

Report
to the
Contact Committee

of the heads of the Supreme Audit Institutions
of the Member States of the European Union
and the European Court of Auditors



On the
Parallel Audit
on the
Costs of controls of Structural Funds
by the
Working Group on Structural Funds

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Executive Summary

Mandate

In 2008, the Contact Committee of the heads of Supreme Audit Institutions (SAI) of the Member States of the European Union (EU) and the European Court of Auditors (ECA) mandated the Working Group on Structural Funds to follow up on previous audits of the EU Structural Funds and to carry out an audit on “costs of controls (this could include utilisation of Technical Assistance for the controls of Structural Funds)”. 15 SAIs of the EU Member States¹ and the ECA are represented in the Working Group. The Contact Committee welcomed the Working Group’s intention to submit the report on this audit to the Contact Committee in 2011 at the latest.

Audit Plan

The Working Group developed and agreed on a common Audit Plan (see Annex) which provided a framework for carrying out the review. Each SAI examined their respective national administration concerning the costs of the internal national controls² for the years 2007, 2008 and 2009 prescribed by EU law for the Structural Funds³ for the 2007-2013 programming period⁴. The costs of controls have been measured using two methods: cost centre accounting and cost unit accounting.

General observation and main conclusions

- The system of implementation of Structural Funds is organized differently in individual Member State. The different ways of implementation can influence the costs of controls.
- The cost unit accounting generally indicates lower costs of controls than the cost centre accounting.
 - In relation to three sevenths of the budget⁵ of the audited operational programmes, the highest costs of controls expressed as a percentage amounted to 4.02 per cent and the lowest to 0.36 per cent. This percentage may be affected by the level of implementation in each Member State. Corrected for wage differences between the

¹ SAIs of Austria, Bulgaria, Czech Republic, Germany, Hungary, Italy, Latvia, the Netherlands, Poland, Portugal, Republic of Slovenia and the Slovak Republic. The SAIs of Finland, Malta, Spain and the ECA are observers.

² In this context the term ‘control(s)’ has the meaning of ‘internal national controls’.

³ Structural Funds are the European Social Fund (ESF) and the European Regional Development Fund (ERDF). The Cohesion Fund (CF) was not an audit subject, because it is not a Structural Fund in the current programming period (see Art. 1 par. 2 of Council regulation (EC) No. 1083/2006). The SAIs, however, were not prevented to include the CF additionally in their national audit.

⁴ If the control activities regarding this programming period had been performed already prior to 2007 (eg. ex ante evaluation), they were also included in the audit.

⁵ The budget includes EU funds and national co-financing.

Member States the highest costs of controls expressed as a percentage was 2.79 per cent and the lowest 0.41 per cent.

- The average percentage of total costs of controls in relation to three sevenths of the budget of all audited operational programmes amounts to 0.97 per cent.
- In each Member State the costs of controls started out relatively low in 2007, and then increased year after year. A further increase in control activities and thus of their costs can reasonably be expected in the following years.
- The vast majority of all costs of controls made so far in the Member States can be attributed to the managing authorities. The costs of controls for the certifying authority and audit authority are comparatively low because the involvement of these authorities in control activities was limited in the years 2007-2009.
- The lack of availability of data in the Member States does not allow for accurate calculating the costs of controls.
- A relatively high amount of controls was outsourced. This entails risks of loss of knowledge for the governmental bodies and higher costs.
- Whereas only some control activities result in monetary outputs, all of them can bring non-monetary benefits.
 - Some auditees argued that both the purpose of individual controls and the outputs and benefits of individual control activities are predetermined by EU law.

Recommendations

Our main recommendations are directed immediately to the individual Member State. The SAIs should monitor their implementation where appropriate.

So far, the input into the control activities and their output have not been recorded systematically in all Member States. In future, the participating bodies should make efforts to record their input and their output. Only then the Members States will be able to report on request to the Commission on the costs of controls borne by them, as it is proposed in the draft revision of the Financial Regulation.

When setting up the system of implementation the aspect of costs should also be borne in mind, particularly if outsourcing is considered.

Introduction

Background

In 2000, the Contact Committee of the heads of the SAIs of the EU Member States and the ECA (Contact Committee) set up a Working Group to carry out an exploratory survey on EU Structural Funds. A questionnaire was sent to the SAIs to gain an understanding of how these funds were controlled and managed by the various Member States and to identify possible risk areas. The Working Group reported its findings from this work to the Contact Committee in November 2002.

The Contact Committee subsequently approved three parallel audits. The first of these examined the application of the regulations to ensure that all Member States implement independent checks on 5 per cent of expenditure and had established appropriate audit trails to support transactions. The final report on the review was presented to the December 2004 Contact Committee.

The second parallel audit involved a review of the processes in place for identifying, reporting and following up on Irregularities. The final report on that review was presented to the December 2006 Contact Committee.

As third parallel audit the Working Group carried out a review focused on “Performance (output/effectiveness) of the Structural Funds programmes in the areas of employment and/or environment”. The final report on that review was presented to Contact Committee in December 2008.

2008-2011 Mandate

In 2008, the Contact Committee tasked the Working Group to continue its reviews of Structural Funds issues and specifically to carry out an audit on “Costs of controls (this could include utilisation of Technical Assistance for the controls of Structural Funds)”. The Contact Committee welcomed the Working Group’s intention to submit the report on this audit to the Contact Committee in 2011 at the latest.

The driver for mission was:

- concern expressed by many EU Member States about the lack of an overview about the costs of internal controls of Structural Funds Programmes and the reasonableness of the costs compared to the benefit achieved,

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- a study of the Commission on the costs of controls of the European Regional Development Fund and the concept of tolerable risk of error⁶ developed on this basis, and
 - findings from previous audits carried out by the Working Group indicating that EU Member States used the resources placed at their disposal for Technical Assistance in an inconsistent way to fund management, control and evaluation of Structural Funds projects.

Audit objective

The parallel audit aimed to identify the level of costs incurred by internal control activities in the Member States and to examine whether the costs of controls are appropriate (e. g. relation to expenditures; cost-benefit; output, redundancy).

Audit subject

The Working Group estimated the costs of the internal national controls for the years 2007, 2008, 2009 stipulated by EU law for the Structural Funds for the 2007-2013 programming period.

Estimating the costs of all controls relating to the management of the European Social Fund (ESF) and the European Regional Development Fund (ERDF) required an extensive input of resources. Therefore, each SAI was asked to audit one or more operational programmes of the Structural Funds. Concerning the new programming period, the Working Group limited its audit basically to the costs of those internal control measures of the management and control system generally laid down in Regulation (EC) No. 1083/2006, title VI, chapter I, including ex ante evaluations and activities of monitoring committees.

The participating SAIs audited 41 operational programmes, seven for the ESF and 34 for the ERDF.

Costs incurred by the final beneficiary due to documentation and reporting obligations ('administrative burdens') were not covered by the parallel audit.

⁶ See Commission communications of 16 December 2008 COM (2008) 866, of 16 December 2008 SEC (2008) 2054 and of 26 May 2010 COM (2010) 261.

Scope and approach of the parallel audit

The scope of the audit was limited to the control activities of the Member States with regard to the programming period 2007-2013. Accordingly, the audit covered an overview of the Structural Funds programmes in the Member States, ex ante evaluations, set up of management and control systems, assessments of project eligibility (project selection), management verifications of projects, monitoring, certification of expenditure and control activities of the audit authority. Costs were estimated for the years 2007, 2008 and 2009⁷.

The Working Group was aware of the fact that not all controls had yet been implemented for the 2007-2013 programming period.

Discussion so far

Over several years the ECA repeatedly stated a large proportion of errors in the field of cohesion policy (regardless of a high level of controls).⁸ Ever since the ECA reported error rates for individual policy areas, the proportion of errors for cohesion has been higher than the two per cent rate which the ECA determined as a material threshold⁹ in assessing the reliability of EU annual financial statements and legality and regularity of transactions related thereto.¹⁰

In 2004, the ECA highlighted in its opinion¹¹ that the extent and intensity of checks should make an appropriate balance to their overall benefits. The Court recommended that the Commission might propose a tolerable risk of error.

In 2006, the Commission prepared a Commission Action Plan towards an Integrated Internal Control Framework¹² to ensure more effective and efficient internal control of EU funds. In subsequent documents the Commission established interdependency between legislative complexity, error rate and costs of control¹³. Furthermore, the Commission prepared a

⁷ If the control activities regarding this programming period had been performed already prior to 2007 (eg. ex ante evaluation), they were also included in the audit.

⁸ Cohesion policy is implemented through Structural Funds and the Cohesion Fund (CF). Structural Funds are the ESF and the ERDF. The CF was not an audit subject, because it is not a Structural Fund in the current programming period (see Art. 1 par. 2 of Council regulation (EC) No. 1083/2006). The SAIs, however, were not prevented to include the CF additionally in their national audit. The Working Group assumes that the proportion of errors in the field of Structural Funds can be compared to the ones in the field of cohesion policy.

⁹ Materiality is a concept that acknowledges that underlying transactions can rarely be absolutely free from all errors and that a degree of tolerance in their accuracy is therefore acceptable (Methodology for the Statement of Assurance (DAS), European Court of Auditors).

¹⁰ Annual Report for 2009, UJ C No. 303 of 9 November 2010.

¹¹ Opinion No 2/2004 of the Court of Auditors of the European Communities on the 'single audit' model (and a proposal for a Community internal control framework), UJ C No 107 of 30 April 2004.

¹² Communication from the Commission to the Council, the European Parliament and the European Court of Auditors - Commission Action Plan towards an Integrated Internal Control Framework, COM(2006) 9 final of 17 January 2006.

¹³ Cf. Communication from the Commission to the European Parliament, the Council and the Court of Auditors, More or less controls? Striking the right balance between the administrative costs of control and the risk of error, COM(2010) 261 final of 26 May 2010.

methodology for the calculation of costs of control¹⁴ whereby it defined a control activity as the activity which verifies the regularity of expenditure and/or the rights of the beneficiary. First estimates by the Commission¹⁵ showed that in the year 2006 costs of controls amounted to 0.7 per cent for the ERDF and 0.8 per cent for the ESF of the total public contribution¹⁶, although the reliability of data is questionable since the information provided by Member States was not always complete and properly verified.

At the end of 2008, the Commission made a proposal for a common understanding of the concept of tolerable risk of error¹⁷. It prepared a simplified model to illustrate a theoretical tolerable risk point, where the marginal cost of an additional control equals the marginal benefit of that control. On the basis of calculated costs of control, the Commission came to a conclusion that the tolerable risk of error for the ERDF might amount to approximately five per cent. The Commission believed that further development of the concept of tolerable risk of error could be an appropriate basis for the discharge procedure in the European Parliament.

In May 2010, the Commission introduced first proposals for a tolerable risk of error¹⁸ for several policy areas. It stated that in some policy areas complex rules, extended control chains and control costs did not permit a two per cent error rate to be attained without incurring higher than justified costs. The Commission expressed its intention to make proposals for the tolerable risk of error for further policy areas.

The Commission also proposed the revision of the Financial Regulation¹⁹ in order to introduce a definition of the concept of tolerable risk of error and the manner of determining the level thereof. According to the Commission the level of tolerable risk should be taken into account during the annual discharge procedure. The tolerable risk of error should be based

¹⁴ Costs of controls for the European Regional Development Fund – Methodology, REGIO-2007-00633-00-00-DE-TRA-00(EN).

¹⁵ Commission Staff Working document, Accompanying document to the Communication from the Commission to the European Parliament, the Council and the European Court of Auditors, Towards a common understanding of the concept of tolerable risk of error, SEC(2008) 3054 of 16 December 2008.

¹⁶ The Commission considered as public contribution all payments by the Commission added by a simplified national co-financing rate in the amount of 50 per cent for all Member States.

¹⁷ Communication from the Commission to the European Parliament, the Council and the Court of Auditors, Towards a common understanding of the concept of tolerable risk of error, COM(2008) 866 final of 16 December 2008.

¹⁸ Communication from the Commission to the European Parliament, the Council and the Court of Auditors, More or less controls? Striking the right balance between the administrative costs of control and the risk of error, COM(2010) 261 final of 26 May 2010.

¹⁹ Council Regulation (EC, EURATOM) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities, Council Regulation (EC, EURATOM) No 1995/2006 of 13 December 2006 amending Regulation (EC, Euratom) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities and Council Regulation (EC) No 1525/2007 of 17 December 2007 amending Regulation (EC, Euratom) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities.

on the analysis of the costs and benefits of controls. Member State, entities and persons should on request report to the Commission on the costs of control borne by them.²⁰

The Working Group recognizes that the Commission delegated SWECO International (Sweden) in 2008 to conduct the study “Regional Governance in the context of Globalisation” to estimate the administrative structures and costs at national and regional level for all ERDF and CF-operational programmes, including part of the INTERREG programmes (programming period 2007-2013). As a result of the study the workload for the administration of ERDF and CF in the Member States over the full programme cycle is accounted for approximately 170,000 person years (not including externally purchased services). Total administrative costs, including costs for administrative staff, external services and consultancies and overheads, are estimated to be approximately €12.5 billion out of a total eligible expenditure of €390 billion. That means based on an overall response rate of 60 per cent, total administrative costs (including overheads) are estimated at 3-4 per cent of total eligible expenditure. Due to the fact that the SWECO study concentrated not only on costs of controls, but also other administrative costs, the results of that study are not completely comparable to the results of the Working Group.

Methodology

➤ Terms and definitions

The Working Group understands the term “*control*” in a wide sense: controls include steps taken to establish the claim of an applicant (control in the narrower sense of the word) and measures which relate to an entire operational programme (e.g. ex ante and ex post evaluation).²¹

Costs of controls are considered as the costs incurred by the control bodies that carry out the controls. These costs of controls mainly consist of direct staff costs, material costs (such as travel costs) and indirect costs (overhead costs).

Indirect costs comprise certain general administrative expenditures e.g. staff overhead and materials overhead that have to be allocated to direct staff costs. To account for overhead costs, some costing models call for a simple lump-sum addition to direct staff costs per time unit.

²⁰ Proposal for a regulation of the European Parliament and of the Council on the financial rules applicable to the annual budget of the Union, COM(2010) 815 final of 22 December 2010.

²¹ The Working Group is well aware that this approach is more inclusive than the one adopted by the Commission.

➤ Calculation methods

The Working Group calculated the costs of controls using the following two models:

- (a) the *cost centre accounting*, in which the costs are calculated per body (authority/ organization). The method is based on the budget of a body, the ratio between the number of controllers and the total number of staff of a body in full-time staff or *full-time equivalents (FTE)* and
- (b) the *cost unit accounting*, in which the costs are calculated per (main) control activity (based on the *Standard Cost Model*²²).

The two methods were applied in order to enable mutual comparison.

The Commission identified the costs of controls incurred for implementing the ERDF on the basis of the cost centre accounting and described this method as “a gross estimate of costs of control by the Member States”.

There are Member States which already have experience in applying the cost unit accounting. The Working Group sought to find out if this method might generate more reliable figures than the other one.

➤ Cost centre accounting

The Working Group used the following formula to calculate the costs of controls of the bodies by means of cost centre accounting:

$$\text{costs of controls} = \frac{\text{budget of the authority} * \text{controllers (FTEs)}}{\text{total staff (FTEs)}}$$

To find out what budget volume each entity had at its disposal, the SAIs asked all implementing bodies about the actual annual budget for functioning of the body (personnel expenditure, the administrative expenditure on materials, depreciation). Furthermore, the SAIs collected information on the total number of each entity's staff in FTEs and the number of staff assigned to control work in FTEs.

²² The Standard Cost Model (SCM) developed in the Netherlands (see www.administrative-burdens.com) is now used throughout Europe in order to measure the administrative burdens for businesses, citizens and the public administration thus ensuring consistency in application. The Working Group decided to use the Standard Cost Model to estimate the costs of the control bodies. The model is based on a simple “price-amount-approach”. A task done is estimated in money terms and multiplied by the frequency with which the task occurred. SAIs multiplied the price (=costs) of an individual control activity (consists of the factors' costs per unit of time multiplied with the time) with the quantity of these activities.

➤ Cost unit accounting

To calculate the costs of control activities by means of cost unit accounting, the Working Group applied the following formula:

$$\text{costs of controls} = \frac{\text{costs per control activity}}{(\text{time} * \text{costs per unit})} * \text{total amount of activities}$$

To account for indirect costs, a general overhead rate of 30 per cent was added to the staff costs calculated by means of this formula, in order to make the results of the Member States comparable with each other²³. In order to obtain the data for the formula, all implementing bodies were asked about the time needed for each control activity, the cost of each control activity and the number of individual control activities carried out. The SAIs requested the respective information for the years 2007-2009 including ex ante activities.

In the cost centre accounting the costs of controls are calculated using the budget per body that carries out the controls, in relation to the ratio of the number of controllers and the total number of staff of a body in FTE. The cost unit accounting in contrast focuses on specific control activities (including overhead costs) of the body that carries out the controls. It involves data about the number of individual control activities carried out, the time needed for each control activity and the cost of each individual control activity. Therefore the cost centre accounting is expected to lead to higher estimated costs of controls than the cost unit accounting.

➤ Appropriateness of costs of controls

The Working Group sought to examine what the results and (non-monetary) benefits of the controls are and whether the costs of controls are appropriate. Hence, the SAIs aimed to collect data on the (key) results of the controls (output) and their added value. The SAIs considered the following as such key results: the amount of expenditure checked, the number of projects checked on the spot and their proportion to the total number of projects, the amount of corrections, the amount of recoveries and the error rate²⁴ reflected in the result of administrative controls²⁵, certifications of expenditure²⁶, systems audits²⁷ and sample checks on operations by audit bodies²⁸.

²³ The Working Group used a 30 per cent overhead rate, because it can be considered as a sound estimate. It acknowledges that the actual overhead rates in certain Member States may differ.

²⁴ The error rate is the portion of irregular expenditure identified as compared to the amount of expenditure audited (see No. 9 annex VI of the Regulation (EC) No. 1828/2006). The error rate refers to quantifiable errors only.

²⁵ Art. 60 letters a, b Regulation (EC) No. 1083/2006.

²⁶ Art. 61 letter b Regulation (EC) No. 1083/2006.

²⁷ Art. 62 par. 1 letter a Regulation (EC) No. 1083/2006.

²⁸ Art. 62 par. 1 letter b Regulation (EC) No. 1083/2006.

The data provided by the auditees were not sufficient to relate the costs of controls made by the Member States to the results of the controls. Therefore the costs of controls were related to three sevenths of the budget of the audited operational programmes²⁹ (separately for ESF and ERDF) in the Member States. Data on contracts signed, payments to beneficiaries and applications for payment to the Commission were used to illustrate the difference in stages of implementation in Member States.

➤ Data collection

The Working Group developed questionnaires by means of which the SAIs identified the costs of controls in the Member States. These questionnaires were designed for the managing authority, certifying authority, audit authority and intermediate bodies. Based on the Working Group's questionnaires, each SAI collected data on the costs of these four areas in two steps:

- In 2009, data were collected on the costs of controls carried out in the years 2007 and 2008 including ex ante activities.
- In a second step, the data were collected on all control activities carried out in 2009.

The questionnaires developed by the Working Group were to some extent worded in a more generalised way in order to make them "usable" in the Member States concerned regardless of their different systems. As a result, the questionnaires sometimes required interpretations by the bodies where audit evidence was collected, therefore the SAIs were asked to give further information.

²⁹ The Working Group chose three sevenths of the commitment appropriations (budget) for the entire programming period 2007–2013 as an objective tool for comparison between Member States.

Audit Findings

General Observation

The system of implementation of Structural Funds is organized differently in individual Member State. The different ways of implementation can influence the costs of controls.

The system of implementation of Structural Funds is organized differently in each Member State. These differences can be linked to the size of Member States or whether they have a centralised or a decentralised administrative system. The differences stand out clearly in particular in the institutions responsible for the implementation of operational programmes, in the delegation of tasks and the number of institutions involved.

Larger and decentralised Member States are more likely to have regional operational programmes drawn up. Usually these are programmes financed from ERDF, in some cases from ESF. In general managing authorities are on the regional level, but there is a central or federal ministry (responsible for the regional development or economic affairs) acting as a coordinating body. Certifying and audit authorities are organized at a central level, but in some cases with intermediate bodies partly organized at the regional level.

The distinctions among operational programmes can be found when regarding the fact to which body the tasks of key authorities are assigned. In some cases more emphasis is given to bodies involved in the contents of each operational programme (e.g. for ESF-operational programmes the ministry responsible for labour and employment is set as the managing authority, certifying and audit authority). On the other hand more roles may be gathered within institutions with general tasks. This is more common in Member States, that became members after 1 May 2004, where in many cases the Ministry of Finance and its bodies or authorities for regions and development are acting as a managing authority, certifying authority or audit authority.

According to Art. 2 par. 6 and Art. 59 par. 2 Reg. (EC) No 1083/2006, managing and certifying authorities are allowed to delegate certain tasks to intermediate bodies. The extent to which the intermediate bodies are involved into the implementation of Structural Funds differs in individual Member States and operational programmes. While in some cases no intermediate bodies are assigned, the highest number of intermediate bodies was 61. There may even be more levels of intermediate bodies involved. In some Member States tasks of audit authorities were delegated (in accordance with Art 62 par. 3 Reg. (EC) No 1083/2006) to internal audit services of institutions involved in the implementation of Structural Funds. Aside from the designated authorities, also other institutions may be involved in the implementation of Structural Funds, such as "responsible bodies", "cooperation bodies", "coordinating bodies" and "agents".

If the implementation system of Structural Funds consists of more levels, this may lead to more controls being performed. Namely, in the case of delegating tasks to intermediate or other bodies, the authority is still held responsible for the implementation. It may therefore carry out checks to obtain assurance that the delegated tasks are done in appropriate manner. This indicates that the costs of controls at a relevant extent depend on the way Member States have set up their control system.

It has to be added that several Member States report on frequent changes in the system and high turnover of staff dealing with Structural Funds.

Conclusion 1

The cost unit accounting generally indicates lower costs of controls than the cost centre accounting.

The Working Group sought to examine and to compare the costs of controls by the cost centre accounting and the cost unit accounting. The audit has shown that the cost centre accounting generally leads to higher estimated costs of controls than the cost unit accounting. The following tables provide an overview (table 1a) and a year by year overview (table 1b) of the total costs of controls as calculated by the cost centre accounting and the cost unit accounting in each Member State for the operational programs audited (2007-2009; costs which incurred prior to the year 2007 are added to costs incurred in 2007). Costs were calculated for the activities of the managing authority, the certifying authority and the audit authority and for the activities, which are not specifically assigned to these authorities, but more generally to the Member State.

Total costs of control activities

Table 1a: Total costs of control activities – cost centre accounting and cost unit accounting – in € –

Member State	Total costs by cost centre accounting	Total costs by cost unit accounting
Austria	20.037.879	19.183.918
Bulgaria	5.176.042	2.462.622
Czech Republic*	25.355.626	19.894.946
Germany	765.528.936	60.951.565
Hungary	/	52.147.000
Italy**	/	5.546.940
Latvia***	/	14.767.753
Netherlands	37.186.463	14.911.277
Poland	58.087.522	48.097.091
Portugal****	22.594.997	20.234.272
Slovakia*****	1.666.042	/
Slovenia	16.140.343	13.443.776

The overhead rate of 30 % is added for all Member States in the cost unit accounting.

* Costs for activities not assigned specifically to the managing authority, the certifying authority or the audit authority were not calculated using cost centre accounting.

- ** Costs according to cost centre accounting are not presented here, since not all overhead costs and full costs of the intermediate bodies are included in the findings.
- *** Audited OP's funded by the ESF, the ERDF and the CF.
- **** Costs of audit authority not included.
- ***** Costs according to cost unit accounting are not included due to uncertainties concerning the data.

The overview in the table 1a shows that in most Member States the costs of controls calculated by cost centre accounting are higher than the costs of controls calculated by cost unit accounting. The degree, to which the costs of controls calculated by cost centre accounting are higher than the costs of controls calculated by cost unit accounting, differs between individual Member States. In Austria the difference is less than 5 per cent, while in Germany the costs of controls by cost centre accounting are considerably higher than by cost unit accounting.

Table 1b: Total costs of control activities – cost centre accounting and cost unit accounting – year by year overview – in € –

Member State	Year	Total costs by cost centre accounting	Total costs by cost unit accounting
Austria	sum	20.037.879	19.183.918
	2007	4.528.039	4.392.155
	2008	6.783.773	6.729.028
	2009	8.726.067	8.062.734
Bulgaria	sum	5.176.042	2.462.622
	2007	862.810	689.242
	2008	2.029.979	523.835
	2009	2.283.253	1.249.545
Czech Republic*	sum	25.355.626	19.894.946
	2007	4.475.505	3.579.468
	2008	9.425.536	7.435.738
	2009	11.454.585	8.879.739
Germany	sum	765.528.936	60.951.565
	2007	163.485.093	6.339.246
	2008	249.294.395	18.889.006
	2009	352.749.448	35.723.310
Hungary	sum	/	52.147.000
	2007	/	9.822.000
	2008	/	17.890.000
	2009	/	24.435.000
Italy**	sum	/	5.546.940
	2007	/	621.791
	2008	/	1.413.237
	2009	/	3.511.912
Latvia***	sum	/	14.767.753
	2007	/	3.553.808
	2008	/	5.057.868
	2009	/	6.156.077
Netherlands	sum	37.186.463	14.911.277
	2007	6.768.334	1.825.310
	2008	12.440.091	4.212.693
	2009	17.978.038	8.873.274
Poland	sum	58.087.522	48.097.091
	2007	4.005.951	3.980.986
	2008	24.302.644	18.146.028
	2009	29.778.927	25.970.077

Portugal****	sum	22.594.997	20.234.272
	2007	0	445.070
	2008	8.750.988	7.277.326
	2009	13.844.009	12.511.876
Slovakia*****	sum	1.666.042	/
	2007	384.697	/
	2008	499.115	/
	2009	782.230	/
Slovenia	sum	16.140.343	13.443.776
	2007	1.783.902	1.323.474
	2008	5.784.592	4.341.689
	2009	8.571.849	7.778.614

The overhead rate of 30 % is added for all Member States in the cost unit accounting.

* Costs for activities not assigned specifically to the managing authority, the certifying authority or the audit authority were not calculated using cost centre accounting.

** Costs according to cost centre accounting are not presented here, since not all overhead costs and full costs of the intermediate bodies are included in the findings.

*** Audited OP's funded by the ESF, the ERDF and the CF.

**** Costs of audit authority not included.

***** Costs according to cost unit accounting are not included due to uncertainties concerning the data.

The year by year overview in table 1b indicates that in each Member State – and for both methods – the costs of controls started out relatively low in 2007, and then increased year after year. Although during the start up stage costs of controls were associated by the ex ante evaluation and by setting up the management and control systems, it is obvious that the costs of controls increased steadily once all systems were in place and more projects got funded. A further increase in control activities and thus of their costs can reasonably be expected in the following years.

Total costs of control activities in relation to three sevenths of the budget (EU funds and national co-financing) of the audited operational programmes

The following table 2 shows the total costs of controls calculated by both methods for each Member State (years 2007-2009) in relation to the three sevenths of the budget (EU funds and national co-financing) of the audited operational programmes (separately for ESF and ERDF). These percentages should not be directly compared between Member States, as they are not yet corrected for wage differences in the Member States.

Table 2: Operational funds and percentage of costs per Member State – cost centre accounting and cost unit accounting – in thousand € –

Member State	Audited OPs	Total amount of audited OPs*	3/7 of audited OPs-	Total costs by cost centre accounting	Total costs by cost unit accounting **	Total costs as % by cost centre accounting	Total costs as % by cost unit accounting
a	b	c	d=c * 3/7	e	f	g=e/d*100	h=f/d*100
Austria	1 ESF	1.114.814	477.777	20.038	19.184	4,19	4,02
Bulgaria	1 ERDF	1.601.275	686.261	5.176	2.463	0,75	0,36
Czech Republic	7 ERDF	5.481.214	2.349.092	25.356	19.895	1,08	0,85
Germany	1 ESF	5.344.316	2.290.421	765.529	60.952	33,42	2,66
Hungary	1 ESF	3.548.302	1.520.701	/	17.362	/	1,15
	2 ERDF	4.674.296	2.003.270	/	34.785	/	1,74
Italy***	2 ERDF	1.529.646	655.563	/	5.547	/	0,85
Latvia****	1 ESF, 1 ERDF, 1 ERDF+CF	5.746.275	2.462.689	/	14.768	/	0,60
	1 ESF	1.498.847	642.363	23.667	7.376	3,68	1,15
Netherlands	2 ERDF	749.625	321.268	13.519	7.536	4,21	2,35
Poland	16 ERDF	20.057.674	8.596.146	58.088	48.097	0,68	0,56
Portugal	1 ESF	8.736.190	3.744.081	22.594	20.234	0,60	0,54
Slovakia	1 ERDF	905.035	387.872	1.666	/	0,43	/
	1 ESF	889.058	381.025	7.591	6.460	1,99	1,70
Slovenia	1 ERDF	2.011.470	862.059	8.549	6.984	0,99	0,81
Average		63.888.037	27.380.587	953.863	266.096	4,46	0,97

* EU funds and national co-financing.

** The overhead rate of 30 % is added for all Member States in cost unit accounting.

*** Costs according to cost centre accounting are not presented here, since not all overhead costs and full costs of the intermediate bodies are included in the findings;

**** Audited OP's funded by the ESF, the ERDF and the CF.

Table 2 shows by analogy with table 1 that the total costs of controls as calculated by the cost unit accounting expressed as a percentage of the three sevenths of the funds available for the 2007-2013 programming period, are generally lower than the corresponding percentage calculated for the cost centre accounting.

In relation to three sevenths of the budget of the audited operational programmes, the highest costs of controls calculated by cost unit accounting expressed as a percentage amounted to 4.02 per cent and the lowest to 0.36 per cent. This percentage may be affected by the level of implementation in each Member State. The average percentage of total costs of controls in relation to three sevenths of the budget of all audited operational programmes amounts to 0.97 per cent.

It should be stressed, however, that as the percentages are calculated on the basis of planned budget appropriations, higher percentages could either mean that more control activities have already been carried out or that the implementation system in place causes higher costs.

The Working Group concludes that – because these calculations have taken place after three years of the seven year programming period – the percentages provided here are most likely underestimations of the actual costs of control as a percentage of the funds available. By how much this is an underestimation is not known. Clearly at the end of a programming

period, the costs will rise because more projects will be finalized. On the other hand, at the start of the programming period certain control costs have been made in setting up the systems that do not reoccur in later years. But it is likely that the additional costs made at the start of the period will not outweigh the additional costs that have to be made at the end of the period (e.g. ex post evaluation and closure of programmes). The only way to state the degree to which this is an underestimation, is to repeat the analysis at a later point in time.

Despite of the fact that the input data for the cost centre accounting is precise, the method itself is less precise in calculating the costs of controls than the cost unit accounting³⁰. Therefore in the continuation results will only be discussed on the basis of the cost unit accounting.

Table 3: Money reserved for payments to final beneficiaries (contracts signed), money transferred to final beneficiaries (payments to beneficiaries) and applications for payment sent to the Commission in relation to the total amount of audited OPs per Member State

Member State	Audited OPs	Total amount of audited OPs* in T€	Contracts signed 2007-2009 in T€	Contracts signed 2007-2009 in %	Payments to beneficiaries 2007-2009 in T€	Payments to beneficiaries 2007-2009 in %	Applications for payment sent to Commission 2007-2009 in T€	Applications for payment sent to Commission 2007-2009 in %
a	b	c	d	e=d/c*100	f	g=f/c*100	h	i=h/c*100
Austria	1 ESF	1.114.814	648.400	58,16	406.760	36,49	233.520	20,95
Bulgaria	1 ERDF	1.601.275	475.700	29,71	36.500	2,28	0	0,00
Czech Republic	7 ERDF	5.481.214	3.201.746	58,41	710.887	12,97	209.501	3,82
Germany	1 ESF	5.344.316	2.244.068	41,99	583.748	10,92	449.676	8,41
Hungary	1 ESF	3.548.302	751.608	21,18	65.963	1,86	9.265	0,26
	2 ERDF	4.674.296	2.604.421	55,72	729.563	15,61	343.010	7,34
Italy	2 ERDF	1.529.646	170.004	11,11	73.988	4,84	149.334	9,76
Latvia**	3 (ESF, ERDF, ERDF/CF)	5.746.275	2.887.687	50,25	483.847	8,42	310.956	5,41
	1 ESF	1.498.847	1.220.800	81,45	30.000	2,00	120.902	8,07
Netherlands	2 ERDF	749.625	683.968	91,24	41.267	5,51	51.264	6,84
Poland	16 ERDF	20.057.674	5.708.504	28,46	1.511.628	7,54	1.487.333	7,42
Portugal	1 ESF	8.736.190	4.823.333	55,21	1.069.760	12,25	802.097	9,18
Slovakia	1 ERDF	905.035	420.001	46,41	50.620	5,59	0	0,00
	1 ESF	889.058	405.728	45,64	90.486	10,18	3.243	0,36
Slovenia	1 ERDF	2.011.470	911.027	45,29	506.035	25,16	78.641	3,91

* EU funds and national co-financing.

** Audited OP's funded by the ESF, the ERDF and the CF.

Table 3 shows the difference in stages of implementation in Member States. While in some Member States the contracted amounts were quite low, in others contracts with the beneficiaries have already been signed for nearly all available funds. The payments made to the beneficiaries and the applications for payment the Member States have sent to the Commission until the end of 2009 were relatively low in most of the Member States.

³⁰ The Austrian Court of Audit is of the opinion that the Austrian audit findings do not allow for such a conclusion.

Total costs of controls activities corrected for wage differences between the Member States

As the wages may differ significantly in the Member States, this can also influence the estimated level of costs of controls. Therefore the Working Group decided to adjust the estimated cost of controls according to these differences. In the following table 4 the total costs of controls as calculated by the cost unit accounting expressed as a percentage of the three sevenths of the funds available for the 2007-2013 programming period are corrected for wage differences between the Member States. For calculation the Working Group used wage data of the managing authorities. This information was available for eleven Member States.

Table 4: Operational funds and percentage of costs per Member State – cost unit accounting, corrected for wage costs

Member State ³¹	Average wage in MS (2007-2009) - € -	Average wage in EU (2007-2009) - € -	Difference factor (wages MS / wages EU)	Total costs of controls (2007-2009) - T € -	internal costs - T € -	Out-sourcing - T € -	Total subsidy (3/7 of 2007-2013) of audited OPs - T €	Costs of controls as % of subsidy (3/7 of 2007-2013)	Corrected total costs (3/7 of 2007-2013) using difference factor * - T €	Corrected costs of controls (3/7 of 2007-2013) as % of subsidy
a	b	c	d=b/c	e	f	g	h	i=e/h * 100	j= (f/d) + g	k=j/h*100
Austria	47,2	26,8	1,76	19.184	13.563	5.621	477.777	4,02%	13.334	2,79%
Bulgaria	3,4	26,8	0,13	2.462	2.120	342	686.261	0,36%	16.978	2,47%
Czech Republic	12,5	26,8	0,46	19.894	16.858	3.037	2.349.092	0,85%	39.293	1,67%
Germany	51,2	26,8	1,91	60.952	45.698	15.253	2.290.421	2,66%	39.214	1,71%
Hungary	12,7	26,8	0,47	52.147	35.149	16.998	3.523.971	1,48%	91.165	2,59%
Italy**	32,0	26,8	1,19	5.547			655.563	0,85%	4.655	0,71%
Latvia***	15,3	26,8	0,57	14.768	12.610	2.158	2.462.689	0,60%	24.235	0,98%
Netherlands	56,0	26,8	2,09	14.911	8.537	6.375	963.631	1,55%	10.466	1,09%
Poland	10,7	26,8	0,40	48.097	45.542	2.555	8.596.146	0,56%	116.793	1,36%
Portugal	35,2	26,8	1,31	20.234	20.109	125	3.744.081	0,54%	15.463	0,41%
Slovenia	19,0	26,8	0,71	13.444	10.498	2.946	1.243.084	1,08%	17.776	1,43%

* Only internal costs are corrected.

** No data on outsourcing available.

*** Audited OP's funded by the ESF, the ERDF and the CF.

The corrected percentages of costs were in between 0.41 and 2.79 per cent. In Austria, Germany, Italy, the Netherlands and in Portugal the costs of controls as a percentage of the three sevenths of the funds for the 2007-2013 programming period are adjusted to a lower level, for Bulgaria, the Czech Republic, Hungary, Latvia, Poland and Slovenia to a higher level.

Again, the data in table 4 gives a general picture (corrected for wage differences) and does not present the real costs made in the EU Member States. In the following tables 5, 6 and 7 we refer to the original data on the costs of controls, not corrected for wage differences.

³¹ Slovakia is not included in this table due to uncertainties regarding the data used in the cost unit accounting.

Total costs of control activities by cost unit accounting for the ESF and the ERDF

Cost of control activities separated by fund (ESF and ERDF) are shown in table 5³². The left hand side gives for the ESF operational programme(s) audited (2007-2009) a year by year overview of 1) the total costs of controls as calculated by the cost unit accounting in each Member State and 2) the total costs as a percentage of the three sevenths of the funds for the period 2007-2009 in each Member State. The right hand side does the same for the ERDF operational programme(s) audited (years 2007-2009).

Table 5: Total costs of control activities (cost unit accounting*): ESF and ERDF

Member State	Year	ESF Total costs - € -	ESF Total costs in %	ERDF Total costs - € -	ERDF Total costs in %
Austria	sum	19.183.918	4,02		
	2007	4.392.155			
	2008	6.729.028			
	2009	8.062.734			
Bulgaria	sum			2.462.622	0,36
	2007			689.242	
	2008			523.835	
	2009			1.249.545	
Czech Republic	sum			19.894.946	0,85
	2007			3.579.468	
	2008			7.435.738	
	2009			8.879.739	
Germany	sum	60.951.565	2,66		
	2007	6.339.246			
	2008	18.889.006			
	2009	35.723.310			
Hungary	sum	17.362.000	1,15	34.785.000	1,74
	2007	2.460.000		7.362.000	
	2008	5.632.000		12.258.000	
	2009	9.270.000		15.165.000	
Italy	sum			5.546.940	0,85
	2007			621.791	
	2008			1.413.237	
	2009			3.511.912	
Netherlands	sum	7.375.598	1,15	7.535.679	2,35
	2007	1.131.815		693.495	
	2008	1.223.736		2.988.957	
	2009	5.020.047		3.855.227	
Poland	sum			48.097.091	0,56
	2007			3.980.986	
	2008			18.146.028	
	2009			25.970.077	
Portugal	sum	20.234.272	0,54		
	2007	445.070			
	2008	7.277.326			
	2009	12.511.876			
Slovenia	sum	6.460.085	1,70	6.983.691	0,81
	2007	588.797		734.677	
	2008	2.135.911		2.205.778	
	2009	3.735.377		4.043.236	

³² The Latvian SAI audited OP's funded by the ESF, the ERDF and the CF; the costs of controls separately per programme are not available.

* The overhead rate of 30 % is added for all Member States

As the participating SAs audited either ESF- or ERDF-operational programmes or operational programmes of both Structural Funds, meaningful conclusions cannot be drawn regarding potential differences in costs of controls between ESF and ERDF. Expressed as a percentage of three seventh of the total funds in the period 2007-2013, in Hungary and The Netherlands the costs of controls are higher for ERDF than for ESF. In Slovenia the opposite result is found. It has to be taken into account that in all three Member States the level of implementation is higher for ERDF-operational programmes than for ESF-operational programmes.

Total costs of controls activities by cost unit accounting for the authorities

The following table 6 provides an overview of the total costs of controls as calculated by the cost unit accounting for the audited ESF-operational programmes and the ERDF-operational programmes for the managing authority, the certifying authority and the audit authority in the Member States.³³

Table 6: Total costs of controls (cost unit accounting*) of the managing authority (MA), the certifying authority (CA) and the audit authority (AA) by Structural Fund – in € –

Member State	Year	ESF			ERDF		
		MA	CA	AA	MA	CA	AA
Austria	sum	18.649.019	188.193	346.706			
	2007	4.311.095	0	81.060			
	2008	6.536.501	111.047	81.480			
	2009	7.801.423	77.146	184.166			
Bulgaria	sum				1.922.328	143.023	397.272
	2007				615.389	42.133	31.721
	2008				407.511	35.706	80.618
	2009				899.428	65.183	284.934
Czech Republic	sum				18.030.516	218.799	1.645.631
	2007				3.421.082	61.012	97.374
	2008				6.671.310	80.080	684.348
	2009				7.938.124	77.707	863.908
Germany	sum	57.409.688	1.302.068	2.239.807			
	2007	6.196.316	142.930	0			
	2008	17.878.642	297.131	713.234			
	2009	33.334.731	862.007	1.526.573			
Hungary	sum	17.101.000	110.000	151.000	33.974.000	220.000	591.000
	2007	2.401.000	25.000	34.000	7.210.000	50.000	102.000
	2008	5.541.000	49.000	42.000	11.850.000	98.000	310.000
	2009	9.159.000	36.000	75.000	14.914.000	72.000	179.000
Italy	sum				4.473.306	399.833	673.801
	2007				534.319	27.465	60.007
	2008				1.135.440	148.110	129.687
	2009				2.803.547	224.258	484.107

³³ The control activities of the Member State are included under the managing authority unless carried out by the certifying or audit authority.

Netherlands	sum	7.130.515	120.086	124.997	6.841.035	191.561	503.083
	2007	1.131.815	0	0	693.495	0	0
	2008	1.174.815	0	48.921	2.888.961	0	99.996
	2009	4.823.885	120.086	76.076	3.258.579	191.561	403.087
Poland	sum				43.151.757	3.414.397	1.530.937
	2007				3.300.840	680.146	0
	2008				16.098.942	1.039.467	1.007.620
	2009				23.751.975	1.694.784	523.318
Portugal	sum	18.345.984	2.384.632	/			
	2007	0	445.070	/			
	2008	6.626.430	650.895	/			
	2009	11.719.553	1.288.667	/			
Slovenia	sum	5.919.744	389.505	150.836	6.405.864	422.259	155.568
	2007	485.119	79.892	23.786	610.926	88.578	35.172
	2008	1.966.448	102.397	67.066	2.038.915	108.822	58.042
	2009	3.468.178	207.216	59.984	3.756.023	224.859	62.354

* The overhead rate of 30 % is added for all Member States

Considering the results of the table above, it is clear that the vast majority of all costs of controls made so far can be attributed to the managing authorities. The costs of controls for the certifying authority and audit authority are comparatively low because relatively few projects have been finalized in the years 2007-2009. Hence, the involvement of these authorities was limited.

Conclusion 2

The lack of availability of data in the Member States does not allow for accurate calculating the costs of controls.

The audit showed that in most cases exact information on the number of staff responsible for controls (in FTEs), on time spent and costs could not be easily provided by the auditees or were not available. Very often, the auditees had to estimate the relevant numbers as they had no recording systems to identify their input of staff resources. Hence, most of the bodies were not able to make valid statements as to their costs and input.

In all Member States included in the audit, there is great potential for improving the quality of the information on costs of controls. In fact in only one case did the managing authority (ESF in The Netherlands) entertain a good time recording system, on the basis of which it could prove how much time was spent for what control activity and against what cost. The Working Group is therefore of the opinion that better accountability of costs of controls is needed through time recording.

There are two more reasons why the introduction of time recording would have added value. First of all, during the audit many auditees complained about the – in their opinion – high administrative burden due to the obliged controls, and that rules should be simplified. At this moment it is not known whether the auditees are right with their claim. Time recording could provide an answer.

Secondly, in its proposal for a new Financial Regulation, the Commission obliges the Member States to provide data on cost of controls. Here also – in order to ensure that the data the Commission receives are correct – time recording is the logical way to proceed.

Conclusion 3

A relatively high amount of controls was outsourced. This entails risks of loss of knowledge for the governmental bodies and higher costs.

The following table 7 presents the costs of outsourcing per Member State in Euros and as a percentage of the total costs of controls for the years 2007 – 2009.

Table 7: Outsourcing costs as part of the total costs of controls in 2007 – 2009 per Member State

Member State	Total costs of controls	Total costs of outsourcing		Member State outsourcing costs		Managing authority outsourcing costs		Certifying authority outsourcing costs		Audit authority outsourcing costs	
		€	%	€	%	€	%	€	%	€	%
Austria	19.183.918	5.620.783	29,3	530.184	2,76	5.090.599	26,54	0	0	0	0
Bulgaria	2.462.622	342.236	13,9	4.971	0,20	81.814	3,32	12.979	0,53	242.472	9,85
Czech Rep.	19.894.946	3.207.888	16,1	1.922.853	9,67	1.114.081	5,60	0	0	170.954	0,86
Germany	60.951.565	15.253.256	25,0	1.817.640	2,98	13.435.616	22,04	0	0	0	0
Hungary	52.147.000	16.997.820	32,6	5.522.642	10,59	11.475.178	22,01	0	0	0	0
Latvia	14.767.753	2.157.909	14,6	385.128	2,61	1.763.400	11,94	0	0	9.381	0,064
Netherlands	14.911.277	6.374.767	42,8	678.787	4,55	5.515.172	36,99	0	0	180.808	1,21
Poland	48.097.091	2.555.329	5,3	172.860	0,36	2.382.469	4,95	0	0	0	0
Portugal	20.234.272	125.000	0,6	125.000	0,63	0	0	0	0	0	0
Slovenia	13.443.776	2.945.826	21,9	1.387.722	10,32	1.462.878	10,88	0	0	95.226	0,71

Data for Italy and Slovakia were not available.

In six out of ten Member States the major part of the outsourcing costs in the years 2007-2009 was made by the managing authority. The control activities assigned to the Member State, which represent the second highest outsourcing level, are the ex ante evaluation and the set up of management and control systems. None of the certifying authorities in the Member States, except for Bulgaria, has outsourced its control activities regarding certifying expenditures in the years 2007-2009. In most Member States the percentage of outsourcing of audit activities was relatively low. This could be linked to the fact, that the audit authorities have not yet started performing their activities to a full degree.

There are several risks involved with a (too) high proportion of outsourcing. First of all, when certain control activities are carried out by a government entity every year, a considerable body of knowledge is developed regarding the different projects and final beneficiaries. If on the other hand these controls are carried out by private companies, which potentially change every year, such a body of knowledge is not developed. Secondly, the cost of private consulting and accounting companies are generally higher than the wage costs of government entities. It is therefore likely that a high proportion of outsourcing leads to higher costs of controls, in comparison to having the same controls carried out by government bodies.

Conclusion 4

Whereas only some control activities result in monetary outputs, all of them can bring non-monetary benefits.

Monetary outputs were analysed through the data reported by the auditees, while the benefits were assessed on the basis of the opinion of the auditees for each control activity. It has to be stressed that the opinion of the auditees is not based on considering the costs incurred by these control activities.

Availability of data on outputs and results

When reporting on monetary outputs (such as assessed operations, expenditures checked administratively or on the spot and errors detected) several difficulties were encountered. While some auditees keep records on these outputs, the majority of the auditees do not always document them in a way which would also allow aggregation of data.

In some cases, errors and misstatements found during management verifications, administrative or on the spot, and certification of expenditures are only documented in the case files and therefore no overall data on detected errors is available. Additionally, where more institutions are involved in the execution of one control activity, the aggregation of outputs might cause multiple considerations of the same amounts. Similarly, error rates could not be reasonably calculated in cases when the managing authority did not record the amount actually checked, but the total contractual amount of the operation in question. Therefore in cases of multiple phased projects or repeated checks on the same projects data could be distorted due to duplicity. As a consequence, no comparison regarding costs and outputs was possible.

Benefits of control activities

In the opinion of the auditees, most control activities bring benefits to a certain extent. On one hand they see them as a duty under the EU law, but on the other hand they believe they contribute to a legal use of EU funds and to avoid financial corrections. The most conflicting opinions appear regarding control activities, which have to be carried out at the beginning of the programming period, the ex ante evaluation and the set up of management and control system.

Ex-ante evaluation and set-up of management and control system

While some auditees believe that the ex ante evaluation improved quality of strategic programming, several find it difficult to identify any benefit apart from compliance with the EU regulation. Similar findings apply for the set up of the management and control system. Some auditees believe that it enables clear and transparent allocation and segregation of

duties and responsibilities, better understanding of the implementation, monitoring and control process. It should also encourage thinking about procedures in detail in advance. However, several auditees doubt that any benefits had been achieved only because of the description of the management and control system, as it can not automatically improve effectiveness and efficiency of funding. Sometimes it may even become a constraint, for example in the case of changes in economic context.

Assessment of project eligibility (project selection)

Assessment and selection of operations is a control activity, which brings benefits in the opinion of most auditees. It helps selecting high quality projects and also ensures equal treatment through measurable selection criteria. The eligibility assessment of a project should assure that funding complies with applicable provisions. Potentially this could lower the amount of errors in final declarations. It also helps beneficiaries in raising better awareness of the requirements, associated with the implementation of funds.

Management verifications

Apart from having a strong preventive effect, the management verifications deepen the beneficiaries' knowledge of EU rules. This helps achieve assurance that the funds allocated are used for the eligible expenditure only, which can result in a larger amount of correctly administered funds and consequently in fewer irregularities. On the spot verifications allow for identification and taking appropriate actions in order to recover the EU funds that were not spent in appropriate way. Besides, direct communication with a beneficiary allows better understanding of problems that arise during implementation.

Monitoring of operational programmes

Monitoring of the operational programmes is carried out by a managing authority and a monitoring committee. In the opinion of auditees, it provides analysis of implementation status of all projects, problems incurred and reasons for delays in the procedures. This enables adjustment during implementation and also improvements and optimization for the subsequent years. Monitoring committees facilitate cooperation of partners and informing the public, but are on the other hand seen by some auditees only as a duty under the EU law of a more formal nature.

Certification of expenditures

Few Member States see benefits in the certification of expenditure. Some are of the opinion, that this activity ensures protection of national and EU financial interests, effectively prevents, detects and corrects irregularities and administrative errors. Certifying authority may even identify weaknesses in the management and control system and help with its

improvement. Looking from another perspective, receiving payment from the European budget could also be seen as a benefit of certifying expenditure.

Audit activities

In most Member States the audit activities have not yet been carried out to a full extent. Therefore, also the reporting on their benefits is limited. Benefits of audit activities are seen in a timely detection and correction of weaknesses and recommendations given for improvements in the management and control system. Nevertheless, it has been stressed that the recommendations are only valuable if they are reasonable and realistic.

It could therefore be recommended that when setting up the system the aspect of costs should also be borne in mind.

Annex: Audit Plan

WORKING GROUP ON STRUCTURAL FUNDS
AUDIT PLAN

for a parallel audit of the
“Costs of Controls
(incl. Technical Assistance)”

1. Mandate

In 2008, the Contact Committee tasked the Working Group on Structural Funds to continue its reviews of Structural Funds issues and specifically to carry out an audit on “costs of controls (*this might include the use of Technical Assistance for the controls of Structural Funds*)”. The Contact Committee welcomed the Working Group’s intention to submit the report on this audit to the Contact Committee in 2010 (or by 2011, depending on the start of the field work).

2. Background

The proposed audit assignment is driven by the fact that several entities on various levels have to deal with Structural Funds programmes, but that there is no precise overview of the control functions of these entities, the frequency of controls and their costs. The proposed audit assignment is designed to produce findings on whether the costs of control³⁴ are in a reasonable proportion to their benefit³⁵

Costs arise at least in connection with risk management, i. e. during the implementation of controls (review/checking of an application; field inspection/ex ante review). However, they may also be caused by measures of identification, analysis and evaluation.

The Commission audited the costs of controls. As a rule, the Commission considers those measures as control measures that question the claim of an applicant or beneficiary.³⁶ In its considerations about a joint concept of the tolerable error risk of December 2008, the Commission provided examples of control costs (and error risks).³⁷ Accordingly, the multi-annual control and correction mechanisms of the Member States for the ERDF comprise verifications at the first level (examinations of documents and on-site inspections) prior to reporting expenditure to the Commission, ex post on-site verifications of transactions after the reporting of expenditure to the Commission, systems audits and a final declaration by an independent body.

The control activities pursuant to the relevant EC regulations are itemised in the audit questions (key areas) set out below.

³⁴ This is limited to the internal control system.

³⁵ See the minutes of the annual meeting of the Contact Committee – Luxembourg, December 2008, Theme V: Activities of the Contact Committee item 12 selection of activities 2009 (draft report: SAI of Slovakia) annex 12, page 9 seq., 10 costs of controls (proposal Structural Funds Working Group).

³⁶ SEC(2008) 3054, Commission Staff Working Document Accompanying document to COM(2008) 866 final – Towards a common understanding of the concept of tolerable risk of error, http://www.ipex.eu/ipex/cms/home/Documents/doc_SEC20083054FIN.jsessionid=B4C81E081707F7FF691ECE66FB39F763; DG Budget, 9 October 2007, Costs of controls Conference on risk of error in Community programmes: Michael Niejahr / Christoph Klockenbring / DG for Agriculture and Rural Development Direction J “Audit of agricultural expenditure”: Notion of control: any activity which is linked with the verification of the rights of the beneficiary and/or the regularity of expenditure”; Yves Motteu, DG INFSO / S2: Definition of control: any function which will establish or call into question the rights of the beneficiary, http://ec.europa.eu/budget/library/documents/implement_control/conf_risk_1007/cost_benefits_pp_risk_en.pdf.

³⁷ COM(2008) 866 final. Item 3 “Examples for costs of controls and risk of error”, European Agricultural Fund for Rural Development (EAFRD; item 3.2, p. S. 13 seq.)

3. Relevant legal bases of Structural Funds

The following legal bases are relevant for the parallel audit:

- Regulation (EC) No. 1080/2006 of 5 July 2006 on the European Regional Development Fund and repealing Regulation (EC) No. 1783/1999;
- Regulation (EC) No. 1081/2006 of 5 July 2006 on the European Social Fund and repealing Regulation (EC) No. 1784/1999 (ESF 2007–2013);
- Regulation (EC) No. 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No. 1260/1999 (Structural Funds 2007–2013);
- Regulation (EC) No. 1828/2006 of 8 December 2006 setting out rules for the implementation of Council Regulation (EC) No. 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No. 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund.

4. Audit subject

The Working Group will audit the costs of the internal national controls³⁸ for the years 2007, 2008, 2009 prescribed by community law for the Structural Funds³⁹ for the 2007-2013 programming period.

Auditing the costs of all controls relating to the management of the European Social Fund (ESF) and the European Regional Development Fund (ERDF) requires a vast input of resources. Therefore, each SAI should audit one or more operational programmes of the Structural Funds. Concerning the new programming period, the Working Group limits its audit basically to the costs of those internal control measures of the management and control system generally prescribed in Regulation (EC) No. 1083/2006, title VI, chapter I, including ex ante evaluations and activities of monitoring committees.

The operational programmes that are part of the SAI's audit should comprise at least 30 % of the EU budget allocated to the Funds in the programming period 2007 - 2013 (ESF and/or ERDF).⁴⁰ If the SAI's mandate does not provide for this or in case of other prevailing priorities, the SAI will seek to cover as much as possible.

In addition, each SAI, while dealing with the overarching issue of costs of controls, may address the issue of 'Technical Assistance' in its audit work.

The SAI always should explicitly describe what exactly has been audited, what selection criteria have been used to select the operational programmes and which methods have been used.

5. Audit objective

The parallel audit is to identify the level of costs incurred by internal control activities in the Member States. At the same time, the audit seeks to ascertain whether the costs are in reasonable proportion to the output and to ascertain what the non-monetary benefits of the controls are.

6. Scope and approach of the parallel audit

The scope of the audit is limited to control activities of the Member States related to the programming period 2007 – 2013 (including ex ante evaluations carried out before approval of the operational programme and all controls which will be carried out in the year 2009). The Working Group is aware of the fact that not all controls have yet been implemented for the 2007-2013 programming period (e. g. mid-term- and ex-post evaluation).⁴¹

³⁸ In this context the term 'control(s)' has the meaning of 'internal national controls'.

³⁹ Structural Funds are the ESF and the ERDF. The Cohesion Fund is not audit subject, because the Cohesion Fund is not a Structural Fund in the current programming period (see Art. 1 par. 2 of Council regulation (EC) No. 1083/2006). This does not prevent the SAIs to include the Cohesion Fund additionally in their national audit.

⁴⁰ If the SAI chooses both funds, which is preferred by the Working Group, it will have to cover 30% of the total of both funds. If it chooses only ESF or ERDF, it should cover 30% of the respective fund.

⁴¹ Therefore, data on audit intervals, the entities involved and the costs will not be available for all control measures of the period under review.

Costs of controls are the costs incurred by the control entities (authorities/organisations) that carry out the controls. Costs incurred by the final beneficiary due to documentation and reporting obligations ('administrative burdens') are not covered by the parallel audit.

In order to develop sound results, it is useful for each SAI first to undertake a review of how the control functions are organised at the various levels in each member state. To do so, the SAI will for each type of control name the authority/organisation that carries out such controls. If a given organisational unit within an authority is responsible, such unit must also be named.

All SAIs are to find out on all key areas

- what costs have been incurred as a result of such controls (see 6.1 Costs of controls),
- whether the costs are in reasonable proportion to the output and benefit (see 6.2 Appropriateness of costs of controls).

Each SAI will cover all key areas, this being crucial to comparing the results of the national audits.

Costs of controls

• Definition of 'controls'

With respect to the ESF and ERDF, the control tasks/activities are definitely those listed in Reg. No. 1083/2006, in particular:

- management controls at the first level (Art. 60 (a), (b));
- certification of expenditure (Art. 61 (b));
- systems audits and sample checks on operations by audit units (Art. 62 (1) (a), (b));
- declaration at the closure of the assistance (Art. 62 (1) (e)).

More control duties are laid down in the relevant regulations. For the purpose of the parallel audit, the Working Group understands the term 'control' in a broader sense. Control activities in the sense of the audit cover both activities that question the claim of an individual applicant (narrow approach) but also control activities related to the operational programme. This covers:

MEMBER STATE⁴²

- ex ante evaluations
- set up management and control systems

MANAGING AUTHORITY AND MONITORING COMMITTEES

- assessment of project eligibility
- (project selection)
- management verification of projects
- monitoring of operational programmes

CERTIFYING AUTHORITY

- Certification of expenditure

AUDIT AUTHORITY

- Audit activities

Accordingly, the key areas with audit questions are divided into five groups:

- (1) A main part with an overview of the funds (key area 1);
- (2) Control activities of the Member States⁴³ (key areas 2-3);
- (3) Control activities of the managing authority (key areas 4-6);
- (4) Control activities of the certifying authority (key area 7);
- (5) Control activities of the audit authority (key area 8)⁴⁴.

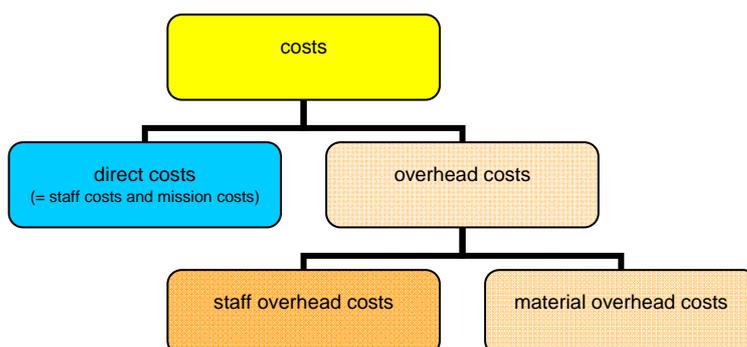
⁴² Activities in community law not specifically assigned to managing authority, certifying authority or audit authority, but assigned more generally to the member state.

⁴³ Not assigned to specific (managing, certifying or audit) authorities, but to the member state.

Control activities exclusively provided for by national law (but not by EC regulations) will not be examined by the SAIs. If national entities carry out audits with respect to both national regulations and EC regulations, SAIs should only calculate the costs for those controls which are carried out with respect to EC regulations.

- **Definition of ‘costs’**

Costs of controls refer to the costs incurred by the control entities that carry out the controls. These costs of controls mainly consist of staff costs (and mission costs) – as direct costs of control measures - and overhead costs.



Overhead (indirect) costs encompass certain costs that must be added to the direct personnel costs for full cost accounting. This includes staff overhead and material overhead costs. Some models or methods provide for a single overhead rate to be added to staff costs per unit of time.

Staff overhead costs

Other staff overhead costs are those staff costs that cannot be recorded as direct costs. They can only be allocated by means of standard breakdown rates. They include staff costs for

- internal support services (e. g. typists, messengers),
- management costs (supervisory and managerial functions),
- general administration (e. g. human resources management, financial management, organisation).

Material overhead costs

The general material overhead rate consists of the costs of premises (e.g. imputed rent), current material costs, capital costs for office equipment and furniture including maintenance and other capital expenditure ensued for general administration purposes and internal support services.

Cost estimation method

SAIs should seek to identify the costs of internal controls according to a uniform procedure.

Each SAI should calculate the costs in two ways by using the:

- Standard Cost Model, where costs are calculated for each main control *activity* (a *cost unit accounting*) and
- a method based on the budget of an authority/organisation, the number of controllers to the total number of staff of an authority/organisation in full-time equivalents, where costs are calculated for each *body* (*cost centre accounting*).

⁴⁴ The SAIs cannot survey topical data of the declaration at the closure of the assistance, because fieldwork of SAIs ends in 2010.

Participating SAIs will use both the cost unit accounting and cost centre-accounting to calculate the costs of controls. SAIs should collect the data necessary for calculating the costs according to the two methods for the following reasons:

- The Commission calculated the costs of controls on basis of the cost-center accounting. The Commission itself called its method a 'rough estimation of the costs of controls by member state'⁴⁵.
- The Working Group will calculate the costs on basis of the Standard Cost Model. A lot of Member States have experience with this model.⁴⁶ Besides, this calculation might be more precise.
- Using both methods will enable the Working Group to compare the results of both models and to draw up pertinent conclusions which may be of special interest⁴⁷.
- Furthermore the results of the audit can be ascertained by using different methods.

Additionally, some SAIs may report on their control costs per entity by means of more precise methods. These take into account the costs actually incurred or on costing based on typical features of the relevant activity.

• **cost unit accounting (SCM)**

The Standard Cost Model (SCM) developed in the Netherlands is now used throughout Europe in order to measure the administrative burdens for businesses, citizens and the public administration thus ensuring consistency in application. The Working Group can also use this approach of the Standard Cost Model to calculate the costs of the control entities.

The model is based on a simple "price-amount-approach". A task done is estimated in money terms and multiplied by the frequency with which the task occurred. SAIs should multiply the price (= costs) of an individual control activity (consists of the factors 'costs per unit of time' multiplied with the time⁴⁸) with the quantity of these activities. The main control activities for which the SAI should calculate costs are listed in annex 2. The parameters of the calculation are explained in annex 4.

<p>Costs of controls = costs per control activity x total amount of activities</p> <p><i>(costs per control activity = time x costs per unit)</i></p>
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SAIs should add a general overhead rate of 30% to the wage costs estimate with Standard Cost Model in order to compare the results. If some SAIs are able to estimate the overhead costs more exactly, they should also report these figures. SAIs should also add the (direct) mission costs for the control staff if it's not already included.

The Standard Cost Model permits comparing the costs of controls in the Member States (e. g. of one on-the-spot control). Diverging economic conditions in Member States should also be taken into account. When the audit work is done, the Core Group will make a proposal to do so (e. g. by means of a cost-of-living index (of Eurostat) or labour cost index⁴⁹).

• **cost centre accounting (FTE)**

To identify the costs of ERDF controls, the Commission uses an estimation method under which a portion of an authority's/organisation's administrative and personnel costs – calculated according to

⁴⁵ Presentation of the 'Conference on risk of error in Community programmes' 9 October 2007: DG Agriculture and Rural Development, Direction J Niejahr, M.; Klockenbring, C.: 'Costs of controlss - Audit of agricultural expenditure, page 8-13. (http://ec.europa.eu/budget/library/documents/implement_control/conf_risk_1007/cost_benefits_pp_risk_en.pdf).

⁴⁶ Cf. Organisation of the International Standard Cost Model Network, <http://www.administrative-burdens.com>.

⁴⁷ In order to compare the results of the two models, SAIs should audit the same part of the Structural Funds, e. g. the same operational programme by using the two methods.

⁴⁸ The Working Group is aware of the fact, that the more eligibility rules a Member State has defined, the more time a control may take.

⁴⁹ The main purpose of the labour cost index is to identify inflation risks and to contribute to location and competition analyses in a European comparison. The main user is the European Central Bank (http://www.destatis.de/jetspeed/portal/cms/Sites/destatis/Internet/EN/press/abisz/Arbeitskostenindex_e.te.mplateld=renderPrint.psmi); <http://www.destatis.de/jetspeed/portal/cms/Sites/destatis/Internet/DE/Content/Statistiken/VerdiensteArbeitskosten/Arbeitskosten/Tabellen/Content75/JahresschVeraenderungAK.templateId=renderPrint.psmi>).

the ratio of the number of control staff to total staff (always on the basis of full time equivalents - FTE) – is reported as costs of control.

The method proposed by the Commission for estimating the control costs incurred in connection with the ERDF is based on the following formula:

$$\text{Costs of controls} = \frac{\text{budget of the authority} \times (\text{controllers} / \text{total staff})}{\text{staff expressed in full-time equivalents (FTE)}}$$

When the audited bodies keep their books according to the cash based system, the executed budget of a body should only include expenses for the functioning of the body. This means that expenditures for all purchases of fixed assets should be excluded from the budget and the whole amount of annual depreciation for relevant year should be included.⁵⁰ Note also that transfers to other recipients, which are not connected to the functioning of the body (e. g. grants), should also be excluded from the budget of the body.

This estimation method was used during the previous programming period and is therefore based on regulation (EC) No. 438/2001. For further information please refer to the methodology of the Commission⁵¹.

7. Appropriateness of costs of control

Furthermore, the Working Group aims to establish whether the costs of controls are appropriate (e. g. relation to expenditures; cost-benefit; output, redundancy).

Identifying output

In order to measure the benefit produced by the controls, SAs can gather information about the key results of the control measures (output).⁵²

For each activity, there are different outputs to consider. Especially the following outputs shall be included⁵³:

- (1) Management controls at the first level (Art. 60 (a), (b) Reg. (EC) No. 1083/2006)
 - amount of expenditure checked (value of all payment claims checked);
 - number and percentage of payments claims (transactions) checked;
 - number and percentage of projects checked by desk (administrative) checks;
 - number and percentage of projects checked on the spot;
 - amount of corrections;
 - amount of recoveries;
 - error rate⁵⁴.
- (2) Certification of expenditure function/activity (Art. 61 (b) Reg. (EC) No. 1083/2006)
 - total amount of expenditure certified to the Commission;
 - number and percentage of declarations assessed and sent to the Commission;
 - amount of corrections;
 - amount of recoveries;
 - error rate.

⁵⁰ If the body does not list the depreciation, the costs for buildings can be included with the depreciation rate of 2% per year and other equipment with the rate of 25%.

⁵¹ European Commission's Directorate General on Regional Policy on control costs for the European Regional Development Fund - methodology - memorandum on methodology ERDF (REGIO-2007-00633-00-00-DE-TRA-00 (EN).

⁵² The Working Group is aware, that one needs to be very careful with the interpretation of the outputs. A lot depends on the efficiency (i) of the management in place and (ii) of the control activities carried out. A low amount might indicate that the whole system set-up is functioning well, i.e. the systems are robust and appropriate. But it might also mean simply that the errors that exist are not discovered (in spite of the control system in place).

⁵³ Cf. the Methodology of the COM DG Regio: Costs of controls for the European Development Fund, 5.6. 'Relation of cost to output', page 8.

⁵⁴ Error rate is the percentage of the amount of irregular expenditure in relation to the amount of expenditure audited (see No. 9 of Annex VI of Reg. (EC) No. 1828/2006). The error rate only relates to quantifiable errors. However, there might be unquantifiable errors as well.

- (3) Systems audits (Art. 62 (1) (a) Reg. (EC) No. 1083/2006)
- amount of expenditure checked;
 - number and percentage of projects checked;
 - number and percentage of system audits carried out.
 - amount of corrections;
 - amount of recoveries.
- (4) Sample checks on operations by audit units (Art. 62 (1) (b) Reg. (EC) No. 1083/2006)
- amount of expenditure checked;
 - amount of corrections;
 - amount of recoveries;
 - error rate.

There might be more merits, so each SAI should ask the auditees, if there are expected benefits from the controls. The expected benefits could be:

- Non-monetary benefits;
- Deterrent effects.

Ratio of total control costs to expenditures

One ratio that sheds light on the reasonableness of control costs is the ratio of total control costs to total expenditures.⁵⁵

Each SAI should illustrate for its respective member state, the ratio (in per cent) between the control costs – according to both methods and separately for every operational programme covered by the audit – compared to

- the EU budget for the operational programmes (commitment appropriations) as a whole and for the years 2007, 2008 and 2009,
- the money the managing authority has reserved (commitments for contracts signed) for payments to final beneficiaries in the year 2007, 2008 and 2009 for the operational programmes,
- the money the managing authority has transferred to final beneficiaries in the year 2007, 2008 and 2009 for the operational programmes
- the expenditure declared (= claims for payment have already been sent to the European Commission) in the year 2007, 2008 and 2009 for the operational programmes.

As it is not foreseeable yet, which specific ratios will be more useful for the final composite report (general ratios could be: costs-benefits and costs-expenditure), the Core Group aims to make a proposal when all SAIs have completed their audit work.

Identification of control overlaps

Controls should build on each other and not overlap. Nevertheless, control overlaps occur where various authorities/entities are involved in implementing EC regulation No. 1083/2006. SAIs should identify multiple controls by different entities (duplication). As a rule, overlapping controls do not generate any reasonable benefit. Suitable questions on overlapping controls are already included in the key areas and in the questionnaire.

8. Technical assistance

At the margin of previous audit work, evidence found suggested that the Member States either made no use at all of the resources provided by the Technical Assistance funds or did so to largely differing extent. There were cases in which responsible authorities financed management, control and evaluation work for structural fund projects exclusively from their own funds and by relying on their own staff. In other cases they awarded contracts to external parties.

The parallel audit is designed to indicate whether, in what form and to what extent⁵⁶ national authorities use Technical Assistance funds for financing internal controls.

⁵⁵ One needs to be very careful with the interpretation of the outputs. A lot depends on the efficiency (i) of the management in place and (ii) of the control activities carried out. A low amount might indicate that the whole system set-up is functioning well, i.e. the systems are robust and appropriate. But it might also mean simply that the errors that exist are not discovered (in spite of the control system in place).

In case national authorities do not use Technical Assistance funds for similar purposes, SAIs might develop recommendations for improvement.

The level of Technical Assistance funding used can be determined separately for each project. Appropriate questions are included in the key areas and in the questionnaire.

9. Methods

Key data should be collected by questionnaires. The participating SAIs should use the attached questionnaires (annex 3) to collect the necessary data from the respective national bodies. In appropriate cases, SAIs may furnish additional information by interviewing authorities/entities within the limits set by the national legal framework.

SAIs should assure the consistency and plausibility of any information received, e. g. by additional interviews, sample checks.

It is useful, that the fieldwork of the SAIs is divided into two parts:

- in the year 2009, SAIs may audit the controls conducted in the years 2007 and 2008, including ex ante activities⁵⁷;
- in the year 2010, SAIs may audit the control activities conducted in 2009.

10. Useful documents

The following documents of the Commission and the ECA are helpful for the parallel audit:

- Indicative guidelines on evaluation methods: Monitoring and evaluation indicators 2007-2013⁵⁸;
- Guidelines on cost-benefit analyses 2007-2013⁵⁹;
- Presentation of the 'Conference on risk of error in Community programmes' 9 October 2007⁶⁰;
- DG Agriculture and Rural Development, 'Action 10A: Conduct an initial estimation and analysis in the costs of controls in shared management – Note of the methodology for measured financed by the guarantee section of the EAGGF;
- Guidelines on evaluation methods: Evaluation during the programming period (2007-2013)⁶¹;
- Directorate General for Regional Policy of the European Commission: Note "COSTS OF CONTROLSS for the EUROPEAN REGIONAL DEVELOPMENT FUND – METHODOLOGY"
- Communication "Towards a common understanding of the concept of tolerable risk of error" adopted on 16 December 2008 [COM(2008) 866]⁶².

⁵⁶ The SAI should survey the percentage of Technical Assistance that has been reserved for each of these operational programmes.

⁵⁷ In general, the audit covers the years 2007, 2008 and 2009. Nonetheless ex ante evaluations for the new period that have been carried out prior to 2007 are also part of this audit.

⁵⁸ The new programming period 2007-2013 - INDICATIVE GUIDELINES ON EVALUATION METHODS: MONITORING AND EVALUATION INDICATORS, Working Document No. 2; http://ec.europa.eu/regional_policy/sources/docoffic/2007/working/wd2_indic_en.pdf.

⁵⁹ The new programming period 2007-2013, GUIDANCE ON THE METHODOLOGY FOR CARRYING OUT COST-BENEFIT ANALYSIS, Working Document No. 4; http://ec.europa.eu/regional_policy/sources/docoffic/2007/working/wd4_cost_en.pdf.

⁶⁰ DG Budget: 'Costs of control', page 1-7; DG Agriculture and Rural Development, Direction J Niejahr, M. ; Klockenbring, C.: 'Costs of controlss - Audit of agricultural expenditure, page 8-13; DG Regio I, Pinto, A.: 'Costs of controls in shared managements, page 14-19; DG Info / S2, Motteu, Y.: 'Costs of control in centralised direct management', page 20-30. (http://ec.europa.eu/budget/library/documents/implement_control/conf_risk_1007/cost_benefits_pp_risk_en.pdf).

⁶¹ The New Programming Period 2007-2013, INDICATIVE GUIDELINES ON EVALUATION METHODS: EVALUATION DURING THE PROGRAMMING PERIOD, Working Document No.5; http://ec.europa.eu/regional_policy/sources/docoffic/2007/working/wd5_ongoing_en.pdf.

⁶² COM(2008) 866 with Commission staff working document, accompanying document to the communication from the commission to the European Parliament, the Council and the European Court of Auditors (SEC(2008) 3054) 16 December 2008.

11. Country reports

Each SAI should draw up a country report. Each country report should comprise the SAI's findings and statements for each key area and separately for ESF / ERDF on costs of controls and on output and benefit of controls.

Each country report is to consist of three parts: summary, report proper and an annex with additional information, especially on the used methodologies/ estimations. (The original Audit Plan provided tables, which could be used by the SAIs for reporting their findings. As the final report summarizes the findings in different tables, the original tables from the Audit Plan were deleted.)

The Core Group will give guidance on calculation and reporting in the plenary meeting in February 2010. In the final report, the Working Group aims to highlight the results in comparative country tables.

12. Timetable

The timetable consists of three separate phases:

Planning phase

The planning phase should be completed by the end of May 2009. At that deadline, the final audit plan taking into account the inputs of Working Group members should be made available to all Working Group participants. This should leave enough time for the intended audit activities.

Implementation / audit phase / fieldwork in the Member States

The implementation stage runs from June 2009 until March 2010. Each participating SAI should communicate its country report in English to the Core Group by beginning of June 2010. As mentioned above, fieldwork will be divided into two parts, if necessary:

- in the year 2009, SAIs may audit the controls, including ex ante activities⁶³ and the controls conducted in the years 2007 and 2008;
- in the year 2010, SAIs may study the control activities conducted in 2009.

Reporting phase

The phase in which the Working Group drafts its composite report begins in 2010 and lasts until the beginning of September 2010. SAIs who haven't finished their final country report by beginning of June 2010 latest may send their preliminary report (prior to finishing the contradictory proceedings) to the Core Group. The Working Group will draw up a joint report in English setting forth key findings and recommendations. The Working Group intends to submit its final joint report to the Contact Committee in 2010/2011.

⁶³ In general, the audit covers the years 2007, 2008 and 2009. Nonetheless ex ante evaluations for the new period that have been carried out prior to 2007 are also part of this audit.

AUDIT QUESTIONS

INTRODUCTION TO USING THE KEY AREAS AND THE TWO METHODS FOR CALCULATING COSTS OF CONTROLS

The following key areas, which are divided into five parts, provide a skeleton or basic structure to accommodate the results of your audit. Apart from key area 1 (part I), which provides for general data about the Structural Funds programmes in your member state, each of the key areas represent a main control activity (key areas 2, 3 4, 7) or a collection of main control activities (key areas 5, 6 and 8). Each SAI should calculate the cost for each main control activity, using the *cost unit accounting*. A list of these activities can be found in Annex 2. Additionally, SAIs should calculate the costs per control body (managing authority, certifying authority and audit authority) according to the *cost centre method* using data from parts III, IV and V and if necessary part II (as explained below). The cost centre accounting should not be used for calculating the costs of separate control activities, as the method is not designed for that.⁶⁴

A brief description of each of the parts is provided below, followed by a table outlining the two methods of calculating costs and what to include.

As described above, key area 1 (part I) provides a general overview of Structural Funds programmes in your member state. Key areas 2 and 3 (part II) focus on ex ante evaluations and the set up of the management and control systems. Both are tasks that are not specifically assigned to one or more of the main control authorities (managing authority, certifying authority or audit authority), but rather more generally to the member state. As such, these are labelled as control activities of the member state. In practice, the managing authority may be involved with the ex ante evaluation and the managing authority, certifying authority and audit authority may all be involved with the set up of the system. If so, this should be taken into account when calculating the costs per control body with the *cost centre accounting*, as can be seen in the table below and is also explained in the questionnaires accompanying the key areas.

The remaining parts focus on each of the main control bodies: managing authority (part III), certifying authority (part IV) and audit authority (part V). The table below outlines the two methods for calculating costs and what should be included in them.

⁶⁴ Using the cost centre method to calculate costs per main control activity would probably lead to an overestimation of the costs, as the FTE's of controllers working on more than one control activity would be counted multiple times.

**Calculating costs of controls
according to the cost unit accounting and the cost centre accounting**

COST UNIT METHOD <i>Costs per main control activity x frequency of control activity</i>	COST CENTRE METHOD <i>Budget of authority x (controllers / total staff of authority)</i>
<p style="text-align: center;">Costs per main control activity</p> <p><i>Part II: Control activities member state</i></p> <ul style="list-style-type: none"> • Costs of ex ante evaluation (key area 2) • Costs of setting up management and control system, excluding the compliance assessment (key area 3) <p><i>Part III: Control activities managing authority</i></p> <ul style="list-style-type: none"> • Costs of project selection (key area 4) • Costs of administrative verifications (key area 5) • Costs of on the spot verifications (key area 5) • Costs of monitoring by managing authority (key area 6) • Costs of monitoring by monitoring committee (key area 6) <p><i>Part IV: Control activities certifying authority</i></p> <ul style="list-style-type: none"> • Costs of certification of expenditure (key area 7) <p><i>Part V: Control activities audit authority</i></p> <ul style="list-style-type: none"> • Costs of audit strategy (key area 8) • Costs of system audits (key area 8) • Costs of sample audits of operations (key area 8) • Costs of annual control report (key area 8) • Costs of compliance assessment of systems (key area 8) 	<p style="text-align: center;">Costs per control authority</p> <p>Not applicable</p> <p><i>Control costs of managing authority</i> This method is based on the total FTE's of the controllers of the managing authority involved with project selection (key area 4), management verifications (key area 5) and monitoring, including costs of the monitoring committee (key area 6). If controllers of the managing authority were also involved with the ex ante evaluation (key area 2) and / or the set up of the management and control system (key area 3), these FTE's should also be included.</p> <p><i>Control costs of certifying authority</i> This method is based on the total FTE's of the controllers of the certifying authority involved with certifying EU expenditure (key area 7). If controllers of the certifying authority were also involved with the set up of the management and control system (key area 3), these FTE's should also be included.</p> <p><i>Control costs of audit authority</i> These method is based on the total FTE's of the controllers of the audit authority involved with the audit strategy, the system audit, the sample audits of operations, the annual control report and the compliance assessment of systems (all key area 8). If controllers of the audit authority were also involved with the set up of the management and control system (key area 3), these FTE's should also be included.</p>

PART I
GENERAL OVERVIEW

Key area 1 – Overview of Structural Funds Programmes

Key area 1 provides an overview of the Structural Funds Programmes in your Member State in the period 2007-2013: the number of operational programmes, the amount of funds involved and the division of the funds. Key area 1 also provides a breakdown of the funds that are part of your audit.

Main question

How much Structural Funds money will your Member State receive for the period 2007-2013 and how is this divided among the operational programmes?

Audit questions to answers the main question

- 1.1 How many operational programmes have been set up in your member state
 - a) for the European Social Fund (ESF)?
 - b) for the European Regional Development Fund (ERDF)?Which aggregate volume of budget funds do the operational programmes have
 - a) for the ESF?
 - b) for the ERDF?
- 1.2 How much means have been reserved for each of these operational programmes?
 - a) European means
 - b) national means for co-financing
- 1.3 How large are the funds of each of these operational programmes (in %) in relation to the total amount of Structural Funds money for the period 2007-2013?
- 1.4 What is the percentage of Technical Assistance that has been reserved for each of these operational programmes?
- 1.5 Which operational programmes are part of your audit?
- 1.6 How much money has the managing authority reserved (commitments) for payments to final beneficiaries in the year 2007, 2008 and 2009 for the operational programmes that are part of your audit (please provide a breakdown per year)?
- 1.7 How much money has the managing authority transferred to final beneficiaries in the year 2007, 2008 and 2009 for the operational programmes that are part of your audit (please provide a breakdown per year)?
- 1.8 How many claims for payment have already been sent to the European Commission and which amount of money do these claims represent?
Please provide a breakdown of this amount per year (2007, 2008, 2009).

PART II

CONTROL ACTIVITIES OF MEMBER STATE

[ACTIVITIES NOT ASSIGNED TO MANAGING AUTHORITY, CERTIFYING AUTHORITY OR
AUDIT AUTHORITY IN COMMUNITY LAW]

Key Area 2 – Ex ante evaluations

Key area 2 provides a description of the costs made for carrying out the ex ante evaluations and their benefits.

Relevant Regulations

Regulation (EC) No. 1083/2006:	Art 47, 48
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Main Question

What are the costs made for carrying out the ex ante evaluations and what are their benefits?

Audit questions to answer the main question

- 2.1 Which body⁶⁵ was involved with carrying out the ex ante evaluations (Art. 48 (2) Reg. (EC) No. 1083/2006) for each of the operational programmes that are part of your audit?
- 2.2 If there were multiple bodies involved, to which extent did their activities overlap? Why? Did the other bodies observe the Single Audit approach?
- 2.3 What were the total costs of carrying out the ex ante evaluations for the operational programmes that are part of your audit (calculated by cost unit accounting)? Please specify these costs for each of the operational programmes (please note: In general this audit covers the years 2007, 2008 and 2009. Nonetheless ex ante evaluations for the new period that have been carried out prior to 2007 are also part of this audit). If costs are shared between several operational programmes, please split the costs according to the budget of each operational programme.
- 2.4 Are there (expected) benefits of the ex ante evaluations? If so, please provide them.
- 2.5 To what extent did the Member State use Technical Assistance resources for ex ante evaluations (Art. 47 (4) Reg. (EC) No. 1083/2006)?

Key area 3 – Set up of management and control systems

Key area 3 provides a description of the actors involved with the set up of the management and control systems (including e. g. IT-systems), the costs incurred by putting these systems into place and the benefits thereof. (The compliance assessment is not included here, but covered by key area 8).

Relevant Regulations:

Regulation (EC) No. 1083/2006:	Art. 58, 60 (c)-(g), (j), 70, 71 (1)
Regulation (EC) No. 1080/2006:	Art. 16
Regulation (EC) No. 1828/2006:	Art. 21 - 24 (sample see Annex XII)

⁶⁵ 'Body' can be any authority, organization or entity.

Main question

What are the costs of setting up the management and control systems of operational programmes and what are the benefits of putting them into place?

Audit questions to answer the main question

- 3.1 Which body set up the management and control system (including the IT-systems) for the operational programmes that are part of your audit? Which body drew up the description of the management and control systems (see Art. 71 (1) Reg. (EC) No. 1083/2006)?
- 3.2 If there were multiple bodies involved, to which extent did their activities overlap? Why? Did the other bodies observe the Single Audit approach?
- 3.3 What were the total costs of setting up the management and control systems for the operational programmes that are part of your audit (calculated by cost unit accounting)? Please specify these costs for each of the operational programmes. If costs are shared between several operational programmes, please split the costs according to the budget of each operational programme.
- 3.4 Are there (expected) benefits of (setting up) the management and control systems? If so, please provide them.
- 3.5 To what extent did the Member State use Technical Assistance resources for the measure(s)?

PART III
CONTROL ACTIVITIES OF MANAGING AUTHORITY

Key area 4 – Assessment of operation (= project or group of projects) / project eligibility (project selection)

Key area 4 provides a description of the costs made by the managing authority for the assessment of project eligibility to ensure that final beneficiaries meet the requirements of EU law for community funding and meet the goals and requirements of the operational programme. Key area 4 also provides a description of the benefits of these assessments.

Relevant Regulations

Regulation (EC) No. 1083/2006:	Art. 40, 60 (a, k)
Regulation (EC) No. 1828/2006:	Art. 13 (1)

Main Question

What are the costs of the assessment of the eligibility of individual operations (= projects or group of projects) / projects by the managing authority and what are the benefits of these assessments?

Audit questions to answer the main question

- 4.1 Which body was involved with the assessment of individual operations / projects (Art. 56 (3) Reg. (EC) No. 1083/2006) of the operational programmes that are part of your audit?
- 4.2 If there were multiple bodies involved, to which extent did their activities overlap? Why? Did the other bodies observe the Single Audit approach?
- 4.3 What were the total costs of the assessment of individual projects for the operational programmes that are part of your audit (calculated by cost unit accounting)? Please specify these costs for each of the operational programmes and for the years 2007, 2008 and 2009.
- 4.4 Are there (expected) benefits of assessment of individual operations/projects? If so, please provide them.
- 4.5 To what extent did the Member State use Technical Assistance resources for the measure(s)?

Key area 5 – Management verification of projects

Key area 5 provides a description of the costs made by the managing authority for the management verifications (administrative and on-the-spot verifications) and the benefits thereof. This also includes the preparation of these verifications and the drawing up of reports afterwards.

Relevant Regulations

Regulation (EC) No. 1083/2006:	Art. 60 (b)
Regulation (EC) No. 1828/2006:	Art. 13 (2, 3, 4)

Main Question

What are the costs of the management verifications by the managing authority and what are their benefits?

Audit questions to answer the main question

- 5.1 Which body was involved with the management verifications of individual operations of the operational programmes that are part of your audit?
- 5.2 If there were multiple bodies involved, to which extent did their activities overlap? Why? Did the other bodies observe the Single Audit approach?
- 5.3 What were the total costs of the management verifications of individual operations of the operational programmes that are part of your audit (calculated by cost unit accounting)? Please specify these costs for each of the operational programmes and for the years 2007, 2008 and 2009.
- 5.4 What are the outputs (see 6.2.1) of the management verifications? Are there (expected) benefits of the management verifications?
Please provide: output figures (especially error rates, corrections and recoveries) and, if possible, possible non monetary benefits as registered (by the managing authority).
- 5.5 To what extent did the Member State use Technical Assistance resources for the measure(s)?

Key Area 6 – Monitoring of operational programmes

Key area 6 provides a description of the costs made by the managing authority and the monitoring committee for the monitoring of operational programmes and the ensuing periodic reporting duties and the benefits thereof.

Relevant Regulations:

Regulation (EC) No. 1083/2006:	Art. 29, 60 (h, i), 63, 64, 65, 66, 67, 68
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Main Question

What are the costs of the monitoring of operational programmes, including the periodic reporting duties, by the managing authority and the monitoring committee and what are the benefits?

Audit questions to answer the main question

- 6.1 Which bodies were involved with the monitoring of the operational programmes that are part of your audit?
- 6.2 If there were multiple bodies involved, to which extent did their activities overlap? Why? Did the other bodies observe the Single Audit approach?
- 6.3 What were the total costs (calculated by cost unit accounting) of the monitoring of the operational programmes that are part of your audit for
a) the managing authority?
b) the monitoring committee?
Please specify these costs for each of the operational programmes and for the years 2007, 2008 and 2009.
- 6.4 Are there (expected) benefits of the monitoring by
a) the managing authority?
b) the monitoring committee?

If so, please provide them.

- 6.5 To what extent did the Member State use Technical Assistance resources for the measure(s)?

PART IV CONTROL ACTIVITIES OF CERTIFYING AUTHORITY

Key area 7 – Certification of expenditure

Key area 7 provides a description of the costs made by the certifying authority for the certification of expenditure and the benefits thereof.

Relevant Regulations

Regulation (EC) No. 1083/2006:	Art. 61
Regulation (EC) No. 1828/2006:	Art. 20

Main Question

What are the costs of the certification of expenditure by the certifying authority and what are their benefits?

Audit questions to answer the main question

- 7.1 Which body was involved with the certification of expenditure of the operational programmes that are part of your audit?
- 7.2 If there were multiple bodies involved, to which extent did their activities overlap? Why? Did the other bodies observe the Single Audit approach?
- 7.3 What were the total costs of the certification of the expenditure of the operational programmes that were part of your audit (calculated by cost unit accounting)? Please specify these costs for each of the operational programmes and for the years 2007, 2008 and 2009.
- 7.4 What are the outputs (see 6.2.1) of the certification of expenditure? Are there (expected) benefits of the certification?
Please provide: output figures (especially error rates, corrections and recoveries) and, if possible, possible non monetary benefits as registered (by the certifying authority).
- 7.5 To what extent did the Member State use Technical Assistance resources for the measure(s)?

PART V
CONTROL ACTIVITIES OF AUDIT AUTHORITY

Key area 8 – Audit activities

Key area 8 provides a description of the costs of the audit activities of the audit authority including compliance assessment, ensuing reporting duties, and the benefits of these activities.

Relevant Regulations:

Regulation (EC) No. 1083/2006:	Art. 62, Art. 71 (2, 3)
Regulation (EC) No. 1828/2006:	Art. 16, 17, 18

Main Question

What are the costs of the audit activities by the audit authority, and what are the benefits of these activities?

Audit questions to answer the main question

- 8.1 Which body was involved in the system audits and audits of operations and expenditure within the operational programmes that are part of your audit?
- 8.2 If there were multiple bodies involved, to which extent did their activities overlap? Why? Did the other bodies observe the Single Audit approach?
- 8.3 What were the total costs of the audits by the audit authority of the systems (including compliance assessment), operations and expenditure within the operational programmes that are part of your audit (calculated by cost unit accounting)? Please specify these costs for each of the operational programmes, for each main type of audit activity [accompanied by a report setting out the results of an assessment of the systems set up and giving an opinion on their compliance with articles 58 to 62, see article 62 and article 71 (2, 3)] and for the years 2007, 2008 and 2009.
- 8.4 What are the outputs (see 6.2.1) of these audit activities? Are there (expected) benefits of these audit activities?
Please provide: output figures (especially error rates, corrections and recoveries) and, if possible, possible non monetary benefits as registered (by the audit authority).
- 8.5 To what extent did the Member State use Technical Assistance resources for the measure(s)?