

ESF/PA/4-2001

Description of management and control systems required under Article 5 of Commission Regulation (EC) No. 438/2001.

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European Social Fund in Ireland

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1. Introduction

In order to give effect to the requirements of the financial management and control implementing Regulation (EC) No. 438/2001 for the European Social Fund in Ireland, and the requirements of Regulation (EC) No. 1260/1999, a national seminar was held on 21st June, 2001. At this seminar, the Paying Authority began the roll-out of the new system to be applied for all ESF co-funded activity in Ireland during the 2000-2006 programming period. The seminar was attended by approximately 150 representatives of Managing Authorities and key intermediate bodies. The Commission was also in attendance and the keynote address was made by Mr. Brian Gray, Director, DG Regio.

Circular ESF/PA/1-2001 (attached) sets out, in considerable detail, the requirements of the new financial management and control system. The Circular builds on the system put in place towards the end of the 1994-1999 round, to give effect to Regulation (EC) No. 2064/1997, and incorporates many improvements to that system, which will be described below. In addition to the Circular, participants at the seminar were provided with copies of all relevant EU Regulations.

The Department of Enterprise, Trade & Employment is the designated Paying Authority for the ESF in Ireland. It is also the designated Managing Authority for the largest of the ESF co-funded Operational Programmes – the Employment and Human Resources OP. In order to respect the separation of functions required between Paying and Managing Authorities, two important changes to the previous system have been introduced for this Operational Programme:

- in the first instance, the EHRD-OP Managing Authority has been clearly separated from the ESF Paying Authority function and will be headed up by a manager, at Assistant Principal level (see chart 1);
- secondly, the Managing Authority has, for the purposes of the EHRD-OP only, been designated as a “Co-ordinating Managing Authority” – i.e. it has no direct reporting link with intermediate or implementing bodies. All of implementing/intermediate bodies must report through either the section

within this Department with policy/implementing responsibility for the Measure/sub-Measure or, where the activity is the responsibility of a separate Government Department, through a central unit within that Department. In all cases, important Managing Authority tasks have been delegated to the appropriate level below that of the Co-ordinating Managing Authority, which maintains an overall lead role with regard to the management of the individual Measures, but does not get involved in the day to day detail of implementation (see Chart 2). This approach is set out clearly in Circular ESF/PA/1-2001 and the accompanying Forms A, B1-B3 and C.

2. Functions vested in the ESF Paying and Managing Authorities and Intermediate Bodies

(a list of the bodies at each level in the cascade is attached at annex 1)

ESF Paying Authority

The ESF Paying Authority, within the Department of Enterprise, Trade & Employment, has overall responsibility for the measures required under Article 38 of Regulation (EC) No. 1260/1999 for all ESF co-funded activity in Ireland.

The Paying Authority will be responsible for:

- submitting not later than 30 April of each year expenditure forecasts to the Commission for the current and following year (Article 32.7).
- managing the payment on account of Funds,
- drawing up and submitting certified payment applications to the Commission on the basis of expenditure actually incurred by the Final Beneficiaries/Final Recipients
- ensuring that the final beneficiary receives the EU contribution as quickly as possible; (Article 32.1)
- recovering sums due to the Funds and for the application of financial corrections where they arise as a result of the discovery of administrative errors, or from events arising from the management of the programmes or from the establishment of irregularities under Article 39.

The Paying Authority will, on behalf of the Member State, be responsible for ensuring that the Managing Authority exercises its responsibilities in relation to the Intermediate Bodies/Final Beneficiaries for ensuring that payments are legal and regular, and for preventing and detecting irregularities. It will certify that expenditure declarations are accurate and result from accounting systems based on verifiable supporting documentation (Article 38.1 a, c, d and e, Regulation (EC) No. 1260/1999). The Paying Authority will require the Managing Authority to provide

adequate assurance that Community rules are being complied with before claims are certified and submitted to the Commission.

Co-ordinating Managing Authority- EHRD-OP(Level 3.2)

The EHRD-OP Co-ordinating Managing Authority has overall responsibility for the efficiency and correctness of management and implementation. It has responsibility for the actions set out in Article 34.1 of Regulation (EC) No. 1260/1999, in particular for the requirements of Article 34.1 (a)¹, (b), (c), (d) and (e). In particular, it will ensure that:

- steps have been taken to give reasonable assurance that the amount of expenditure returned is correct and is in accordance with the latest financial tables;
- the up-to-date Programme Complement has been presented to the Commission
- the latest annual implementation report has been forwarded to the Commission
- a debtor's ledger is being maintained, in accordance with paragraph 8 of Circular ESF/PA/1-2001.

Delegated Managing Authority – EHRD-OP (Level 3.1)

Delegated Managing Authorities under the OP have particular responsibility for the actions set out in Article 34.1(f), (g) and (h). This level will certify that management and control procedures described in the reporting Body's procedural manual (consistent with the guidance set out in Appendix 3 of Circular ESF/PA/1-2001) are in place at the level below and that steps (including sample checking of information at level 2) have been taken to give reasonable assurance that the amount of expenditure returned is correct, before certifying and reporting the expenditure to the Paying Authority. When declaring expenditure to the Paying Authority, the Managing Authority will be required to draw up and submit a statement of expenditure in the form prescribed at Annex 2 of Commission Regulation (EC) No. 438/2001. This should accompany the Form B3.1 (attached to Circular).

Managing Authority – other ESF assisted Operational Programmes (Level 3)

(see Chart 3 attached for Regional Ops)

All other Managing Authorities have responsibility for the efficiency and correctness of management and implementation in accordance with Article 34.1 of Regulation (EC) No. 1260/1999. This level will certify that management and control procedures described in the reporting Body's procedural manual (consistent with the guidance set out in Appendix 3 of Circular ESF/PA/1-2001) are in place at the level below and that steps (including sample checking of information at level 2) have been taken to give reasonable assurance that the amount of expenditure returned is correct, before certifying and reporting the expenditure to the Paying Authority. When declaring expenditure to the Paying Authority, the Managing Authority will be required to draw

¹ It should be noted that the Department of Finance has overall responsibility for the Management Information System and for evaluation.

up and submit a statement of expenditure in the form prescribed at Annex 2 of Commission Regulation 438/201, as per attached Form C. This should accompany the Form B3 (attached to Circular).

Intermediate Bodies (Level 2)

Intermediate bodies, as defined by Article 2.2 of Regulation (EC) No. 438/2001 are responsible for certifying that management and control procedures described in the reporting Body's procedural manual (consistent with the guidance set out in Appendix 3 of Circular ESF/PA/1-2001) are in place at level 1 and that steps (including sample checking of information at level 1) have been taken to give reasonable assurance that the amount of expenditure returned is correct, before certifying and reporting the expenditure to Level 3. Each expenditure report forwarded from Level 2 must be accompanied by a completed Form B2 (attached to Circular referred to above).

Final Beneficiaries (Level 1)

Final beneficiaries, as defined by Article 9(1) of Regulation (EC) No. 1260/1999, are responsible for reporting and certifying the accuracy, actuality and eligibility of the expenditure to Level 2. In certain cases where the Measure covers a series of individual projects, the Form B1 (attached to Circular) must be accompanied by a schedule indicating project title and reference, the total eligible expenditure being reported and the associated ESF grant amount. Each expenditure report forwarded from Level 1 must be accompanied by a completed Form B1 and project schedule, where appropriate.

General

The Programme Complement for each Operational Programme gives detailed information regarding the particular arrangements for each ESF co-funded Measure/Sub-Measure.

3. Procedures by which claims for reimbursement of expenditure are certified and validated.

Final beneficiaries can only make claims for interim payments based on expenditure actually paid out. This expenditure must be based on receipts/invoices which are available for inspection by the next level up in the cascade and/or the ESF Financial Control Unit, the Internal Audit Unit and any other body authorised to audit the expenditure in question. The claim for interim payment will be prepared and signed-off by a designated official, before being submitted for further checking and sign-off at final beneficiary level. In certain cases where the Measure covers a series of individual projects, the Form B1 (attached to Circular) must be accompanied by a schedule indicating project title and reference, the total eligible expenditure being reported and the associated ESF grant amount. The final beneficiary must be in a position to demonstrate that they have in place a system for the physical verification of the operations in question and the reality of the expenditure being claimed.

The final beneficiary, on completion of the required Form B1 (and accompanying project schedule, where appropriate) will submit the claim for interim payment, along with the necessary supporting documentation, to the next level in the cascade. It should be noted that final beneficiaries may report directly to level 3 or level 3.1, in

the absence of an intermediate body in the cascade for a particular Measure/sub-Measure.

The claim for reimbursement of expenditure actually incurred proceeds up through the financial management and control cascade, as set out clearly in Circular ESF/PA/1-2001 and accompanying forms B and C. At each level the claim is further checked before being certified and validated and sent on to the next level. The Paying Authority will only accept claims for reimbursement which have come through this procedure and for which Forms B1 to B3, as appropriate, have been completed.

4. Procedures Manuals

Paragraph 11 of Circular ESF/PA/1-2001 requires that, in order to overcome any weakness in the area of financial management and control of the Funds, detailed Procedures Manuals should be prepared - and reviewed regularly – by the Managing Authorities. The Procedures Manual shall give details of responsibilities, tasks and procedures for personnel involved in the implementation of EU co-financed activity. The Procedures Manuals should comply with the systems guidance set out in the Commission Guidelines on the application of financial corrections (Appendix 3 of the circular). They should include an organisation chart of the Body concerned, showing the financial flows and lines of reporting. These should be available for inspection by the Paying Authority, the ESF Financial Control Unit, the Internal Audit Units, the European Commission and the European Court of Auditors. Managing Authorities have been formally notified that the detailed procedures manuals should be completed by 19th October, 2001. Copies of the procedures manuals for both the Delegated Managing Authority and the levels further down the cascade should be forwarded to the Paying Authority, for information, by the above deadline.

5. Provisions for the Audit of Management and Control Systems

(a) European Social Fund Financial Control Unit

The Manager and Controllers of the ESF-FCU will be authorised officers under Regulation 3.(1) (b) of the European Communities (Financial Checks) Regulations, 1999 (S.I. No. 123 of 1999) to ensure compliance with the financial checks requirements of the Council Regulation or the Commission Regulation.

The Unit is required to:

- provide advice to the Paying Authority on the proper management and control of ESF funded operations, in accordance with the relevant EU Regulations;
- devise and conduct an annual audit programme
- issue audit reports as appropriate.
- liaise on an ongoing basis with the Head of the ESF Mission.

An Audit Steering Committee for the Control Unit, comprising the Manager of the ESF Financial Control Unit, the Head of the Internal Audit Unit, the Head of the ESF Mission in Ireland and an independent auditor, will meet on a regular basis to discuss the work programme of the Unit. The Manager will be responsible for the organisation of the committee meetings.

The ESF Financial Control Unit, under the direction of the Manager, is responsible for :

(1) Audit of ESF expenditure

Audit of ESF expenditure to comply with the provisions of Articles 10, 11, 12, and 14 of Commission Regulation (EC) No. 438/2001.

(2) Co-ordination

Co-ordination as necessary with the ESF Paying Authority, the Department's Internal Audit Unit, the European Commission and the Court of Auditors staff in:

- preparing control visit itineraries including liaising with the relevant management and/or implementation bodies in advance of such visits
- following-up issues raised in the course of control visits by the Commission and the Court of Auditors.
- co-ordinating as necessary with the Department's Internal Audit Unit on financial control of the ESF;
- advising the ESF Paying Authority on the implications of national or EU audit and financial control measures or proposals, and
- attending as necessary national or EU meetings related to its functions.

(b) Internal Audit Unit (D/Enterprise, Trade & Employment)

A Protocol (Bilateral Administrative Agreement on Audit Co-operation) was signed by the Head of IAU and the Financial Controller of the Commission in July 1998. The purpose of the agreement was to set down arrangements for decentralisation of the audit of Structural Funds and the rationalisation of audit effort between the Commission and the Department. The Memorandum of Understanding attaching to the Agreement outlines the approach adopted by the Department to comply with the Agreement.

Following the signing of this Protocol, it was decided to enter into sub-contracts, known as cascade agreements, with the internal audit units of the various lead departments / implementing agencies. These departments / agencies then put in place subsidiary cascade agreements with any relevant bodies within the remit of their organisations. This ensured that the main objective of decentralisation and rationalisation would be addressed with the co-operation of all audit units concerned.

Due to organisational change in the Commission and new financial control requirements, a revised Protocol Agreement is required for the new round. A draft Protocol has been received from the Commission and it is expected that a revised agreement will be signed in the near future. Following this, updated "cascade" agreements will be put in place with relevant internal audit units.

Audit Planning

The ESF National Audit Plan is an annual plan of audit assignments, devised on a risk assessment basis, in compliance with the regulatory framework. The plan is presented to the Commission at the Co-ordination Meeting at the start of each year (as provided for in Art. 38(3) of Reg. 1260/99).

Audit Activity, Co-ordination, Monitoring and Review

Following the presentation of the audit plan, this Unit formally notifies the relevant internal audit units of their audit commitments for the year, as per the cascade agreement. The rollout letter re-affirms the audit approach and the standard reporting format to be adopted. The Unit co-ordinates and monitors progress throughout the year and makes recommendations and suggestions, as necessary. The Unit also undertakes audits on systems operated within the Department.

An extensive review of all audit reports is undertaken upon completion of the audit plan. The objective of this exercise is to ensure that appropriate audit methodologies have been applied. It also seeks to ensure consistency and uniformity of approach and provides feedback to auditors, as necessary. In some cases, we have sought clarification from audit units on findings contained in their reports.

Closure of the Round

The Head of Internal Audit, as the designated functionally independent officer, will present to the Commission a Declaration at the winding up of the assistance (in accordance with Articles 15 to 17 of Reg. 438/2001).

For further information on the above, see paragraphs 3.4, 12 and 14 of Circular ESF/PA/1-2001.