

## EXECUTIVE SUMMARY

- In most countries there is a sufficient audit trail as required by Commission Regulation 438/2001 laying down detailed rules for the implementation of Council Regulation 1260/1999 as regards the management and control systems for assistance granted under the Structural Funds. Although some weaknesses in the audit trail were noted when examining individual projects, these were not usually systematic weaknesses, but individual project failings. The most significant weaknesses identified were the lack of complete documentation of the examinations carried out; and the lack of a definition of the distinction between irregularities and simple errors.
- The progress reporting of projects was felt to be relatively weak, focussing largely on financial monitoring without providing any link to the outputs and outcomes of the projects.
- In most countries the execution and reporting of the 5% checks complied with Commission Regulation 438/2001. Where this is not the case, the relevant authorities have taken steps in the right direction to ensure that the required checks will be carried out by the end of the programming period.
- The independence of the organisations that carry out the 5% sample checks was guaranteed in all programmes.
- The implementation of the 5% checks across all countries has been relatively slow and has often not been evenly spread over the period to date.
- The way the Structural Fund rules are formulated by the European Commission leaves room for ambiguous or even contradictory interpretations.
- Furthermore, Member States expressed concern about an increasing burden to implement the new provisions for the 2000 – 2006 Programme, with little opportunity to apply a risk-based approach, and associated resource costs that were out of proportion to the Commission's funding.

### Good practice

#### On the audit trail

1. Checklists can be used as an aid to help ensure compliance with requirements and to assist in standardising country practices.
2. The approval of project systems in advance helps reduce the risk of payments being made to projects where systems are inadequate. Such risks can also be reduced by examinations during the final application approvals stage, or as a part of the audit of the first payment request.
3. The submission of supporting documents with requests for payment allows for a more detailed and timely review of claims by the paying authority. In the absence of sup-

porting documentation, independent certification of payment requests is an alternative approach which provides adequate assurance regarding the validity of the claim.

4. Project progress reports validated through both project visits and comparison with other known information which helps ensure that a consistent view is presented of individual projects.
5. Progress reports should address both financial and performance objectives. Financial information will always be important but performance information should also be provided to compare project progress with expenditure. Even when there is not a direct correlation between project progress and expenditure, for example, where final outcomes only accrue some time after all funds have been expended; performance information should still be provided.
6. The internal audit units of the national authorities can play an important role in ensuring that regulatory requirements are being met and provide a catalyst for sharing good practice and encouraging continuous improvement. Similarly, when carried out earlier in the programming period, the 5% inspection work at projects can also be designed to contribute to the confirmation of the quality and operation of the audit trail.

#### On the 5% checks

7. Annual risk assessments and a formalised and systematic sample selection approach.
8. After carrying out a 5% check a visit report is drafted with recommendations for the project audited, providing timely feedback and opportunities for future projects to apply lessons learnt.
9. Annual systems reviews carried out, including following-up on the findings and recommendations from previous audits.
10. Use of a standard checklist helps ensure a consistent approach and report.
11. Audited bodies are proactive in assessing whether or not the objectives of the projects have been fulfilled.

#### Recommendations

##### On the Audit Trail

12. While project monitoring operates effectively for most projects, where projects are already completed, the impact of the project should be assessed before approval and the requirement for progress reports dispensed with (Retrospection).
13. The eligibility rules should be reviewed so as to ensure that Structural Fund support can be directed to achieve best value for money.
14. There should be a risk-based assessment of the need for the verification of claims, whether by independent certification or submission of supporting documentation, or reliance on the work of internal audit.

15. Guidance could be produced for Member States internal audit units, to use in ensuring that regulatory requirements are being met, and also serve to minimise the audit burden falling on those in receipt of structural fund support.

#### On the 5% Checks

16. The new Structural Funds regulations (post 2006) should contain a legal obligation to spread the execution of the 5% checks more evenly over the programme period.
17. The audit of the management and control systems should be given a higher priority to detect weaknesses in the systems at an early stage of the programming period.
18. Risk assessments should be routinely used when selecting projects for the 5% checks
19. The Commission should provide guidance on the interpretation of Article 5 of Regulation 438/2001 in respect of the examination of the management and control systems.