

F252/64/98

22 December 1998

**CIRCULAR 23/98: FINANCIAL MANAGEMENT AND CONTROL PROCEDURES FOR THE EUROPEAN REGIONAL DEVELOPMENT FUND (ERDF)**

A Dhuine Uasail

I am directed by the Minister for Finance to advise Departments of their financial management responsibilities relating to the ERDF.

The regulatory framework for member States management and control systems is laid down in Council Regulation (EEC) 2082/93 (Article 23 in particular) and Commission Regulation 2064/97.

Reports on the controls, which Departments are required to ensure are in place under these Regulations, should include verification to the effect that:

- responsibilities in the context of project implementation are formally documented at the various levels i.e. Departmental and project sponsor/implementer.
- agreed terms and conditions governing ERDF co-financing for the project are being observed.
- procedures covering on-going project monitoring, formalised spot-checking and physical implementation, are being applied.
- the project is being implemented in accordance with the principles of sound financial management specified in Commission fact sheets 1 to 22.

expenditure reported is, in fact, eligible for EU co-financing and has been paid within the eligibility dates specified in the most recent Commission decision for the programme.

- the intended use of the project is consistent with the objectives of the relevant EU programme.
- public procurement requirements are being/have been observed.
- EU publicity requirements are being observed.
- no overlapping of EU assistance has occurred i.e. expenditure is not being co-financed under an alternative EU programme.
- separate document and bank accounting systems are being maintained for the project.
- evidence of receipt of funding by the project sponsor is available.
- all supporting documentation has been retained in accordance with Article 23 of Council Regulation 2082/93.
- a clear audit trail exists from individual payments to final recipients back to the summary details given in the expenditure declarations made by the designated national authority to the Commission.

The financial records of implementing agencies at all levels should, therefore, be sufficiently detailed to provide the type of audit trail required. An indicative description of audit trail information is provided in Annex 1 to Regulation 2064/97. Data provided in this context should, in particular, show:

1. the procedures/systems involved and who is responsible for their implementation;
2. the documents which have been created, the data systems used and who is responsible for these;
3. the management and control systems in existence for financial data flows, who audits them and how the findings are reported;
4. who audits ERDF expenditure and how are the results reported.

All possible weaknesses, risks or irregularities identified in the implementation process should also be reported and proposals to address these should be provided.

## **ARTHUR ANDERSEN REPORT**

For the purpose of establishing whether the systems in operation in Ireland meet the above requirements, the Department of Finance - as the designated national authority for Structural and Cohesion Funds and with specific administrative responsibility for the ERDF and the Cohesion Fund - commissioned Arthur Andersen Consultants to review the financial management and control systems in operation at all levels of implementation of the ERDF and the Cohesion Fund. This involved wide-ranging consultation with Government Departments, local authorities, project sponsors, the European Commission, the European Court of Auditors, Internal Auditors, Office of the Comptroller and Auditor General and the Local Government Auditor.

Arthur Andersen's final report on the ERDF and a brief synopsis of the report's main recommendations, have already been circulated to Departments.

While Andersen found that the financial management and control systems currently in place for the ERDF appear to be reasonably effective, nevertheless some weaknesses, in terms of documentation and the need for improved evidencing of checking were identified. It is essential that any weaknesses are addressed and that satisfactory control systems are in place. Accordingly, the report's "Key findings and recommendations" should be adopted and implemented by Departments and their agencies involved in the implementation of development co-financed by the Fund. Extracts of the report as envisaged in page 11, together with sections 6 and 7, should be distributed by Departments for the purpose of achieving maximum effect within implementing bodies and project sponsors.

The findings are specified in section 3 of the report and are summarised as follows:

### **Interpretation**

EU Regulations are not user friendly and are open to conflicting interpretation

### **Certification**

The absence of formal sign-off procedures is a weakness which needs to be addressed.

### **Verification**

The frequency and nature of independent verification of information, which is ultimately certified by the Department of Finance to the European Commission, is currently haphazard and ineffective.

### **Documentation**

The absence of formal documented responsibility for tasks gives rise to confusion about their assignment, completion and review.

### **Standardisation**

The absence of a standardised reporting procedure encourages inconsistency and is wasteful of resources.

The "Key findings and recommendations of the Andersen report are, to a large degree, consistent with the requirements of Regulation 2064197. Departments are instructed to introduce the following procedures to address these:

#### **Interpretation**

Departments are responsible for ensuring that the regulations governing the Fund's operation are circulated to all agencies under their auspices which are involved in the implementation of ERDF co-financed development. Hard copies of the existing regulations have already been made available to all Government Departments and are available on the CSF Website (WWW. CSF INFO. Com). Furthermore, Departments should ensure that its agencies understand what is required under these regulations. Formal confirmation of this will be required on an annual basis in the format specified in Form A. The initial Form A report should be supplied to the Department of Finance by end January 1999. Subsequent reports should be provided by end December of each year.

Questions regarding the interpretation of EU regulations should - in the first instance - be considered by Departments and if clarification is needed, it should be sought from the Structural Funds Division, Department of Finance.

#### **Certification**

A reporting format should be introduced to certify that appropriate checking procedures are being applied and that an adequate audit trail exists. The enclosed Form B questionnaire, which should be completed and signed by the implementing body/ project sponsor for each ERDF-assisted project where expenditure is being reported for the purpose of financial recoupment from the EU, will enable the adequacy of the checking procedure to be evaluated. It should then be certified by the official responsible for the project's implementation before being forwarded to the next higher level e.g. implementing and/or lead Government Department. At this stage, the document should be scrutinised to ensure that all questions have been answered at the previous level. It should then be certified by the implementing Department and by the lead OP<sup>1</sup> Department (in cases where the OP implementing and lead Departments differ) and should be retained by the lead OP Department as evidence that certification procedures have been discharged. Certification reports should be accessible to Departmental Internal Audit Units, the European Commission, the European Court of Auditors and the Department of Finance. Copies of certification reports should be forwarded to the Structural Funds Division, Department of Finance.

#### **Verification**

The system-based audits required under Article 3. 1 (a) of Regulation 2064197 should be performed by the Internal Audit Units at each level within the cascade of bodies implementing ERDF measures. If not already in place, an Internal Audit Unit, functionally independent of the ERDF operational area, should be established within Departments. Alternatively, it may be necessary to appoint consultants to perform this task.

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<sup>1</sup> Throughout this Circular, the use of the term "OP" should be regarded as referring to CSF Operational Programmes, Community Initiatives and the Tallaght Hospital Project.

Departments should ensure that there is systematic verification at each stage of the project implementation process for the purpose of fulfilling the requirements of Article 3. 1(b) i.e. verify selectively, on the basis of risk analysis, expenditure declarations made at the various levels concerned. This function should verify a percentage of the expenditure certifications from implementing bodies/project sponsors to ensure that there has been compliance with the various ERDF regulations/requirements. Verification reports (Form C) should also be prepared and forwarded to the Department of Finance. The European Commission and the European Court of Auditors will also have access to these reports.

Compliance with Article 3.2 requires that audit controls are carried out on a minimum of 5% of the total eligible expenditure. The Article also provides, however, that this percentage maybe reduced proportionally for forms of assistance approved before the entry into force of the Regulation. In practice, therefore, a minimum of 5% of the total eligible expenditure incurred since the introduction of Regulation 2064197 should be subject to audit control. Projects should be selected on the basis of risk analysis and should be representative of the objectives covered by the OP.

It is the responsibility of the implementing Department to ensure that an appropriate level of control is carried out for the programmes/measures/ projects for which it is responsible.

The necessary procedures should be introduced by Departments as early as possible and, in any event, in time to enable the above-mentioned verification process to commence not later than 31 January 1999.

#### **Documentation**

To overcome any weakness in this area, job descriptions/procedure manuals should be prepared - and reviewed regularly - specifying the duties, tasks and discharge methodology for personnel involved in the implementation of EU co-financed activity. The job descriptions/procedure manuals should be based on the "best practice" control matrix prepared by Andersen - appendix D of the report. These should be available for inspection by the Department of Finance, the European Commission and the European Court of Auditors.

#### **Standardisation**

Completion of Forms B and C is part of the ongoing standardisation process.

#### **ERDF and Cohesion Fund Financial Control Unit**

A Financial Control Unit with responsibility for random audit cheeks of ERDF and Cohesion Fund - related expenditure has been established by the Department of Finance. The results of cheeks carried out by the Control Unit will be conveyed to the Lead Government Department for the programme concerned. The European Commission and the Court of Auditors will also have access to these results.

The Control Unit may also examine financial management, control and system procedures within Departments and implementing bodies/final beneficiaries to ensure that these are adequate. Any systems deficiencies identified will require urgent remedial action. The onus for the introduction, maintenance and operation of satisfactory control procedures for ERDF

co-financed development under each Department's auspices is, however, the absolute responsibility of that Department and there can be no derogation from this responsibility.

Lead Departments are responsible for verification in respect of EU operations being implemented by them and by implementing Departments and their agencies. Implementing Departments are responsible for verifying - and reporting to the lead Department - on operations failing within their ambit.

(The diagram at Appendix 1 outlines the certification and verification procedures to be put in place and specifies where responsibility for these lies.).

**Programme of ERDF Audits under Bilateral Administrative Arrangements**

An annual programme of ERDF audits will be agreed with the Commission by this Department's Internal Audit Unit - in consultation with other lead Departments' Internal Audit Units who, in turn, should consult with their respective implementing Government Department. This programme, which will cover the requirements under Article 3. 1. (a) of Regulation 2064/97, will be separate from the control checks carried out by the ERDF and Cohesion Fund Financial Control Unit.

A summary report - Form D - in respect of each project included in an OP, should be prepared on an individual OP Measure basis and certified to the Department of Finance. A comprehensive schedule of projects - selected from Form D - falling within the scope of Departments' ERDF-assisted Operational Programme(s) and which will be subject to verification by Internal Audit Units, should be prepared and notified to the Department of Finance by end January 1999. The reports on these audits will be forwarded to the European Commission by the Department of Finance's Internal Audit Unit.

**Draft Applications for E RDF Commitment Instalments**

Payment applications to the EU for instalments of ERDF commitments will be based on Form D expenditure reports. Form D certification should relate to expenditure incurred (paid) since the previous application for an ERDF instalment was forwarded to the Department of Finance. Requests from Departments for the drawdown of ERDF commitment instalments which are not supported by Form D certified expenditure will not be entertained. Furthermore, failure to complete Form D may lead to the suspension of payment of ERDF assistance to Departments and their agencies and to a demand for the recovery of any assistance already paid.

**Final OP Commitment Payments**

Article 8 specifies that a request for final payment must be supported by the final declaration of expenditure and a statement summarising the conclusions of the control examinations carried out. Annex 11 to the Regulation contains an indicative model of the type of information required by the Commission. It is envisaged that Annex H reports will be prepared by the Internal Audit Unit, Department of Finance, should sufficient resources be available.

**Article 9 Reports**

In compliance with Article 9, reports to the Commission on the application of the Regulation since its introduction, must be made by 30 June each year. To enable this Department prepare these reports, I would be obliged if you would advise me by end April each year, how the Regulation is being applied by your Department. In this context, regard should be had to the requirements of Article 2.

**Conclusion**

Conformity with Regulation 2064/97 is obligatory. Failure to observe the requirements imposed will undoubtedly lead to the deferment or cancellation of payment of the balance of the 1999 commitment under Operational Programmes, with a consequent adverse impact on the Exchequer/Public Service borrowing requirements. Possible loss of funding due to the application of the Commission's net financial correction procedure may also ensue. Departments should ensure, therefore, that the introduction of procedures necessary to conform with the terms of the Regulation is urgently addressed.

**This Circular should be brought to the attention of any agencies under Departments' auspices which are responsible for reporting expenditure in respect of developments co-financed by the ERDF.**

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Aidan Dunning

Assistant Secretary

## FORM A

### Observation of the Structural Funds Regulations and Associated Commission Decisions

I confirm that the terms of the following Regulations, Decisions etc., governing the administration of the European Regional Development Fund (ERDF) are being observed by my Department and its agencies involved in the implementation of development co-financed by the Fund:

- **Framework Regulation:**  
Council (EEC) No. 2081/93 amending Regulation (EEC) No. 2052/88 on the tasks of the Structural Funds and their effectiveness and on co-ordination of their activities between themselves and with the operations of the European Investment Bank and the other existing financial instruments.
- **Co-ordination Regulation:**  
Council Regulation (EEC) No. 2082/93 amending Regulation (EEC) No. 4253/88 laying down provisions for implementing Regulation (EEC) No. 2052/88 as regards co-ordination of the activities of the different Structural Funds between themselves and with the operations of the European Investment Bank and the other existing financial instruments.
- **ERDF Regulation:**  
Council Regulation (EEC) No. 2083/93 amending Regulation (EEC) No. 4254/88 laying down provisions for implementing Regulation (EEC) No. 2052/88 as regards the European Regional Development Fund.
- **Council Regulation (EC Euratom No.) 2988/95 on the protection of the European Communities Financial Interests.**
- **Council Regulation (Euratom, EC) No. 2185/96 concerning on-the-spot checks and inspections carried out by the Commission to protect the European Communities financial interests against fraud and other irregularities.**
- **Commission Regulation (EEC) No. 1866/90 on arrangements for using the ECU for the purposes of the budgetary management of the Structural Funds.**
- **Commission Regulation (EC) No. 1681/94 concerning irregularities and the recovery of sums wrongly paid in connection with the financing of the structural policies and**



the organisation of an information system in this field.

- Commission Regulation (EC) No. 2064/97 establishing detailed arrangements for the implementation of Council Regulation (EEC) No. 4253/88 as regards the financial control by Member States of operations co-financed by the Structural Funds.
- 1994-1999 Community Support Framework for Ireland.
- Commission Decision C(97) 103518 of 2310411997 modifying the decisions approving the Community Support Frameworks, the single programming documents and the Community Initiatives programmes in respect of Ireland (Factsheets 1 to 22).
- Commission Decision(s) in respect of the Operational Programme(s) for which your Department has responsibility.
- Commission Decision No 941342/EC of 18 June 1994 concerning minimum publicity requirements.
- Council Resolution of 2 December 1996 on mainstreaming equal opportunities for men and women into the European Structural Funds.

I also confirm that my Department and its agencies involved in the implementation of development co-financed by the Fund, are aware of the document "net financial corrections in the context of the application of Article 24 of Regulation (EEC) 4253/88", of 15 October 1997, which constitutes guidelines for use by the Commission's Departments in applying Article 24 of Regulation (EEC) 4253/88.

Secretary General \_\_\_\_\_

Department of \_\_\_\_\_

Date \_\_\_\_\_

**FORM B**  
**ERDF CERTIFICATION REPORT BY IMPLEMENTING BODY/PROJECT SPONSOR**  
**OPERATIONAL PROGRAMME/COMMUNITY INITIATIVE**

Programme Title: \_\_\_\_\_ Lead Department: \_\_\_\_\_  
Measure Title: \_\_\_\_\_ Project Title (Ref No.): \_\_\_\_\_  
Name and Address of \_\_\_\_\_  
Project Promoter: \_\_\_\_\_

Project Commencement Date: \_\_\_\_\_ Estimated Completion date: \_\_\_\_\_

Total Project Expenditure: £ \_\_\_\_\_ Total Expenditure to date: £ \_\_\_\_\_

Total EU Eligible Expenditure: £ \_\_\_\_\_ Eligible Expenditure to date: £ \_\_\_\_\_  
Eligible Expenditure Incurred (Paid) Since the ERDF

Previous Expenditure Report was Submitted: £ \_\_\_\_\_ Aid Rate \_\_\_\_\_

Please confirm that:

Tick Box for  
confirmation

- |    |   |                          |
|----|---|--------------------------|
| 1  | expenditure on the project meets the eligibility criteria specified in Commission Factsheets 1 to 22          | <input type="checkbox"/> |
| 2  | the intended use of the project is consistent with the objectives of the above-named Programme/initiative     | <input type="checkbox"/> |
| 3  | the payment application for EU recoupment is based on eligible expenditure period Actually paid               | <input type="checkbox"/> |
| 4  | the expenditure for which recoupment is sought has been paid within the eligibility Period for the programme  | <input type="checkbox"/> |
| 5  | public procurement requirements have been observed  | <input type="checkbox"/> |
| 6  | EU publicity requirements are being observed  | <input type="checkbox"/> |
| 7  | a satisfactory audit trail exists i.e. in conformity with Annex 1 of Regulation 2064/97                       | <input type="checkbox"/> |
| 8  | there has been no overlapping of EU assistance for the project  | <input type="checkbox"/> |
| 9  | separate document and bank accounting systems are being maintained for the project                            | <input type="checkbox"/> |
| 10 | evidence of receipt of funding by the implementing body/project sponsor is available                          | <input type="checkbox"/> |
| 11 | all original supporting documentation is retained in accordance with Article 23 Of Council Regulation 2082/93 | <input type="checkbox"/> |

Have any financial control weakness, risks or irregularities  
Been identified in the execution of the project

Yes	No

If yes, please specify:

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Specify the controls applied to guarantee valid certification

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**Report Prepared by:** \_\_\_\_\_ **Implementing Body** \_\_\_\_\_ **Date** \_\_\_\_\_

**Countersigned by:** \_\_\_\_\_ **Implementing Body** \_\_\_\_\_ **Date** \_\_\_\_\_

**Certified by:** \_\_\_\_\_ **Implementing Dept:** \_\_\_\_\_ **Date** \_\_\_\_\_

**Certified by:** \_\_\_\_\_ **Lead Dept:** \_\_\_\_\_ **Date** \_\_\_\_\_

When completed, the report should be retained by the lead Department for the programme and copied to the Structural Funds Division, Department of Finance, 73-79 Lower Mount Street, Dublin 2

**FORM C**  
**ERDF VERIFICATION REPORT**  
**OPERATIONAL PROGRAMME/COMMUNITY INITIATIVE**

Programme Title: \_\_\_\_\_ Lead Department: \_\_\_\_\_  
Measure Title: \_\_\_\_\_ Project Title (Ref No.): \_\_\_\_\_  
Name and Address of \_\_\_\_\_  
Project Promoter: \_\_\_\_\_

Project Commencement Date: \_\_\_\_\_ Estimated Completion date: \_\_\_\_\_

Total Project Expenditure: £ \_\_\_\_\_ Total Expenditure to date: £ \_\_\_\_\_

Total EU Eligible Expenditure: £ \_\_\_\_\_ Eligible Expenditure to date: £ \_\_\_\_\_

Eligible Expenditure Incurred (Paid) Since the ERDF  
Previous Expenditure Report was Submitted: £ \_\_\_\_\_ Aid Rate \_\_\_\_\_

Please confirm that:

Tick Box for  
confirmation

- |    |   |                          |
|----|---|--------------------------|
| 1  | expenditure on the project meets the eligibility criteria specified in Commission Factsheets 1 to 22          | <input type="checkbox"/> |
| 2  | the intended use of the project is consistent with the objectives of the above-named Programme/initiative     | <input type="checkbox"/> |
| 3  | the payment application for EU recoupment is based on eligible expenditure period Actually paid               | <input type="checkbox"/> |
| 4  | the expenditure for which recoupment is sought has been paid within the eligibility Period for the programme  | <input type="checkbox"/> |
| 5  | public procurement requirements have been observed  | <input type="checkbox"/> |
| 6  | EU publicity requirements are being observed  | <input type="checkbox"/> |
| 7  | a satisfactory audit trail exists i.e. in conformity with Annex 1 of Regulation 2064/97                       | <input type="checkbox"/> |
| 8  | there has been no overlapping of EU assistance for the project  | <input type="checkbox"/> |
| 9  | separate document and bank accounting systems are being maintained for the project                            | <input type="checkbox"/> |
| 10 | evidence of receipt of funding by the implementing body/project sponsor is available                          | <input type="checkbox"/> |
| 11 | all original supporting documentation is retained in accordance with Article 23 Of Council Regulation 2082/93 | <input type="checkbox"/> |

Have any financial control weakness, risks or irregularities  
Been identified in the execution of the project

Yes	No

If yes, please specify:

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Specify the controls applied to guarantee valid certification

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**Expenditure totalling £\_\_\_\_\_ is verified under this Report**

**Report Prepared by:\_\_\_\_\_ Implementing Body\_\_\_\_\_ Date\_\_\_\_\_**

**Countersigned by:\_\_\_\_\_ Implementing Body\_\_\_\_\_ Date\_\_\_\_\_**

**Certified by:\_\_\_\_\_ Implementing Dept:\_\_\_\_\_ Date\_\_\_\_\_**

**Certified by:\_\_\_\_\_ Lead Dept:\_\_\_\_\_ Date\_\_\_\_\_**

When completed, the report should be forwarded to the Structural Funds Division, Department of Finance, 73-79 Lower Mount Street, Dublin 2

**FORM D**

**PROGRAMME** \_\_\_\_\_ **E.R.D.F REFERENCE NO:** \_\_\_\_\_ **MEASURE:-** \_\_\_\_\_  
**Date of last update of the expenditure certified:** \_\_\_\_\_

**SUMMARY OF PAYMENTS** (corresponds to payment by final beneficiaries, justified by invoices paid or the equivalent (Art 5 of the Final Regulation))

Period of eligibility: from.....to.....(Date of start of eligibility of expenditure and final limit date of eligibility for programme closure)

Unit .....IR£.....(Currency and Unit used for certification) (where expenditure in ECU, please show amounts converted by monthly exchange rate in a separate summary)

<b>PROJECT TITLE</b>	<b>ELIGIBLE EXPENDITURE MECU (See note 1)</b>	<b>PAYMENTS IN 1994 IRE</b>	<b>PAYMENTS IN 1995 IRE</b>	<b>PAYMENTS IN 1996 IRE</b>	<b>PAYMENTS IN 1997 IRE</b>	<b>PAYMENTS IN 1998 IRE</b>	<b>PAYMENTS IN 1999 IRE</b>	<b>PAYMENTS IN 2000 IRE</b>	<b>PAYMENTS TOTAL IRE</b>
<b>Total</b>									

Please give name, telephone, fax number and the official address of the person to be contacted for any further information on the data given above

I indicate in this column the total forecast eligible expenditure as foreseen in the financial plan in force at the date of certification with respect to ERDF-cofinanced measures.

Eligible expenditure: eligible expenditure or total eligible costs (following the Decision or Article 17 (2) of the Coordination Regulation (EEC)4253/88 as modified by Regulation (EEC)2083/93)

Eligible public expenditure: expenditure of Community contribution (ERDF) and expenditure of national matching funding eligible for ERDF cofinancing

Total eligible costs: eligible expenditure and eligible private expenditure.

It is confirmed that documentation on a project basis, certifying the eligibility for EU co-financing of the expenditure declared since the previous report to the Department of Finance, is held in this Department and is available for inspection

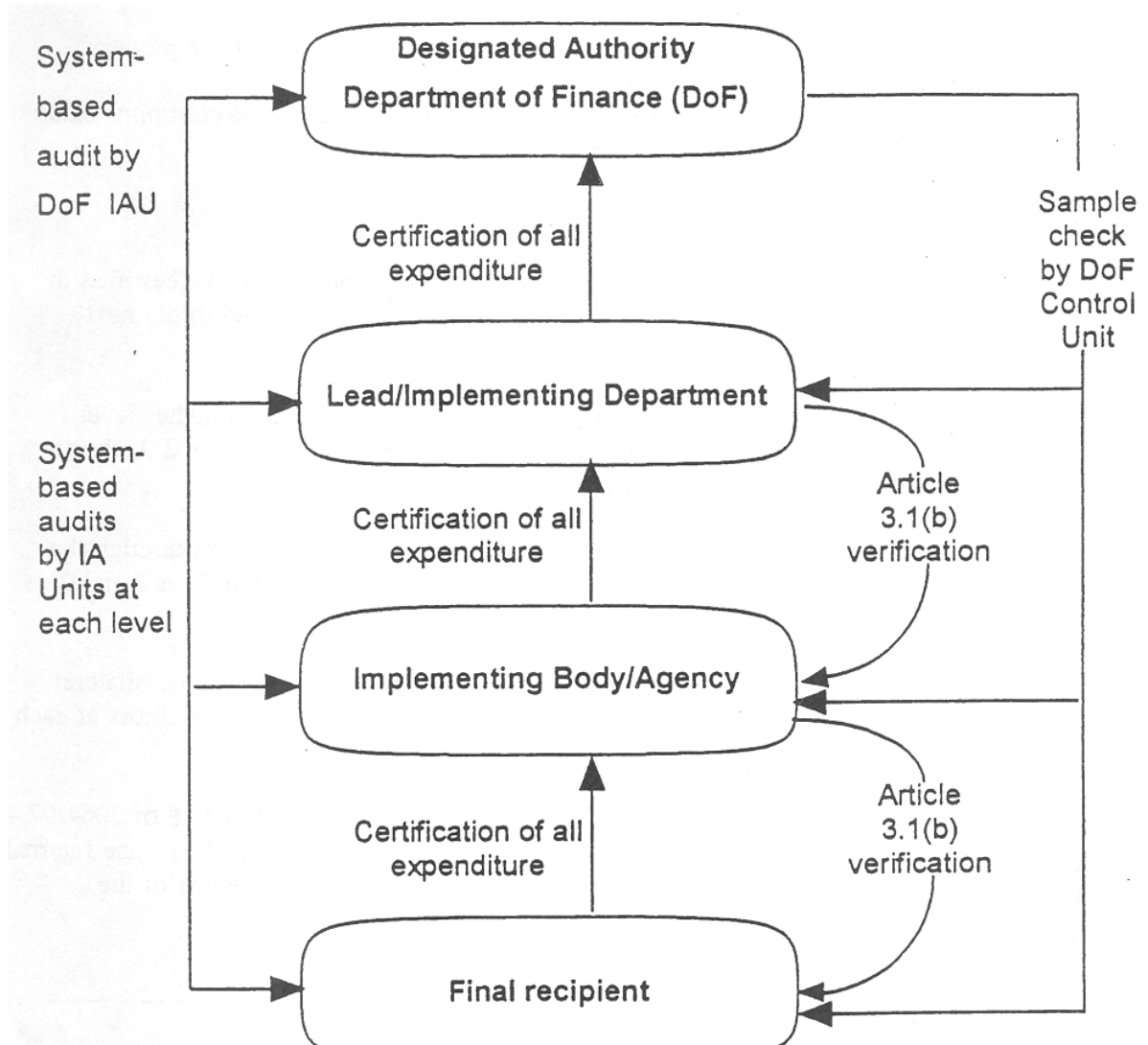
Certified by \_\_\_\_\_ Implementing Date \_\_\_\_\_ Date \_\_\_\_\_

Certified by \_\_\_\_\_ Lead Dept. \_\_\_\_\_ Date \_\_\_\_\_

**APPENDIX 1**

**Proposed ERDF financial controls in Ireland**

Structure of financial controls to comply with Commission Regulation 2064/97  
-Article 3.1(a) & 3.1(b) – and the Protocol on Internal Audit (IA) co-operation



Article 3.1(a)  
Controls  
See also the notes overleaf

## **NOTES TO APPENDIX 1**

Article 3.1 of Commission Regulation 2064/97 states

*Member States shall organise controls of projects or actions (hereinafter referred to as controls) on an appropriate sampling basis, designed in particular to:*

- a) verify the effectiveness of the management and control systems in place;*
- b) verify selectively, on the basis of risk analysis, expenditure declarations made at the various levels concerned.*

The following control procedures are illustrated in the diagram.

1. All expenditure reported for EU financial recoupment purposes must be certified in accordance with the standard Form B format before being forwarded to the next, higher implementation/administration level.
2. Article 3. 1 (b): A sample of the Form B certificates received at each higher level should be verified, and a Form C report should be sent to the Designated Authority (Department of Finance, Structural Fund Division).
3. The Department of Finance Control Unit will carry out random checks through the system to assure the Designated Authority that the interlocking controls at 1 and 2 are operating satisfactorily.
4. Article 3. 1(a): Systems-based audits, co-ordinated with DG XX under the bilateral administrative arrangements, will be carried out by the local Internal Auditors at each level.

The final control on closure of each form of assistance, as required by Article 8 of 2064/97 -which is not shown in the diagram - will be completed by the Department of Finance Internal Audit Unit, based on the audits at 4 above, carried out throughout, the lifetime of the Programme.