIF_14-0017)
SCOs – main types

LUMP SUMS

Examples:

• all eligible costs related to participation in an international fair
• all eligible costs to deliver a feasibility study
• implementation of projects with Seal of Excellence from the European Commission
• cost to ensure the interconnection between information systems
SCOs – off-the-shelf vs. exotics

Draft budget

Financing not linked to costs

ready to use options established by the CPR or the Fund-specific Regulations applicable in Union policies for a similar type of operation

applied under schemes for grants funded entirely by the Member State for a similar type of operation
IPA II

Simplified Cost Options

GROUP SESSION – Case studies

1. Duration: Up to 60 minutes

2. Please make WORKING GROUPS You will receive print-out and task

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SCOs – calculation

• Must be established in advance
• Fair, equitable and verifiable calculation method

• ‘statistical’ data or other objective information
• use of individual beneficiary-specific data
• SCOs from other areas
Greater use of SCOs – control implications

How to achieve the positive effects of simplification without compromising the eligibility of expenditure

SCOs = deviation from the principle of actual costs => could over- / -under compensate the cost actually incurred => the control should focus on results and not on the movements of the financial resources
Greater use of SCOs – control implications

Focus of controls at MA level:
• The methodology for establishing the amounts used for the SCOs – calculation method, data base
• How is the correct implementation of the approved methodology ensured at the level of operations

Focus of controls at beneficiary level:
• The correct implementation of the methodology at the level on individual operations
• Mathematical check

NOT checked at both levels:
• Supporting financial documents for the expenditure covered by the SCOs
Greater use of SCOs – control implications

Focus of controls at beneficiary level

• **Flat rate**
  ▪ Eligibility and financial documents related to direct costs to which the flat rate is applied
  ▪ Correct classification of expenditure (direct vs. indirect costs)
  ▪ Whether the operation has been delivered exclusively through public procurement (n/a for next programming period)

• **Standard scales of unit costs and lump sums**
  ▪ Fulfillment of the conditions for related to the results of the operation which are basis for reimbursement for the SCOs
  ▪ Supporting documents proving the fulfillment of the quantities declared related to the results of the operation which are basis for reimbursement for the SCOs
Greater use of SCOs – control implications

SHIFT OF FOCUS

expenditure and financial documents

execution of payments

physical implementation

on-the-spot checks

results

Change of profile of auditors

less financial auditors

need of specific expertise - engineers, etc.
Fiscal Implications of Structural Reforms

Form of grants and repayable assistance – flat rate; unit cost; lump sum

Obligatory for ESF projects under 50 000 EUR (after the 2018 changes – for ESF and ERDF for projects under 100 000 EUR)

Flat rate can be used for all types of costs
- ceiling of 25% for indirect costs
- ready-to-use rates for indirect costs – 15% of direct staff costs
- ready-to-use rates to define other eligible costs

Form of Union contribution to programmes - flat rate; unit cost; lump sum; financing not linked to costs

Obligatory for ESF and ERDF projects under 200 000 EUR

Flat rate can be used for all types of costs
- ceiling of 25% for indirect costs
- more ready-to-use rates for indirect costs – 7% of direct costs; 15% of direct staff costs
- more ready-to-use rates to define other eligible costs

Funded by the European Union.
IPA II
Simplified Cost Options

Acceptable for Community contribution is:
- Eligible costs actually incurred and paid by recipients and
- Simplified costs options (EC Guidelines)
  - standard unit costs
  - lump sums not exceeding EUR 100 000, per recipient, per year, of public contribution
  - flat-rate financing, determined by the application of a percentage to one or several defined categories of costs

Advantages of simplified costs:
- Alleviates the administrative burden
- More focus on achievement of policy objectives
- More correct use of funds (less irregularities detected)

Pre-conditions:
- Relevant, accurate and adequate calculations established in advance on the basis of a fair, equitable and verifiable calculation (statistical information, individual beneficiaries data, application of already developed simplified cost – operation and recipient)
- The adequacy and accuracy of the calculations confirmed by a body functionally independent from authorities responsible for the programme
- Provided to the EC in advance of the implementation of the simplified costs options, for information purposes

SCO Concept:
- Ex-ante: the control of the value of the input – calculation methods
- Ex-post: control of achievements
Simplified Cost Options

GROUP SESSION – Case studies

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Irregularities and the simplified cost options

• non-compliance vs. non-achievement

• the obligation to fully observe all applicable Union and national rules (procurement, publicity, state aid) is still valid – effect on eligibility of expenditure?
Irregularities and the simplified cost options

Can this lead to an irregularity

- unit costs / lump sums that have been paid and declared to the Commission in advance, without prior implementation of the corresponding part of the project
- the auditor questions the selected calculation method over another
- double financing while using flat rate due to unclear definition of types of costs in the application guidance to beneficiaries
Irregularitets and Fraud - Content

• What's new in the period 2021 – 2027
• Annual Reports of ECA – opinion and error rates
• OLAF Reports - Statistics on Irregularities and Fraud
• Concept of irregularity, fraud and corruption
• Stages of the Procedure: detection, checks, recording and reporting irregularities/fraud
• Classification of Irregularities / Case Studies
IRREGULARITETS AND FRAUD

What is new in the period 2021 - 2027

EARLY-DETECTION AND EXCLUSION SYSTEM

- early detection of persons or entities referred, which pose a risk to the financial interests of the Union
- Exclusion
- Imposition of a financial penalty

EUROPEAN PUBLIC PROSECUTOR'S OFFICE

- investigate and prosecute fraud and other criminal offences affecting the financial interests of the Union

ANTI-FRAUD PROGRAMME FOR 2021-2027

- continue current Hercule III programme
- AFIS, IMS

- €180 million budget

PIF DIRECTIVE of 2017 on the fight against fraud to the Union's financial interests by means of criminal law

- harmonising the definition of offences affecting these interests - offences of fraud, corruption, money laundering and misappropriation
- harmonising sanctions and time limitations for such cases
- cross-border VAT fraud cases involving a total damage of at least EUR 10 Million
- replace the PIF Convention and its protocols

Fiscal Implications of Structural Reforms

Funded by the European Union.
IRREGULARITIES AND FRAUD

EC Financial Regulation - 2018

Article 36 - Internal control of budget implementation

…2. For the purposes of budget implementation, internal control shall be applied at all levels of management and shall be designed to provide reasonable assurance of achieving the following objectives:

…(d) prevention, detection, correction and follow-up of fraud and irregularities.

Article 154 – Indirect management

4. The Commission shall, in accordance with the principle of proportionality and with due consideration for the nature of the action and the financial risks involved, assess that persons and entities implementing Union funds …

(a) set up and ensure the functioning of an effective and efficient internal control system based on international best practices and allowing in particular to prevent, detect and correct irregularities and fraud

…obligation for persons or entities implementing Union funds to notify the Commission without delay of cases of detected fraud and irregularities and their follow-up

Article 129

Cooperation for protection of the financial interests of the Union

1. Any person or entity receiving Union funds shall fully cooperate in the protection of the financial interests of the Union…

In the case of OLAF, such rights shall include the right to carry out investigations, including on-the-spot checks and inspections.

….Any person or entity receiving Union funds under direct and indirect management shall agree in writing to grant the necessary rights as referred to in paragraph 1 and shall ensure that any third parties involved in the implementation of Union funds grant equivalent rights.
IRREGULARITIES AND FRAUD

IPA III Regulation

The FINANCIAL INTERESTS OF THE UNION ARE TO BE PROTECTED through effective and proportionate measures, including the:

• prevention
• investigation of irregularities and fraud
• detection and correction
• recovery of funds lost, wrongly paid or incorrectly used
• where appropriate, the imposition of administrative sanctions.

OLAF

• administrative investigations
• on-the-spot checks and inspections, with a view to establishing whether there has been fraud, corruption or any other illegal activity affecting Union financial interests.

BENEFICIARIES LISTED IN ANNEX I SHALL:

report the irregularities including fraud which have been the subject of a primary administrative or judicial finding, without delay, to the Commission and keep the latter informed of the progress of administrative and legal proceeding. Reporting shall be done by electronic means, using the Irregularity Management System, established by the Commission.
IRREGULARITIES AND FRAUD

IPA III Regulation - Legislative financial statement

DG NEAR compliance framework is made up of the following significant components:

DG NEAR has developed and implemented its own ANTI-FRAUD STRATEGY - approved for the years 2016-2017.

The general objectives of this anti-fraud strategy are:

- Anti-fraud network, data collection and guidance: to establish a network of OLAF Focal Points within DG NEAR; data and statistics on the OLAF cases
- Management reporting and relations with EU stakeholders: regular reporting cycles on anti-fraud issues at senior management level

PREVENTIVE MEASURES

- Prevention, detection and correction controls
  Core training covering fraud issues for aid management staff
- Provision of guidance using the NEAR manual of procedures (MAP)
- Annual IMBC process including a verification of MCS, incl. appropriate anti-fraud measures
- Ex-ante screening of the anti-fraud mechanisms as part of assessment of eligibility criterion of public finance management for budget support
- Ex-ante controls of all nationally procured contracts; waived after national systems meet stringent management and control benchmarks
- Detective and corrective measures
- Ex-ante transaction checks by Commission staff
- Internal and external audits and verifications, including by the European Court of Auditors;
- Retrospective checks and recoveries

In addition where irregularity is suspected to be intentional (fraud) DG NEAR HAS OTHER MEASURES AS ITS DISPOSAL INCLUDING:

- Suspension of time-limit for payments and notification to the entity
- Specific audits (ad hoc/forensic audit)
- EDES (Early Detection Exclusion System)
- Suspension/termination of contract
- Exclusion procedure
EUROPEAN COURT OF AUDITORS OPINION 2018

- ECA 2018 qualified opinion on legality and regularity of the payments – third time since 1994 (ASA - EP)
- Qualified opinion – materially affected by error
- Overall level of error for EU spending in 2017 was estimated at 2.6%
- Compared with 2.4% in 2017, 3.1% in 2016, 3.8% in 2015 and 4.4% in 2014 The estimated error rate (the level of irregularity in transactions) measures the level of irregularity
- Clean opinion on the 2016 EU accounts’ reliability

ECA Annual Report 2017: “We assessed the regularity of 728 transactions and reported to OLAF 9 instances of suspected fraud found during our audits (13 in 2017)”

Policy Area: Global Europe (External relations, aid and enlargement - 7% of budget)

2016
Affected by material error? Yes
Estimated error rate: 2.1 % (2.8% for 2015, 2.7% for 2014) Examined control systems: Partially effective
More errors in transactions relating to grants
32 non-quantifiable errors relating to non-compliance - legal or contractual obligations
DG NEAR’s 2017 - 0,67%
IRREGULARITIES AND FRAUD
Error Rate for EU reimbursable-based expenditure

Source: ECA Annual Report 2017
IRREGULARITIES AND FRAUD

Breakdown of Errors
Economic, social and territorial cohesion - ESIF

Source: ECA Annual Report 2017

Funded by the European Union.
IRREGULARITIES AND FRAUD
Types of Errors within the Heading “Global Europe”

- Missing documentation: 37%
- Expenditure not incurred: 28%
- Ineligible expenditure: 26%
- Public Procurement - serious: 8%
- Administrative mistakes/calculation: 1%

Source: ECA Annual Report 2016
The FINANCIAL INTERESTS OF THE UNION ARE TO BE PROTECTED through effective and proportionate measures, including the:

- prevention
- investigation of irregularities and fraud
- detection and correction
- recovery of funds lost, wrongly paid or incorrectly used
- where appropriate, the imposition of administrative sanctions.

OLAF

- administrative investigations
- on-the-spot checks and inspections, with a view to establishing whether there has been fraud, corruption or any other illegal activity affecting Union financial interests.

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Reporting shall be done by electronic means, using the Irregularity Management System, established by the Commission.
IRREGULARITIES AND FRAUD

Pre-Accession Assistance

Irregular Amounts as % of total payments

<table>
<thead>
<tr>
<th></th>
<th>Irregularities - / payments</th>
<th>Fraud / payments</th>
<th>Total:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neighborhood and Enlargement</td>
<td>0.40%</td>
<td>0.01%</td>
<td>0.41%</td>
</tr>
<tr>
<td>All EU Payments</td>
<td>0.49%</td>
<td>0.03%</td>
<td>0.52%</td>
</tr>
</tbody>
</table>

Source: OLAF 9th Annual Report on the Protection of the European Union's financial interests - Fight against fraud - 2018
IRREGULARITETS AND FRAUD

Reported irregularities IPA, 2014 - 2018

<table>
<thead>
<tr>
<th>Irregularities</th>
<th>Number</th>
<th>Amount (million Euro)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-fraudulent</td>
<td>485</td>
<td>38</td>
</tr>
<tr>
<td>Fraudulent</td>
<td>75</td>
<td>7</td>
</tr>
<tr>
<td>Total:</td>
<td>560</td>
<td>45</td>
</tr>
</tbody>
</table>

Numbers of irregularities 2018:
CBC - 31%
IPARD - 37%

Amounts of irregularities 2018:
IPARD - 66%

IRREGULARITIES AND FRAUD

Reported Irregularities – IPA

- Irregularities in 2017: most frequent category is 'public procurement'
- Fraud in 2017: most frequent category is 'documentary proof': 'false and/or falsified documents'

IRREGULARITETS AND FRAUD

IPA – Irregularity Legal Framework

IPA FRAMEWORK AGREEMENT between beneficiary country and the EC:

Annex H Reporting on suspected fraud and other irregularities

Annex B Internal control framework – Risk Management

Art. 50 Protection Supervision, control and audit by the EC and ECA

Art. 51 Protection of the financial interests of the Union

(1) … shall prevent, detect and correct irregularities and fraud when executing those tasks…

(2) … shall ensure investigation and effective treatment of suspected cases of fraud, conflict of interest and irregularities …

(3) … prevent and counter any active or passive corruption practices at any stage of the procurement procedure or grant award procedure …

FIINANCING AGREEMENTS

NATIONAL LEGISLATION
IRREGULARITY means any infringement of a provision of applicable rules and contracts resulting from an act or omission by an economic operator, which has, or would have, the effect of prejudicing the general budget of the EU by charging an unjustified item of expenditure to the general budget.

FRAUD means any intentional act or omission relating to:

- The use or presentation of false, incorrect or incomplete statements or documents, which has as its effect the misappropriation or wrongful retention of funds from the general budget of the EU.
- Non-disclosure of information in violation of a specific obligation, with the same effect.
- The misapplication of such funds for purposes other than those for which they were originally granted.
IRREGULARITIES AND FRAUD

RED FLAGS

Red Flags:

OLAF “Red flags” - PP fraud or corruption risks:

BIDDERS - multiple undeclared connections between them or to evaluation team

PROCEDURES - very large tenders, too short timespan for the application process, changes in the project description after the award

• Offers – identical format, errors, pricing abnormalities
• General appearance of offers – simplicity
• Common address
• Same person manager of different companies
IRREGULARITIES AND FRAUD
RED FLAGS

indicative warning signs that may indicate that a fraud is taking place at an institution:

- Staff under stress without a high workload
- Always working late / Reluctance to take leave
- Unexplained wealth / Sudden change of lifestyle
- New staff resigning quickly
- Cosy relationship with the Recipients
- The employee refuses promotion to a non-authorisation position
IRREGULARITIES AND FRAUD
CLASSIFICATION OF IRREGULARITIES

102 Incorrect accounts
103 Falsified accounts
104 Accounts not presented
201 Missing /incorrect / incomplete documents
213 Falsified supporting documents
299 Other cases of irregular documents
325 Non-eligible expenditure
402 Non-existing operator
405 Irregular termination, sale or reduction
408 Operator / beneficiary not having the required quality
601 Failure to respect deadlines
608 Refusal of control
609 Refusal of payment
610 Absence or incompatibility of contract
611 Several requests for the same object
612 Failure to respect other regulations/contract conditions
614 Infringement of rules concerning public procurement
741 Failure to fulfil commitments entered into
810 Action not implemented
812 Action not carried out in accordance with rules
822 Expenditure incurred outside the contracting period
832 Infringement with regard to the co-financing system
840 Undeclared revenue
850 Corruption
860 Conflict of interest
999 Other irregularities (to be specified)
IRREGULARITETS AND FRAUD RESPONSIBILITIES - INSTITUTIONS

IPARD Agency/CFCU:
• Receiving and checking signals of irregularities
• Recording, Reporting and Recovery procedures
• Analyses and Corrective measures

The NAO:
• proper implementation of the irregularity procedure including:
  • System for immediate communication of irregularity signals
  • Performing control over the Irregularity Communications received
  • Reporting Irregularities to EC - Irregularity management System (IMS) module of AFCOS
• Monitoring the work of the IPARD AGENCY/CFCU regarding irregularities

• Proposing financial adjustments
• IPA Irregularly Panel/Network

AFCOS
• co-ordination between the relevant national services
• co-operation with OLAF
• (investigative powers)

OLAF
• battle the corruption, fraud and other irregularities
• administrative anti-fraud investigations having special independent status.
• from 2013 – Directorate General

Fiscal Implications of Structural Reforms

Funded by the European Union.
IRREGULARITIES AND FRAUD RESPONSIBILITIES

The PERSONNEL of the IPA bodies, including managers, employees (contracted or civil servants):

- Understand the irregularity concept and reporting lines
- Reflect in the working documents findings/assessment based on actual facts with on existence of irregularities
- Report as signals of irregularities every case which they suspect to fall within the definition of irregularity.

IRREGULARITY OFFICERS/EXPERTS:

- Responsible to ensure proper implementation of the irregularities procedures
- Contact point re Whistle Blowing Procedures
- Performs checks of the received signals of irregularities
- Irregularity Officers Panel/Network
Main stages of Irregularity procedure:

- Detection
- Control
- Recording
- Reporting
- Corrective Actions
- Prevention

Irregularities DETECTION sources:

- Already established PACA - documents which already contain primary administrative or judicial finding of irregularity (as a result of the standard management verifications; Audit reports or Judiciary)

- Irregularity signals – information of discrepancy, inconsistency or infringement which may fall within the definition of irregularity or suspected fraud, which had not yet been subject to PACA
IRREGULARITETS AND FRAUD REPORTING

Article 16 of Regulation 447 of 2014:

“Reporting on suspected fraud and other irregularities The IPA II beneficiary shall report suspected fraud and other irregularities which have been the subject of a primary administrative or judicial finding, without delay, to the Commission and keep the latter informed of the progress of administrative and legal proceedings. Reporting shall be done by electronic means using the module provided by the Commission for this purpose.”

INITIAL COMMUNICATION

IMMEDIATE REPORTING:

Irregularities discovered or supposed to have occurred, where it is feared that they may very quickly have repercussions abroad

IRREGULARITY COMMUNICATION REPORT FOLLOW-UP

- Information which was not available in the initial reporting or needs to be modified
- Details concerning the initiation, conclusion or abandonment of any procedures for imposing administrative or criminal penalties related to the reported irregularities as well as of the outcome of such procedures
- If no new facts concerning an irregularity have occurred, there is no need to send an update!!!

INFORMING THE JUDICIARY
IRREGULARITETS AND FRAUD
CORRECTIVE ACTIONS / PREVENTION

**Financial** – suspending/interrupting payments to and/or recovering/offsetting funds from the contractor/grant beneficiary, establishment of debt - entering amounts in the debtors’ ledger

**Contractual** – e.g. cancelation of contract, activation of guaranties, etc.

**Disciplinary** – administrative sanctions for the staff, which in the context of the irregularity has breached professional conduct rules, etc.

**Related to suspected fraud** – for those cases, the corrective actions include providing information to Judiciary for further investigation of suspected fraud and Penal proceedings.

- Written procedures (regularly improved)
- Separation of functions and responsibilities
- Controls, Job Description
- Simplified Costs
- Registration and filing documents
- Audit trail for all operations
- Training
- Sharing experience with other countries
IPA II

Case Studies of Irregularities identified by the EC auditors

GROUP SESSION – Case studies

1. Duration: Up to 30 minutes

2. Please make WORKING GROUPS You will receive print-out and task

3. Gather together and solve the task Time for discussion: 15 minutes.

4. One (or more) representatives of each group will present the outcome. Time for presentation of the answers – overall - up to 15 minutes
IPA II

Vision of the ICS in 7 years

GROUP SESSION – Case studies

1. Duration: Up to 60 minutes

2. Please make WORKING GROUPS

3. Gather together and solve the task
   Time for discussion - 30 minutes

4. One (or more) representative(s) of each group will present the outcome
   Time - up to 30 minutes