



Ministero dell'Economia e delle Finanze

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# **Role of the State General Accounting Department IGRUE concerning controls on EU funding**

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Ministry of Economy and Finance - IGRUE

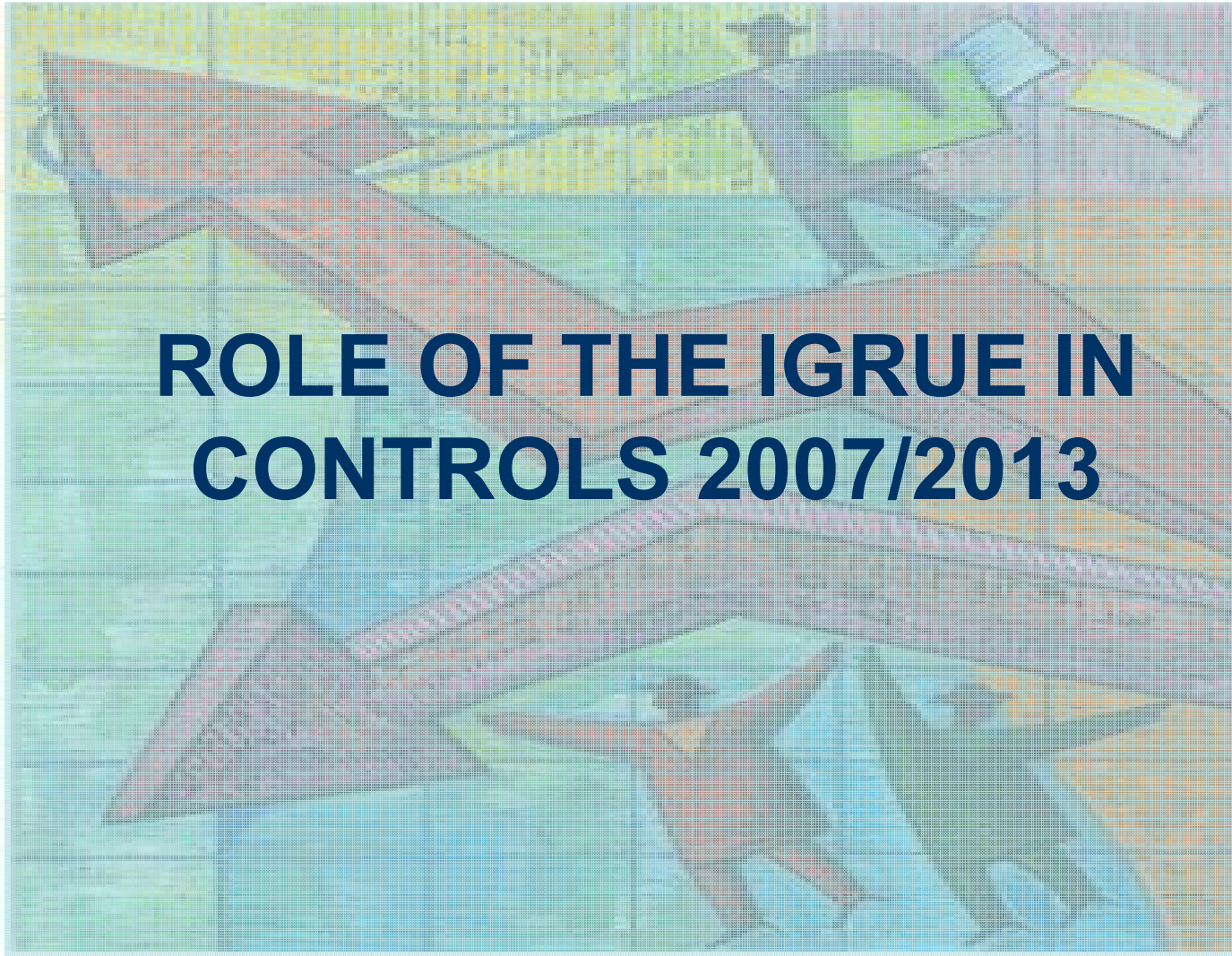


RAGIONERIA GENERALE DELLO STATO

*Florence, 9 May 2013*



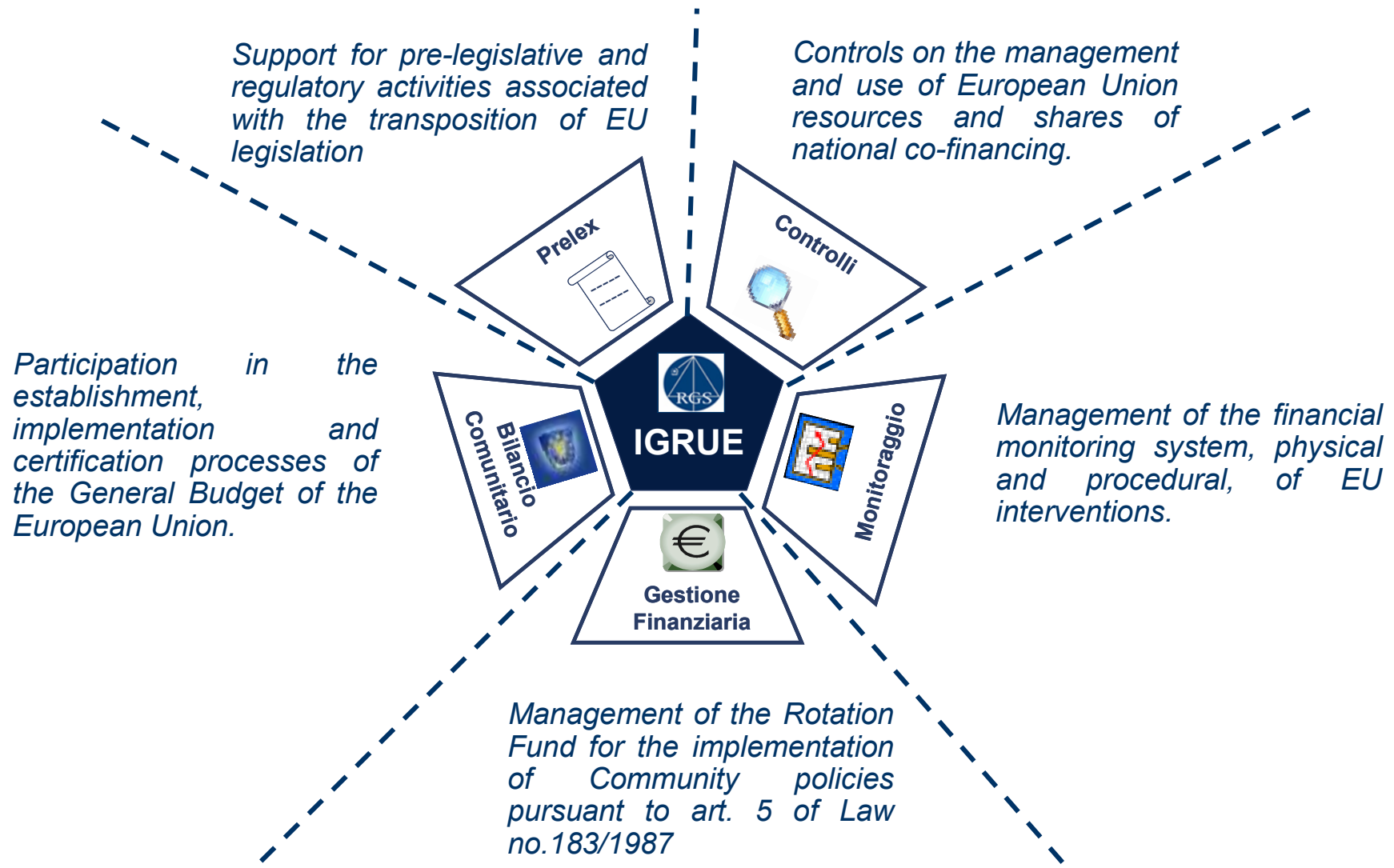
# **ROLE OF THE IGRUE IN CONTROLS 2007/2013**





## Role of the MEF – RGS /IGRUE

The Inspectorate General for Financial Relations with the European Union (IGRUE) participates in the financial processes resulting from Italy's EU membership.







## ROLE OF THE IGRUE IN CONTROLS

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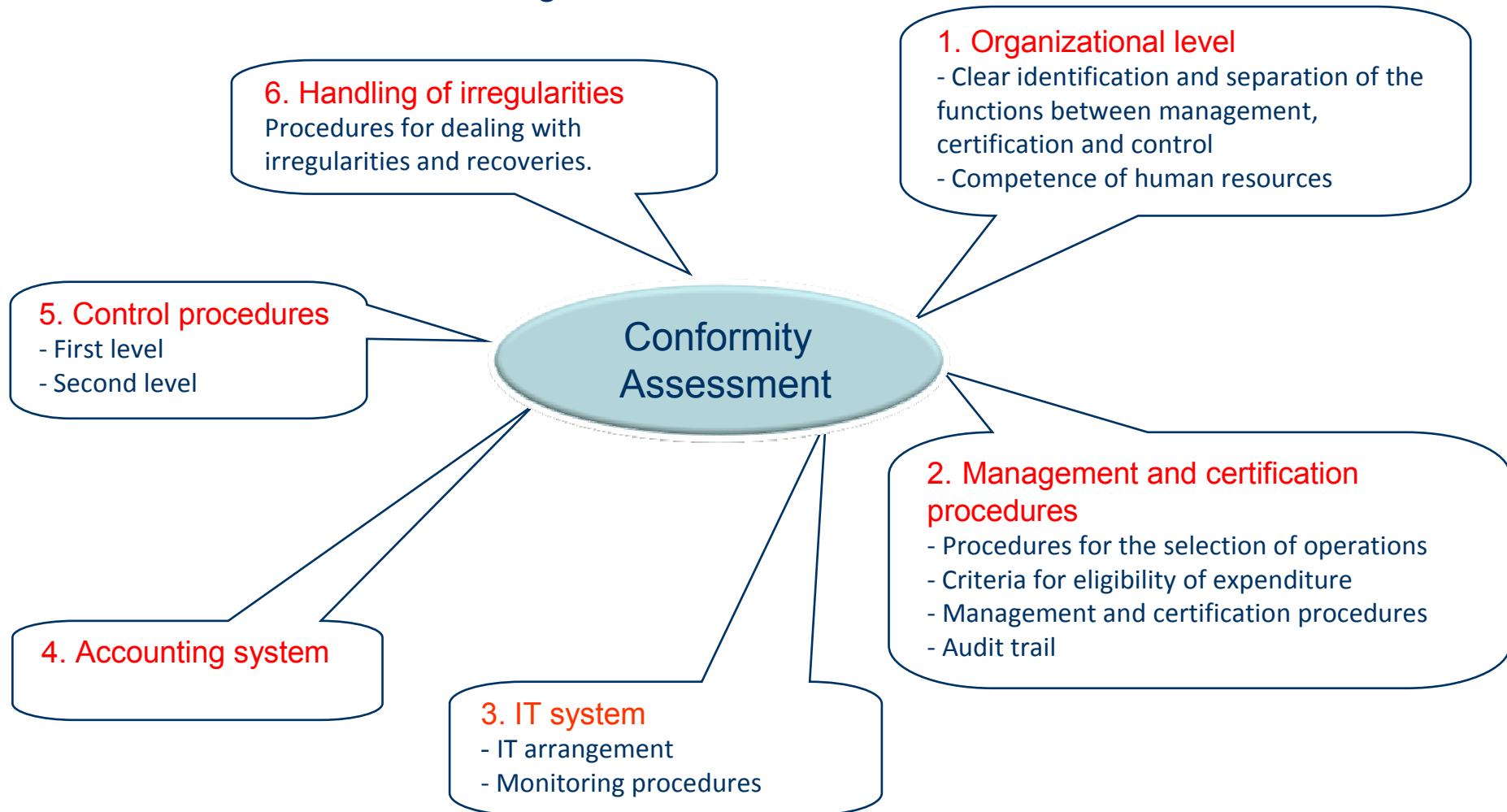
The 2007-2013 NSF assigns IGRUE the delicate task of being the responsible body for:

- **conformity assessment** of management and control systems, pursuant to art. 71 of Regulation (EC) No. 1083/2006;
- **coordination of national audit Authorities** established at a program level, as provided for by art. 73 of Regulation (EC) No. 1083/2006, under which, if a Member State designate several audit authorities, it may also designate a coordination body;
- **management of telecommunication flows between National systems and the Community system SFC 2007**, for the electronic exchange of all data related to the planning, implementation and monitoring of EU programmes.



## ROLE OF THE IGRUE IN CONTROLS: CONFORMITY ASSESSMENT

The elements of the management and control system undergoing conformity assessment are the following:





The IGRUE, as the **coordinating body of the Audit Authorities**, in accordance with the NSF and art. 73 of Regulation (EC) 1083/2006, ensures:

- ***cooperation between*** intervention ***Administrations*** and European institutions, in the area of controls;
- action to ***urge and guide the Audit Authorities***, aimed at ensuring the correct activation of the control functions at different levels of competence;
- action to support the ***interpretation of the relevant legislation***;
- the sharing of analysis and control techniques and methods, including through the issuing of ***auditing manuals and standards***.



## ROLE OF THE IGRUE IN CONTROLS: AA COORDINATION

- Regional Competitiveness and Employment Objective
- **Convergence Objective**
- European Territorial Cooperation Objective

### 58 Operational Programmes

- ✓ 10 NOPs managed by Central Government (Ministries);
- ✓ 42 ROPs managed by Local Government (Regions and Provinces)
- ✓ 6 OPs for Territorial Cooperation
- ✓ 58 Italian Managing Authorities
- ✓ **26 Audit Authorities, of which:**
  - 5 NOP Audit Authorities
  - 21 ROP Audit Authorities



**NEED FOR A  
COORDINATING BODY**







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# **RESULTS OF AUDIT ACTIVITIES FOR THE PROGRAMMING PERIOD 2007/2013**

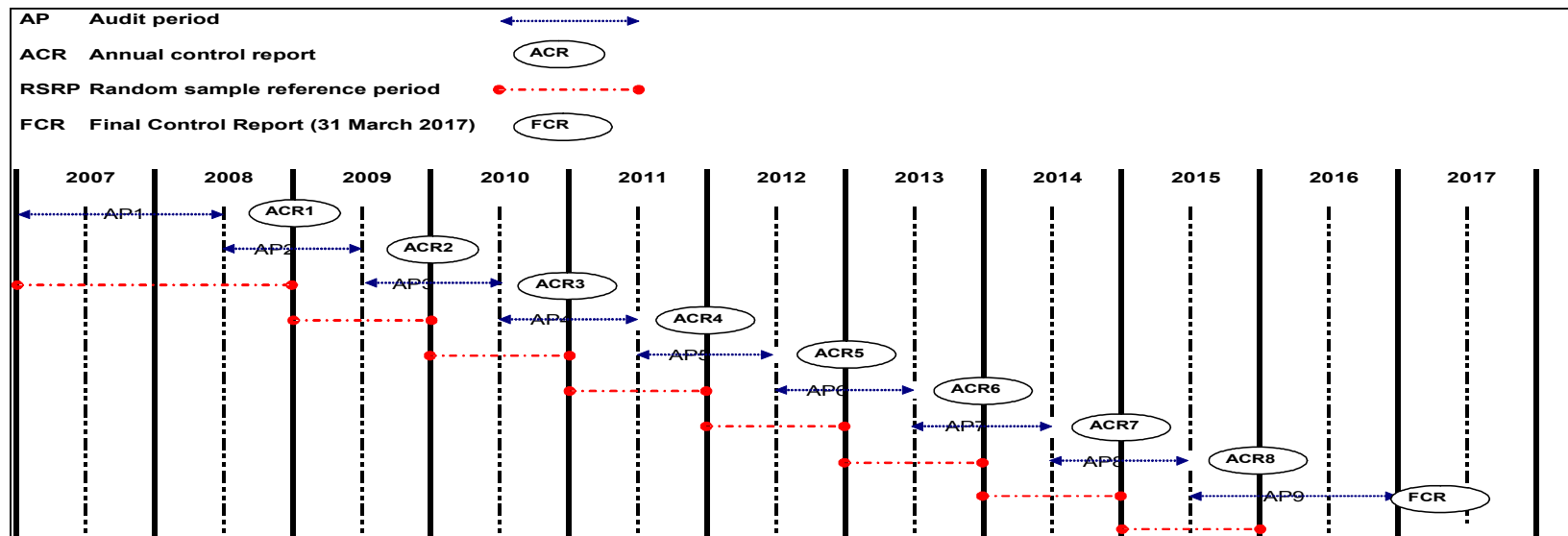




## KEY FIGURES ACR 2012

The Audit Authority must submit an **Annual Control Report and an opinion on the reliability of the management and control systems for the programmes** referenced by 31 December each year (art. 62 of Regulation (EC) 1085/2006).

The ACR contains the **findings of the audits carried out during the 12 month period, with effect from 1 July year  $n-1$  until 30 June year  $n$** , concerning both systematic controls and controls on transactions relating to the expenditure declared to the Commission over the period going from 1 January to 31 December year  $n-1$ .

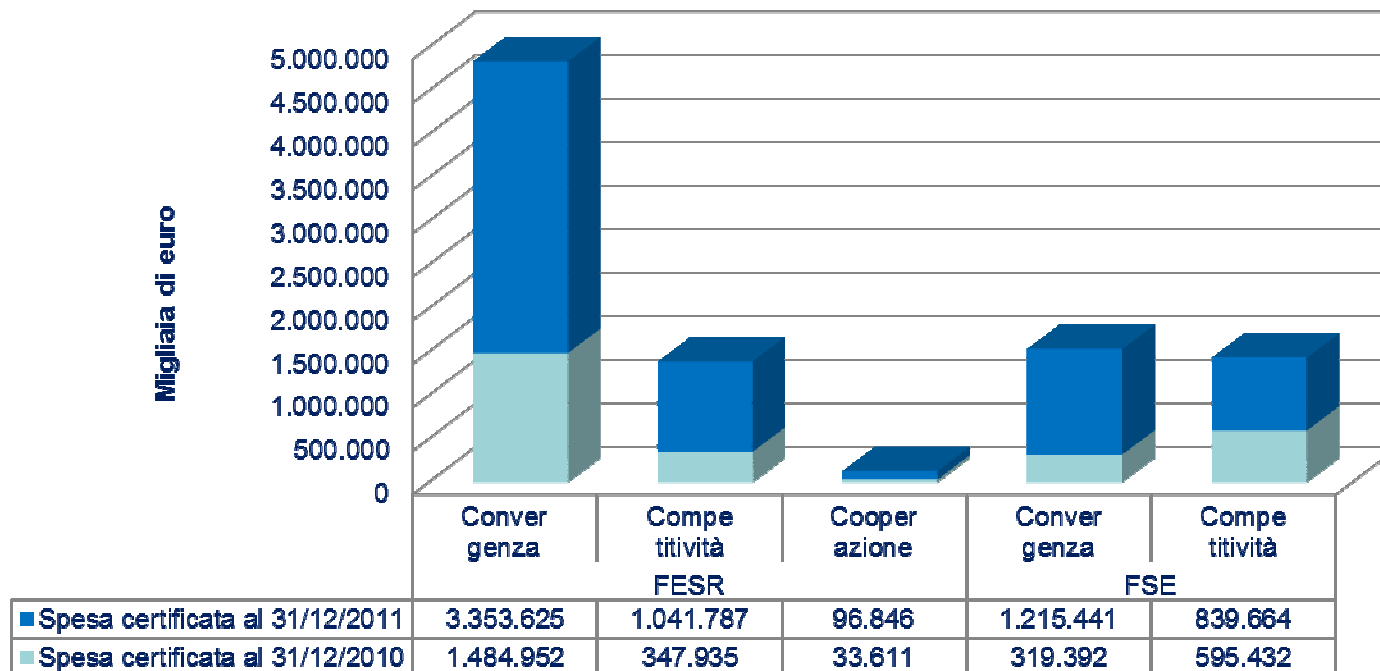




## KEY FIGURES ACR 2012

As of 31 December 2012, **all ACRs regarding the Italian programmes had been regularly presented**. In total, 58 documents, 34 concerning ERDF programmes and 24 on ESF programmes.

The 2012 ACRs are based on controls put in place by the Audit Authorities for programmes during the period 1 July 2011 – 30 June 2012, and refers to certified expenditure as of 31 December 2011, for a total of EUR **6,547,363,538**.



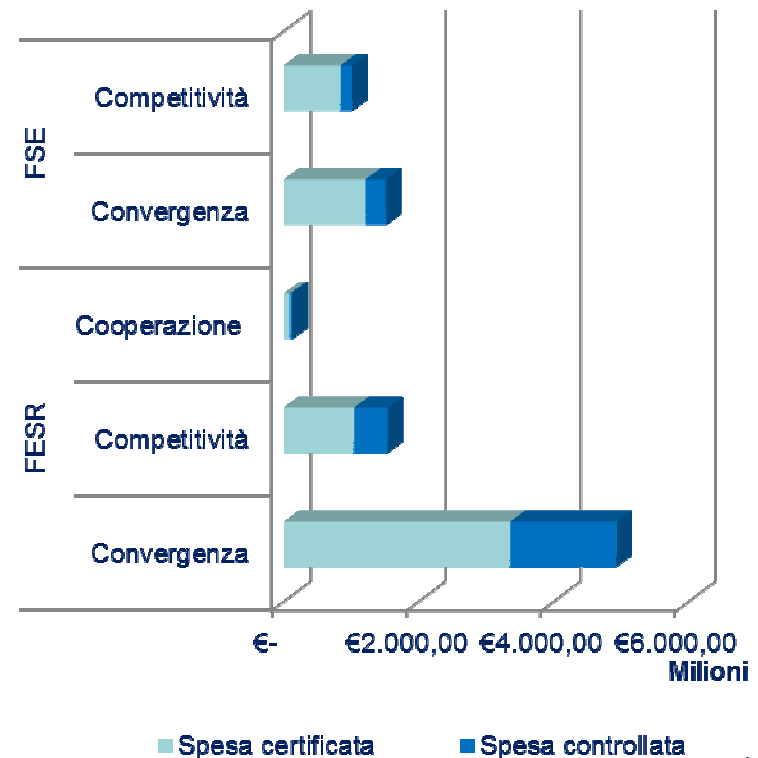


## KEY FIGURES ACR 2012

Controlled operations amount to EUR **2,575,619,525**, equal to approximately 40% of total certified expenditure.

**2007/2013 Programmes  
Controlled Expenditure**

Fund	Objective	Certified expenditure	Controlled expenditure	%
ERDF	Convergence	3,353,625,014	1,569,931,840	46.81%
	Competitiveness	1,041,787,176	497,001,419	47.71%
	Cooperation	96,845,898	31,067,346	32.08%
ESF	Convergence	1,215,441,417	302,554,375	24.89%
	Competitiveness	839,664,033	175,064,545	20.85%
<b>TOTAL</b>		<b>6,547,363,538</b>	<b>2,575,619,525</b>	<b>39.34%</b>



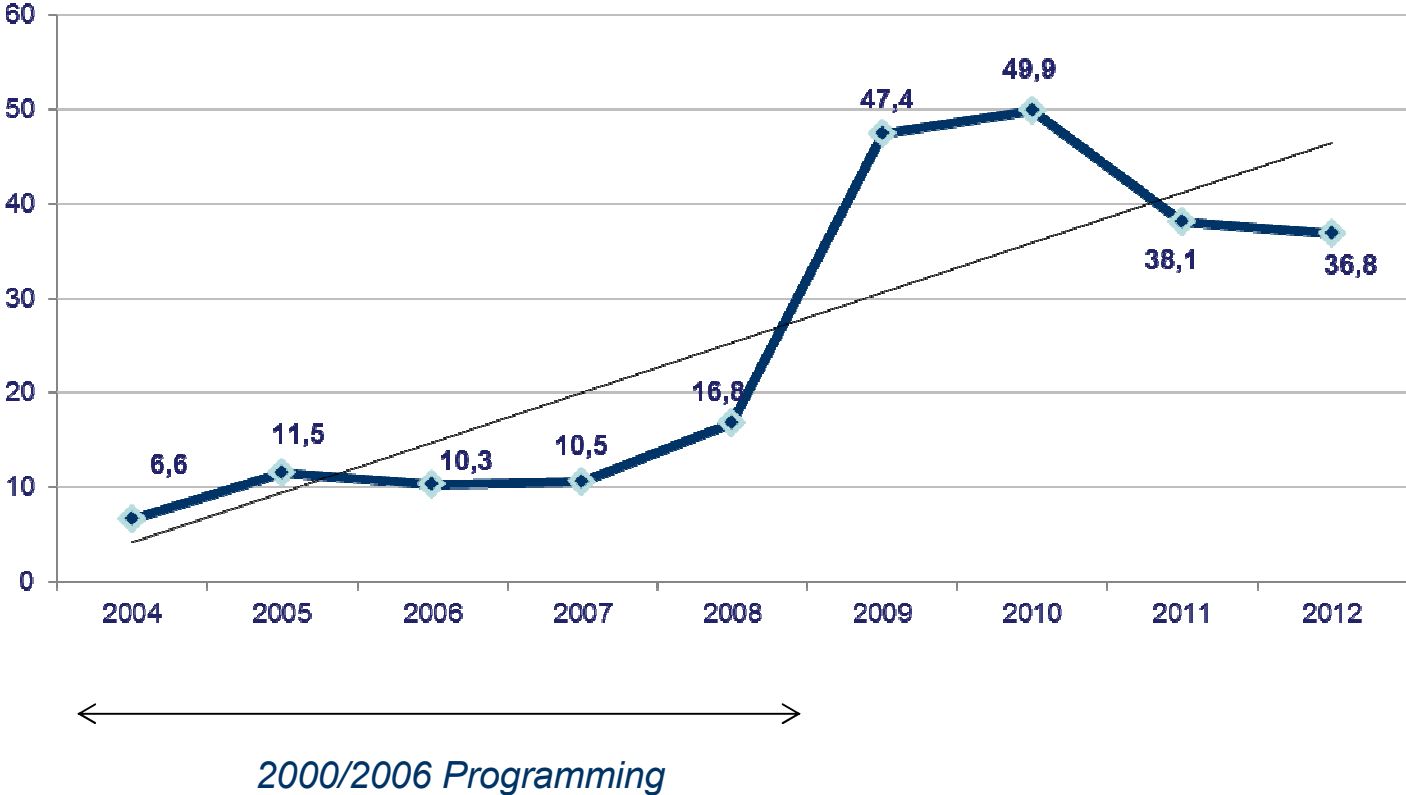




# KEY FIGURES ON THE RESULTS OF CONTROLS

## Controlled expenditure/Certified expenditure Ratio 2004 - 2012

(Values as a %)



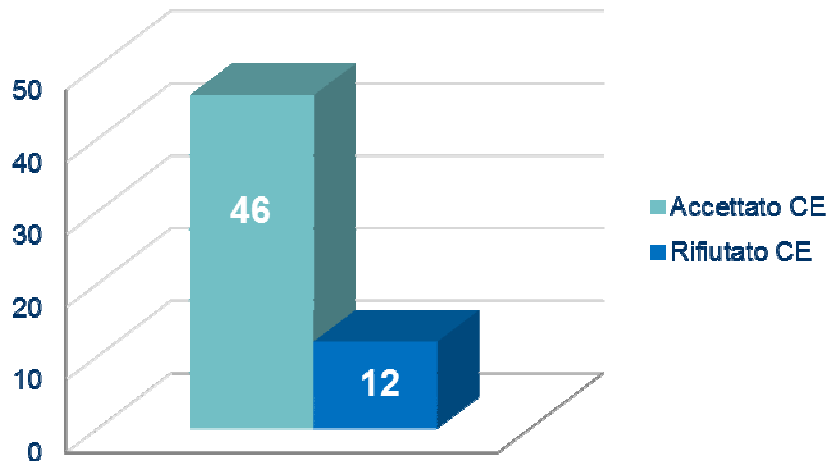


## ACR SUMMARY 2011 vs 2012

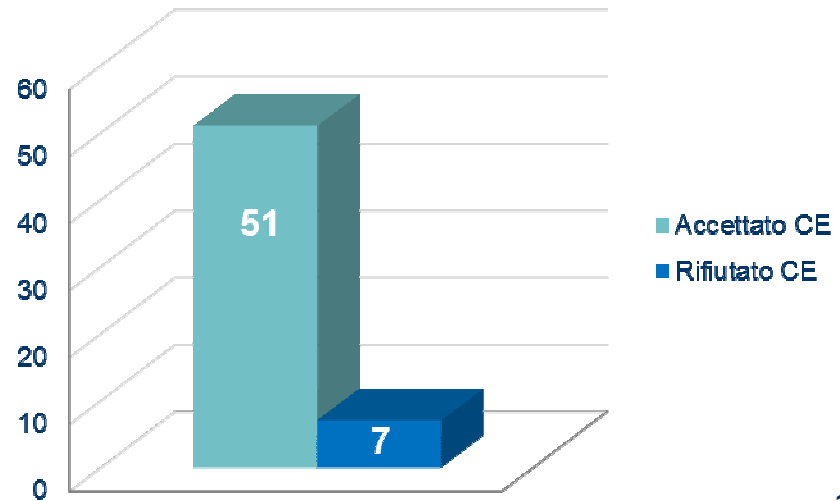
Of the 58 ACRs presented by Italian Authorities, 51 were accepted by the European Commission (30 ERDF and 21 ESF), some with a request for additional information/clarification, and 7 were rejected (4 ERDF and 3 ESF).

As for the rejected ACRs, the relevant Audit Authorities have taken measures to make the necessary changes, and so far 3 modified ACRs have been accepted and 9 are still being analysed in Brussels.

### ACR 2011



### ACR 2012





## ACR SUMMARY 2012: NON-ACCEPTED REPORTS

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### **The main reasons that prompted the European Commission to reject the ACRs:**

- the audit on the sample of operations was completed after the submission of the Annual Control Report and Annual Opinion;
- the level of trust adopted for the sampling is not coherent with the reliability provided by the management and control system;
- recalculation of the error rate (irregularities not detected or not properly evaluated by the AAs);
- errors in the application of the formula used to determine sample size.



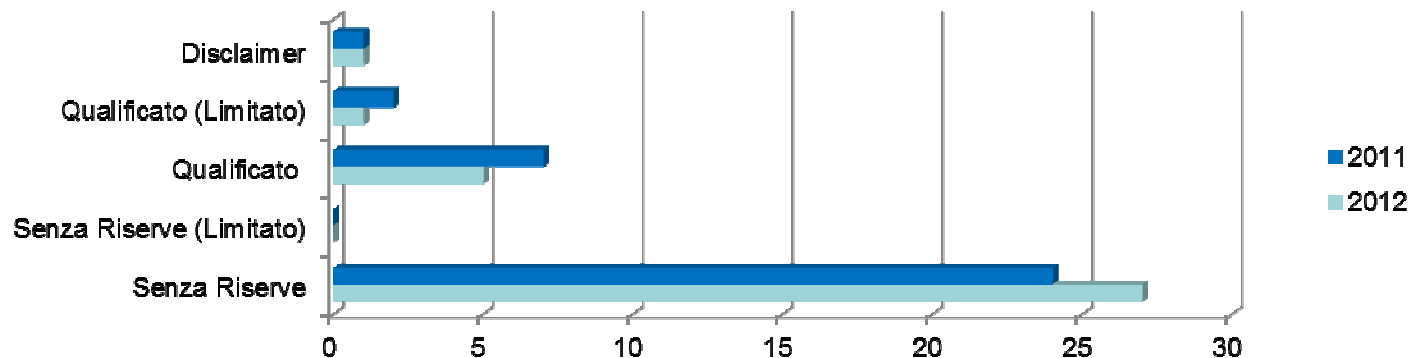


## ACR SUMMARY 2011: RESERVED OPINIONS

Of the 34 Audit Reports in 2012 on ERDF programmes:

- 27 provide an opinion on system reliability, compared to 24 in 2011;
- 6 provide a reserved opinion, compared to 9 in 2011;
- 1 does not provide any opinion (disclaimer) as the AA did not consider to have sufficient information to express itself.

AUDIT AUTHORITY OPINIONS – ERDF Programmes							
FUND	Year	Without reserves	Without riserves (limited)	Qualified	Qualified (Limited)	Disclaimers	Total
ERDF	2012	27	0	5	1	1	34
	2011	24	0	7	2	1	34



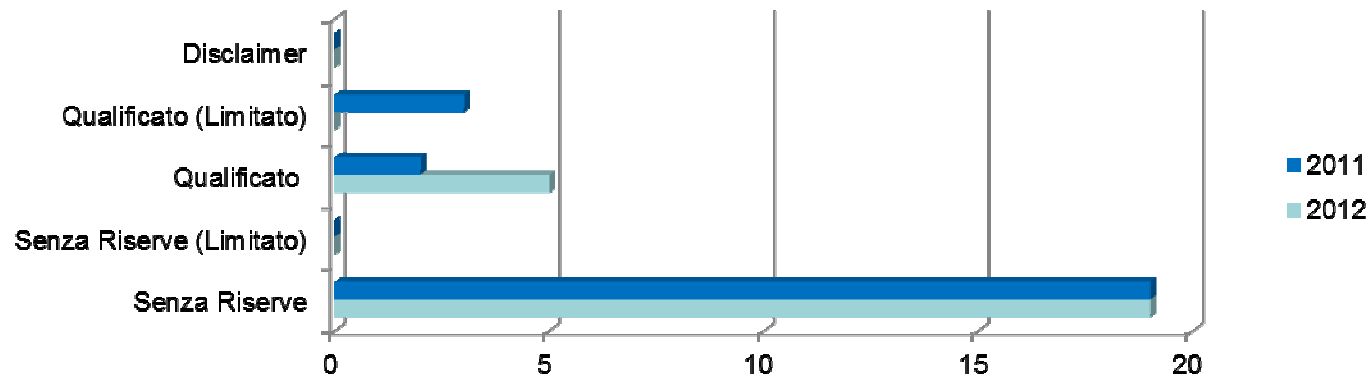


## ACR SUMMARY 2012: RESERVED OPINIONS

Of the 24 Audit Reports in 2012 on ESF programmes:

- 19 provided an opinion on system reliability;
- 5 provided a reserved opinion;
- there were no ACRs with a disclaimer.

AUDIT AUTHORITY OPINIONS – ESF PROGRAMMES							
FUND	Year	Without reserves	Without reserves (Limited)	Qualified	Qualified (Limited)	Disclaimers	Total
ESF	2012	19	0	5	0	0	24
	2011	19	0	2	3	0	24





## ACR SUMMARY 2012: RESERVED OPINIONS

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**The main underlying reasons for the reservations expressed by the Audit Authorities in the ACRs can be summarized as follows:**

- deficiencies in level 1 controls (KR 4 MA);
- audits of operations: problems related to public procurement;
- deficiencies in the procedures for the selection of operations (KR 2 MA);
- failure to complete audits on the required operations;
- deficiencies in the implementation of the IT system (KR 6 MA);
- deficiencies related to the Management, Certification and Intermediate Bodies sectors, such as to cause a category 3 rating (i.e.. the system works but significant improvements are necessary).



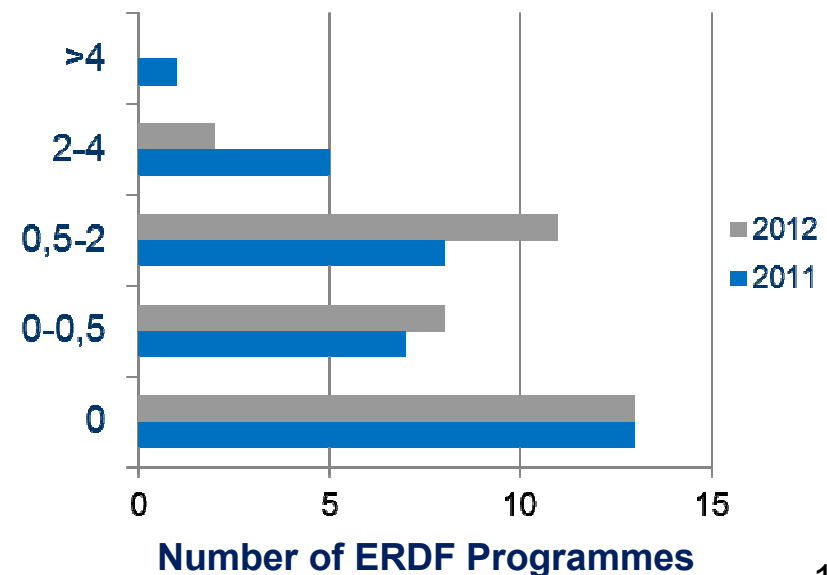


## CONTROL IMPLEMENTATION STATUS

Of the 58 Annual Control Reports (ACR 2012) submitted to the Commission, 3 ACRs (3 ERDF and 1 ESF) had an error rate projected ***above the materiality threshold of 2%.***

Compared to the 2011 ACRs, **the ERDF situation** has considerably improved: 32 programmes under 2% (28 in 2011), 2 programmes above 2% (5 in 2011), and no programmes over 4%( 1 in 2011).

Error Rate Comparison 2012/2011 ERDF Programmes		
Error range	2011	2012
0	13	13
0-0,5	7	8
0,5-2	8	11
2-4	5	2
>4	1	0
<b>Total</b>	<b>34</b>	<b>34</b>



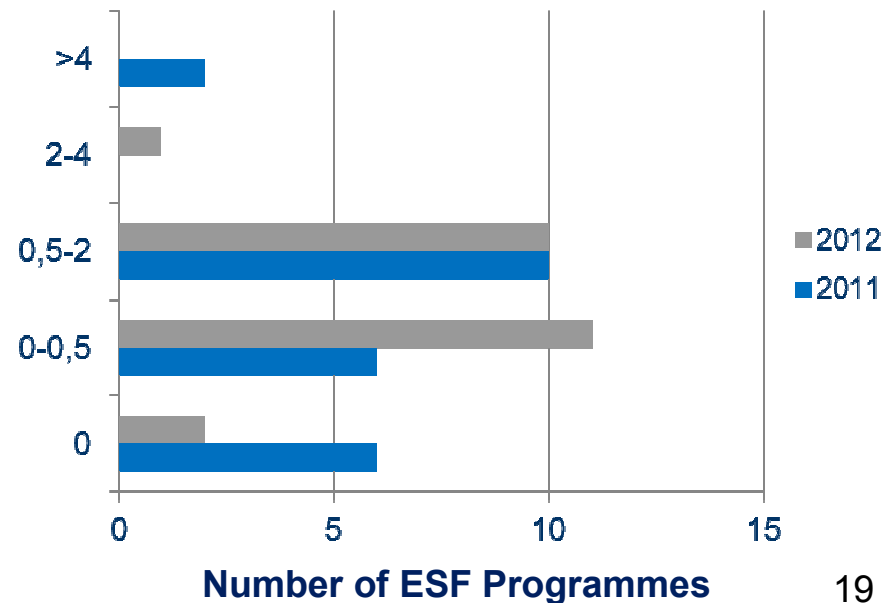


## CONTROL IMPLEMENTATION STATUS

Compared to the 2011 ACRs, the **European Social Fund situation** appears to have made substantial improvements.

In particular, 23 programmes had an error rate below 2% (22 in 2011), 1 programme was within the 2-4% error range (0 in 2011), and no programmes were over the 4% error threshold (1 in 2011).

Error Rate Comparison 2011/2012 ESF Programmes		
Error range	2011	2012
0	6	2
0-0,5	6	11
0,5-2	10	10
2-4	0	1
>4	2	0
<b>Total</b>	<b>24</b>	<b>24</b>





## INTERRUPTION/SUSPENSION OF PAYMENTS

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In view of the concerns identified during the audit and/or examination of the Annual Control Reports, the European Commission has initiated procedures for interruption/suspension of payments, as provided for by articles 91 and 92 of Regulation (EC) 1083/2006.

As a result of these measures, payments for several Italian programmes have been blocked, creating significant liquidity issues that are likely to influence their regular financial implementation.

In order to reach a timely resolution of these problems and restore the cash flow, the IGRUE is carrying out support activities to assist the programme Administrations affected by the interruptions/suspensions, so as to encourage the adoption of corrective measures needed to overcome the findings of the EU Institutions.



## CONTROL IMPLEMENTATION STATUS

Interruptions and suspensions of certified payment applications  
ERDF Programmes  
Situation as of 10 April 2013

(Amounts in EUR)

Programme	EU Contributions	National Contributions	Total Amount	Date of first interruption/suspension	Duration of interruption (in days)
<b>OP Calabria *</b>	239,764,085.88	91,475,620.90	331,239,706.78	23.02.2011	778
<b>NOP Security for Development</b>	54,082,655.22	0.00	54,082,655.22	04.03.2013	37
<b>NIOP Renewable Energy and Energy Saving</b>	119,071,932.30	0.00	119,071,932.30	19.07.2012	92
<b>Total ERDF</b>	<b>412,918,673.40</b>	<b>91,475,620.90</b>	<b>504,394,294.30</b>		

\* Programme with payments suspended from 23.01.2012



## CONTROL IMPLEMENTATION STATUS

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### Interruptions and suspensions of certified payment applications ESF Programmes Situation as of **10.04.2013**

(importi in euro)

Programme	EU Contribution	National Contribution	Total Amount	Date of first interruption/ suspension	Duration of interruption (in days)
OP Abruzzo *	20,769,923.53	30,709,993.24	51,479,916.77	29.08.2012	224
OP Basilicata	23,166,165.90	27,799,399.56	50,965,565.46	11.07.2012	273
OP Sardinia	10,737,980.46	12,885,576.54	23,623,557.00	15.02.2013	54
<b>TOTAL ESF</b>	<b>54,674,069.89</b>	<b>71,394,969.34</b>	<b>126,069,039.23</b>		

\* *Suspended programmes.*





## INTERRUPTION/SUSPENSION OF PAYMENTS

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List of the main issues raised by the EU Commission leading to the interruption/suspension of payments

CONCERNS IDENTIFIED
<b>PROCEDURAL DEFICIENCIES</b> <ul style="list-style-type: none"><li>■ Lack of Check-lists, audit trails and manuals used within activities carried out by Management and Certification Authorities;</li><li>■ Delays in the implementation of the IT System.</li></ul>
<b>IRREGULARITIES IN RESOURCE MANAGEMENT</b> <ul style="list-style-type: none"><li>■ Accounting of ineligible expenditure;</li><li>■ Irregularities in procurement procedures and technical support contracts.</li></ul>
<b>DEFECENCIES IN THE CERTIFICATION OF EXPENDITURE</b> <ul style="list-style-type: none"><li>■ Certification of irregular expenditure for an amount exceeding the maximum tolerated threshold (2% of expenditure).</li></ul>
<b>ISSUES RELATED TO THE INDEPENDANCE BETWEEN MANAGEMENT AND CONTROL</b> <ul style="list-style-type: none"><li>■ Audit Authority financially dependant on the Management Authority</li></ul>
<b>DELAYS IN IMPLEMENTING THE AUDIT STRATEGY</b> <ul style="list-style-type: none"><li>■ Failure to complete the required control programme</li></ul>



## INTERRUPTION/SUSPENSION OF PAYMENTS

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### CORRECTIVE MEASURES

#### PROCEDURES AND ORGANIZATION

- Adjustment of audit trails
- Provision of manuals and control checklists
- Reinforcement of the IT System
- Strengthening of MA and AA structures with adequate human and material resources
- Greater coordination between the authorities responsible for the MA/AC/AA programme

#### RESOURCE MANAGEMENT

- Decertification of expenditure declared to be inadmissible
- Adjustment of level 1 control procedures in order to better intercept cases of irregular/inadmissible expenditure
- Improved management of activities related to irregularities and recoveries

#### CONTROLS

- Enlargement of control samples and comprehensive checks on the most critical measures
- More in-depth risk analysis
- Better organization of level 1 controls
- Better information sharing between the interested parties
- Reduced time between follow-ups



# ANNUAL ACTIVITY REPORT 2011 EU COMMISSION

## Risk rate of errors and irregularities in the use of EU funds

**ERDF** (Amounts in millions of EUR)

COUNTRIES	LOW RISK	MEDIUM RISK	HIGH RISK	AVERAGE RISK RATE
Germany	346	491	273	2.2%
Spain	920	1.287	600	4.1%
France	0	0	1.121	5.8%
Austria	0	0	84	6.0%
<b>ITALY</b>	<b>444</b>	<b>0</b>	<b>496</b>	<b>8.6%</b>
Romania	0	0	505	11.2%
Czech Republic	0	0	1418	11.4%

**ESF** (Amounts in millions of EUR)

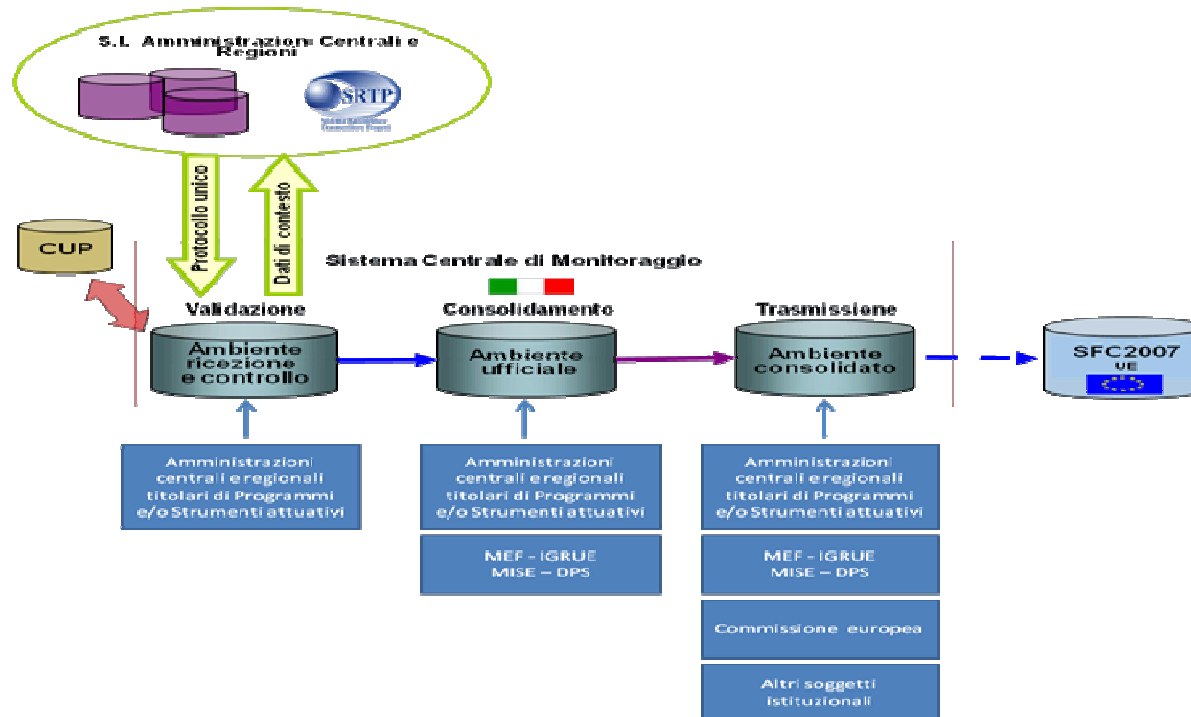
COUNTRIES	LOW RISK	MEDIUM RISK	HIGH RISK	AVERAGE RISK RATE
Romania	13	170	183	4.0%
<b>ITALY</b>	<b>467</b>	<b>0</b>	<b>114</b>	<b>5.7%</b>
Czech Republic	165	0	75	7.6%
Lithuania	0	176	0	7.7%
Spain	1.412	83	19	9.9%
Germany	721	0	163	19.6%



## 2007/2013 PROGRAMME MONITORING

The monitoring and control function for the implementation of interventions carried out by the IGRUE uses the unified monitoring system, activated based on the provisions of NSF 2007/2013.

This system contains data on the physical and procedural financial progress of all programmes co-financed by the EU, updated every two months by the programme Administrations.





## 2007/2013 PROGRAMME MONITORING

### Programme implementation status Situation as of 28 February 2013


*(Amounts in millions of EUR)*

Objectives	Funds	Total Contribution 2007/2013	Financial implementation as of 28 February 2013			
			Commitments	Payments	% Commitments/Contributions	% Payments/Contributions
Convergence	ERDF	30,968.72	23,497.99	9,026.22	75.9%	29.2%
	ESF	7,066.28	5,039.98	3,058.02	71.3%	43.3%
Competitiveness	ERDF	7,812.92	5,771.47	3,619.26	73.9%	46.3%
	ESF	7,598.31	5,891.68	4,196.27	77.5%	55.2%
Cooperation	ERDF	705.59	523.30	273.55	74.2%	38.8%
<b>Total objectives</b>		<b>54,151.82</b>	<b>40,724.42</b>	<b>20,173.32</b>	<b>75.2%</b>	<b>37.3%</b>





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# **MANAGEMENT AND CONTROL SYSTEMS 2014/2020**



The organizational model concerning EU Structural Funds used in the 2007/2013 cycle has been confirmed for the programming period 2014/2020, ***based on the establishment of three main Authorities for each programme***, each functionally separated with clearly defined tasks:

- ***Management Authority***, responsible for activating the appropriate mechanisms to ensure programme operability and the achievement of objectives;
- ***Certification Authority***, with specific tasks related to the accounting and financial reporting of expenditure incurred in programme implementation;
- ***Audit Authority***, responsible for monitoring the correct functioning of the programme's management and control system.



In order to ensure the uniform action and direction of the different AAs and create the conditions necessary to provide an adequate guarantee of the efficient functioning of the audit system, ***the coordinating role of the IGRUE is reinforced***. In particular, the role of the IGRUE will be decisive in the following activities:

- ***The ex ante evaluation of the adequacy of the AAs organizational structure*** and the issuing of a mandatory opinion by the IGRUE on its proposed designation;
- ***The on-going evaluation of the fulfilment of requirements*** concerning the adequacy and effective functioning of the AAs; the results of this evaluation are found in the Annual Report on the Functioning of the Audit System in Italy;
- The provision and ***circulation of guidelines, manuals and other methodological support instruments***, in consultation with the AAs, necessary for the effective operability of the audit function.





## FF 2014/2020 – ROLE OF THE IGRUE

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- Being a point of reference for the AAs, for the sharing of issues that emerge over time and the search for common solutions and dialogue with the European Commission concerning the resolution of problems arising from the implementation of the audit function.
- The introduction of ***specific training courses for auditors focusing on skill improvement and the professional development*** of AA employees, as well as the organization of seminars, conferences and workshops for circulation of information and sharing of systems and best-practices;
- The implementation and ***management of the IT system in support of audit activities***, based on requirements shared with the AAs;
- The activation of ***financial line of direct technical assistance in support of the AAs***, in compliance with the amenities of a national governance programme.



*Ministero dell'Economia e delle Finanze*

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*Thank you for your attention*

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RAGIONERIA GENERALE DELLO STATO