

## **WEST MIDLANDS ERDF LOCAL MANAGEMENT SUB-COMMITTEE 2007-13**

**Wednesday 11 January 2012**

### **Item 3: Irregularities 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 sub group 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.

The programme is monitored via two national mechanisms, the internal Article 13 team and the external Article 16 team which represent the Audit Authority. Irregularities arising from the Article 13 team inspections must be corrected, but are considered to be part of programme management. Only irregularities identified by the Article 16 audits count towards the 2% irregularity limit. Corrections may also arise due to issues identified during EU audit inspections.

#### **2. Programme Status**

- 2.1 Overall the Article 13 team has undertaken 91 visits to the 117 contracted projects. The overall error rate detected has been 1.3%
- 2.2 A number of audits have been under taken by the Article 16 Audit Authority. This has resulted in some fundamental disagreements on principles which have had to be taken to adjudication. Most of these issues have been cleared, but unfortunately, the process proved so lengthy that a number of disputed items had to be included in the Annual Control Report to the Commission, appearing to show that the overall error rate for the year was 5.2%. It is believed that the outstanding issues can be resolved and will result in the error rate being down graded to 2% for the year. The overall programme error rate remains well below the 2% limit.
- 2.3 Following the interruption of payments to 6 of the English programmes, DCLG agreed to fund additional enhanced Article 13 audits which were undertaken by Moore Stephens in order to provide additional assurance to the Commission. Final reports for the West Midlands have not yet been received, information from the draft reports indicate an overall error rate of 2.7% largely relating to the same procurement error across two different projects operated by WM Business Link. Without this error the sample would have been well below 1%. DCLG is currently considering whether to extend the sample to further projects.

- 2.4 The greatest area for error remains procurement, both within the programme and nationally. It represents 42% of all errors found but accounts for 75% of all expenditure recovered.

### **3. Additional control activity**

- 3.1 During the last quarter the Article 13 team has concentrated on the development of a new national Financial Engineering Instrument (FEI) audit template and testing it on the FEIs within the programme. The new template has been trialed across the 5 CDFIs and 4 Venture Capital Funds with most of the audits requiring further information for completion. The format has required some amendments but is expected to be ready for full circulation shortly. The actual tests have revealed mainly procedural errors.
- 3.2 The Article 13 team has also been extremely active in the development of the national standard Article 13 template and the enhanced template used for the external audits by Moores Stephens.
- 3.3 They expect to be involved in the roll of the new standardized procedures during the spring period.

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