

## HIGH LEVEL GROUP REFLECTING ON FUTURE COHESION POLICY

MEETING NO. 5 - 7<sup>TH</sup> + 8<sup>TH</sup> JUNE 2010

VENUE: EUROPEAN COMMISSION, LORD JENKINS ROOM

ASSURANCE MODEL AND FINANCIAL MANAGEMENT

### INTRODUCTION

The assurance model and financial management systems of Cohesion policy were discussed in the High Level Group meeting held in March 2010. Experts gave their reactions to the ideas set out in a Commission document and have in particular noted:

- the need to tackle the underlying causes of high error rates i.e. the complexity of rules (including those imposed by other EU policies) and the loss of audit trail;
- the limited capacity of (additional) ex-post controls and ex-post reporting to boost assurance;
- the need take into account time and resource constraints on the ground and to ensure that requirements established are realistic;
- the potential of differentiated (proportional) arrangements in increasing the efficiency of management.

Following the discussion held in March 2010 the Commission has further elaborated potential options for discussion in regard to the future arrangements in the area of assurance and financial management. The options have been outlined in comparison with arrangements of 2007-2013 highlighting changes as well as benefits and drawbacks.

### 1. MANAGEMENT AND CONTROL STRUCTURE

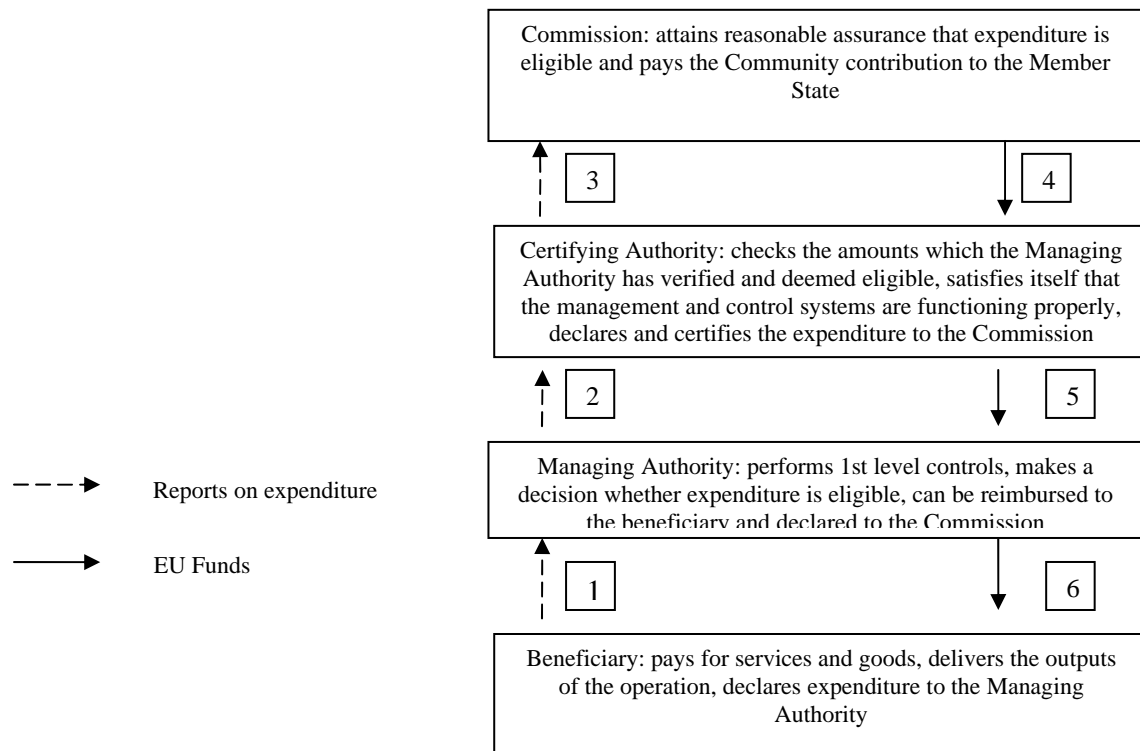
Arrangements in 2007-2013	Alternative	Explanation
<p>National management and control systems include three actors:</p> <p><b>Managing authority</b>, which is (among other tasks) responsible for ensuring compliance of operations co-financed with applicable rules, for 1<sup>st</sup> level controls (administrative and on the spot verifications), and (possibly) making payments to beneficiaries.</p> <p><b>Certifying authority</b>, which scrutinizes the functioning of the Managing Authority and checks expenditure independently prior to certifying it to the Commission.</p>	<p>Switching to a two-layer control system by:</p> <ol style="list-style-type: none"><li>1. Appointing a single payment and control authority for each programme. This authority would be responsible for the checks on regularity of expenditure, the submission of claims to the Commission, and the payment of the EU contribution to beneficiaries.</li><li>2. Retaining the audit authority and its main functions as an independent audit body.</li></ol>	<p>A two-layer control system would:</p> <ul style="list-style-type: none"><li>• strengthen accountability by assigning responsibility for financial management and control to one authority;</li><li>• cut the number of control layers potentially reducing the national administrative burden and the control burden of beneficiaries.</li></ul> <p>The single payment and control authority would be designated and accredited at national/regional level. The Member State would have flexibility in determining the</p>

<p><b>Audit authority</b>, independent audit body which provides the Commission with an annual opinion on the effective functioning of the national systems so as to give assurance on the legality and regularity of expenditure.</p> <p>Functions of MA and CA can be delegated to intermediate bodies.</p>	<p>Functions of payment and control authority could still be delegated to intermediate bodies.</p> <p>The present managing authorities could continue to carry out other tasks of programme implementation.</p>	<p>appropriate body. It could be part of an existing Managing Authority, a Certifying Authority, a merger of the two, or a new institution.</p>
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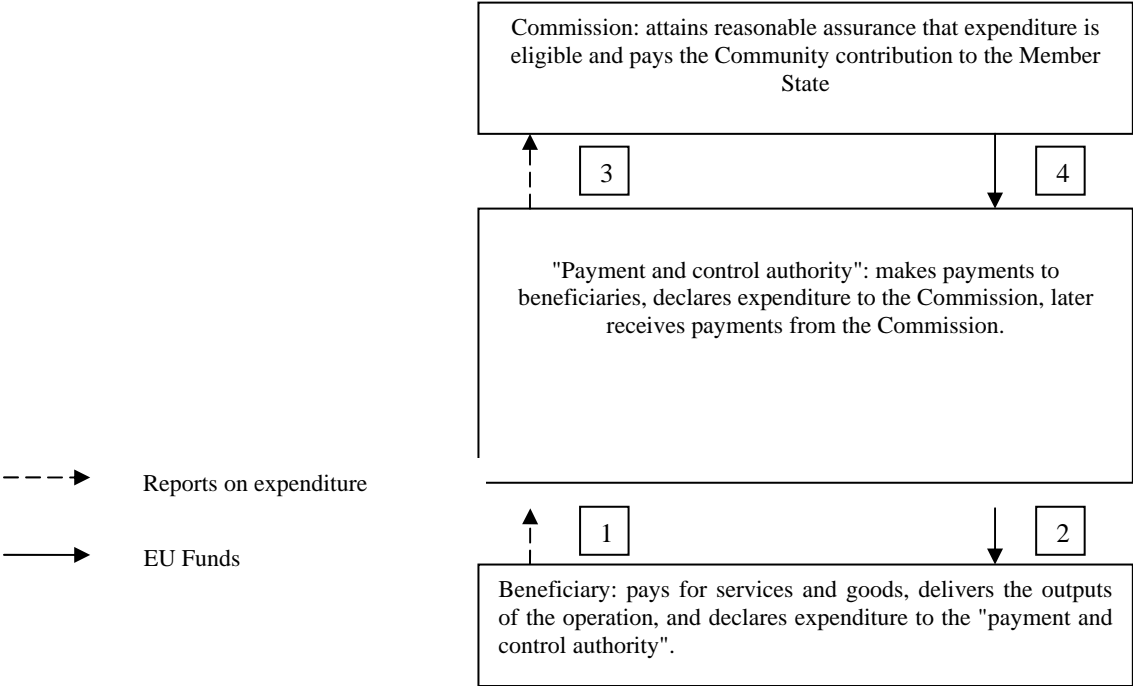
## 2. FINANCIAL FLOWS

Arrangements in 2007-2013	Alternative	Explanation
<p>Payments by the Commission are made on the basis of expenditure incurred at the level of beneficiaries. National authorities do not necessarily have to reimburse the public contribution (including EU funds) to beneficiaries prior to certifying the expenditure to the Commission.</p> <p>The EU reimbursement is based on either public contribution only or on total eligible expenditure depending on the option selected by the Member State.</p>	<p>Payments by the Commission would be made on the basis of expenditure incurred at the level of beneficiaries for which the "payment and control authority" has paid the corresponding EU contribution.</p> <p>The option of total eligible expenditure (including private contribution) could be removed.</p>	<p>This option would give increased assurance on the completion of controls prior to submission of expenditure claims to the Commission and ensure that beneficiaries are paid as soon as possible.</p> <p>The adjustment would be simple, as many Member States already use this approach in 2007-2013.</p> <p>A possible drawback is a decreased liquidity of Member States as all expenditure has to be pre-financed. However this can be offset by advance payments by the Commission as in 2007-2013.</p> <p>The arrangement can be applied regardless of whether the Community contribution is calculated from eligible total cost (incl. the private contribution) or only eligible public cost.</p>

## ILLUSTRATION OF THE PAYMENT PROCESS IN 2007-2013



**ILLUSTRATION OF THE ALTERNATIVE PAYMENT PROCESS**



### 3. EX-ANTE ASSESSMENT OF MANAGEMENT AND CONTROL SYSTEMS

Arrangements in 2007-2013	Alternative	Explanation
<p>Member States are required to submit an audit strategy for ex-ante validation by the Commission.</p> <p>Management and control systems need to be described at the beginning of the programming period by the national authorities and are subject to a compliance assessment by an independent audit body. The compliance assessment process is subject to review and validation by the Commission.</p> <p>Validation by the Commission is a precondition for the commencement of interim payments.</p>	<p>No ex-ante validation of the audit strategy by the Commission.</p> <p>A national accreditation of the "payment and control body" on the basis of an independent audit. Accreditation criteria laid down in EU regulations.</p> <p>Commencement of interim payments following national accreditation.</p> <p>A review by the Commission of the accreditation process except:</p> <ul style="list-style-type: none"> <li>• for programmes in which the Community contribution is limited in volume;</li> <li>• in cases where there are no significant changes to the systems and where evidence from the 2007-2013 on the functioning of the systems and reliability of the audit authority is positive.</li> </ul>	<p>This approach would allow the adjustment of complexity of procedures to risks involved.</p> <p>It would reduce administrative hurdles for programmes where the Community contribution is modest or which have a record of consistent good management.</p> <p>There would also be a further incentive for, and formal recognition of, good management.</p>

#### 4. CERTIFICATION AND ANNUAL ASSURANCE

Arrangements in 2007-2013	Alternative	Explanation
<p>Expenditure is certified (by the Certifying Authority) with every payment claim to the Commission, several times a year.</p> <p>Annual assurance is based mainly on the annual audit opinion on the functioning of the system provided by the Audit Authority by the end of the calendar year based on audit work carried out from July of the previous year to June of the same year.</p> <p>The audit opinion is based on audits of management and control systems and project audits (random sample).</p>	<p>The "payment and control authority" would declare expenditure several times (at least twice) a year and payments would be made on provisional basis. Expenditure would however be "certified" only on an annual basis for a financial year ending on 15<sup>th</sup> October.</p> <p>Certification would entail:</p> <ul style="list-style-type: none"> <li>• submission of annual accounts of the payment and control authority (consolidated data on declared expenditure, correcting interim declarations if necessary, and on payments of EU contribution);</li> <li>• submission of a management declaration on the reliability of management and control systems and the legality and regularity of expenditure;</li> <li>• an independent audit opinion by the audit authority which covers the accuracy of the accounts and the reliability of the management declaration.</li> </ul> <p>The deadline for the documents would be 1<sup>st</sup> February of the following year. The Commission would formulate a position on the basis of its examination of the documents within two months (by the end of March) as regards its acceptance of the accuracy and reliability of the accounts and the management declaration.</p> <p>This would constitute the "clearance of accounts".</p>	<p>The option of a single annual management declaration would reduce the frequency of certification/reporting by Member States/regions. There would be also no further need for separate annual summaries, as this information could be included in the annual reporting of the "payment and control authority" and audit authority.</p> <p>Audit methods would need to be adjusted to deal with the additional element of annual accounts, but for the main parts the audit approach could be maintained as it is.</p> <p>Audit authorities could spread most of the audit work necessary throughout the financial year; however some elements (accounts) could be audited only after 15<sup>th</sup> October. Thus deadlines would be reasonably tight both for the national authorities and the Commission.</p> <p>One of the main advantages of the changed timetable would be to link the annual assurance from the national authorities more explicitly with the expenditure of the financial year covered by the annual activity report and budget discharge process.</p>

## 5. CLEARANCE AND CLOSURE

Arrangements in 2007-2013	Alternative	Explanation
<p>Closure of programmes takes place as a single exercise 15 months after the end of the programming period (which in reality lasts 9 years).</p> <p>Earlier partial closure is possible, but not mandatory.</p> <p>Supporting documents need to be retained until 3 years after the closure of the programme (settling of the final balance). This means that for many operations the retention period is 10-15 years.</p> <p>Until the final statement of expenditure is submitted for programme closure, expenditure declared can be withdrawn and replaced (in case of irregularities for example).</p> <p>Generally financial corrections made by the national authorities before the closure of programmes are not net corrections and funds can be reused.</p>	<p>Operations finalised during the previous financial year could be closed within the regular process of annual clearance of accounts on a rolling basis.</p> <p>This would mean that any operation finalised during a given financial year, would be closed (following Commission acceptance of the accounts) in the following year.</p> <p>Supporting documents would need to be retained for 3 years after the closure. The Commission (and European Court of Auditors) could audit the operation and related expenditure during the 3 years but not later.</p> <p>Financial corrections by the Commission after the closure of operations would be net corrections.</p>	<p>This option could significantly cut the retention period for supporting documents and the time period in which any one operation can be audited.</p> <p>Thus it has the potential to reduce the error rate (due to the loss of audit trail over extended periods of time) and introduce more certainty through reducing the period of jeopardy for audits and corrections.</p> <p>As closure would take place on rolling basis, the work load specifically associated with closure of operations would be lower and spread across the programming period.</p> <p>This option would reduce the period of flexibility of Member States to replace expenditure. National authorities would be encouraged to complete thorough checks before and immediately after operations are finalised in order to reduce the risk of net corrections.</p>

## 6. ELIGIBILITY

Arrangements in 2007-2013	Alternative	Explanation
<p>Eligibility requirements across different EU policies can vary greatly. Beneficiaries receiving support from multiple sources have to adjust to different sets of rules.</p>	<p>Common rules for key points such as VAT and overheads covering cohesion policy, rural development, fisheries instruments, and RTD framework programmes could be introduced.</p>	<p>Establishing a common approach to key common areas of eligibility would add coherence to EU interventions. Beneficiaries of multiple funds would not need to adopt different approaches depending on the financing source.</p>
<p>Simplified costs (flat rates for indirect costs, standardized scales of unit costs and lump sums) can be used, however they must always be based on a fair, equitable and verifiable calculation, and there are limits fixed.</p>	<p>EU legislation could lay down a fixed proportion of indirect costs which can be accepted without the need for any supporting methodology based on analysis of historic data on real costs. For standard rate unit costs, Cohesion Policy legislation could expressly allow the use of rates defined in other EU programmes (e.g. education, research), without the need to justify the use of such rates by a detailed methodology.</p>	<p>Providing for a set rate for indirect costs at EU level would spare the national authorities transaction costs related to the development of simplified cost methodologies, and provide legal certainty. This could be particularly beneficial for ETC programmes.</p> <p>Explicit acceptance of unit costs established for other EU instruments would reduce the time and cost related to the development of underlying methodologies. It would also enhance the coherence of EU intervention.</p>
<p>Co-financing is conditional on compliance with all detailed provisions of other EU policies such as rules regulating public procurement, environment, and equal opportunities.</p>	<p>Specific key elements of other EU policies could be identified and compliance with these would remain a condition for financing. However control arrangements would not extend to all legal provisions, but to those where violations have the greatest (harmful) impact on competition, environment, equal opportunities etc.</p>	<p>Focusing on key elements of other EU policies would enhance legal certainty and limit costs of control while addressing the most significant areas of compliance and the most substantial risks to the EU budget.</p>