

## **Report on the audit of EU Regional Fund projects focused on the environment and environmentally friendly energy**





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the environment and environmentally friendly energy**

**Introduction**

1. This report concerns a coordinated audit performed by National Audit Office of Denmark (Rigsrevisionen) and the Gdansk Regional Branch of the Supreme Audit Office of the Republic of Poland (NIK) on the EU Regional Funds projects focused on the environment and environmentally friendly energy for the programme period 2007-2013.
2. The report contains information about programmes co-financed by the European Regional Development Fund (ERDF) including their administration, control follow-up, and how they are organised in Denmark and the Pomorskie Voivodship (region). The report is based on information gathered from national audits, the internet and other open sources.
3. In February 2010, Rigsrevisionen and the NIK engaged in a coordinated audit of environmental projects accepted to receive grants from the ERDF. The objective of the cooperation was for both Supreme Audit Institutions (SAIs) to gain comparable knowledge about the regional fund and find out whether administration and management of regional fund projects focused on the environment and environmentally friendly energy were adequate in the two countries. This was done on the basis of samples from environmental projects accepted to receive grants from the ERDF in the period 2007-2009.
4. Furthermore, the purpose of conducting the audit as a coordinated audit was to identify examples of 'good practice' on the basis of the audit findings to the benefit of both SAIs and the administrations in the two countries.
5. Rigsrevisionen and the NIK have each performed the audit relating to Denmark and the Pomorskie Voivodship, respectively. These audits have been reported separately to the administrations in the two countries.
6. On the basis of these reports, this joint report with examples of "good practice" has been drawn up. The results of the Danish audit, the conclusions of the joint audit and the examples of 'good practice' will form part of Rigsrevisionen's report to the Danish parliament on the audit of EU funds for 2009 while the findings of the Polish audit were included in the information on the audit results published by the NIK.

7. This report includes the findings of the Danish and the Pomorskie Voivodship audit. The report is structured as follows:

- Introduction
- Chapter I. Main findings and conclusion
- Chapter II. Focus areas
- Chapter III. Budget allocation in the programme period, commitments and expenditure 2007-2009
- Chapter IV. Administrative planning
- Chapter V. Environmental assessments of the regional fund programme
- Chapter VI. Environmental indicators for the regional fund programme
- Chapter VII. Project audits.

#### **Methods applied in the co-ordinated audit**

8. The President of the NIK and the Auditor General of Rigsrevisionen signed an agreement in February 2010 on the coordinated audit. In the agreement it was established, that the audit performed within the coordinated audit would be based on INTOSAI auditing standards, and the national auditing standards and guidelines of the two SAIs.

9. The audit consisted of financial, compliance and performance audits. Furthermore, and to be specific on the scope and the methods of the audit, the SAIs agreed to apply the same audit criteria to facilitate international comparisons. For that purpose two appendixes were agreed upon at a meeting in Gdansk in the beginning of February 2010. Those two appendixes were part of the agreement on the cooperation signed in February 2010. Appendix 1 consisted of a list of background information on the Regional Fund Programmes focused on the environment and environmentally friendly energy in Denmark and the Pomorskie Voivodship. This list served as a check-list during the two audits to make sure that the correct questions were asked and answered. The final audit criteria were provided in appendix 2: "Audit of selected environmental and renewable energy projects". The audit was carried out on the basis of samples from environmental projects accepted to receive grants from the ERDF in the period 2007-2009.

10. To support the intentions of the cooperation, it was decided to have several meetings to discuss and clarify issues emerging during the audit period. The two audit teams met four times during the cooperation – two times in Copenhagen and two times in Gdansk. These meetings have been beneficial to the final result of the audit.

#### **I. Main findings and conclusions**

##### **Focus areas**

11. The regional competitiveness and employment objective of the ERDF is operating with three main priorities:

1. Innovation and the knowledge economy
2. Environment and risk prevention
3. Access to transport and telecommunication services of general economic interest.

12. Efforts in Denmark are focused on the first of the three priorities of the ERDF, namely "Innovation and the knowledge economy". Funds have not been provided directly for the priority "Environment and risk prevention". Environmental considerations are included as cross-cutting considerations to be taken into account in the project assessment.

13. Pomorskie Regional Operational Programme (ROP) reflects the ERDF's convergence objective. One of the priorities under this ERDF objective is addressing the environment.

The audit in the Pomorskie Voivodship concerns two of 10 priority axes included in ROP. The focus of these two priority axes is on the environmental considerations.

#### **Budget allocation in the programme period, commitments and expenditure 2007-2009**

14. Three years after the start of the programming period in Denmark, commitments were made for just under half the budget allocation. However, in several regions the number of commitments made was low compared to the budget allocation announced.

Commitments for the Pomorskie Voivodship were also made for just under half of the budget allocation while for Poland as a whole it was 30%.

15. Rigsrevisionen has established that disbursements in Denmark in 2009 were 8% which is considered low viewed in the light of the annual budget allocation of 14%.

For the Pomorskie Voivodship disbursements up to the end of 2009 amounted to 10% of the total budget allocation while for Poland as a whole it was 8%.

16. The EU Commission's n+2 rule imposes heavy demands on the management of commitments to ensure compliance with the n+2 rule while ensuring that disbursements do not exceed the limit of the budget allocation. The audits performed in both countries have shown common difficulties in meeting this demand. In Poland, the problem was partly linked to the delayed implementation of the European environmental legislation, while the problem in Denmark was caused by a close to 12 months' delay in starting-up the programme and the administrative procedures related to considering the first applications.

17. The difficulties experienced in Poland and Denmark with respect to complying with the n+ 2 rule seem to reflect a general problem in the EU. As a consequence, the EU has in Regulation No. 539/2010 dispensed with the original deadline for consumption of funds, and the Commission will now calculate the amount by adding one sixth of the annual budget commitment related to the 2007 total annual contribution to each of the 2008 to 2013 budget commitments.

#### **Administrative planning**

18. The growth forum secretariats and Danish Enterprise and Construction Authority DECA and the Office of the Marshall of the Pomorskie Voivodship consider applications on the basis of guidelines and checklists. In Denmark, the interim and project accounts are checked both by the auditor appointed by DECA and by DECA itself, whereas progress and final reports are checked only by DECA. The control is regulated by guidelines, etc. The administration is based on electronic processes as regards both application processing and the subsequent control via the electronic grant administration system (TAS). In the Pomorskie Voivodship, the control of interim and project accounts as well as progress and final reports are checked by the Office of the Marshall. No accounting firm is appointed to approve projects and carry out spot checks. In the Pomorskie Voivodship administration is also based on electronic processes using a national electronic system (SIMIK 2007-2013) and a local system (SZERP).

19. Rigsrevisionen finds the administrative planning satisfactory. The fact that the regional growth forums, the project auditor as well as DECA have access to the TAS system contributes to creating transparency and administrative effectiveness, which Rigsrevisionen finds very satisfactory and considers “good practice”.

20. The NIK finds it satisfactory that the ROP projects are selected by way of competition. Consultations with beneficiaries or reviews of the Pomorskie Voivodship project base precede all decisions relating to the terms of the competitions, joining competitions or prolonging competitions. It can be considered “good practice”.

### **Environmental assessments of the regional fund programme**

21. Both SAIs find it satisfactory that detailed environmental assessments were carried out in Denmark and in the Pomorskie Voivodship. Both environmental assessments concluded that the overall environmental impact of the programmes will be positive.

### **Environmental indicators for the regional fund programme**

22. In Denmark, Rigsrevisionen has established that DECA has set up a system of objectives, targets and indicators that DECA uses to monitor and report on target achievement for the EU Commission. On the basis of the environmental assessment, DECA has established four environmental indicators and an overall environmental objective. The EU Directorate-General for the Environment has approved the environmental assessment, the related environmental indicators and overall environmental objective.

23. Rigsrevisionen finds that DECA has a well developed system of objectives, targets and indicators. However, Rigsrevisionen does not find it satisfactory that DECA has failed to give a more detailed interpretation of the environmental indicators, including whether they contribute to a positive or negative environmental impact. Lack of guidance on the contents, etc., of the indicators increases the risk of incorrect information being provided.

24. Environmental indicators have also been set for the Regional Operational Programme for the Pomorskie Voivodship. This programme has been approved by the Management Board of the Pomorskie Voivodship.

25. Environmental indicators worked out for considered priority axes of the Pomorskie ROP are analysed according to their value in 2013 and 2015 (target value). For these indicators, baseline value, frequency of measurement and source of data were also specified. The administrative authority of the Pomorskie Voivodship has also set requirements for the methodology of the measurement of these indicators by beneficiaries. Achievement of the indicators is verified during the on-the-spot audit.

26. The NIK considers the Pomorskie Voivodship use of indicators “good practice”, as the detailed descriptions of the indicators enable their precise verification.

### **Project audits**

27. Rigsrevisionen finds that the grant administration in the areas examined was satisfactory and that the procedures and internal controls involved were satisfactory as well. However, in Rigsrevisionen’s opinion, DECA can strengthen the administration in certain areas. This applies to environmental objectives and indicators, progress reports, project accounts and final reports. Rigsrevisionen also finds that the performance in some areas is particu-

larly encouraging, such as the information provided in applications about objectives and the project information provided on DECA's website. DECA's use of the website is considered "good practice".

28. In spite of low utilization of ERDF the NIK also finds that the grant administration in the areas examined, procedures and internal control involved were satisfactory. The administrative authority of the Pomorskie Voivodship assessed whether the calculated consumption for the period covered by the report was reasonable in relation to the project progress. On-the-spot check included an examination of project progress, including whether the project was completed according to the contract and the indicators were achieved. The Marshall Office, however, can strengthen the information on projects presented on its website.

## **II. Focus areas**

29. The ERDF operates with seven-year programme periods and the current programme period runs from 2007 to 2013.

30. Article 5 of Regulation No. 1080/2006 of 5 July 2006 of the European Parliament and the Council on regional competitiveness and employment stipulates that aid from the ERDF must focus primarily on the following priorities:

- Innovation and the knowledge economy, for example, creating and strengthening efficient regional innovation economies that systematically underpin relations between the private and public sectors, universities and technology centres.
- Environment and risk prevention, for example by promoting energy efficiency, producing renewable energy and developing infrastructure to protect biodiversity and investments in Natura 2000 sites.
- Access to transport and telecommunication services of general economic interest, for example, strengthening secondary transport networks by improving links to TEN-T networks, regional railway hubs, etc.

31. In order to cover the expenditure related to the administration of programmes, a budget for technical assistance has been provided.

### *II.a Denmark*

32. Denmark has chosen to link its ERDF activities to the "Innovation and knowledge economy" priority and within this field concentrate on the following three focus areas:

1. Innovation, knowledge sharing and knowledge building
2. Establishment and development of new enterprises
3. Application of new technology.

33. Together with equal opportunities, employment and peripheral areas, each focus area is taking the environment into account as a cross-cutting consideration. Cross-cutting consideration means that when faced with a choice between two projects of similar quality, generally the project with the most positive cross-cutting effect must be chosen.

### *II.b The Pomorskie Voivodship*

34. The Pomorskie Voivodship has focus on ERDF's convergence objective and has chosen to link its ERDF activities to ten priority axes (including technical assistance):

1. Small and medium-sized enterprises development and innovation
2. Knowledge society
3. Urban and metropolitan functions
4. Regional transport system
5. Environment and environmental friendly energy
6. Tourism and cultural heritage
7. Health protection and emergency system
8. Local basic infrastructure
9. Local social infrastructure and civil initiatives
10. Technical assistance.

35. The environmental considerations are included in priority axes 5 and 8 (partly). The priority axis 5 supports projects of waste management, water management, environmental information management, energy from renewable sources, energy infrastructure and conservation. The priority axis 8 (partly) supports projects in local environmental protection infrastructure.

### *II.c. Conclusion*

36. The focus in Denmark is on the first of the three priorities of the ERDF (under the regional competitiveness and employment objective), namely "Innovation and the knowledge economy". Funds have not been provided directly for the priority "Environment and risk prevention". Environmental considerations are included as cross-cutting considerations to be taken into account in the project assessment. The focus in the Pomorskie Voivodship is more directly on the environmental considerations, i.e. two out of ten priority axes.

## **III. Budget allocation in the programme period, commitments and expenses 2007-2009**

37. The EU covers up to 50% of ERDF project expenses in Denmark, while in the Pomorskie Voivodeship it is from 60% to 85% (depending on the priority axes). The rest of the funding of projects must be financed by the government, local authorities, private enterprises, etc. In the following, a description is given of the EU budget allocation in the two countries.

### *III.a Denmark*

38. Table 2 specifies the EU contribution to the Danish budget allocation for the programming period 2007-2013.



Table 2. Budget allocation for the ERDF programme 2007-2013

	<b>Budget allocation EU contribution</b>
	million euro
Innovation and knowledge	245.1
Technical assistance	9.7
<b>Total</b>	<b>254.8</b>

Source: DECA's 2008 annual report on ERDF

39. According to Table 2, the budget allocation from the EU contributes approx. 255 million euro.

40. The total allocation is distributed evenly over the seven-year period (just over 14% per year).

41. DECA handles the administration of the Danish ERDF funds. DECA has delegated the selection of projects for approval or rejection to regional growth forums set up in the Capital Region of Denmark, Region Zealand, Region Southern Denmark, the Central Denmark Region, the North Denmark Region and on Bornholm (Bornholm is not a region, yet it has a forum of its own).

42. The growth forums recommend to DECA whether projects applied for should be approved or rejected. Subsequently, DECA assesses the legality of the projects and approves or rejects the project on the basis thereof.

43. Table 3 shows the distribution of funds by region in Denmark, amounts committed and amounts expressed as a percentage of the budget allocation.

Table 3. Budget allocation and amounts committed 2007-2009 by region in Denmark

<b>Region</b>	<b>Budget allocation - million euro</b>	<b>Budget allocation in %</b>	<b>Commitments - million euro</b>	<b>Commitments as a percentage of budget allocation</b>
Capital	40.4	16	16.1	40
Zealand	30.5	12	5.7	19
Southern Denmark	50.9	21	19.7	39
Central Jutland	35.9	15	18.2	51
Northern Jutland	55.9	23	40.5	73
Bornholm	7.5	3	1.6	21
Exposed pool	24.1	10	7.7	32
<b>Total</b>	<b>245.1</b>	<b>100</b>	<b>109.5</b>	<b>45</b>

Source: DECA's 2009 annual report on the ERDF

44. Table 3 shows that, with the exception of Bornholm, each region has received between 12% and 23% of the EU funds. The two largest recipients are Northern Jutland (23%) and Southern Denmark (21%). The exposed pool is a fund applied for specific annual themes decided by DECA.

45. According to table 3, commitments during the period 2007-2009 were made for approx. 109 million euro corresponding to 45% of the programme budget allocation. DECA has

stated that the administrative work associated with starting up the programme and the administrative procedures related to considering the first applications made it impossible to initiate the commitment process until the end of 2007. Consequently, all commitments were made in 2008 and 2009. In 2008, commitments totalling approx. 41.6 million euro were made, whereas in 2009, commitments amounted to approx. 67.9 million euro.

46. Table 4 specifies the budget allocation, disbursements in 2009 and disbursements expressed as a percentage of the budget allocation by region. The difference between commitments and disbursements is that in connection with multi-annual appropriations, commitments are made for the total grant and when funds are drawn from the commitment, disbursements are made (and the commitment is consequently written down).

Table 4. Budget allocation 2007-2013, disbursements 2009, disbursements 2009 as a percentage of the budget allocation 2007-2013 by region

Region	Budget allocation, million euro	Disbursements 2009, million euro	Disbursements as a percentage of budget allocation
Capital	40.4	2.6	7
Zealand	30.5	1.1	4
Southern Denmark	50.9	2.7	5
Central Jutland	35.9	3.3	9
Northern Jutland	55.9	8.7	15
Bornholm	7.5	0.5	6
Exposed pool	24.1	1.0	4
<b>Total</b>	<b>245.1</b>	<b>19.8</b>	<b>8</b>

Source: DECA's 2009 annual report on ERDF and data from DECA on disbursements to ERDF projects in 2009

47. According to Table 4, an average of 8% was disbursed in 2009, although in Northern Jutland, disbursements accounted for 15% of the budget allocation.

48. The EU funds for Denmark – and other EU countries - accrue to the EU if disbursements are not made within three years of the years in which the funds were granted (the so-called n+2 rule). Accordingly, the annual allocation for 2007 must have been disbursed to the respective Member State no later than at the end of the third year (2009), and so forth.

49. According to the 2009 annual report on ERDF, the Monitoring Committee discussed the n+2 issue and decided to set an n+2 target for all regions, for the central exposed pool and for the central funds for technical assistance.

50. As regards the exposed pool and the central funds for technical assistance, the Monitoring Committee is planning to reduce the allocation to a level below the n+2 target. The reduction will be proportionate and relative to the size of the gap between the disbursement performance and the n+2 target.

### *III.b The Pomorskie Voivodship*

51. Table 5 specifies the EU contribution to the Polish budget allocation for the programming period 2007-2013.

Table 5. Budget allocation for the ERDF (NSRF 2007-2013 - National Strategic Reference Framework)

Operational Programme	Budget allocation EU contribution
	million euro
<b>1. Regional programmes (16)</b>	<b>16,555.6</b>
<i>1.1. including Regional Operational Programme for the Pomorskie Voivodship</i>	<i>885.1*</i>
<b>2. Central operational programmes</b>	<b>17,514.6</b>
<i>2.1. Development of the Eastern Poland</i>	<i>2,273.8</i>
<i>2.2. Infrastructure and Environment</i>	<i>5,737.3</i>
<i>2.3. Innovative economy</i>	<i>8,254.9</i>
<i>2.4. Technical assistance</i>	<i>516.7</i>
<i>2.5. European territorial cooperation</i>	<i>731.9</i>
<b>3. Reserve</b>	<b>1,031.1</b>
<b>Total</b>	<b>35,101.3</b>

\* including *Technical assistance for the Pomorskie Voivodship* – 26.6 million euro

Source: NSRF 2007-2013 – May, 2007; Regional Operational Programme for the Pomorskie Voivodship October, 2007

52. Table 5 shows that the ERDF funds in Poland are divided between 16 regional operational programmes accounting for approx. 16,555 million euro and 5 central programmes accounting for approx. 17,515 million euro, plus a reserve amounting to approx. 1,031 million euro.

53. The Pomorskie ROP is funded under the ERDF and the accompanying national co-financing. According to the division of the funds between 16 regional operational programmes adopted in the NSRF and approved by the European Commission on 7 May 2007, ERDF funds for the Pomorskie ROP represent 5% of the total allocations made by this fund to 16 regional operational programmes, i.e. 885.1 million euro.

54. Table 6 shows the distribution of funds by region in Poland, amounts committed and commitments as a percentage of the budget allocation.

Table 6. Budget allocation and amounts committed 2007-2009 by Voivodship in Poland (16 regional programmes)

Regional Operational Programmes	Budget allocation - million euro	Budget allocation in %	Commitments - million euro	Commitments as a percentage of budget allocation
Dolnośląskie	1,213.1	7	450.2	37
Kujawsko-Pomorskie	951.0	6	234.1	25
Lubelskie	1,155.9	7	195.7	17
Lubuskie	439.2	3	223.8	51
Łódzkie	1,006.4	6	418.4	42
Małopolskie	1,290.3	8	522.4	40
Mazowieckie	1,831.5	11	233.3	13
Opolskie	427.1	3	179.7	42
Podkarpackie	1,136.3	7	254.2	22
Podlaskie	636.2	4	167.2	26
<b>Pomorskie</b>	<b>885.1</b>	<b>5</b>	<b>413.8</b>	<b>47</b>
Śląskie	1,713.0	10	411.1	24

Świętokrzyskie	725.8	4	171.6	24
Warmińsko-Mazurskie	1,036.5	6	381.0	37
Wielkopolskie	1,272.8	8	532.9	42
Zachodniopomorskie	835.4	5	248.9	30
<b>Total</b>	<b>16,555.6</b>	<b>100</b>	<b>5,038.4</b>	<b>30</b>

Source: NSRF 2007-2013 – May, 2007, Ministry of Regional Development website

55. Table 6 shows that each Voivodship received between 3% and 11% of the EU funds. The two largest recipients are Mazowieckie (11 %) and Śląskie (10%) Voivodships. Commitments for the period 2007-2009 of 5,038.4 million euro correspond to 30% of the programme budget allocations.

56. The total allocation of the ERDF for the priority axes no. 5 and 8.2. is 150.5 million euro. In the Pomorskie Voivodship, 81 projects have received ERDF grants amounting to a total of 87.6 million euro of which 26.7 million euro was allocated to 16 projects concerning priority axis no. 5 and 60.9 million euro was allocated to 65 projects concerning priority axis no. 8 (partly).

57. Table 7 specifies the budget allocation, disbursements in 2009 and disbursements as a percentage of the budget allocation by Voivodship.

Table 7. Budget allocation 2007-2013, disbursements\* 2007-2009 by Voivodship (16 regional programmes), disbursements 2007-2009 as a percentage of the budget allocation 2007-2013 by Voivodship

Regional operational Programmes	Budget allocation - million euro	Disbursements - million euro	Disbursements as a percentage of budget allocation
Dolnośląskie	1,213,1	131.3	11
Kujawsko-Pomorskie	951,0	69.2	7
Lubelskie	1,155,9	66.3	6
Lubuskie	439,2	62.2	14
Łódzkie	1,006,4	85.1	8
Małopolskie	1,290,3	110.8	9
Mazowieckie	1,831,5	64.8	4
Opolskie	427,1	68.0	16
Podkarpackie	1,136,3	59.1	5
Podlaskie	636,2	59.7	9
<b>Pomorskie</b>	<b>885,1</b>	<b>86.9</b>	<b>10</b>
Śląskie	1,713,0	72.8	4
Świętokrzyskie	725,8	54.6	8
Warmińsko-Mazurskie	1,036,5	60.6	6
Wielkopolskie	1,272,8	183.4	14
Zachodniopomorskie	835,4	88.0	11
<b>Total</b>	<b>16,555.6</b>	<b>1,322.8</b>	<b>8</b>

\* Funds requested by beneficiaries

Source: website of the Polish Ministry of Regional Development

### *III.c Conclusion*

58. Three years after the of the programming period in Denmark, commitments were made for just under half the budget allocation. However, in several regions amounts committed were low compared to the budget allocation announced.

Commitments for the Pomorskie Voivodship were also made for just under half of the budget allocation while for Poland as a whole it was 30%.

59. Rigsrevisionen has also established that disbursements in Denmark in 2009 were low taking into consideration the annual budget allocation of 14%. For the Pomorskie Voivodship disbursements in 2009 amounted to 10% of the total budget allocation while for Poland as a whole it was 8%.

60. The EU Commission's n+2 rule imposes heavy demands on the management of commitments to ensure compliance with the n+2 rule while ensuring that disbursements do not exceed the limit of the budget allocation. The audits performed in both countries have shown common difficulties in meeting this demand. In Poland, the problem was partly linked to the delayed implementation of the European environmental legislation, while the problem in Denmark was caused by a close to 12 months' delay in starting-up the programme and the administrative procedures related to considering the first applications.

61. The difficulties experienced in Poland and Denmark with respect to complying with the n+ 2 rule seem to reflect a general problem in the EU. As a consequence, the EU has in Regulation No. 539/2010 dispensed with the original deadline for the calculation of the automatic de-commitment of the annual budget commitment related to the 2007 total annual contribution to improve the absorption of funds committed for certain operational programmes. The European Commission has found such flexibility necessary due to the slower than expected start-up and late approval of programmes. The Commission will therefore in accordance with Regulation No. 539/2010 calculate the amount by adding one sixth of the annual budget commitment related to the 2007 total annual contribution to each of the 2008 to 2013 budget commitments.

## **IV. Administrative planning**

### *IV.a Denmark*

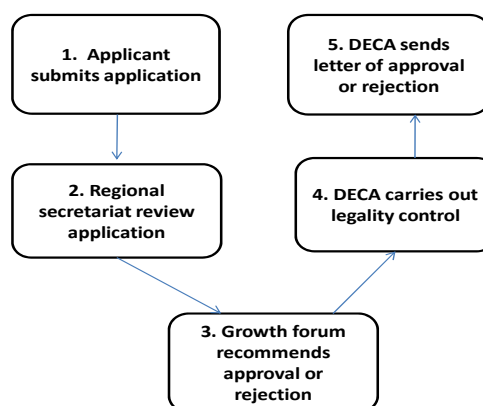
#### Application procedures

62. As mentioned earlier, ERDF resources are managed by DECA and regional growth forums consisting of representatives from trade and industry, knowledge and educational institutions, the labour market, local and regional authorities and DECA.

63. Each growth forum has a secretariat that processes the applications and draws up a recommendation memorandum about their assessment. Once the regional growth forums have considered the applications and decided to recommend a given project for approval or dismissal, the project is submitted to DECA for legality control. By checking the legality of a project, DECA ensures that the project complies with regulations, acts, state aid rules, programmes, etc. On the basis of the legality control, DECA finally approves or rejects the application. This must be done within 30 days after all necessary information concerning the application is available.

64. The regional secretariats and DECA consider project applications on the basis of guidelines and mandatory check lists. Both bodies use TAS, the electronic grant administration system, for their case administration. Figure 1 illustrates the ERDF application procedure.

Figure 1. ERDF application procedure



#### Reporting by grant recipient

65. Throughout the entire life of the project, the grant recipient must report twice a year on project implementation to DECA. This periodical reporting consists of interim accounts and a progress report. On project completion, the grant recipient must present project accounts, a final progress report and project results.

66. The accounts must record the expenses incurred for which the grant recipient wishes to receive a grant. Expenses must be specified by individual items such as salaries to project staff, travel, purchase of external consultancy services, etc. Accounting records must be made on the basis of DECA's chart of accounts for ERDF projects.

67. In the progress reports, grant recipients must provide information on the planned progress (as specified in milestones outlined in the application and approved by DECA) relative to actual project progress. In case of deviations from the project originally approved by DECA, the consequences for the approved project budget must be described.

#### Project audit

68. Receipt of ERDF grants is conditional on the interim and project accounts being audited by an auditor appointed by DECA. DECA has entered into an agreement with a private audit firm regarding audit of all interim and project accounts.

69. Among other things, the auditor checks whether the expenses have actually been incurred and whether they comply with EU and national rules. On-the-spot checks are made as part of the audit. The auditor has access to the electronic TAS system and may state his or her comments in a screen view as well as any corrections that in her or his opinion should be made to the accounts submitted, for example, if the auditor has established that certain reported expenses are non-eligible.

### Disbursements

70. On the basis of the auditor's opinion and comments in the TAS system, DECA carries out the final control of the disbursement request. The result must be registered in a special TAS screen view. DECA then pays the amount to the grant recipient, adjusted for non-eligible expenses, if any.

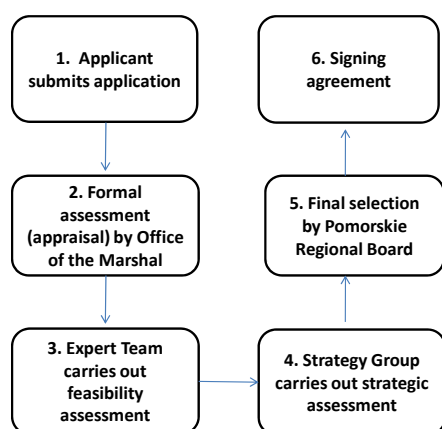
### *IV.b The Pomorskie Voivodship*

### Application procedures

71. The following is the overall structure of the project selection procedure:

- application – should be submitted in both a printed and electronic version before the deadline announced by the Office of the Marshal
- appraisal – Managing Authority staff checks the Pomorskie ROPfunding application and the formal and legal requirements including checks for eligibility and an administrative assessment by Managing Authority staff;
- feasibility assessment – the application is checked for its technical, economic and financial feasibility by the Expert Team;
- strategic assessment – the application is checked for compliance with the Pomorskie Regional Development Strategy and for its impact on the region's social and economic development; finally a recommendation is formulated by the Strategy Group for the Pomorskie Regional Board;
- selection of project funding applications is handled by the Pomorskie Regional Board, as is;
- signing of funding agreement with the final beneficiary.

Figure 2. ERDF application procedure (ROP for the Pomorskie Voivodship)



#### Reporting by grant recipient

72. Grant recipients are required to draw up periodical reports on progress and accounts for the administrative authority every three months as a minimum. The reports are attached to the payment applications. Payment applications must be submitted also if no funds are required. The reports provide information on actual and financial progress of the project, result and product indicators and level of achievement against targets set, problems encountered by the project and schedule of the future expenses.

#### Project audit

73. In the Pomorskie Voivodship, the control of interim and project accounts and progress and final reports are checked by the Office of the Marshall. No accounting firm is appointed to approve projects and carry out spot checks.

74. Pomorskie Regional Board has not taken on external experts to review progress reports. Before the final payment is made, the Marshal Office is obliged to make an on-the-spot check. Then the report on the control visit is prepared including a conclusion as to whether the project has been completed in accordance with the contract and the indicators have been achieved. The Pomorskie Voivodship administration is also based on electronic processes using a national electronic system (SIMIK 2007-2013) and a local system (SZERP).

#### Disbursements

75. Till the end of 2009, the Pomorskie Voivodship administrative authority handled the entire grant administration of the projects: processing, recommendation, approval, disbursement and follow-up. Since January 2010, when the *Public Finance Act* was adopted, disbursements have been handled by a state-owned bank.

#### *IV.c Conclusion*

76. Rigsrevisionen finds the administrative planning satisfactory. The fact that the regional growth forums, the project auditor as well as DECA have access to the TAS system contributes to creating transparency and administrative effectiveness, which Rigsrevisionen finds very satisfactory and considers “good practice”.

77. The NIK finds it satisfactory that the ROP projects are selected by way of competition. Consultations with beneficiaries or reviews of the Pomorskie Voivodship project base precede all decisions relating to the terms of the competitions, joining competitions or prolonging competitions. It can be considered “good practice”.

### **V. Environmental Assessments of the regional fund program**

#### *V.a Denmark*

78. DECA has commissioned a consultancy firm to carry out an environmental assessment of the Danish ERDF programme. The environmental assessment has been made pursuant



to 'Directive 2001/42/EC of 27 June 2001 of the European Parliament and the Council on the assessment of the impact on the environment of certain plans and programmes'.

79. The programme has been assessed in relation to the overall Danish objectives in the environmental areas, such as limiting emissions of the greenhouse gases, cutting pollution from agriculture, reducing the loss of biodiversity, including enhanced protection of the NATURA 2000 goals. The programme has also been assessed in relation to the possible impact of the environmental factors which are normally used to describe the general state of the environment, and which are also required to be incorporated in the EU Directive on Environmental assessment of plans and programmes, example biological diversity, soil, water and air.

80. The environmental assessment of the programme focuses in particular on the programme activities to support further development of alternative energy production. These include in particular the development of wind energy and using semi-liquid manure from livestock farming for the production of biogas. The environmental assessment also focuses on the possible construction projects for which the programmes resources may be used. The environmental impact of these construction projects may be negative at local level, particularly in terms of increased resource consumption for buildings in form of energy, waste generation and emission from possible transport to and from the construction.

81. Overall, however, the general patterns of behaviour envisaged by the plan will have a significant positive impact on the environment, compared with a situation where the programme was not adopted.

#### *V.b The Pomorskie Voivodship*

82. The environmental impact assessment of the *Draft Pomorskie ROP* was carried out as set out in the Environmental Protection Act of 27 April 2001 (Journal of Laws 62. 627 with further amendments) and Directive 2001/42/EC on the assessment of the effects of certain plans and programmes on the environment, setting out the assessment requirements for programmes likely to have a significant impact on the environment and Directive 2003/4/EC on public access to environmental information.

83. The main conclusions regarding the Pomorskie ROP from the *Environmental Report*:

- The objectives set out in the draft Pomorskie ROP designed to promote environmental protection and sustainable development were analysed for their compliance with Poland's and the European Community's environmental policy, and no conflicting objectives were identified.
- A number of the ROP objectives will have a positive effect on the achievement of the objectives set out in the sectoral strategic papers and the Pomorskie Regional Environmental Protection Programme. The largest group of objectives are expected to have a mixed effect, which means that the objectives are too general and allow a variety of possible projects making it difficult (at least at this stage) to clearly assess how they will impact the delivery of the ultimate environmental goals. The impact of many of the objectives is expected to vary considerably, because the objectives are very general and therefore opening up for a variety of different projects. This makes it difficult, at this stage, to assess the impact of the projects on the delivery of the ultimate environmental goals.

- The analysis of how well the measures proposed under Pomorskie ROP address the region's 21 environmental problems identified in the *Environmental Report* showed that the majority of the problems can be solved or minimised, and the remaining (e.g. flood risk in Żuławy) can be solved under other operational programmes. The analysis also showed that the measures proposed under Pomorskie ROP will contribute to the implementation of the *VI EU Programme for the Environment*.
- The Draft Pomorskie Regional Operational Programme does not include projects that are particularly harmful to the environment. Projects designed to promote the development of small and medium-sized enterprises, transport infrastructure and regional environmental protection programmes carry no risk of negative trans-boundary impacts.
- The following are the Pomorskie ROP thematic areas that include projects which are likely to significantly impact the various components of the environment:
  - development of regional road infrastructure and development of transport infrastructure;
  - investments and support for innovation in companies.
- There can be distinct pressures on the environment from groups of projects in the area of:
  - development and integration of public transport systems;
  - waste management and development of renewable energy infrastructure;
  - local basic infrastructure.
- Some of the planned projects are likely to have a negative impact on Natura 2000 sites. Where projects must be located on such sites, consideration should be given to alternative locations that are not harmful or less harmful. If that proves impossible, nature compensation must be ensured. For some of the projects affecting Natura 2000 sites (e.g. sewer systems) the negative impacts will occur mainly during the implementation period, but when completed the project will have a positive impact on the environment, i.e. a reduction of waste water.
- If completed, the measures proposed under the Pomorskie ROP will help to improve the environment and have a positive effect on people's health and quality of life. The impact will usually be indirect and the health benefits will not be evident until later. Environmental and energy infrastructure and local basic infrastructure projects are expected to have the strongest impact on the environment, and contribute to establish a framework for continuous improvement of people's health and quality of life.
- Some projects have a direct and immediate effect on people's health as they are designed to develop the health care infrastructure, health care spas, setting up an integrated medical rescue system, fighting crime and social problems, etc.
- The indicators of integrated economic progress designed to assess ROP progress offer relatively good insight into social and economic processes. But a proper environmental assessment will require a bigger number of general indicators, because the indicators proposed are not sufficiently interrelated with the spheres of the environment, society and economics.

### *V.c Conclusion*

84. Both SAIs find it satisfactory that detailed environmental assessments were made in Denmark and in the Pomorskie Voivodship. Both environmental assessments concluded that the overall environmental impact of the programmes will be positive.

## **VI. Environmental indicators for the regional fund program**

### *VI.a Denmark*

85. In Denmark Rigsrevisionen has established that DECA has set up a system of objectives, targets and indicators that DECA use to monitor and report on target achievement for the EU Commission. On the basis of the environmental assessment, DECA has established four environmental indicators and an overall environmental objective. The EU Directorate-General for the Environment has approved the environmental assessment, the related environmental indicators and overall environmental objective.

86. The overall environmental objective that Denmark has set for the programme is that no less than 70% of the funds used must be allocated to projects with a positive or zero impact on the environment.

87. In the application and final report, when DECA assesses whether the overall environmental objective will be or has been fulfilled, this assessment is based on the information provided in the applications and by the grant recipients, respectively, as they are required to assess and specify whether the project has or has had a positive, negative or zero impact on the environment. If the impact is expected to be or has been positive or negative, the grant recipient must provide information on four environmental indicators.

88. The indicators are reproduced in Table 8

Table 8. Environmental indicators of the ERDF programme 2007-2013

1. Number of trips into protected areas	2. Extent of areas subject to liquid manure spreading in connection with biogas plant for which aid under the programme has been provided	3. Volume of 'saved' CO <sup>2</sup> if emitted from traditional incineration	4. Amount of energy recovered from renewable resources/'saved' on non-renewable resources	5. Any other impact
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89. Rigsrevisionen has established that neither in the application form nor in the related guidelines did DECA give details on the interpretation of the indicators and whether they contribute to a positive or negative impact on the environment.

90. This means that, for example in relation to indicator 2 "Extent of areas subject to liquid manure spreading in connection with biogas plant for which aid under the programme has been provided" applicants receive no help to understand the correlation between liquid manure and biogas plant or as to whether, in this respect, the project has a positive or negative impact on the environment.

91. Doubt as to whether the indicator makes a positive or negative contribution is also pronounced in relation to indicator 1, because trips in the countryside generally are perceived

as positive whereas in this case, trips are negative if made in sensitive nature reserves. The lack of a definition also applies, to non-renewable resources in indicator 4.

92. Rigsrevisionen has established that the guidelines did not mention calculation methods, including requirements regarding methods, and that, according to the guidelines, grant applicants were not supposed to provide information about this in the application. Rigsrevisionen finds this unfortunate.

93. Rigsrevisionen recommends that when evaluating the entire programming period, DECA reconsiders the calculation methods relating to the environmental objective and environmental indicators, including whether, in certain cases, an impartial body rather than the applicant itself should estimate and subsequently measure the environmental impact.

#### *VI.b The Pomorskie Voivodship*

94. By 30 June each year, beginning 2008, the Managing Authority shall submit annual reports to the European Commission and by 31 March 2017 the final report on the implementation of the Pomorskie ROP shall be submitted. The reports referred to in Article 67 paragraph 1 of Council Regulation 1083/2006 shall include the information on the progress made in implementing the Pomorskie ROP and Priority Axes in relation to their specific, verifiable targets, with a quantification, using the indicators identified in the Pomorskie ROP for the particular Priority Axes.

Table 9 Priority Axis no 5 Monitoring Indicators

	Indicator	Baseline value	Indicator value in 2013	Target value in 2015	Frequency of measurement	Source of data
<b>Output</b>						
1.	Number of waste management projects)	0	5	6	annually	Marshall Office
2.	Number of water management projects including the number of projects to increase the retention capacity	0	11	12	annually	Marshall Office
		0	3	3		
3.	Number of projects implemented under the programme supporting environmental management	0	6	8	annually	Marshall Office
4.	Number of renewable energy projects	0	36	45	annually	Marshall Office
5.	Number of energy conservation projects)	0	13	15	annually	Marshall Office
<b>Result</b>						
1.	Municipal waste collected by regional waste treatment plants supported under the Programme (%)	0	11.5	14	annually	Regional Waste System
2.	New retention capacity as a result of projects (thousand m <sup>3</sup> )	0	30,000	30,000	every 2 years	Local melioration administration
3.	Number of people protected from floods as a result of the projects (people)	0	400,000	440,000	annually	Beneficiaries
4.	Potential installed power at power plants and heating plants based on renewable energy (MW)	0	17.0	21.2	annually	Beneficiaries
5.	Potential energy generated in power plants and heat generating plants based on renewable energy (MWh)	0	72,000	90,000	annually	Beneficiaries
6.	Areas of flood monitoring as a result of the projects (km <sup>2</sup> )	0	6,375	8,500	every 2 years	Beneficiaries
<b>Impact</b>						
1.	Percentage of municipal waste processed for recovery in waste management plants receiving support under the Programme (%)	-	25.0	30	once – at Programme end	Regional Waste System
2.	Share of renewable energy in total energy / heat production in the region (%)	5.4 / 4.0	7.3 / 4.2	7.8 / 4.2	once – at Programme end	Central Statistical Office

Source: Regional Operational Programme for the Pomorskie Voivodeship, 2007

95. Environmental indicators worked out for considered priority axes of the Pomorskie ROP are analysed according to their value in 2013 and 2015 (target value). For these indicators baseline value, frequency of measurement and source of data were also specified. The Pomorskie Voivodeship administrative authority has also set requirements for the methodology of the measurement of these indicators by beneficiaries. Achievement of the indicators is verified during the on-the-spot audit.

### *VI c Conclusions*

96. Rigsrevisionen finds that DECA has a well developed system of objectives, targets and indicators. However Rigsrevisionen does not find it satisfactory that DECA has failed to give a more detailed interpretation of the environmental indicators, including whether they contribute to a positive or negative environmental impact. Lack of guidance on the contents, etc., of the indicators increases the risk of incorrect information being provided.

97. The NIK considers the Pomorskie Voivodship use of indicators “good practice”, as the detailed descriptions of the indicators enables their precise verification.

## **VII. Project audits**

### *VII.a Denmark*

#### *Purpose and selection of projects*

98. The purpose of the actual project audit was to evaluate whether DECA's grant administration in 2009 worked satisfactorily for environmental projects financed under the ERDF programme during the period 2007-2013.

99. As part of its audit, Rigsrevisionen reviewed a sample of 15 environmental projects that had received grants in 2009.

#### Results of the project audit

##### *Targets were specific and control-relevant*

100. On the basis of examination of the 15 project applications, Rigsrevisionen is of the opinion that grant applicants have made great efforts to provide information about operational project targets, main activities, milestones and time schedule. Furthermore, DECA has included impact in the application form, because applicants must provide information on the expected project impact in several specific areas, including environmental impact. Generally Rigsrevisionen finds that the targets satisfy the requirement that they must be specific and control-relevant. With the application form, DECA has endeavoured to highlight specific and control-relevant project targets and impact. Rigsrevisionen finds this development very satisfactory.

##### *In the progress report the grant recipient had reported satisfactorily on the progress*

101. DECA has stipulated that projects receiving ERDF grants must submit progress reports and audited interim accounts twice a year. However, if the grant recipient requests a semi-annual disbursement on account, only one of the two annual interim accounts needs to be audited. The grant recipient's reporting gives DECA certainty twice a year that the projects are in fact being implemented as planned.

102. Rigsrevisionen found that the progress reports were generally satisfactory.

103. However, Rigsrevisionen identified examples of grant recipients in 2009 who had not requested disbursements on account; that grant recipients had not submitted progress reports and interim accounts; and that DECA had failed to press for the material.

104. Rigsrevisionen finds that DECA ought to have pressed for this information and thus assured itself of compliance with the DECA guidelines. Rigsrevisionen also finds that, in

relation to those situations where grant recipients do not request disbursements, DECA should consider whether the requirements to one of the two annual progress reports can be reduced and thus lessen the reporting burden of grant recipients.

*DECA's website had been updated with information on the contents of the 15 projects*

105. According to DECA's guidelines, efforts should be made to ensure that aided activities on a regional and national level have demonstration value and add new features so that grant recipients and others have an incentive to continue the project or related activities after grants have been discontinued. DECA summarizes this by stating that projects should have novelty value.

106. To highlight the importance of the novelty value, DECA has chosen to provide information on its website about all projects that have received ERDF grants during this programming period. The information is provided in a project database with details for each project about grant recipient, project period, budget and amount of ERDF grant, any project partners and region. Furthermore, the database includes a brief summary stating project purpose, main activities and expected impact.

107. Rigsrevisionen's examination showed that the 15 projects appeared in the project database on the website with all the required information. Rigsrevisionen finds that the database is both informative and easy to use and thereby can contribute to ensuring compliance with DECA's aim for the projects to have novelty value. The project database represents a source of information where interested parties can readily obtain project information, which enhances the chance that the project or related activities will be continued after grants have been discontinued. DECA's use of the website is considered "good practice".

#### *VII.b The Pomorskie Voivodship*

##### Purpose and selection of projects

108. The purpose of the project audit was to evaluate whether the Office of the Marshall's grant administration worked satisfactorily for environmental projects financed under the ERDF programme during the period 2007-2013.

109. As part of its audit, the NIK reviewed a sample of 16 environmental projects that had been accepted to receive grants from the ERDF.

##### Results from the project audit

##### *Information on the priority areas was satisfactory*

110. The Office of the Marshall provided satisfactory information on the priority areas that were eligible for grants under the ROP. The information included the list of preferred projects indicating minimum and maximum budget.

111. As in Denmark, the grant applicants are required to state not only the purpose of the project but also its main activities, milestones and time schedule in the application form. Applicants are also obliged to provide information on the expected project impact in several specific areas, including environmental impact.

##### *Applicants have given sufficient information and objectives stated were specific*

112. On the basis of the examination of the 16 projects, the NIK is of the opinion that grant applicants have given sufficient information about these issues. Objectives stated were specific, measurable and limited in time.

*The grant recipients had reported satisfactorily*

113. In the progress reports, the grant recipients had reported satisfactorily on the progress. Grant recipients are required to draw up periodical progress and account reports every three months, as a minimum. If the grant recipient failed to submit the required report within the deadline, the administrative authority contacted the beneficiary.

*VII.c conclusion*

114. Rigsrevisionen finds that the grant administration in the areas examined was satisfactory and that the procedures and internal controls involved were satisfactory as well. However, in Rigsrevisionen's opinion, DECA can strengthen the administration in certain areas. This applies to environmental objectives and indicators, progress reports, project accounts and final reports. Rigsrevisionen also finds that some areas are particularly encouraging, such as the information provided in applications about objectives and the project information provided on DECA's website.

115. In spite of low utilization of the ERDF, the NIK also finds that the grant administration, including procedures and internal control, in the areas examined was satisfactory. The administrative authority of the Pomorskie Voivodship assessed whether the estimated consumption for the period stated in the reports was reasonable in relation to project progress. On-the-spot check included an examination of project progress, whether the project was completed according to the contract and the indicators were achieved.

**Follow-up on the audit**

116. In the period covered by the coordinated audit, only 8% of the allocation had been disbursed, as the preparations to implement the ERDF funds had not been completed. The Polish and the Danish SAI agree that the audit should be followed-up by the end of the programme period in order to audit the implementation and the impact of the completed programmes.

On behalf of:

Rigsrevisionen

NIK

Auditor General Henrik Otbo

President Jacek Jezierski

September 2010