



## **Working Group on Audit Manuals and Methods**

Workshop on the Auditing EU Structural and Cohesion Funds  
Budapest, Hungary: September 28-30, 2005  
SIGMA, the ECA and the Hungarian State Audit Office (HSAO)

### **Workshop Summary Report**

#### **Introduction**

Although the European Union (EU) is one of the richest parts of the world, there are striking internal disparities of income and opportunity between its regions. The entry of 10 new Member States in May 2004, whose incomes are well below the EU average, has widened these gaps.

The purpose of the Structural and Cohesion Funds is to contribute to the overall harmonious development of the EU. The funds aim to strengthen economic and social cohesion in the EU by reducing disparities between the levels of development in the various regions. Their pre-accession equivalents have a similar purpose in respect of candidate countries, as well as preparing those countries for handling Structural and Cohesion Fund monies when they become Member States.

The European Commission's latest proposals for the regional and cohesion policy instruments for the new programming period from 2007 to 2013 envisage spending of some €336 billion,

which would exceed one third of the total EU budget.

#### **The workshop - who and why?**

Representatives of the SAIs from the new Member States (MS) and Candidate Countries, along with Albania and FYROM, met in Hungary for three days to discuss and exchange experiences on the subject of auditing EU Structural and Cohesion funds.

Given the nature of the topic and the variety of countries with regard to their experiences of auditing such funds, the subject was going to be of interest in different ways for the participants:

- new MS who were starting to implement the Structural and Cohesion Funds;
- new MS with varying experience of their pre-accession equivalents;
- Candidate Countries with and without experience of pre-accession instruments;
- other countries with little or no experience of auditing such funds,

but who could expect to be involved in this area in the future.

Given the differing backgrounds of the participants in terms of experience in auditing EU Funds, a special emphasis was placed on discussing good practices when first building up a capacity and capability for the audit of such funds, whether in the context of a Candidate Country or a new Member State.

The presentations, from the European Commission (DG Regio) and the ECA, and old and new MS, were intended to facilitate an exchange of knowledge and practical experiences of current practices and standards for such audits. And, despite the differences in backgrounds, a large number of common points emerged during discussions.

- **Significant management and control weaknesses**

There was a general consensus that implementation in the new Member States or Candidate Countries of the Structural and Cohesion Funds (or their pre-accession equivalents) under the regulations currently in force faces a number of important potential management and control weaknesses. These include notably:

- generally poor understanding of what were perceived to be too complex regulations (at both EU and national level), compounded by poor or lacking written procedures;
- often incomplete or uncoordinated information systems;
- lack of an adequate audit trail;
- insufficient checks, particularly on the concrete progress of projects on the ground;
- interlinked human resource problems, including high workload, low motivation, high

turnover, lack of experience and inadequate training;

- inadequate communication between the many bodies involved.

Such weaknesses, according to the experience of both the Commission and the ECA in the “old” Member States, have led to significant cases of ineligible expenditure, failure to respect procurement rules, etc. In some cases these have led to significant amounts of EU funds being repaid by Member States to the EU budget.

*Many corrective measures were proposed, of which the most common were:*

- *establishing **good written procedures and guidance**, particularly on the detection and treatment of irregularities;*
- ***better training** of staff on the applicable regulations and procedures;*
- *taking specific measures to **motivate staff**, and manage and supervise their work;*
- ***increasing the level of on the spot checks** on the reality of project implementation;*
- ***better analysis of errors and analysis of why existing costly extensive checks are not working;***
- ***improving communications** between the bodies involved.*

- **Structural problems**

There was a general perception that the Structural and Cohesion Funds suffered from excessive bureaucracy and complexity, sometimes at EU level and sometimes at national level, to the extent that the take-up of such funds at national or regional level can be inhibited. There was a need for **simplification**. Some of the most important problems indicated were:

- too many Funds with apparently overlapping objectives, each with its set of complex rules;
- too many bodies involved, at both EU and national levels, together with a lack of clarity concerning their respective roles;
- a tendency to focus on eligibility of expenditure (with complex rules) rather than achieving objectives;
- the lack of a properly integrated control system.

- **The way forward**

The Commission's proposals of July 2004 for somewhat simplified and more integrated regional and cohesion policy instruments were touched on in the context of the ECA's opinion on those proposals.<sup>2</sup> These proposals, which would give more responsibility to Member States for the management of Structural Funds and would largely substitute national eligibility rules for detailed EU rules at an operational level, were generally welcomed. However, views were expressed that the proposals were not radical enough in terms of simplification, and doubts were expressed about the adequacy of the accountability towards the EU.

Views differed considerably on the level of supervision which the Commission, the EU institution with final responsibility for the implementation of the EU budget, needed to exert over the actions of the Member States. However, there was considerable support for a properly integrated control system of the kind advocated by the ECA in its "single audit" opinion.<sup>3</sup>

*Some of the ideas put forward with a view to achieving further simplification included:*

- *a single Structural Fund, focussed on the primary objective of reducing*

*the disparities between the levels of development of the various EU regions;*

- *fixing of **specific objectives for each country and/or region**, consistent with the financial resources and administrative capacity available;*
- ***fewer bodies** to be involved in management and control at both EU (one DG only) and national levels, and communication and coordination to be improved between those that are involved;*
- ***clear division of roles** between Member States and the Commission, with the latter doing whatever is necessary to ensure high-level monitoring and evaluation accountability towards the EU;*
- ***fewer, simpler rules** to be applied to the use of EU funds;*
- *the principle of "**single audit**" to be applied wherever possible.*

*Some proposals went as far as advocating the replacement of specially defined EU programmes and projects by specified EU-supported spending targets within national budgets, linked to the monitored achievement of defined measurable objectives throughout the programming period concerned.*

- **Challenges faced by SAIs**

It is clear that, from a practical point of view, many SAIs face problems in carrying out audits of expenditure supported by the EU Structural and Cohesion Funds or their pre-accession equivalents. It involves dealing with a new subject area and having to become familiar with detailed and often complicated legislation. A lack of resources within the SAI often further complicates the task. Nevertheless, it is precisely in the situation where a country is learning to avail of new sources of funding in the manner most beneficial to

its people that the SAI can play a significant role in exerting a positive influence.

- **Developing the capability of SAIs to audit Structural and Cohesion Funds**

It was generally recognised that auditors would benefit from further training specific to the audit of EU funds, but also that sharing information between SAIs facing similar problems is a simple yet effective aid to auditors.

Bringing together people on the same subject, even with different needs, and allowing auditors to learn more about what was happening in other countries (as was done in this workshop), highlighted the value and importance of cooperation. It was recognised that experience in auditing pre-accession instruments is good preparation for the audit of Structural and Cohesion Funds by a Member State SAI.

- *In addition to SAIs exchanging information (such as reports, manuals, checklists, etc.), and building upon individual contacts created during this workshop, it was specifically proposed that an **Internet forum/discussion point** should be set up for exchanging information between SAIs on how to deal with practical problems arising from audits related to EU Structural and Cohesion Funds.*
- *New Member State SAIs who were not already members of the Contact Committee's Working Group on Structural Funds, which is currently carrying out a parallel audit on "The processes in place for identifying, reporting and following up on irregularities", are invited to make contact with the Working Group (chaired by the German SAI) if they*

*wish to participate as **observers in its meetings.***

- *SAIs could do more to harmonise audit standards between themselves, and promote the idea of greater reliance by the EU institutions on the work of audit bodies in the Member States, including themselves (in accordance with international standards on this subject (IFAC ISA 600).*

- **What SAIs can do to contribute to optimising the use of EU Structural and Cohesion Funds**

SAIs in new Member States are in a prime position to promote the good use of EU Structural and Cohesion Funds at a time when their use is at an early stage. It seems that the SAIs in these countries are keen to do audits in this field, and can profit from the experience of those countries among the "old" Member States, such as the Netherlands, who have an established tradition of doing so. Traditional audits of the regularity of the expenditure concerned will be an important contribution in detecting cases of ineligible expenditure etc. However, other types of audits can be more productive in encouraging early improvement in weak practices and procedures which could help to avoid problems arising in the first place. The main options would be the following:

- ***Preventive audits** of the preparation for, and/or the early implementation of, Structural and Cohesion Funds, such as have been carried out, for instance, by the Polish SAI. Such audits tend to focus on the adequacy of the systems set up and of the administrative resources provided for the implementation of the funds.*

- **Performance audits** focussing on the effectiveness of EU Structural and Cohesion Funds expenditure in achieving objectives which are capable of contributing to the overall purpose of the funds, namely reducing disparities in development between regions. Such audits can legitimately raise questions concerning the appropriateness and efficiency of the instruments chosen by the EU. SAIs should not hesitate to advocate radical solutions where they consider them appropriate, and communicate such ideas to their national representatives in EU legislative bodies. However, performance audits may well require specialist expertise which SAIs do not have, and the setting up of the audit requires in particular the defining of objectives and indicators for measuring the effectiveness of the programmes concerned.

## Conclusions

SAIs may best contribute to better management and effectiveness of EU funds by auditing them.

It is the important job of external auditors, in this field as in others, to determine

whether managers are not just making sure that money has been spent, but also that the money has been spent properly and effectively.

For auditors facing the subject for the first time, such a task can seem especially daunting. The EU regulations governing this field, and the “sharing” of management between the European Commission and the Member States, are complicated matters for most people. The ECA, with its long experience of auditing EU funds, has highlighted potential problems arising from the Commission’s latest proposals to modify the Structural Funds regime.

As SAIs become more familiar with the subject and gain more experience of the implementation of these funds on the ground in Member States, they will surely produce audit results which can be put to good use in the interests of national and EU taxpayers alike.

Improved communication and greater co-operation between SAIs and the EU institutions, and between each other, can contribute to this objective. Ways and means of achieving this, whilst maintaining ‘independence’ in a practical way, should be developed.

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<sup>1</sup> [www.oecd.org/gov/sigma](http://www.oecd.org/gov/sigma) **Support for Improvement in Governance and Management.** A joint initiative of the OECD and the European Union, principally financed by the EU.

<sup>2</sup> [http://www.eca.eu.int/audit\\_reports/opinions/docs/2005/05\\_02en.pdf](http://www.eca.eu.int/audit_reports/opinions/docs/2005/05_02en.pdf)

<sup>3</sup> [http://www.eca.eu.int/audit\\_reports/opinions/docs/2005/04\\_02en.pdf](http://www.eca.eu.int/audit_reports/opinions/docs/2005/04_02en.pdf)