

EUROPEAN REGIONAL DEVELOPMENT FUND
ON-THE-SPOT CONTROL INSPECTION



Europe and Scotland
Making it **work together**

GUIDE FOR APPLICANTS

Scottish Executive Enterprise, Transport and Lifelong Learning Department
European Structural Funds Division
Verification & Compliance Team

1. INTRODUCTION

1.1 The Legal Framework

Article 38 of Council Regulation (EC) 1260/99 obliges Member States to take the necessary measures to:

- verify on a regular basis that operations financed by the Community have been properly carried out;
- prevent and take action against irregularities;
- recover any amounts lost as a result of an irregularity or negligence.

In addition, Article 38 also makes provision for EC officials to carry out control inspections themselves.

Commission Regulation (EC) 438/2001 sets out detailed arrangements for financial control by Member States. These are reflected in the objectives outlined at 2.2

1.2 Who Carries Out On-The-Spot Verification Checks

The Scottish Executive is responsible, for the proper implementation of the European Regional Development Fund, and related Community Initiatives in Scotland. On-the-spot control inspections by the Scottish Executive will normally be carried out by members of the **Scottish Executive Transport and Lifelong Learning Department's** (SETLLD) European Structural Funds Division (ESFD) Verification and Compliance Team.

Control inspections by the **European Commission** will generally involve the authorising Directorate General DG Regio. From time to time the Office Européen de Lutte Antifraude (OLAF) also visit the UK. The role of Commission auditors is to ensure that measures supported by the ERDF are undertaken with proper regard to economy and cost-effectiveness. Their aim is to ensure compliance with the regulations and to help them achieve this aim they carry out systems audits in Member States.

Before carrying out visits the EC notifies the Member State, to obtain any assistance necessary. The EC, however, retains the right to carry out inspections without notice, in the framework of prior agreement with the Member State. It is however current practice for visits by the EC to be organised by SETLLD-ESFD, who will also accompany the EC on their visits and deal with any action arising, including the issue of audit findings and co-ordination of responses.

The European Court of Auditors (ECA) is the Community's external auditor. It is responsible for the audit of all the Community expenditure and revenue in much the same way as Audit Scotland is responsible for auditing Scottish Executive Departments.

It should not be confused with the Commission's control services e.g. DG Regio or any of the specialist functions which are all internal to the Commission. The ECA is an independent institution based in Luxembourg. Visits by the ECA are also organised by SETLLD-ESFD who accompany the ECA on their visits and deal with any action arising from the visit.

2. AIM AND OBJECTIVES OF ON-THE-SPOT CONTROL INSPECTION

2.1 Aim

To meet the Scottish Executive obligations under Article 38 of Council Regulation (EC) 1260/99 by means of on-the-spot visits to applicant organisations.

2.2 Objectives

The objectives of a control inspection are:

- to judge the practical application and effectiveness of the management and control systems;
- to confirm compliance with: EC Structural Fund legislation; conditions attaching to offer of grant; and with other Community policies;
- to ensure that the delivery of the project is consistent with the details specified in the approved application and claim form;
- to ensure that the expenditure charged against the project is:
 - real: the expenditure claimed has actually been paid out;
 - consistent: the project is in line with the Single Programme Document and expenditure claimed is relevant to the project;
 - eligible: it is not an item listed in the **ANNEX** and it was incurred against activity delivered during the period approved;
- to confirm that the appropriate national co-financing has in fact been made available;
- to ensure the existence of a full transparent audit trail which includes retention of supporting documentation;
- to ensure that all receipts which may have arisen from the activity are also taken into account, for example: where projects generate their own revenue, this should be declared.

- to judge the physical reality of the project corresponding to the expenditure declared.

3. PREPARING FOR A VISIT

Control inspection visits often have to be arranged at fairly short notice. The Scottish Executive will try to give at least 3 weeks notice of a visit but so far as EC inspections are concerned, 2 to 3 weeks notice is the norm. The Scottish Executive will contact you by letter specifying the details of who will be attending, which project(s) the inspection team will be concentrating their attention on and which records need to be produced (see Section 4).

Although the inspection team will normally concentrate on the specified project they may ask to examine other projects as well.

A control inspection visit can normally be expected to take a full day per project. The length of time actually required will depend on the number and complexity of the projects being examined and will be agreed when the visit is arranged. **The inspection team will expect to have all the information available which will enable them to complete the inspection in one visit.** If an invoice is missing, or a particular item cannot be verified, the inspection team may request that information is forwarded to them.

Once arrangements have been confirmed, work then needs to be done to ensure that all goes well on the day. It is important to ensure that the key staff are available to see the inspection team if required. These would usually be:

- the person who compiled the application and/or grant payment claims as appropriate;
- the manager of the project;
- the person in charge of the finance for the project.

The visit will not consist solely of the inspection team sitting down and going through the documentation. It will be necessary to ask questions, therefore it is important that someone is on hand to answer them, whether they relate to finance or the management and administration of the project.

It is important that the meeting with the inspection team takes place where they are unlikely to be disturbed. When the numbers of people who need to be involved is known ensure that a room of suitable size is available with a large table-top area so that files and working papers can be spread around.

4. HOW TO ENSURE THE SUCCESS OF AN ON-THE-SPOT VERIFICATION

4.1 Presentation

Project management should give an outline presentation of the organisation's control systems and the project in question. The presentation should last no longer than 10 minutes and should cover the following areas:

- brief description of the particular project(s) being inspected;
- project management system;
- financial controls.

4.2 Evidence of Demand

The visiting team will seek to establish whether adequate appraisal was undertaken prior to submitting the application for ERDF support. **Project management should make available for inspection during the visit** any appraisal, research or strategic documents supporting the need for the project.

4.3 Authority

The visiting team will verify that the project and its financing has been approved fully by the applicant organisation's appropriate decision making body. To this end **they will wish to inspect during the visit** the documents which outline the proposed activity and confirm that proper authority was given to proceed. This usually takes the form of proposals to a Board or similar body, and the minutes of such Board's or Committee's giving their approval.

4.4 Procedure for the Award of Contracts

The visiting team will attach particular importance to ensuring compliance with the rules governing the award of public contracts. In particular they will seek to confirm the existence of procedures to ensure open or selective tendering in accordance with the rules on public procurement, and that contracts are advertised in the Official Journal of the European Commission where the cost demands it. They will also check that projects are not artificially split into separate contracts to keep each below the threshold for advertising. **To this end they will wish to examine** documents advertising the call for tenders, minutes of meetings to open bids, selection criteria, justification of the choice of contractor, exchange of correspondence offering and accepting contract. Applicants should keep in mind that the procurement rules do not just cover capital works procurement of services is also subject to the rules, therefore the engagement of consultants, architects, designers etc must be treated accordingly.

4.5 Financial Records

The visiting team will carry out checks based on the expenditure declared in all of the claims for ERDF grant by the date of the visit. They will wish to examine a sample of base documentation supporting expenditure and income as part of a systems audit. They will then carry out a verification check on the remainder of the expenditure. **The following documentation should be available for examination during the visit:**

- invoices/works certificates;
- proof of payment and receipts, including bank statements;
- written evidence of all match funding (supported by Bank Statements where applicable), including any private sector support or match funding in-kind;
- for in-house professional fees – time sheets or certified extracts from computerised time recording systems, plus full details of the make up of the recharge cost;
- working papers to show how the claim was compiled. We suggest for instance that a spreadsheet giving a breakdown of the costs and a list (or copies) of invoices etc are retained behind each copy claim.

Please note that all supporting documentation must be either original or versions certified to be in conformity with the originals and held on commonly accepted data carriers. Copies may be used during the check but access to the originals or certified versions must be available.

The eligibility of expenditure will be assessed against the criteria set out at the fourth bull point of paragraph 2.2. The attached Annex is an indicative list of ineligible type costs.

4.6 Publicity

The visiting team will verify by inspection that publicity for the ERDF support is as required by Regulation and sufficient to make the general public aware of the role played by the Community in relation to the project.

4.7 Project Outcome

Where applicable the visiting team will verify the physical reality of the project by means of a site visit and/or examination of the measurable outputs identified in the application.

5. AFTER THE VERIFICATION VISIT

The visiting team will review the information gathered during the visit and prepare a report setting out their findings and, where appropriate, making recommendations for strengthening the control of ERDF support. The report will normally be issued within 1 month of the visit or receipt of outstanding documentation.

Project management will be asked to accept the findings and set out timed proposals for addressing any issues raised. The inspection will then be brought to a conclusion, which is hopefully, acceptable to both the visiting team and project management.

The visiting team will submit the inspection report together with appropriate follow-up correspondence to the European Commission.

The Department acknowledges that doubts may occur in relation to whether or not specific items of expenditure within eligible projects are themselves 'eligible'. Although not exhaustive the following is a list of the type of costs which occur within projects but **which will not generally** be considered eligible:

- applicant organisation's core funding – unless this is specifically identified in the application as being the purpose of the funding request and approved by the relevant Committee
- apportionment of general organisational overheads, or any internal organisational service or management charges. Only genuine additional costs are eligible. Overhead costs are only normally found in projects which include staff costs as an integral part of project implementation. Therefore, in addition to **actual** staff costs applicants may only include a fair and reasonable portion of costs such as heat, light, rent, cleaning etc where it is **transparent** that these costs have **increased** as a direct result of the project. Costs such as repairs, catering, legal, general day to day management and administration etc which are generally not eligible for ERDF support should of course be excluded from any overhead costs. **Documentary evidence will be required to support eligibility as well as the level of overhead costs against which ERDF grant is claimed**
- in-house professional fees such as design and supervision can be eligible but only where there is demonstrable evidence that this represents best value for money. However, since in-house professional fees – normally local authority costs for pre-contract design and works supervision – are recharged on full recovery basis ie includes the professional units' overheads, applicants should note that any overhead charge must comply with the advice given at bull point 2 above.
- loan charges – the nature and amounts of any loan charges included in claims should specifically be drawn to the Department's attention
- VAT which is legally non-recoverable is eligible. Please note however, that VAT which is recoverable, refunded or offset by whatever means is not eligible for ERDF/EAGGF support. Applicants seeking ERDF/EAGGF support against VAT expenditure will be expected to produce evidence justifying eligibility.
- moveable infrastructure (eg cars, furniture, fixtures and fittings and soft furnishing) unless included in an assets register **and** is specific to the project e.g. the provision of computers for use in a training suite
- costs in respect of the provision of accountancy services relating to the carrying out of audit work
- legal costs in respect of litigation
- repair and/or maintenance costs

- any costs relating to capital equipment purchased outwith the eligible Programme period
- costs relating to research or studies carried out in respect of the project prior to the official project start date

**EUROPEAN STRUCTURAL FUNDS DIVISION
VERIFICATION & COMPLIANCE TEAM**

**ON-THE-SPOT CONTROL INSPECTION PROCEDURAL CHECK
LIST**



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1. Project selection process
2. Write to project applicant intimating verification visit, giving 3 weeks notice of visit
3. Make travel/hotel arrangements for visiting officers
4. Confirm arrangements for visit(s) with project applicant
5. Pre-visit research of files
6. Carry out visit
7. Draft report of visit
8. Issue report to Applicant seeking agreement to findings and recommendations
9. Update ESFD Spreadsheet of Verification visits recording conclusions
10. On receipt of agreement by Applicant:-
 - Initiate any recovery or other follow up action
 - Write to applicant confirming action completed
11. Copy report and subsequent correspondence with applicant to Financial Control (DG XX) of the European Commission and to Scottish Executive Audit Unit.
12. Where applicable, report irregularities to DTI for onward transmission to European Commission.