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Management, governance and internal control of EU funds

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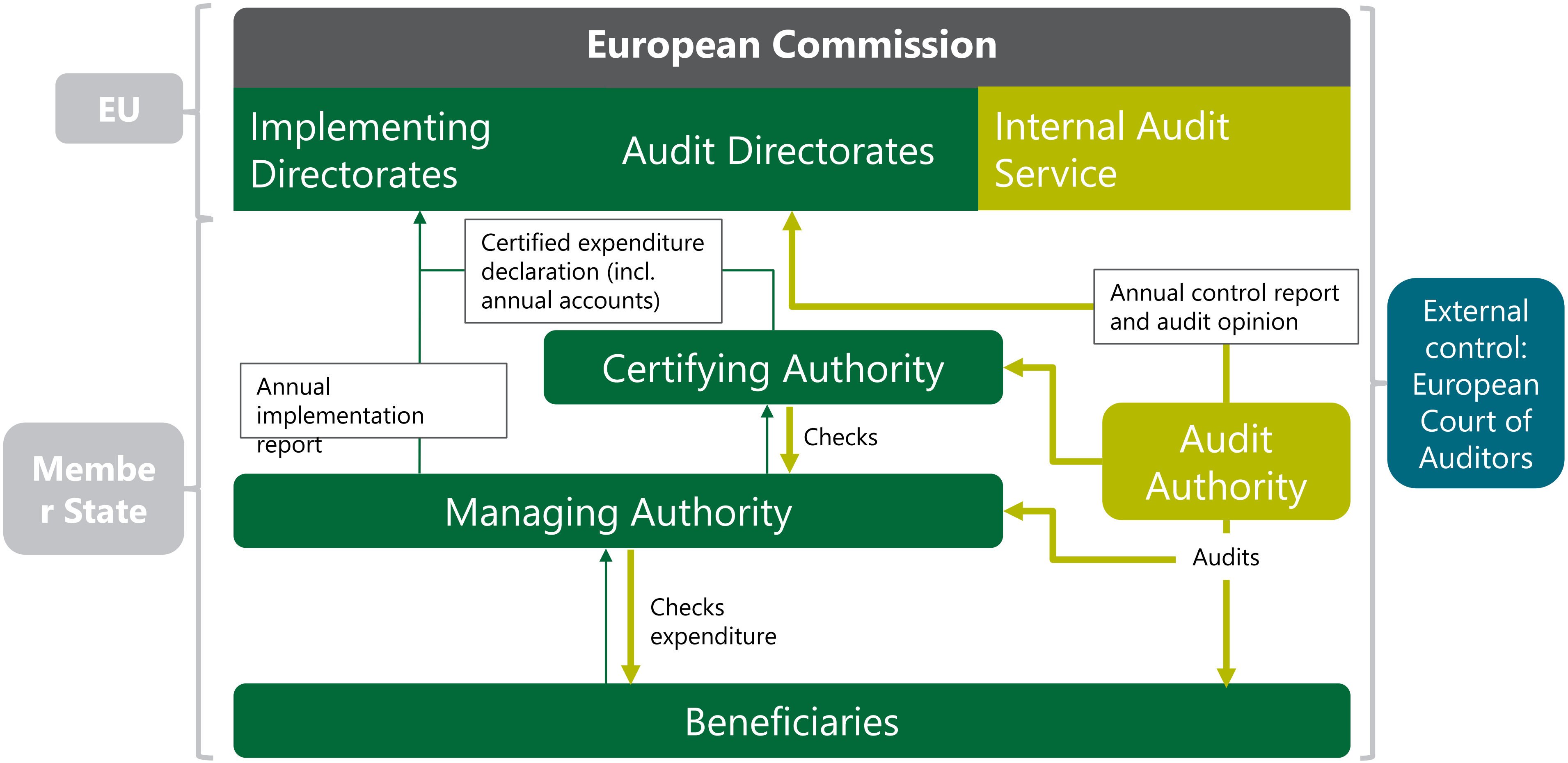
Governance and internal control of the MFF is well established, but complex for shared management



MFF: Multiannual Financial Framework of the EU

Simplified overview based on ECA and Byrne, 2014

Material errors persist despite these controls

- ECA defines **material errors** as **above 2%**;
- Error rates in shared management of cohesion were **consistently above 2% during the last years**;
- Key types of errors:
  - ➢ **Not eligible beneficiaries, projects or costs** (based on the agreed programs);
  - ➢ **Non-compliance with Single Market rules** such as state-aid and procurement.

ECA estimated level of error

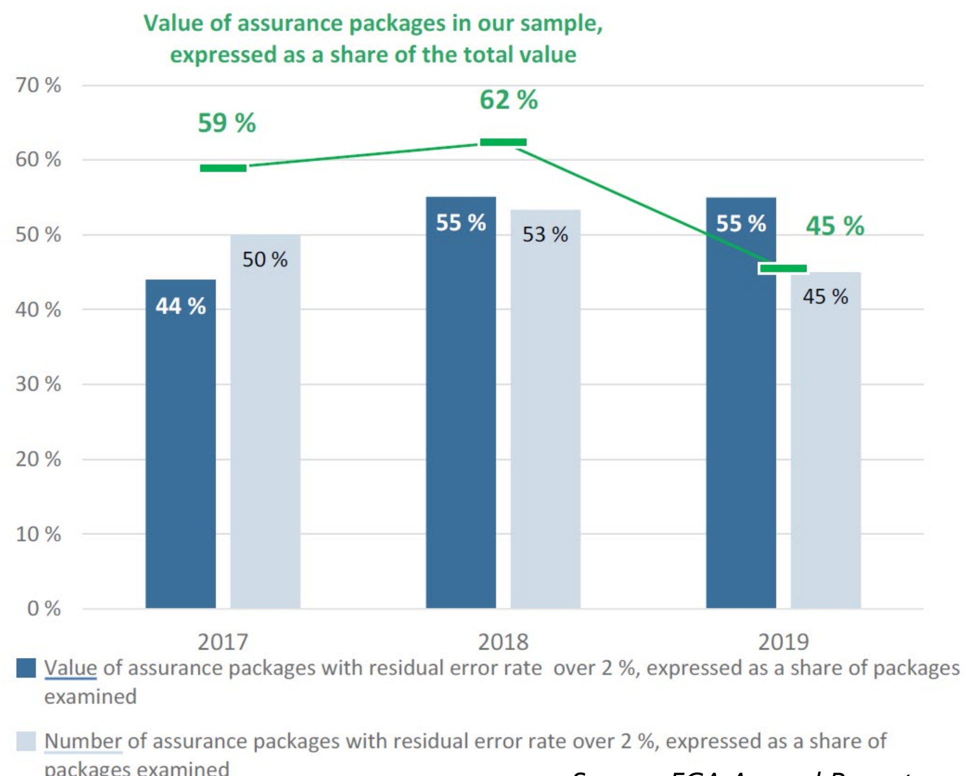
4,4% in 2019
5,0% in 2018
3,0% in 2017

Source: ECA Annual Reports financial years 2017, 2018 and 2019

Controls require further improvement

- ECA moved towards an **attestation approach**, relying on existing audits whenever possible and reliable, but…
- **Verifications** done by Managing Authorities and Intermediate bodies are **not always effective** in preventing and detecting irregularities;
- **Audit Authorities detect a high number of errors**, but the number and extent of weaknesses in the work of some of them currently **limits the possible reliance on their work**.
- **Commission**'s main regularity information still **underestimate the actual error rate**.

Three-year trend for assurance packages where our audit results and those of the Commission brought the residual rates above 2 %



Source: ECA Annual Report 2019

➢ **Internal controls only reliable in around 50% of cases**

ECA contributions to MFF improvements

The ECA provided various briefings and opinions on the new MFF (2021-2027) identifying risks and suggesting improvements, including:

- Define and use the concept of "**EU value added**" to focus on the best value for money and achieving key objectives;
- **Strengthen the focus on performance** and simplify the mechanism for payments by introducing measures linking the level of payments to performance instead of simply reimbursing costs;
- **Limit the number of EU spending programs** and **simplify** their **rules** to ease administrative burden and enhance compliance;
- Streamline and ensure **accountability, democratic oversight, transparency and audit rights** for all EU funds and bodies;
- **Ensure a more effective control and assurance framework**, in particular improve its implementation by managing authorities, audit authorities and the Commission.

The Recovery and Resilience Facility is different

	MFF	RRF
Beneficiaries	Businesses, projects	Member States (MS)
Payment	Reimbursement of costs	Payment for achievement of milestones & targets
Funding	EU budget + MS co-financing	EU debt funded, one time, (ex-post) MS
Controls	Established	To be developed by MS

Different compliance criteria require different checks and audits

➢ **RRF: Checks not on costs but on achievement of milestones and targets**

Plans will be very Member State specific

Recovery and Resilience Plans (RRPs) need to contain (Art. 18 Regulation 2021/241)

Milestones (reforms) and targets (investments) for implementation (by 31 August 2026)	Arrangements for **effective monitoring** by the Member State	Explanation of the Member State's **system to prevent, detect and correct corruption, fraud and conflicts of interests** […] and **arrangements** that aim to **avoid double funding**

"Member States shall provide an ***effective and efficient internal control system*** *and the recovery of amounts wrongly paid or incorrectly used. Member States* ***may rely on their regular national budget management systems****."* (Art. 22(1) Regulation 2021/241).

<u>Consequently, Member States will have **individual**:</u>

- priorities, reforms, investments (based on Country Specific Recommendations);
- milestones and targets (as compliance criteria);
- monitoring systems and key performance indicators;
- systems to deal with corruption, fraud and conflicts of interests;
- arrangements to avoid double funding and protect the EU's financial interests.

Foreseen Commission controls

	ex-ante		ex-post
Milestones & targets (M&T) / **EU financial interests**	• **Agreement on M&T** in Recovery and Resilience Plan; • National systems ensuring correct **M&T indicators**; • Agreement on MS **internal control systems**; • Recording of data on final recipients.	• **Checks** on fulfilment of M&T **before payment**; • **Management declarations** and audit summaries; • **Evidence checks** with external sources.	• Risk-based **verifications** of effective M&T fulfilment; • **System audits**; • **Recovery** of amounts if M&T not fulfilled.

RRF implementation will be challenging…

- Member States need to **define** and justify **priorities**, propose **concrete reforms and investments** as well as related **clear measurable targets and milestones**. Thus, different performance benchmarks.

- **Milestones as compliance criteria** might create **discussions** on when they are **(sufficiently) achieved**. Similar issues were observed by the ECA in previous economic adjustment programs.

- RRPs rely heavily on the **absorption and reform capacity of Member States** in a very short time, which might pose challenges for certain Member States.

- Member States are responsible for an adequate management and control system. **Building new** governance and **control arrangements is burdensome** and often causes **start-up difficulties**.

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