



EUROPEAN COMMISSION
Employment, Social Affairs and Inclusion DG
Audit, Controls
Shared management II

Limited¹

**Final report for Art.73 meeting,
Review of the Audit Authority and re performance of 8 projects of the
CCI 2007BG051PO001 - OP Human Resources
A-Rep N° 1282²**

Authority subject to audit: Executive Agency Audit of EU Funds

Country: **Bulgaria**

Region: **Sofia, Plovdiv**

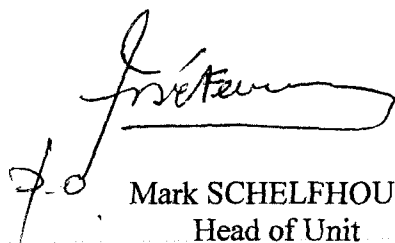
Period subject to audit: **2007-2013**

Dates of the audit field work: **07 -16 march 2011**

Auditors: **Radka KONSTANTINOVA, Victor DAS NEVES, Zdravka
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Report written on: **08/04/2011**

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² This number should be mentioned in all correspondence relating to this audit

LIST OF THE ACRONYMS

AA	Audit Authority
Art.	Article
MA	Managing Authority
CA	Certifying Authority
DG	Directorate-General
DG EMPL	Directorate-General for Employment, Social Affairs and Inclusion
EC	European Commission
ESF	European Social Fund
ERDF	European Regional Development Fund
FB	Final beneficiary
IB	Intermediary Body
IT System	Information System
KR	Key Requirement
MS	Member State
OP	Operational Program
Reg.	Regulation
HRD	Human Resources Development

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1. EXECUTIVE SUMMARY

1.1. Introduction

In accordance with its work plan for 2011 and in the context of compliance with Council Regulation (EC) No 1083/2006, Council Regulation (EC) No 1081/2006 and Commission Regulation (EC) No 1828/2006, Unit H/3, DG EMPL³ conducted a review of the work of the Audit Authority and re performance of 8 projects on the Operational Programme 2007BG051PO001 (hereafter – OP HRD). This review is part of the aforementioned work plan, and more specifically aimed at verifying whether:

- Adequate management and control structures have been put in place in the Audit Authority concerned, and that these systems function effectively and efficiently, so as to ensure that all underlying transactions are legal and regular;
- Actions that are co-financed by the ESF are implemented respecting the community regulations in force, including sound and efficient management principles, and expenditure declared to and reimbursed by the ESF is correct and eligible

1.2. Common authorities subject to audit

The Executive Agency Audit of EU Funds, which was the subject of this audit, is also the Audit Authority of the ERDF, Cohesion Fund and FIFG.

1.3. Findings

1.3.1 Management and control findings

The findings are summarised below:

Finding n°	Management control issue	Reply AA	Conclusions EC auditors
1	The different parts of the audit manual are not completely harmonised. The Sections "Treatment of errors" and Irregularities have to be reviewed and made easier to understand. The concept of isolated errors needs improvement and clarification. The audit manual is not shared or	Agreed Letter N° 37-01-54/14.09.2011-Annex 1	Finding confirmed.

³ DG Employment, Social Affairs and Equal Opportunities, Directorate I: Audit, Controls, Evaluation, Unit H/3: Shared Management II

	accessible for the authorities in the management and control system.		
2	When system audits are performed, in case of reported findings, copies of the documents justifying the findings are not taken systematically. The scope limitation of the system audits and the change of level of importance of the recommendations suffered from a lack of documentation.	Agreed Letter N° 37-01-54/14.09.2011	Finding confirmed.
3	The mini reports issued at the end of each audit on operations were not distributed to the Beneficiary and thus there is no possibility to adequately comment on them.	Agreed Letter N° 37-01-54/14.09.2011-Annex 2	Finding confirmed.
4	For project 3.3.01-0001 [REDACTED] the error rate was not correctly determined, the audit team considers that a financial correction for the time elapsed between the delivery of the goods and the audit should have been proposed considering that the computers were not used as per project purpose.	Agreed Letter N° 37-01-54/14.09.2011-Annex 3 and 4	Finding confirmed.

1.3.2 Findings concerning specific matters (publicity, state aids, environmental protection....etc)

The findings are summarised below:

Finding n°	Management control issue	Reply AA	Conclusions EC auditors
5	For project 2.1.01-546 [REDACTED] it was found that on the training materials and certificates there was no mention on the ESF contribution for the project. The AA had not mentioned this non compliance finding in their report.	Partially Agreed- Letter N° 37-01-54/14.09.2011	Finding confirmed

1.3.3 Financial findings

The findings are summarised below:

Finding n°	Compliance issue	Amount considered ineligible	Comments MA/CA/AA
6	For project 3.3.1-14 there were discrepancies between the worked time as per contract and the note on the delivery of service and the timetabled hours. This incoherence was not challenged by the AA	152,89 BGN Disagree Letter N° 37-01-54/14.09.2011-Annex 5,6.and 7	Finding reviewed and not confirmed
7	For project 2.1.01-370 it was found that the Beneficiary was reimbursed for costs incurred by its partner which were not yet paid when the payment claim was presented to the Intermediate Body. That expenditure was not registered in the Beneficiary's accountancy neither. The issue was not detected by the AA.	8883,04 BGN Agree Letter N° 37-01-54/14.09.2011-Annex 8	Finding confirmed

2. OPINION

Based on the audit results, the audit team expresses an opinion on the management and control systems (MCS) in place. The audit opinion is:

Unqualified

The ESF auditors reviewed the systems in place and the selected projects in accordance with the audit scope and objectives set out in sections 3.2 and 3.3 of this audit report.

In our opinion, based on the audit methodology (section 3.4), we have reasonable assurance that the management and control systems in place as 16/03/2011 are functioning effectively and in compliance with the applicable regulations Council Regulation (EC) No 1086/2006, Council Regulation (EC) No 1081/2006 and Commission Regulation (EC) No 1828/2006.

Without qualifying our opinion we would like to raise the following issues:

The assessment, per key requirement, is as follows:

	Works well	Works, but some improvements needed	Works partially. Substantive improvements are needed	Essentially does not work
Audit Authority				
OVERAL ASSESSMENT		X		
Clear definition, allocation and separation of functions				
Adequate systems audits		X		
Adequate audits of operations		X		
Adequate annual control report and audit opinion				

The level of assurance obtained from the effectiveness of the systems can be classified as:

Category 2, works but some improvements are needed.

This systems audit represents the assessment and evaluation of the degree of confidence obtained from the Audit Authority's work at a specific point in time. Hence, this systems audit does not provide assurance for future periods in view of risks such as the weakening of the internal controls resulting from changes in conditions, or possible deterioration of the degree of compliance with legal requirements or procedures.

3. THE ENGAGEMENT CONTEXT

3.1. Legal Basis

The legal base for the review of the work of the Audit Authority are Articles 72(2) and 73(2) and (3) of Council Regulation (EC) No 1083/2006.

Article 72(2) "Without prejudice to audits carried out by Member States, Commission officials or authorised Commission representatives may carry out on-the-spot audits to verify the effective functioning of the management and control systems, which may include audits on operations included in operational programmes."

Article 73(2) *"In determining its own audit strategy, the Commission shall identify those operational programmes for which the opinion on the compliance of systems under Article 71(2) is without reservations, or where reservations have been withdrawn following corrective measures, where the audit strategy of the audit authority is satisfactory and where reasonable assurance has been obtained that the management and control systems function effectively on the basis of the results of audits by the Commission and the Member State".*

Article 73(3) *"For those programmes, the Commission may conclude that it can rely principally on the opinion referred to in Article 62(1)(d)(ii) with regard to the effective functioning of the systems and that it will carry out its own on-the-spot audits only if there is evidence to suggest shortcomings in the system affecting expenditure certified to the Commission in a year for which an opinion under Article 62(1)(d)(ii) has been provided which contains no reservation in respect of such shortcomings. Where the Commission reaches such a conclusion, it shall inform the Member State concerned accordingly. Where there is evidence to suggest shortcomings, it may require the Member State to carry out audits in accordance with Article 72(3) or it may carry out its own audits under Article 72(2)".*

3.2. Audit scope

The scope of the audit included the following elements:

- Review of the Annual Control Report and Opinion submitted by the operational programme's Audit Authority on 28.12.2009 and follow up of EMPL comments in letter Ares (2011)124836 from 04.02.2011;
- Review of the system audit received for the HRD OP
- Re performance of audits of 8 operations audited by AA

The main focus was on reviewing the audit work of the Audit Authority to assess the reliance that can be placed on it, and consequently the reliance that can be placed on the Annual Control Report and annual audit Opinion under Article 62(1)(d).

During the first phase of the audit the auditors proceeded with a review of the files regarding 1 system audit carried out by the Audit Authority for HRD OP. The report checked concerns the system audits of:

- Managing Authority and Intermediate Bodies

This audit report was issued on 23.12.2009 and analysed by DG EMPL with reply letter D (2010)3835 from 25.02.2010. The Audit Authority has started a follow up on this system audit in October 2010 but prior to the EC audit this report was not yet finalised.

Nevertheless in order to acknowledge improvements and the mitigating controls which the Audit Authority has undertaken following its internal self assessment as well as DG EMPL analysis and DG REGIO recommendations from 2010 review missions, we have taken into consideration the updates of procedures and working tools.

During the second phase of the audit the auditors re performed 8 projects within the sample audited by the Audit Authority for the OP HRD (73 projects or 85 payment requests).

3.3. Audit objectives

The objective of the review of the Audit Authority is to assess the level of reliance DG EMPL can obtain from the work of the Audit Authority.

In particular the specific objectives of the mission were:

- (i) To analyse the Annual Control Report and the Annual Opinion submitted under Art. 62 of Council Regulation (EC) No 1083/2006 as well as to share views on other issues concerning the improvement of the programme's management and control system;
- (ii) To obtain reasonable assurance that the work carried out by the Audit Authority is compliant with the requirements of Council Regulation (EC) No 1083/2006, in particular with Article 62;
- (iii) and consequently, to assess the degree of reliance to be placed by the Commission services on the results of the work of the Audit Authority presented in the annual control report and annual opinion submitted under Article 62(d)(i) and (ii) of Council Regulation (EC) No 1083/2006.

3.4. Audit methodology

The audit was conducted in accordance with the general and specific standards for the professional practice of auditing, the Structural Funds Audit Manual, and the European Social Fund Audit Manual complemented by the Enquiry Planning Memorandum on Reviews of the work of the Audit Authority. The audit team examined and evaluated, on a test basis, evidence relating to the degree of reliance which could be obtained from the Audit Authority's work against the criteria established in the "Guidance note on a common methodology for the assessment of MCS in the Member States (2007-2013 programming period)" and other policies, manuals, procedures, directives and guidelines related to OP HRD execution or implementation.

A letter, announcing this audit, was sent to the Audit Authority on the 11.01.2011 (*Ares 2011 27818*).

The audit was planned in conformity with the audit planning requirements identified in the Structural Funds Audit Manual and the European Social Fund Audit Manual. A risk analysis was applied to identify some of the areas to be addressed. On the basis of this risk analysis,

the analysis of system descriptions and other relevant information, an agenda was drawn up and sent to the Member State. The mission programme was sent on the 31.01.2011.

From 11.01.2011 to 31.01.2011 the Member State sent the documentation requested in the announcement letter. During the desk analysis the auditors proceeded:

- to check the documents received, the self assessment checklist; to review the description of the systems, audit strategy, applicable legislation regarding public audit in Bulgaria, training plans of auditors in Audit Authority etc;
- to check all the audit manuals used by the AA as well as the Audit Strategy;
- to check the mini reports on the operation issues and to analyse the checklists of the audits on 8 operations;

The first on-the-spot visit of the audit mission took place from the 7.03.2011 to the 09.03.2011. The auditors verified:

- The audit planning, methodology, sampling methods, risk assessment procedures and quality assurance process established within the AA; the applicable procedures described in the Audit Manual;
- In order to review the procedures in place, the complete audit file of the MA system audit report was revised. The system report covered the following bodies:
 - Managing Authority (Ministry of Labour and Social Policy)
 - Intermediate Bodies (Agency for Employment, Ministry of Education and Agency for Social Assistance)

The on-the-spot visit of the second phase took place from 10/03/2011 to 15/03/2011. Its main objective was to re perform audits of 8 projects audited by AA. During the on-the-spot audit work the following items were assessed:

- The quality, completeness and efficiency of the audit procedures applied on the spot
- The professional independence, proficiency and due professional care and of the quality assurance in place for the auditors of the Audit Authority
- Comparison of the results of the Audit Authority and the results of the audit of DG EMPL auditors

4. DETAILED FINDINGS AND RECOMMENDATIONS

Important! We confirmed all findings from the reports of audits on operations of the Audit Authority. In this part we are reporting only on findings which were detected by EMPL auditors in addition to the findings disclosed by the Audit Authority.

4.1. Findings from the review of the work of the Audit Authority

4.1.1. Findings on the work of the Audit Authority

Finding n°:1	<u>Key requirement 2: Adequate systems audits</u> (art. 62.1 a) of R 1083, art. 23 c) of R 1828)
	Objective: To obtain reasonable assurance that the work carried out by the Audit Authority (together with the work carried out by other audit bodies on which the Audit Authority will rely) is compliant with the requirements of Council Regulation (EC) No 1083/2006, in particular with Article 62
Responsible body: AA	Volume of funding affected by the finding: € Not quantifiable

Description of the finding:

The auditors reviewed the applicable Audit Manual (version September 2010) which is used for planning and executing of audit engagements. It comprises also a set of procedures in relation to each step of the audit work. There are also attached in Annexes the templates and documents to be used. As such, this working tool currently used by the auditors was found to be quite complete and detailed.

Nevertheless the auditors have several remarks in relation to it as follows:

- The different parts of the manual are not completely harmonised and some sections were found repeated in different parts in the manual. (For example section "Irregularities" is treated in part XV, VI.7.2.1.6, VI.7.2.1.7 and VII.5). We are of the opinion that this repetition could lead to confusion.
- Regarding the manual, the auditors found that the Section "Treatment of errors" is also spread out and seems vague. Parts VII.4.5, VI.7.1.2.3, VII.5.1 and VII.4.6 all deal with the aspects of evaluation of errors and their analysis and correction. The link between the identification, the assessment of an error, its analysis, evaluation of its possible implications and ways of treatment including financial correction proceedings could be presented in a more systematic and logic way. The concept of isolated errors should be better explained.
- The auditors found that the Audit manual is not accessible for the Managing

Authorities, the Intermediate bodies and the Certifying Authority.	
<p>Risks: Misunderstanding and confusion in relation to some parts of the Manual, difficult understanding of the audit process and procedures in place may lead to a loss or a reduction of the quality of the work which in turn may impact on the level of assurance obtained from the audit authority's work.</p>	
<p>Recommendation:</p> <p>The Audit Authority is recommended to :</p> <ul style="list-style-type: none"> - Review the audit manual, especially the sections dealing with treatment of errors and irregularities so that to make them more concise and easy to read. The different parts of the manual should follow the audit process. - In the framework of good practices, we suggest that the audit manual is made available to the Managing Authorities, Intermediate Bodies and Certifying Authority to improve the cooperation and good partnership between the auditors and the auditees in the aim of bringing more value to the audit process. 	
Deadline for implementation of recommendations: three months from the receipt of this report.	Nature of the recommendations: Specific
<p>Comments from the responsible body (audited body):</p> <p>Audit authority accepts the findings and the recommendations related to improving the audit methodology.</p> <p>After the reception of the audit report in English and in line with the yearly review of the Audit Manual, the Director of Directorate "Legal and methodology assurance of the audit activity" has issued a report N° 95-07-13/24.06.2011 (Annex 1- page2) in which following measures are proposed:</p> <ol style="list-style-type: none"> 1. Division of the work of review of the audit manual (version sept.2010) between the auditors from the Legal and methodology Directorate. The different chapters will be analysed and there should be proposals for shorter, better structured and harmonised paragraphs. 2. Elaboration of a concrete chapter in relation to treatment of errors and irregularities, which will include clear definitions for main types of errors. This part will be included in the Manual with references to all chapters , when necessary to comment on the classification of errors and methods of treating them. 3. Chapters of audit of systems and operations will be described in a way as to follow the audit process. 4. Based on the updates, before 14.10.2011 there should be a new version of the manual which will be discussed with team leaders. 5. After updating the parts related to system audits and audits of operations and the checklists, they should be published on the new electronic website of the Executive 	

Agency- part Audit methodology and practice.

6. Before 15.11.2011 there should be training for all auditors for work with the new manual.

7. All guidance and practice guides will be re assessed according to the new manual – deadline 31.11.2011.

The new updated version of the manual will be applied in the work of the Audit Authority as from 01.01.2012.

All proposals of the Director of the Legal and methodology Directorate are approved by the Executive Direct on the 25.06.2011.

Regarding the finding that Audit manual is not accessible for the Managing Authorities, the Intermediate bodies and the Certifying Authority, we would like to note that there is not a special requirement that the audit manual is published and that all bodies of the management and control system are aware of it. Therefore we deem that this fact should not be qualified as a weakness.

In addition we would like to say that there were meetings with audit authorities of other member states and their audit manuals are not available either for the auditees. We think that this fact is due to the specific document. The audit manual is a special internal document for auditors and their work. There are many templates and working documents. Given the technicality of the manual we deem that it will not be of any value for the audited bodies. On the other side, the MA, IB and CA are aware of the functions of the audit authority and his work as follows:

- :the main functions and responsibilities of AA are stipulated in the Charter of the Agency adopted with Decree 346/30.12.2008 and Procedure H-2 /2403.2009. Those documents are published in the Official Journal, accessible trough all legal and information systems used in the public sector and there are placed on the website of the AA and Ministry of Finance.

- AA is part of the MCS and it is described in the approved by EC Compliance assessment description of the functions of AA.

- in each announcement letter sent to MA, CA or Beneficiary, there is short information of main responsibilities of the AA during the audit engagement.

- in the audit reports there are always mentioned all legal documents on which is based the work of the AA

- during the kick off meetings and the wrap up meetings; the audit team leader and other AA representatives inform the auditees about the audit exercise, methodology, planned checks, financial weaknesses, systemic errors and need for corrective actions.

- in the aim of sharing the audit methodology and results of audits of OP in 2010 and 2011, audit team leaders and auditors have participated as trainers in special course organised by the School for Public Finances. During that course the main tasks of the AA are explained. The trainings are addressed to MA, IB and for 2010 there were 2 trainings – 55 people in total. Up to now for 2011 there were 3 trainings and 101

participants.

- the checklists for public procurement checks were distributed to the MA during those trainings.

We analysed the content of the audit manual and we are of the opinion that the chapters treating system audits and audit of operations would be useful for the auditees. Given the current process for actualisation and optimisation of the content of the manual. (Recommendation 1 and 2), the Audit Authority will publish the respective chapters and checklists of the website of the agency "Audit methodology and practice" on the 01.01.2012. In that way that useful information will be accessible for MA, IB and CA and all beneficiaries and interested parties.

Analysis of the reply by the Commission:

In relation to the first part of the recommendation we note that you agree with our finding and we remain on our position. We accept the corrective measures described in the Letter N° 37-01-54/14.09.2011, Annex 1. Based on that information we will close the recommendation after the updated manual enters in force on the 01.01.2012 and after all planned trainings will be completed.

In relation to the finding that the Manual is not accessible for the MA, IB and CA and the proposal of the AA to publish and share the chapters in relation to system audits and audits of operations and main checklists on the website of the agency before 01.01.2012- we assess those measure adequate for the given situation. We will close the recommendation after 01.01.2012.

Finding n°:2	<u>Key requirement 2: Adequate systems audits</u> (art. 62.1 a) of R 1083, art. 23 c) of R 1828)
	Objective: To obtain reasonable assurance that the work carried out by the Audit Authority (together with the work carried out by other audit bodies on which the Audit Authority will rely) is compliant with the requirements of Council Regulation (EC) No 1083/2006, in particular with Article 62
Responsible body: AA	Volume of funding affected by the finding: Not quantifiable

Description of the finding:

The auditors reviewed one system audit which had been issued in 2009. (System audit on Managing Authority and Intermediate Bodies) It was noted that the checklists used for review and assessment of each Key Requirement were considerably improved after the system audit. It was also noted that the quality control procedures were further detailed. This goes to say that while reviewing the system audit, the EC auditors took into account those further developments after the audited period.

Nevertheless we have still some observations in that regard:

- It was noted that the scope of the audit as per Audit Memorandum and Audit Planning (files N° 1200 of Index System audits) was *All Key Requirements* while the on the spot work and the draft report indicated that KR6 was taken out and was subject to a separate horizontal audit. This scope limitation was not adequately reflected in the working papers.
- While performing a walk through test of findings from the system audit report it was noted that copies of the documents identifying errors later disclosed as findings are not systematically retrievable in the file. For example Finding 2, KR 2 on p.21 and p.23 of the report disclosing the lack of dates on documents for evaluation and for selection- the copy of those documents are not taken or referenced to the finding.
- It was noted that the level of importance of some recommendations (ex. Findings 1, 2, 3 regarding KR1) was changed from the Summary Memorandum Document N°2100 to the report (High to Medium and Medium to Low) without any explanations in the file.

Risks: Inadequate audit trail and lack of factual convincing evidence to support the auditors' findings risks reducing the quality of the audit work. The absence of evidence is a further factor which may complicate the contradictory procedure.

Recommendation:

The Audit Authority should keep copies in case of errors which are disclosed in the

draft report as well as reference those copies to the checklists used.
It is also recommended that any changes in the scope or the level of importance of the recommendations are thoroughly and adequately documented.

Deadline for implementation of recommendations: **three** months from the receipt of this report.

Nature of the recommendations: Prompt

Comments from the responsible body (audited body):

AA accepts the finding in relation to the 2009 audit file checked.

In relation to the recommendation made, we would like to inform you that in 2010 the AA took actions for improving the documentation of the audit work as follows:

As result of the reviews of the audit methodology in july-sept 2010, the Executive Director approved updates of the Manuel of Audit. The requirements for documenting of the audit work were amended. During audits in 2010 the changes of the audit program were clearly documented. The change of the Importance level of some findings made as results of presented evidences from the audited structures, were notes in column "Conclusion AA" in the table of findings of the system audit 28.06.2011 (presented to EC via SFC 200).

In the framework of the abovementioned audit there auditors made reliable references between the audit documents and the supporting audit papers. The team leader supervised periodically this process and made quality control and quality review. The team leader reviewed the entire audit file and the final report. This procedure of quality review is described in Chapter X of the Audit Manual.

In view of improving the quality of the audit work , audit files and audit engagements, all team leaders, all other auditors, and the Director of Directorate " Audit Activity" passed 2 day training in September 2010 "Reporting of audit results" organised by the Institute of Internal Auditors Bulgaria with trainer Mr. [REDACTED] from [REDACTED] In October 2010 lead auditors attended 3 days training "Audit process- planning, reporting, follow up" lector [REDACTED] from [REDACTED] All auditors from AA attended seminar organised by DG REGIO(6-7 December 2010) and working meetings for exchange of audit practices with the Irish AA (21-23 February) and the Dutch AA (7-9 September 2011).

Analysis of the reply by the Commission:

We agree on the corrective actions implemented. We will close the recommendation in due time.

Finding n°:3	<p><u>Key requirement 3: Adequate audits of operations</u> (art. 62.1 b) and 98.4 of R 1083, art. 16-17, 23 c) and Annex IV of R 1828)</p> <p>Objective: To obtain reasonable assurance that the work carried out by the Audit Authority (together with the work carried out by other audit bodies on which the Audit Authority will rely) is compliant with the requirements of Council Regulation (EC) No 1083/2006, in particular with Article 62</p>
Responsible body: AA	Volume of funding affected by the finding: Not quantifiable

Description of the finding:

It was observed that after the audit of each project, the Audit Authority issues a "mini" report which is underlining the specific findings of the project and the recommendations. At the end there is one global report on audit of operations comprising the findings from all "mini" reports. The mini reports and the final report are sent to the Managing Authority and presumably to the Beneficiaries. (distribution rules are not explicitly defined).

During the audit of projects at Beneficiaries level, it was noted that some beneficiaries were not aware of the "mini" reports regarding their project issued from the Audit Authority. (ex. Project BG051PO001-2.1.01-546 [REDACTED])

In some other case, the Managing Authority has commented on the mini report from the Audit Authority, thus not consulting with the Beneficiary. (ex. BG051PO001-3.1.01-0001 [REDACTED])

Risks: AA lacks reliable evidence allowing for a sound contradictory procedure. Secondly, the absence of a contradictory procedure with the parties who may be affected by the content of the report may result in legal proceedings and the auditee would be given solid grounds to successfully appeal against any corrective measures to which he has been made subject.

Recommendation:

The AA is recommended to request the Managing Authority to distribute copies of the mini reports to the organisations concerned, allowing them to react to the findings and conclusions and that during the contradictory procedure the comments from the Managing Authority have been agreed with the Beneficiary.

Deadline for implementation of recommendations: three months from the receipt of this report.	Nature of the recommendations: Specific
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Comments from the responsible body (audited body):

We would like to note that on the wrap up meetings with the MA in 2010 when we were communicating the audit results; we stressed the importance of sending the "small reports" from MA to the audited beneficiary. After we checked from our side, we came to the conclusion that some MA don't make available the entire reports but just some parts of them. In order to minimise this risk, in the post audits of operations we have the reports for information to the Beneficiaries.

We changed the template of the report from on the spot audit and we created a model of electronic letter to Beneficiary for sending draft audit results. Those templates are approved with Ordinance 3-62/05.07.2011 from the Head of AA. They are used for communicating audit results from audits of operations in 2011.

These documents are attached as Annex 2-page 5.

Analysis of the reply by the Commission:

Given the corrective actions and evidences from Annex 2 –page 5, the recommendation will be closed.

Finding n°:4

Key requirement 3: Adequate audits of operations (art. 62.1 b) and 98.4 of R 1083, art. 16-17, 23 c) and Annex IV of R 1828)

Objective: To obtain reasonable assurance that the work carried out by the Audit Authority (together with the work carried out by other audit bodies on which the Audit Authority will rely) is compliant with the requirements of Council Regulation (EC) No 1083/2006, in particular with Article 62

	BGN
Total amount claimed	6 049 292,47
ESF funding	5 141 898,60
National cofinancing	907 393,87
Other	

	BGN	% certified amount
Audited	3 394 141,16	64.63%
Ineligible expenditure		0.00%
Non-quantifiable erros	1.00	0.01%

Description of the finding: Compliance finding Project BG051PO001-3.3.01-0001

This observation concerns costs claimed in payment request which was not within the scope of EC auditors' verification. (Payment request N°2). Therefore the quantification of the error is provided for information purposes and will not be included in the calculation of the combined error rate from the entire audit engagement. Nevertheless for the purpose of exchange of auditors' practices we deem necessary to report it hereunder.

In the framework of the activity "Delivery of hardware for the education system" Lot 2 "Delivery of computers", there was a purchase of 1200 personal computers, invoices n°0000000017 from 05.06.2009 and 0000000019 from 29.07.2009. They were delivered at the Beneficiary's storage room on the 29.07.2009. The expenditure was claimed under chapter 3 "Materials, equipment" (the first invoice) and chapter 4 "External services". (the second)

At the time of the audit of this project by the Audit Authority, (one year later) it was found that the computers are still not delivered to the schools. The auditors issued a recommendation for the Beneficiary to deliver all the computers and to put stickers ESF on them. The recommendation was fulfilled and will be followed up by the Audit Authority by end November 2011.

In relation to that finding we have the following observations :

- The computers were eligible only at the level of their depreciation costs for the time they were going to be used for the project, according to Council Regulation (EC) 1081/2006, art 11, paragraph 3 c). The project started on the 4.11.2008 for 26 months, so at the time of the delivery 29 07 2009 there were only 15 months left before the end of project for which depreciation costs could still be claimed.
- There should have been made a financial correction for the period when the computers were stored at the Beneficiary premises and not used for the purposes

of the project. (in schools)	
Risks: Reimbursement of ineligible expenditure for ESF. Failure to fulfil the projects goals and activities by not taking good care of the goods and services delivered.	
<p>Recommendation:</p> <p>AA should quantify the ineligible expenditure on the basis of delivery price of the computers having in mind two aspects:</p> <ul style="list-style-type: none"> - the fact that only the depreciation costs of the computers are eligible. In addition, those depreciation costs could be claimed only for the duration of the project; - the fact that the computers were stored at the Ministry and were not used according to the project purposes. Therefore the corrections would be estimated at 15 months out of 28 months which is the duration of the project. <p>AA should take adequate action for the MA in order to issue a recovery order for the ineligible part of the expenditure.</p>	
Deadline for implementation of recommendations: one month from the receipt of this report.	Nature of the recommendations: Urgent
<p>Comments from the responsible body (audited body):</p> <p>We will like to note that the AA has detected the non use of the computers within the mentioned project. AA has issued a recommendation to the MA to undertake immediate actions to deliver the equipment to the final users within Activity 5 of the project. (Final audit of operation 02.12.2010).</p> <p>MA committed to deliver the equipment before 31.01.2011 (1200 pc configurations) according to the Action plan (letter MA N°12-4385/08/12/2010). In addition the MA informed AA with letter N° 12-4431 of 08.12.2010 that the contract is suspended because of the on going check of the entire project and respective corrective measures.</p> <p>During may 2011 the AA started system audit on KR 7 " Corrective and preventive measures in case of system errors from audits" and the follow up of the corrective measures from audit OP HRD in 2010. During this audit the AA has followed up the corrective measures undertaken in the framework of project BG051PO001-3.3.01-0001 [REDACTED]</p> <p>There were on the spot checks from [REDACTED] in 116 schools in which 1155 pc were delivered. The process started in October 2010 and ended in march 2011. With letter n° 03-450/14.09.2010 the Beneficiary has committed to deliver the remaining 45 pc before 14.11.2011 (copy of that letter is attached as Annex 3-page1).</p> <p>In relation to the use of the pc as electronic journals the conclusion of the IB is that the central training for work with software for those journals did not happen because the level of integrating them in the schools is different the qualification and preparedness of the teachers, this is described in letter N° 80811-2015 of 03.05.2011 (copy Annex 4-</p>	

p.3)

Having in mind the serious delay with the delivery of the pc and the detected different level of their use for the activities the AA decided in the report from KR 7 to propose 5% flat rate correction on the entire amount of the 1200 pc configurations.

The 5% proposed is according the Guidance of EC on principles and indicative scales applied by EC for established the financial corrections art H2 of Annex II Regulation 1164/94 (C2002-2871) and draft EC Guidance of principles and indicative scales for financial corrections art 99 and 100 of Regulation 1083/2006 (22.06.2011).

The total amount of the 1200 pc is 1 072 800 BGN including VAT. The audited certified expenditure on 31.12.2009 is 536 400BGN and therefore the correction applied is 26 820. in 2010 there were no certified expenditure. The AA recommends to MA to require that the Beneficiary recovers the amount of 26 820 and to apply 5% flat rate on each next verification of expenditure for pc delivery. The proposal is communicated to MA and IB.

We inform you that a payment request from this project came within the sample for 2011 for OP HRD. Additional checks in relation to the use of the equipment and the indicators achieved for activity 5 of the project will be performed during the operations audit in 2011.

In relation to the comment on the eligibility of the pc expenditures we would like to inform you that there were budgeted and claimed under Group B – Eligible expenditures under FEDER PC and Hardware.

Analysis of the reply by the Commission:

We accept the proposed financial correction of 5% according the Guidance of EC on principles and indicative scales applied by EC for established the financial corrections art H2 of Annex II Regulation 1164/94 (C2002-2871) and draft EC Guidance of principles and indicative scales for financial corrections art 99 and 100 of Regulation 1083/2006 (22.06.2011).

We accept the decision the correction to be applied on the certified expenditures and on each next verified payment claim.

We would like to be kept informed on the position of the MA/IB on the proposed from the AA decision on corrections.

After the corrections are finally agreed and implemented we will close the recommendation.

4.1.2. Findings concerning specific matters (publicity, state aids, environmental protection...etc)

Finding n°:5	Key requirement 3: Adequate audits of operations (art. 62.1 b) and 98.4 of R 1083, art. 16-17, 23 c) and Annex IV of R 1828)
	Objective: To obtain reasonable assurance that the work carried out by the Audit Authority (together with the work carried out by other audit bodies on which the Audit Authority will rely) is compliant with the requirements of Council Regulation (EC) No 1083/2006, in particular with Article 62
Responsible body: AA	Volume of funding affected by the finding: Not quantifiable
<p>Description of the finding: Compliance finding Project BG051PO001-2.1.01-546</p> <p>According to Commission Regulation 1828/2006, art. 8 (4), the Beneficiary is obliged to provide a clear notice that the project is co-financed by ESF.</p> <p>In the case of the abovementioned project, at the end of security training the participants have obtained a certificate of attendance. It was observed that those certificates do not display a clear notice of the ESF contribution and moreover they don't show any EU reference.</p> <p>This observation was not mentioned in the Audit Authority's report Annex 10.</p>	
<p>Risks: Non compliance with national guidelines and Commission Regulation 1826/2006, art 8 (4) provisions. Lack of adequate information about ESF co funded actions. Consequently those non compliances might trigger failure to meet the objectives of the funding in an efficient and effective manner and loss of the funding itself.</p>	
<p>Recommendation:</p> <p>The AA should always verify the compliance with the publicity rules according to Regulation 1826/2006 and indicate when they are not respected. Although the checklists of the Audit Authority cover in detail this aspect, the auditors should make sure that they verify its application regarding all project activities.</p>	
Deadline for implementation of recommendations: three months from the receipt of this report.	Nature of the recommendations: Prompt
<p>Comments from the responsible body (audited body):</p> <p>According the audit methodology during on the spot audits auditors always check the publicity measures. The results from those checks are documented in Section 7</p>	

"Publicity rules" from the Summary control sheet for audits of operations. The section contains questions about the form of the used graphic images and plates, the information events and all documents generally with the requirements for publicity as per Regulation 1828/2006. Those questions are documented at each audit of beneficiary/project. For the given project the team has checked the abovementioned rules and has not noted any deviation for the following reasons:

The specialised trainings for acquiring professional qualification are regulated with the Law for professional education and training. The Guidance N from 2003 regulates the documents and as a result the trainee receives certificate which proves the qualification acquired and not the attendance of the training. This certificate is an official document and has the necessary requisites as per art 44 of Guidance 4 of 2003 in relation to art 38/3/4 of Law of professional education and training. Art 90 par2 of the guidance obliges the training organisations to follow the rules of art 44 of the form of the certificate awarded.

Having in mind this, the audit team had not defined as weakness the fact that on the certificates there was no mention of the ESF co- financing or the fact that the professional qualification was achieved in the framework of ESF project. The regulatory basis of those certificates does not foresee the inclusion of such mention on the templates.

In relation to the recommendation issued, the AA deems that in such cases it would be useful if the training organisation issues additional certificate for attendance in the trainings. They would not have to comply with the Law of professional education and training rules. This certificate would reflect the participation in a given education and will put access on the fact that it was co financed by ESF.

The audit team will recommend immediately to the MA/IB the issuance of such certificates of attendance for such projects if DG EMPL accepts such measure as adequate.

Analysis of the reply by the Commission:

We accept the given arguments and the proposal in similar cases Beneficiary (training organisation) to issue additional attendance certificates for the trainings. We accept that the AA recommends to the MA/IB the issuance of such certificates. When this recommendation will be issued and followed up we will close the recommendation..

4.1.3. Financial findings

Finding n°:6	<u>Key requirement 3: Adequate audits of operations</u> (art. 62.1 b) and 98.4 of R 1083, art. 16-17, 23 c) and Annex IV of R 1828)
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Objective: To obtain reasonable assurance that the work carried out by the Audit Authority (together with the work carried out by other audit bodies on which the Audit Authority will rely) is compliant with the requirements of Council Regulation (EC) No 1083/2006, in particular with Article 62

	BGN
Total amount claimed	47 681,82
ESF funding	40 529,55
National cofinancing	7 152,27
Other	

	BGN	% certified amount
Audited	40 175,40	84,25%
Ineligible expenditure	0.00	
Non-quantifiable errors	0.00	0.00%

Description of the finding: Compliance finding Project BG051PO001-3.3.01-14

During the substantive testing and reconciliation of costs claimed for that project, for chapter 1 "Salaries" from the payment request, the auditors observed incoherence between the programme for training for a specific teacher and his protocol for delivered service. For a course of numismatics, (8.07.2008-28.08.2008) according the service contract (from 01.07.2008) and the delivery note (from 23.08.2008) the teacher was paid for 12 days. At the same time from the schedule of courses provided for this training, the numismatic course given by this teacher is only for 6 days. No adequate explanation for this mismatch was provided by the Beneficiary so the remaining 6 days are difficult to be reconciled with the timetable. Besides, these 6 days were taught by a teacher not included in the project and therefore are not eligible for reimbursement.

This reconciliation problem was not identified in the Audit Authority report Annex 27.

Risks: Inadequate audit trail and lack of sound financial management and evidence as to support the incurred costs. Failure to meet the objectives and goals of the funding stipulated in the grant agreement which could lead to declaration of ineligible expenditure ineligible costs.

Recommendation:

AA should strengthen the verification on the coherence between the claimed hours/days and the programmes of the activities and cross check with the reality of the expenditures. In the particular case the 6 non eligible days should be recovered from the project funding.(152,89 lv)

Deadline for implementation of recommendations: **three** months from the receipt of this report.

Nature of the recommendations: Prompt

Comments from the responsible body (audited body):

The AA auditors check always the eligibility of the expenditure for all projects within the sample for audit of operations. The check is documented in the Summary control sheet, section 4.3 " Eligibility of expenditure". In order to assess the eligibility the auditor checks the reality, documentation, accountancy for each expenditure item and

reflects those results in Control sheet Details of expenditure. This sheet is EXCEL format because foresees arithmetic checks. It has also references to all national rules stipulation this eligibility of the expenditure for a given OP.

The checks done under project BG051PO001-3.3.1-14 are documented in the respective sheets. During the audit of that project in 2010 there was not deviation in relation to the eligibility of the salary of the numismatic teacher under that project. In relation to the finding of DG EMPL we did another check of the documents and therefore we re confirm our conclusion that the expenditure item is eligible because of the following reasons:

- according the condition of the civil contract 01.07.2008 (art 1-2) for [REDACTED] she is in charge of training of students on numismatics under project Trakia-crossroad of civilisations BG051PO001/07/3.3-01/14 within OP HRD. The service is practice education during 12 days according the programme, until 24.07.2008 for a salary of 360lv. The service is evidences with attendance sheet.

- the correctness of the services performed by Mrs. [REDACTED] and therefore the payments for that service is proved with: attendance sheet for training activity 3 and 4 for project Trakia- crossroad of civilisations, signed by all 60 trainees, 6 tutors and 6 teachers (including [REDACTED], approved by the Head of this activity and the Project Manager. In the list in column comments for each teacher there are given the data for each education (copy of the attendance sheet is in Annex 5-page 7); the protocol for performed work from 24.07.2008 states that the work was accepted without comments and signed by the project manager and [REDACTED] (Annex 6 page 1); the cash receipts from 8.12.2008 and 11.12.2008 for 305.78 lv for [REDACTED] for the given project.

In reality the education programme mentioned the name of [REDACTED] technical expert – restaurateur from the Regional historical museum Stara Zagora. She does not have the qualification to be teacher and therefore she did not do any teaching nor was given any salary .Her name is in the programme because she is responsible for the inventory and bear the responsibility for all materials in the museum; The access in the museum is granted only with her permission. The audit team did not note as deficiency the inclusion of Mrs [REDACTED] in the programme given the other supporting documents in favour of the payment of the service delivered by [REDACTED] In relation to the finding from DG EMPL AA asked (letter N° 91-00-6/19.03.2011) that in the file of the project is attached explanatory note for the inclusion of Mrs. [REDACTED] in the project in the project activities. The Manager Mrs. [REDACTED] attached explanatory note 28.03.2011 attached from [REDACTED] to the project file (annex 7 – page1).

Having in mind those explanations we think that the evidence supports the eligibility of the expenditure for salary and the finding and recommendation have to be re assessed.

Analysis of the reply by the Commission:

In relation to the abovementioned arguments and the evidences from Annexes 5, 6 and 7, we think that they confirm the eligibility of the full salary for Mrs. [REDACTED] and therefore the finding and recommendation are re assessed.

The recommendation is recovered but in the aim of clear audit trail, AA should require adequate explanations in all cases where in the projects there are external persons

involved.

Finding n°:7

Key requirement 3: Adequate audits of operations (art. 62.1 b) and 98.4 of R 1083, art. 16-17, 23 c) and Annex IV of R 1828)

Objective: To obtain reasonable assurance that the work carried out by the Audit Authority (together with the work carried out by other audit bodies on which the Audit Authority will rely) is compliant with the requirements of Council Regulation (EC) No 1083/2006, in particular with Article 62

	BGN
Total amount claimed	45 474,10
ESF funding	30 922,39
National cofinancing	5 456,89
Other	9 094,82

	BGN	% certified amount
Audited	24 770,41	54,47%
Ineligible expenditure	8 883,04	19,5%
Non-quantifiable errors	0.00	0.00%

Description of the finding: Compliance finding Project BG051PO001-2.1.01/0370

In the framework of the project for the purpose of the trainings foreseen, a partnership agreement was concluded between the Beneficiary and [REDACTED]. [REDACTED] had incurred all training costs which were registered in the accountancy. Subsequently, the Beneficiary [REDACTED] had claimed for reimbursement from the Intermediate Body those expenditures incurred by the partner [REDACTED]. These were verified and reimbursed to [REDACTED].

At the time of the EC audit it was noted that the partner was still not reimbursed for the costs which had been supported by him in the framework of the project. Therefore the Beneficiary had presented for reimbursement costs which are not previously paid and not registered in the ledger.

The Audit Authority had not disclosed this issue in the mini report Annex.6

Risks: Reimbursement of costs which are not paid. Failure to meet project's objectives and goals and potential loss of EU funding.

Recommendation:

The AA should instruct the Managing Authority to follow up on this issue and to ensure itself that the totality of the costs incurred by [REDACTED] had been paid from [REDACTED]. For the future it is very important to ensure that payment settlements between Beneficiary and partners are made before the costs are claimed to the higher level and that the payments are duly registered in the ledger.

Deadline for implementation of recommendations: one month from the receipt of this report.

Nature of the recommendations: Urgent

Comments from the responsible body (audited body):

The AA accepts the finding. With letter 91-00-6/19.03.2011 AA recommended to MA to require from beneficiary to immediately reflect in the accountancy the due on the partner account and to transfer on the partner account the due amount. Those actions should be supported with the needed documents kept by the MA and beneficiary.

The actions recommended were fulfilled by the Beneficiary and this was confirmed after the on the spot visit on the 5.04.2011. there are attached copy of the account records for the account checked for period January-December 2010 from which it is seen that the debt to the partner is accounted for. There were two pages copy of the corrected Annual Tax return declaration from 31.03.2011 for correcting the amount of the debts for [REDACTED] for 2011. With bank receipt from 18.03.2011 the due amount of 12 696.45 lv to the partner [REDACTED] was paid (copy of the documents are attached under Annex 8 – p.7)

We would like to point that the correct accounting of the expenditures and infomes in the accountancy of the beneficiary is obligatory check during the operations audit. The Check is documented in Section 3 "Accountancy" from the Summary control sheet and the Checklist for audits of operations. All auditors from the AA are instructed to conduct this check and to document it. We think that the weakness detected from the EC auditors is a one-off case and individual error. In addition we would like to point out that as from 3.1.2011 the concerned auditor is no longer employed within AA.

Based on the arguments provided we think the recommendation on the finding 7 is fulfilled.

Analysis of the reply by the Commission:

Having in mind the corrective actions and the evidence submitted under Annex 8- page 7, the recommendation will be closed.

5. ANNEX

Urgent remedial action is required: The key controls in the management and control systems are absent or are not complied with on a regular basis. There is a fundamental weakness or deficiency in control which involves a substantial risk of error, irregularity or fraud. There is a substantial risk of failure to achieve those objectives of the management and control systems which concern the reliability of financial reporting for the programme, the effectiveness and efficiency of the operations and activities and compliance with national and community regulations. Such risks could have an adverse impact on the programme's financial report. Urgent remedial action should be taken. The recommendation should be implemented one month at the latest after receipt of the final report in the Member State's language.

Prompt remedial action is required: There is a weakness or deficiency in control which, although not fundamental, exposes individual areas of the existing management and control systems to a less immediate level of risk of error, irregularity or fraud. Such a risk could have an impact on the effectiveness of the management and control systems and on its operational objectives and should be of concern to the auditee's management. Prompt remedial action should be taken. The recommendation should be implemented three months at the latest after receipt of the final report in the Member State's language

Specific remedial action is required: There is a weakness or deficiency in control which individually has no major impact but where improved controls would benefit the implementation of the programme and/or allow the auditee to achieve greater effectiveness and/or efficiency. There is a possibility of undesirable effects at the process level, which, combined with other weaknesses, could give cause for concern. Specific remedial action should be taken. The recommendation should be implemented three months at the latest after receipt of the final report in the Member State's language.

