

# Subject: London's European Programmes

**Report to: Audit Panel**

**Report of: Executive Director of Resources**

**Date: 17 December 2013**

**This report will be considered in public.**

## 1. Summary

- 1.1 This report updates the Panel on audit issues relating to London's European programmes, responsibility for which transferred from the London Development Agency (LDA) to the Greater London Authority (GLA) in July 2011.
- 1.2 It restates for information some of the background provided in the previous October 2012 paper, updating where appropriate.

## 2. Recommendation

- 2.1 **That the Committee notes the audit environment for European Programmes and note the work currently underway.**

## 3. Background

- 3.1 The GLA acts as an 'Intermediate Body' managing European Regional Development Fund and European Social Fund programmes on behalf of the UK's Government, which is the 'Managing', 'Certifying' and 'Audit Authority' for these programmes. Details of these programmes can be found at **Appendix 1**.
- 3.2 European programmes are very heavily audited, in line with the requirements of the Commission's rules, which apply across all 27 European Union (EU) member states. The usual audit checks that any UK public sector-related expenditure might undergo - such as provision of an external audit certificate from an organisation's auditors - carry no weight from the perspective of EC regulations.

### **Project audits**

- 3.3 The GLA's European Programmes Management Unit (EPMU) undertakes checks on projects' expenditure both before and after it pays claims to them (so-called 'Article 13' checks). DCLG auditors also undertake an annual series of checks after expenditure has been paid on a randomly-chosen sample of projects ('Article 16' checks). The payments team (the 'certifying authority' in DCLG for ERDF and DWP for ESF) also undertake checks. Projects can also be audited by European Commission auditors - and the European Court of Auditors (who audit the auditors).

- 3.4 If the EC is unhappy with the findings of UK or its own auditors, it can interrupt or suspend the payments it makes to the UK Government in respect of European programmes. Currently all ERDF and the ESF Programme in England are interrupted. On ERDF, EC auditors do not consider there is satisfactory compliance with the standardised processes introduced after abolition of the Regional Development Agencies. DCLG has put in place an intensive programme of work to review monitoring checks carried out under Article 13. GLA has participated in this exercise, and no particular problems have been identified as yet.
- 3.5 The GLA pay projects via web-based IT payments and monitoring systems; but the Government handles payments to and from the EC. The EC's payment 'interruptions' do not therefore affect the GLA or projects directly, as the Government continues to reimburse us, so we can pay projects.
- 3.6 3.6 Monitoring requirements constitute a time-consuming factor in the management of European programmes. Projects are liable to repay any ineligible expenditure - or 'irregularities' identified as part of these checks, and the amount of ineligible expenditure identified by an auditor as a percentage of the total amount of expenditure examined is known as the 'error rate'. Our overall aim is to keep error rates under 2% of the value of claims examined at any point in time, as the EC regard 2% as a 'tolerable' rate, above which they may have concerns that 'systemic' errors may be occurring, which can result in wider payment interruptions as noted above.
- 3.7 3.7 The European Commission stress that so-called 'irregularities' are not fraud; but mostly technical errors that relate to non-compliance with the EC's very complex rules on eligibility, procurement or publicity. These are sometimes overlaid with further complexity by a member state's own rules. For ERDF, an irregularity may typically relate to arithmetical errors in calculations of a project's overheads or staff time chargeable to ERDF; or evidence of compliance with procurement rules, which projects may not always have kept - especially in respect of smaller sums. ESF is typically much more straightforward - because public-sector organisations provide the required 50% of match funding upfront to would-be projects, who thus avoid getting bogged-down in providing evidence for their match funding package.

## **Project and systems audits**

### **ERDF**

- 3.8 DCLG's Audit Authority uses a methodology it has agreed with the EC for selection of project claims for audit under Article 16. Any irregularities detected in these claims count towards the error rate reported by the Audit Authority to the EC at the end of each calendar year for the previous July - June period. 9 projects were selected for Article 16 audits in London for 2102/13. The projected error rate for the claims selected across the 9 projects is likely to be within the EC's 2% tolerance threshold. A national error rate will be reported by the Audit Authority to the European Commission at the end of December 2013.
- 3.9 For 2013/14 the Audit Authority has, to date, selected claims over 5 projects. Visits are underway and the first reports are awaited.
- 3.10 DCLG's Internal Audit visited City Hall in October 2013 as part of a systems audit of desk based checks on ERDF claims for payment. The auditors also visited DCLG's Growth Delivery Teams in East and West Midlands. The draft report on the audit, submitted to the Managing Authority in DCLG on 13 November 2013, gave an unqualified opinion.

## **ERDF - London Green Fund**

- 3.11 In November 2012, the European Commission (EC) Auditors (from Directorate-General for Regional Policy) carried out an audit of the London Green Fund (LGF) to obtain assurances that the management and control systems relating to the implementation of the fund are functioning effectively.
- 3.12 The auditors reviewed documents and interviewed staff from the GLA (EPMU), European Investment Bank, Department of Communities and Local Government and two of the sub-funds of the LGF. In June 2013, a draft interim report was issued by the EC, with preliminary conclusion that the systems are generally functioning effectively. However, further information was requested to clarify a few areas. A final report is expected shortly.
- 3.13 One of the actions included in the EC's draft interim report was for the Audit Authority (AA) to include the LGF as part of their audit programme. The AA has now visited all three of the LGF sub-funds and no significant issues were identified.

## **ESF**

- 3.14 A systems audit of GLAs management and control of ESF in London was carried out by DWP's Audit Authority in September 2013. This is the first time that a full systems audit has been undertaken since responsibility for the management of European programmes transferred from the LDA to the GLA in July 2011. The scope of the review covered 7 key areas of responsibility including Intermediate Body functions, selection of operations, guidance to beneficiaries, management verifications, audit trail, reliable systems and preventative and corrective action. The outcome of the audit was extremely positive, with a category 1 level of assurance awarded (the highest).

## **London Development Agency ERDF and ESF activity**

- 3.15 The LDA managed 22 2000-06 ERDF projects worth £30m, and seven 2007-13 projects worth £7m. It also acted as a co-financing organisation for both 2000-6 and 2007-13 ESF programmes, the latter programme receiving about £26m ESF.
- 3.16 The GLA has inherited responsibility for both this historic activity and also any liabilities that may arise from irregularities arising from further audits. For 2007-13, further audits have been undertaken. A report on an audit of LDA's Supply London ERDF project carried out in October 2013 is currently expected – we are aware of a potential irregularity involving redundancy payments. For 2000-6 activity, further audits are unlikely, though not impossible.

## **4. Issues for Consideration**

- 4.1 We propose to provide further regular updates to the Panel on European programmes' audit issues, along the lines of this paper; subject to any comments the Panel may have.

## **5. Legal Implications**

- 5.1 There are no legal implications for this report.

## 6. Financial Implications

6.1 There are no financial implications for this report.

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### List of appendices to this report:

Appendix 1 – London’s European Structural Fund programmes

<b>Local Government (Access to Information) Act 1985</b>
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List of Background Papers: None
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