



WEST MIDLANDS ERDF LOCAL MANAGEMENT COMMITTEE 2007-13

September 2012

Item 7: Audit and Monitoring

Objective

- i. To report current level of notified irregularities and actions being taken to support compliance and reduce risk of future irregularities.

Recommendation(s)

I The LMC note the level of irregularities and continuing issues of compliance

1. Background

- 1.1 It is the responsibility of the Local Management Committee to monitor the operational programme for compliance. Where a programme's irregularity rate exceeds 2% of declared expenditure, the European Commission has the powers to interrupt payments and potentially fine the programme.

2. Programme Status

- 2.1 Overall the Article 13 team has undertaken 110 visits against contracted number of 139 projects. Total expenditure checked to date is £28.5 million. A number of these projects have been recently contracted and therefore, Article 13 visits will be scheduled at a later date when expenditure has been claimed. The overall error rate detected by the Article 13 has been 1.18% excluding Moore Stephen's findings.
- 2.2 The West Midlands was chosen for a recent test of the new national article 13 standard process by the EU auditors. The auditors were very happy with the implementation of the new procedures and made some helpful suggestions for improvement.
- 2.3 It has been previously reported that there is a fundamental disagreement with the national Art 16 auditors with respect to a significant project. An impasse has been reached and we are still awaiting an arbitration panel to resolve this. The principle issues relate to procurement and recognition of match funding.
- 2.4 As it has been previously reported, only irregularities found by the national Article 16 or EU auditors count towards the programme error rate. Article 16 auditors have undertaken 17 visits this year and 15 draft reports have so far been received. On initial findings 7 of them have error rates above 2%. Whereas it is expected that most of the initial issues will be resolved, two of the biggest audits relate to Business Link projects. The issues which centre around procurement procedures and general audit trails are difficult to address now that the organisation has closed. The team are working with BIS to try and recover missing information from archive and piece together gaps in audit trails. However, the risk remains that an overall error rate of above 2% may result.
- 2.5 Additional difficulties are caused because of the lack of response from some applicants to requests for information for which there is prescribed deadline. Outstanding audit issues must be resolved within 3 months of the report being issue or they may be automatically considered an irregularity and the Commission may order clawback to take place.





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3. Additional control activity

- 3.1 The team have been working with the national groups to go through snagging issues with the new national project engagement and project verification processes. A number of amendment are currently being worked through.
- 3.2 It has become clear that the Commission requires a much more detailed and extensive test of procurement which can extend as far as the pre-project procurement of framework contracts. Additional training has been procured for the national Art 13 teams and is now due to take place in October.
- 3.3 Additional capacity building events will take place in the Winter covering preparing for audit.

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