



EUROPEAN COMMISSION
DIRECTORATE-GENERAL FOR MARITIME AFFAIRS AND FISHERIES
GENERAL AFFAIRS AND RESOURCES

Brussels,

ARES (2017)

Ministerie van Economische zaken

2595 AJ Den Haag
The Netherlands

Subject: EPM Early Preventive System Audits – programming period 2014 -2020

**Audit of the functioning of the management and control systems under
Regulation (EU) N° 1303/2013 concerning the Operational Programme
"Duurzaam vissen voor de markt - 2014NL14MFOP001"**

Ref.: Audit mission 2016/NL/EP SA/MARE/F1/01
EC Notification letter ARES (2016) 5577239

Your Excellency,

Following the above-mentioned audit mission, please find enclosed the related audit report.

The audit report sets out the provisional findings, conclusions and recommendations of the Commission auditors. These may be modified in the light of the observations and further information received from the national authorities. Accordingly, I request that you treat the draft audit report as confidential until the follow-up procedure has been brought to a final conclusion. When the whole or part of the report is transmitted to persons concerned by the audit to enable them to provide comments, please ensure that the information set out in this paragraph accompanies the transmission.

The national authorities are invited to communicate their acceptance of the findings, actions and recommendations set out in the audit report and/or to provide their comments within 30 calendar days of receipt of the national language version of the audit report.

Following examination of the reply from the national authorities (where a reply is sent within the above mentioned two month period) the Commission will communicate the final version of this report.

Please note that in the absence of a reply within the requested period, it will be considered that the findings and the conclusions stated in the audit report are accepted by the national authorities and the version of the enclosed audit report will be considered as final.

Dora CORREIA
Director

Enclosure: Audit report

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EUROPEAN COMMISSION
DIRECTORATE-GENERAL FOR MARITIME AFFAIRS AND FISHERIES
GENERAL AFFAIRS AND RESOURCES
BUDGET, AUDIT AND PUBLIC PROCUREMENT

Brussels,
MARE/E/1/2016/NL/05

AUDIT REPORT

Mission No. 2016/NL/EP SA/MARE/F1/01

ENQUIRY:	Early Preventive System Audits 2014 - 2020
FUND:	EMFF
MEMBER STATE:	The Netherlands
OPERATIONAL PROGRAMME:	2014NL14MFOP001
KEY REQUIREMENTS AUDITED:	KR2: Appropriate selection of operations KR3: Adequate information to beneficiaries KR7: Proportionate anti-fraud measures
AUTHORITIES AUDITED:	<i>Management Authority</i>
ADDRESSEES OF THE REPORT:	<i>Management Authority</i>
DATE OF MISSION:	05 -08 December 2016
DG/UNIT CHEF DE FILE:	DG MARE
PRINCIPAL AUDITOR:	[REDACTED]
ASSOCIATED AUDITORS:	[REDACTED]
ASSOCIATED DGs:	N/A
EXTERNAL FIRM:	N/A

This report sets out the provisional findings, conclusions and recommendations of the Commission auditors. These may be modified in the light of the observations and further information received from the national authorities. Accordingly, this report should be treated as confidential until the follow-up procedure has been brought to a final conclusion. If the whole or part of the report is transmitted to persons concerned by the audit to enable them to provide comments, please ensure that the information set out in this paragraph accompanies the transmission.

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LIST OF ACRONYMS

AA – Audit Authority

CA – Certifying Authority

IB – Intermediate Body

MA – Managing Authority

KR – Key Requirement

Reg. – Regulation

1. LEGAL BASIS

The audit was performed in the context of the Enquiry Planning Memorandum 'Early Preventive System Audits 2014 - 2020'.

The legal base for the Commission audits in the Member States in relation to structural and investment actions expenditure is provided by Article 75 (1) and (2) of Regulation (EU) 1303/2013. This provision sets out the Commission powers and responsibilities under shared management.

The responsibilities of the Member State (including the bodies audited during this audit) are laid down in Article 74 of the said Regulation.

2. OBJECTIVES

The overall objective of the enquiry is to obtain reasonable assurance at an early stage of programme implementation that the management and control systems are functioning effectively.

This overall objective is reached by checking whether the following key requirements (KR) are fulfilled by the responsible authorities:

- KR2: Appropriate selection of operations
- KR3: Adequate information to beneficiaries
- KR4: Adequate management verifications
- KR5: Adequate audit trail
- KR10 Adequate procedures for drawing up and submitting payment application

Additionally, where the auditors identify "processes and procedures which constitute excess administrative burden and cost, or can be simplified without undermining the overall assurance and effectiveness of the management and control system"¹, they will disclose those processes and procedures and the proposed simplification in the audit report.

3. AUDIT SCOPE

The audit covered the management and control system set-up and implemented by the Netherlands under the provisions of Articles 72-74 and 123-126 of Regulation (EU) N° 1303/2013, for the operational programme 2014NL14MFOP001.

¹ In agreement with point 26 of the "Draft Council Conclusions on the implementation challenges of the cohesion policy 2014-2020" – 9622/1/15 REV 1 – 17 June 2015

In particular, the following key requirements were covered by the audit work:

- KR 2 Appropriate selection of operations
- KR 3 Adequate information to beneficiaries
- KR7: Proportionate anti-fraud measures

As no expenditure was declared to the Commission and no management verifications had taken place at the time of the audit, only an assessment of the functioning of the selected key requirements and a test of controls were performed for the aforementioned key requirements. Substantive testing for all key requirements as well as an assessment of the functioning and a test of controls for KR 4 & 5 will be performed once expenditure is declared to the Commission.

The audit work included a review of the systems and procedures in place with regard to the above mentioned key requirements, including walk-through tests (including test of controls) of a selected sample of files.

The audit work was carried out at the level of the programme authorities responsible for the audited key requirements (MA).

The following projects were selected for the walk-through tests:

- [REDACTED]
- [REDACTED]
- [REDACTED]

The rejected operations selected for the walk-through testing of KR 2 are:

- [REDACTED]
- [REDACTED]

4. APPROACH

The audit work was carried out in accordance with the methodology (including standard checklists) set out in the above-mentioned Enquiry Planning Memorandum.

The audit was performed in line with ISSAI 4100 (compliance audit guidelines from INTOSAI)².

² http://www.issai.org/media/13196/issai_4100_e_.pdf

5. FINDINGS AND ACTIONS TO BE TAKEN/ RECOMMENDATIONS

Finding

One project (ref. [REDACTED]) out of the sample of 3 projects selected for the purpose of walkthrough testing received a new project code which was created by manual re-input of the application in the operational system. This was due to technical issues at the moment of the call. The original project code was not closed.

Having multiple project codes for the same project from one beneficiary creates several operational risks that might lead to errors in the functioning of the management and control system, such as incomplete processing of project applications, and duplicate (or no) payments to the beneficiary. It also obscures the audit trail of the projects.

Action to be taken/recommendation

Important, MA, deadline: 2 months

The Management Authority is requested to close any "open" project codes whilst ensuring that the audit trail from the original application made by the beneficiary before the manual intervention by the MA remains intact.

Other considerations:

Definitions for Red Flags as anti-fraud measures were still under development as were the procedures for management verifications. These red flags should be defined and communicated before management verifications start. Anti-fraud measures in the selection of operations process were already in place as noted during the Walk-through testing and analysis of the fraud risk assessment.

Only 9 applications for projects under UP1 , UP 2 & UP 5 had been approved at the time of the audit (other than projects for UP 3 "Fostering the implementation of the CFP" and UP 6 "Fostering the implementation of the Integrated Maritime Policy") which increases the risk of de-commitment at a later stage and of not reaching the performance goals set in the OP. The auditors urge the MA to look into their selection criteria and evaluate certain minimum thresholds of total expenditure for a project set out in the calls and to continue the effort to create interest from the sector when launching and promoting calls for applications.

6. OPINION

Unqualified: Based on the work carried out as indicated in section 3 of the audit report, the auditors have obtained reasonable assurance that the management and control systems put in place with regard the key requirements 2, 3 and 7 function properly.

The above opinion is based on the evidence gathered in the context of our audit concerning the scope defined above. Our opinion is without prejudice to conclusions drawn by the Audit Authority in the context of its normal audit work, performed at a later stage.

The level of the assurance obtained can be classified as **Category 2 " Works but some improvements are needed "** of the Guidance note on a common methodology for the assessment of MCS in the Member States for 2014-2020 programming period³.

[REDACTED]

Approved by [REDACTED]

[REDACTED]

Approved by [REDACTED]

³ EGESIF 14-0010-final of 18/12/2014

ANNEX I - IMPORTANCE OF RECOMMENDATIONS

Critical: Corrective action is needed to address a fundamental weakness in key controls, which puts in question the reliability of the whole management and control systems, and has lead or may lead to widespread irregularities. There is a substantial risk to the reliability of (financial and other) reporting for the programme, the effectiveness and efficiency of the operations and activities and the compliance with national and EU regulations.

Very Important: Corrective action is needed to address a significant weakness in key controls, affecting the reliability of a significant part of the management and control systems, which has lead or may lead to irregularities. There is a high risk to the reliability of (financial and other) reporting for parts of the programme, the effectiveness and efficiency of some of the operations and activities and/or the compliance with national and EU regulations.

Important: Corrective action is needed to address a weakness or deficiency in the management and control systems, which has a moderate impact at the programme level but which, combined with other weaknesses, may lead to irregularities. Improved controls would benefit the implementation of the programme and/or allow for greater effectiveness and/or efficiency.



