

<p style="text-align: center;"><b>Annex 1 to the Annual Activity report Statement of the Resources Director</b></p>
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*“I declare that in accordance with the Commission’s communication on clarification of the responsibilities of the key actors in the domain of internal audit and internal control in the Commission<sup>1</sup>, I have reported my advice and recommendations to the Director-General on the overall state of internal control in the DG.*

*I hereby certify that the information provided in Parts 2 and 3 of the present AAR and in its annexes 2 to 5 is, to the best of my knowledge, accurate and exhaustive.”*

*(signed)*

*Jimmy Jamar  
Acting Resources Director*

Bruxelles, le 31 mars 2011

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<sup>1</sup> SEC(2003)59 of 21.01.2003

## ANNEX 2: Human and Financial resources by ABB activity

Code ABB Activity	ABB Activity	Human Resources by ABB activity		
		Establishment Plan posts	External Personnel	Total
04 02	ESF	207	76	283
04 03	Working in Europe	95	20	115
04 04	Employment, Social solidarity and Gender equality	179	57	236
04 05	EGF	12	0	12
04 06	IPA	8	12	20
AWBL 01	Administrative support	97	65	162
AWBL 02	Policy strategy and co-ordination	69	26	95
	Total	667	256	923

## IMPLEMENTATION OF THE GLOBAL ENVELOPE

BUDGET LINES CONCERNED: 04 01 02 11 00 01 TO 04 01 02 11 00 06  
(based on information received from BUDG services following the 2012 Budget circular)

(IN EUROS)		APPROPRIATIONS 2010 (C1)			APPROPRIATIONS carried over (C8)	
BUDGET LINE	BUDGET LINE DESCRIPTION	AVAILABLE APPROP. 2010	COMMITMENTS 2010	PAYMENTS 2010	AMOUNTS OF APPROPRIATIONS CARRIED OVER FROM 2009	% IMPLEMENTATION ON APPROPRIATIONS CARRIED OVER FROM 2009
04.010211.00		26.600	0	0	0	0
04.010211.00.01.10	Mission expenses	1.404.000	1.404.000	1.114.007	141.837	79,4%
04.010211.00.01.30	Representation expenses	15.000	15.000	1.079	12.536	1,9%
04.010211.00.02.20	Meeting costs	4.230.000	4.230.000	1.924.261	1.882.396	65,2%
04.010211.00.02.40	Conference costs	829.400	522.807	227.644	397.934	93,6%
04.010211.00.03	Meetings of committees	100.000	100.000	8.436	50.869	4,9%
04.010211.00.04	Studies and consultations					
04.010211.00.05	Development of management and information systems	305.000	304.660	22.855	266.506	100,0%
04.010211.00.06	Further training and management training	278.235	278.235	82.651	153.693	74,5%
	TOTAL	7.188.235	6.854.703	3.380.933	2.905.772	72,1%

**Annex 3 Financial Reports - DG EMPL - Financial Year 2010****Table 1 : Commitments****Table 2 : Payments****Table 3 : Commitments to be settled****Table 4 : Balance Sheet****Table 5 : Economic Outturn Account****Table 6 : Average Payment Time Limits****Table 7 : Income****Table 8 : Recovery of undue Payments****Table 9 : Ageing Balance of Recovery Orders****Table 10 : Waivers of Recovery Orders****Table 11 : Negotiated Procedures (excluding Building Contracts)****Table 12 : Summary of Contracts (excluding Building Contracts)****Table 13 : Building Contracts****Table 14 : Contracts declared Secret**

## Additional comments

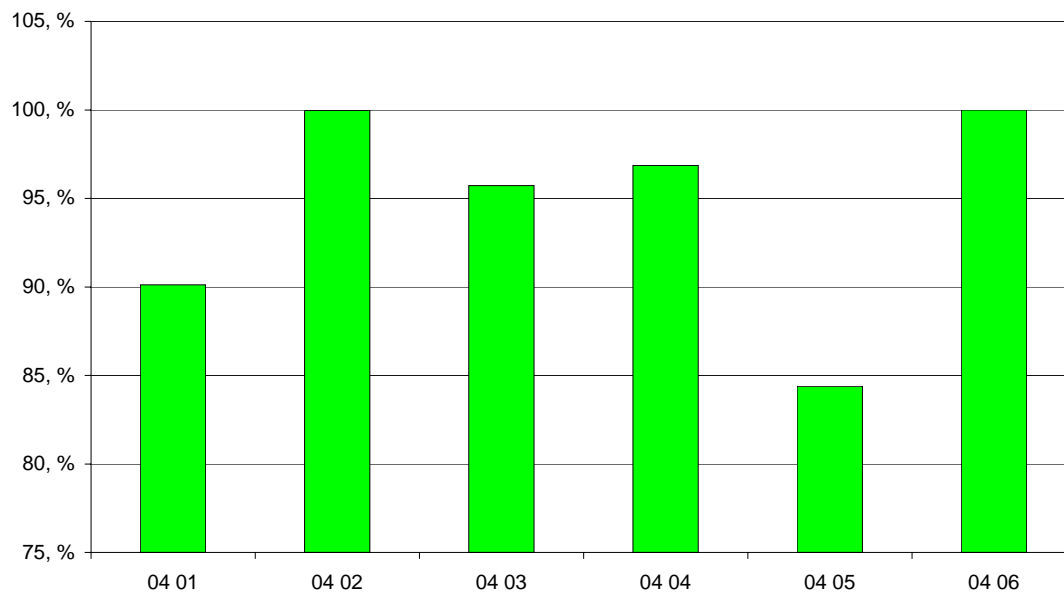
*DG EMPL, together with certain other DGs, is currently examining an issue concerning the accounting treatment of part of the expenses paid by national managing authorities for certain financial engineering actions. It is not known at this stage what, if any, impact this review could have on future accounts.*

**TABLE 1: OUTTURN ON COMMITMENT APPROPRIATIONS IN 2010 (in Mio €)**

Chapter		Commitment appropriations	Commitments made	%
		1	2	3=2/1
<b>Title 04 : Employment and social affairs</b>				
04 01	Administrative expenditure of `Employment and social affairs¿ policy area	32,84	29,60	90,11 %
04 02	European Social Fund	10.829,33	10.827,00	99,98 %
04 03	Working in Europe ¿ Social dialogue and mobility	74,03	70,87	95,73 %
04 04	Employment, social solidarity and gender equality	192,31	186,29	96,87 %
04 05	European Globalisation Adjustment Fund (EGF)	123,52	104,23	84,39 %
04 06	Instrument for Pre-Accession Assistance (IPA) ¿ Human resources development	87,50	87,50	100,00 %
<b>Total Title 04</b>		<b>11.339,53</b>	<b>11.305,49</b>	<b>99,70 %</b>
<b>Total DG EMPL</b>		<b>11.339,53</b>	<b>11.305,49</b>	<b>99,70 %</b>

\* Commitment appropriations authorised include, in addition to the budget voted by the legislative authority, appropriations carried over from the previous exercise, budget amendments as well as miscellaneous commitment appropriations for the period (e.g. internal and external assigned revenue).

% Outturn on commitment appropriations

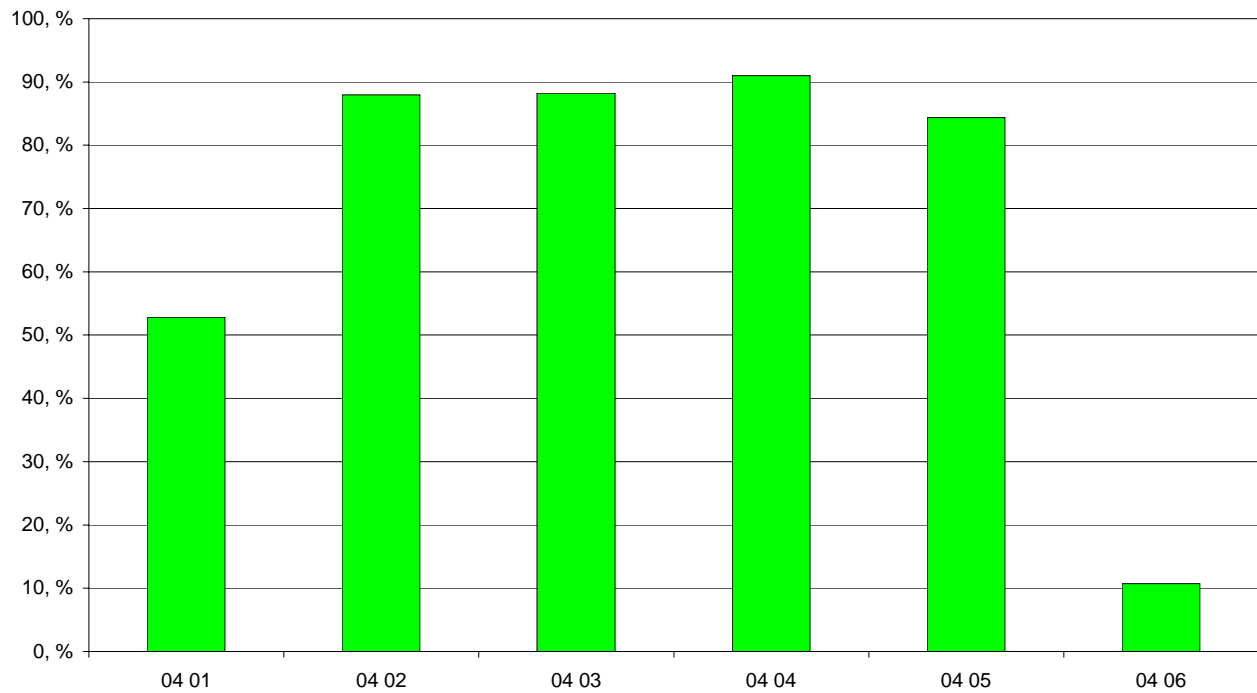


**TABLE 2: OUTTURN ON PAYMENT APPROPRIATIONS IN 2010 (in Mio €)**

Chapter		Payment appropriations	Payments made	%
		1	2	3=2/1
<b>Title 04 : Employment and social affairs</b>				
04 01	Administrative expenditure of `Employment and social affairs¿ policy area	45,95	24,26	52,79 %
04 02	European Social Fund	8.032,16	7.065,95	87,97 %
04 03	Working in Europe ¿ Social dialogue and mobility	64,03	56,47	88,21 %
04 04	Employment, social solidarity and gender equality	169,94	154,65	91,00 %
04 05	European Globalisation Adjustment Fund (EGF)	123,52	104,23	84,39 %
04 06	Instrument for Pre-Accession Assistance (IPA) ¿ Human resources development	29,84	3,19	10,71 %
<b>Total Title 04</b>		<b>8.465,42</b>	<b>7.408,76</b>	<b>87,52 %</b>
<b>Total DG EMPL</b>		<b>8.465,42</b>	<b>7.408,76</b>	<b>87,52 %</b>

\* Payment appropriations authorised include, in addition to the budget voted by the legislative authority, appropriations carried over from the previous exercise, budget amendments as well as miscellaneous payment appropriations for the period (e.g. internal and external assigned revenue).

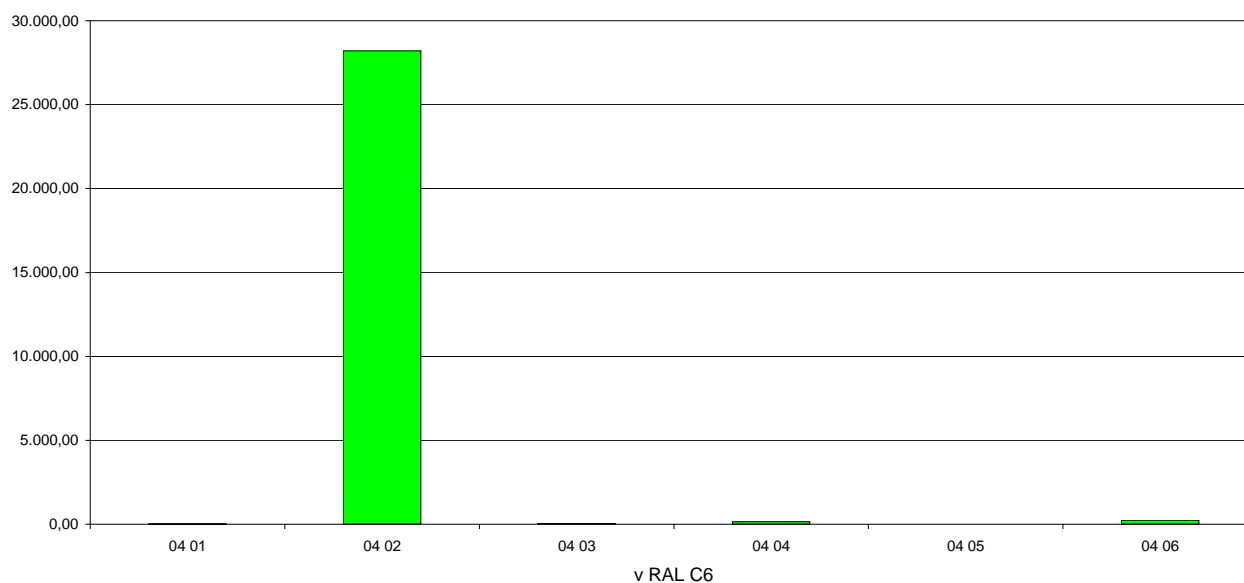
% Outturn on payment appropriations



**TABLE 3 : BREAKDOWN OF COMMITMENTS TO BE SETTLED AT 31/12/2010 (in Mio€)**

Chapter	2010 Commitments to be settled				Commitments to be settled from financial years previous to 2010	Total of Commitments to be settled at end of financial year 2010 (incl.corrections)	Total of Commitments to be settled at end of financial year 2009 (incl.corrections)	
	Commitments 2010	Payments 2010	RAL 2010	% to be settled				
	1	2	3=1-2	4=1-2/1	5	6=3+5	7	
<b>Title 04 : Employment and social affairs</b>								
04 01	Administrative expenditure of 'Employment and social affairs' policy area	28,33	14,98	13,35	47,13 %	0,21	13,56	13,13
04 02	European Social Fund	10.827,00	94,40	10.732,60	99,13 %	17.477,21	28.209,81	25.924,43
04 03	Working in Europe ' Social dialogue and mobility	70,87	32,26	38,61	54,48 %	21,81	60,42	55,58
04 04	Employment, social solidarity and gender equality	186,29	95,21	91,08	48,89 %	62,33	153,40	133,42
04 05	European Globalisation Adjustment Fund (EGF)	104,23	104,23	0,00	0,00 %	0,00	0,00	0,00
04 06	Instrument for Pre-Accession Assistance (IPA) ' Human resources development	87,50	0,00	87,50	100,00 %	144,84	232,34	148,04
<b>Total Title 04</b>		<b>11.304,23</b>	<b>341,09</b>	<b>10.963,15</b>	<b>96,98 %</b>	<b>17.706,39</b>	<b>28.669,54</b>	<b>26.274,60</b>
<b>Total DG EMPL</b>		<b>11.304,23</b>	<b>341,09</b>	<b>10.963,15</b>	<b>96,98 %</b>	<b>17.706,39</b>	<b>28.669,54</b>	<b>26.274,60</b>

Breakdown of Commitments remaining to be settled (in Mio EUR)



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TABLE 4 : BALANCE SHEET EMPL

BALANCE SHEET	2010	2009
A.I. NON CURRENT ASSETS	6.528.355.637,73	6.157.007.080,05
A.I.5. LT Pre-Financing	6.528.355.637,73	6.157.007.080,05
A.II. CURRENT ASSETS	346.619.574,91	20.891.362,68
A.II.2. Short-term Pre-Financing	29.530.768,03	18.454.449,64
A.II.3. Short-term Receivables	317.088.806,88	2.436.913,04
<b>ASSETS</b>	<b>6.874.975.212,64</b>	<b>6.177.898.442,73</b>
P.III. CURRENT LIABILITIES	-6.614.870.478,90	-7.185.715.512,47
P.III.4. Accounts Payable	-6.614.870.478,90	-7.185.715.512,47
<b>LIABILITIES</b>	<b>-6.614.870.478,90</b>	<b>-7.185.715.512,47</b>
<b>NET ASSETS (ASSETS less LIABILITIES)</b>	<b>260.104.733,74</b>	<b>-1.007.817.069,74</b>
P.I.2. Accumulated Surplus / Deficit	0,00	0,00
Non-allocated central (surplus)/deficit*	-260.104.733,74	1.007.817.069,74
<b>TOTAL</b>	<b>0,00</b>	<b>0,00</b>

\* This figure is a balancing amount presented here so as to reflect the fact that the accumulated result of the Commission is not attributed to each DG

TABLE 5 : ECONOMIC OUTTURN ACCOUNT EMPL

ECONOMIC OUTTURN ACCOUNT	2010	2009
II.1 SURPLUS/ DEF. FROM OPERATING ACTIVT	6.084.273.657,69	8.087.807.973,89
II.1.1. OPERATING REVENUES	-15.469.831,42	-60.409.576,72
II.1.1.1. Other operating revenue	-15.469.831,42	-60.409.576,72
II.1.2. OPERATING EXPENSES	6.099.743.489,11	8.148.217.550,61
II.1.2.1. Administrative Expenses	11.634.201,45	12.873.171,57
II.1.2.2. Operating Expenses	6.088.109.287,66	8.135.344.379,04
II.2. SURPLUS/DEF. NON OPERATING ACTIVIT	-122.561,71	-254.137,59
II.2. FINANCIAL OPERATIONS	-122.561,71	-254.137,59
II.2.1. Financial revenue	-125.504,34	-209.758,18
II.2.2. Financial expenses	2.942,63	-44.379,41
<b>ECONOMIC OUTTURN ACCOUNT</b>	<b>6.084.151.095,98</b>	<b>8.087.553.836,30</b>

**TABLE 6: AVERAGE PAYMENT TIME LIMITS FOR 2010 - DG EMPL**

<b>Legal Times</b>							
<b>Maximum Payment Time</b>	<b>Total Number of Payments</b>	<b>Nbr of Payments within Time Limit</b>	<b>Percentage</b>	<b>Average Payment Times (Days)</b>	<b>Nbr of Late Payments</b>	<b>Percentage</b>	<b>Average Payment Times (Days)</b>
20	2	2	100,00 %	9,00			
30	1787	1655	92,61 %	16,86	132	7,39 %	42,62
45	877	843	96,12 %	18,36	34	3,88 %	87,76
60	480	448	93,33 %	23,38	32	6,67 %	114,72
<b>Total Number of Payments</b>	<b>3146</b>	<b>2948</b>	<b>93,71 %</b>		<b>198</b>	<b>6,29 %</b>	
<b>Average Payment Time</b>	<b>21,03</b>			<b>18,28</b>			<b>62,03</b>

<b>Target Times</b>							
<b>Target Payment Time (Days)</b>	<b>Total Number of Payments</b>	<b>Nbr of Payments within Target</b>	<b>Percentage</b>	<b>Average Payment Times (Days)</b>	<b>Nbr of Late Payments</b>	<b>Percentage</b>	<b>Average Payment Times (Days)</b>
20	469	374	79,74 %	12,78	95	20,26 %	28,78
30	2677	2289	85,51 %	17,02	388	14,49 %	50,73
<b>Total Number of Payments</b>	<b>3146</b>	<b>2663</b>	<b>84,65 %</b>		<b>483</b>	<b>15,35 %</b>	
<b>Average Payment Time</b>	<b>21,03</b>			<b>16,43</b>			<b>46,42</b>

<b>Suspensions</b>							
<b>Average Report Approval</b>	<b>Average Payment</b>	<b>Number of Suspended</b>	<b>% of Total Number</b>	<b>Total Number of Payments</b>	<b>Amount of Suspended</b>	<b>% of Total Amount</b>	<b>Total Paid Amount</b>
13	45	456	14,49 %	3146	742.293.074,29	10,10 %	7.352.067.259,32

<b>Late Interest paid in 2010</b>			
<b>DG</b>	<b>GL Account</b>	<b>Description</b>	<b>Amount (Eur)</b>
DG EMPL	65010100	Interest on late payment of charges New FR	2 942,63
			<b>2 942,63</b>

**TABLE 7 : SITUATION ON REVENUE AND INCOME IN 2010**

Chapter	Revenue and income recognized			Revenue and income cashed from			Outstanding balance	
	Current year RO	Carried over RO	Total	Current Year RO	Carried over RO	Total		
	1	2	3=1+2	4	5	6=4+5		
<b>Title 5: REVENUE ACCRUING FROM THE ADMINISTRATIVE OPERATION OF THE INSTITUTION</b>								
52	REVENUE FROM INVESTMENTS OR LOANS GRANTED, BANK AND OTHER INTEREST	160.253,06	0,00	160.253,06	97.648,07	0,00	97.648,07	62.604,99
	<b>Total Title 5</b>	<b>160.253,06</b>	<b>0,00</b>	<b>160.253,06</b>	<b>97.648,07</b>	<b>0,00</b>	<b>97.648,07</b>	<b>62.604,99</b>
<b>Title 6: CONTRIBUTIONS AND REFUNDS IN CONNECTION WITH COMMUNITY/EU AGREEMENTS AND PROGRAMMES</b>								
60	CONTRIBUTIONS TO COMMUNITY/EU PROGRAMMES	580.000,00	48.729,31	628.729,31	578.000,00	48.729,31	626.729,31	2.000,00
61	REPAYMENT OF MISCELLANEOUS EXPENDITURE	7.611.707,35	3.082.675,61	10.694.382,96	6.181.124,93	1.812.129,24	7.993.254,17	2.701.128,79
65	FINANCIAL CORRECTIONS	7.580.035,68	134.407,93	7.714.443,61	7.453.563,85	134.407,93	7.587.971,78	126.471,83
66	OTHER CONTRIBUTIONS AND REFUNDS	2.386.682,58	1.098.073,53	3.484.756,11	1.892.641,18	482.920,28	2.375.561,46	1.109.194,65
	<b>Total Title 6</b>	<b>18.158.425,61</b>	<b>4.363.886,38</b>	<b>22.522.311,99</b>	<b>16.105.329,96</b>	<b>2.478.186,76</b>	<b>18.583.516,72</b>	<b>3.938.795,27</b>
<b>Title 9: MISCELLANEOUS REVENUE</b>								
90	MISCELLANEOUS REVENUE	-252.110,86	252.110,86	0,00	-252.110,86	252.110,86	0,00	0,00
	<b>Total Title 9</b>	<b>-252.110,86</b>	<b>252.110,86</b>	<b>0,00</b>	<b>-252.110,86</b>	<b>252.110,86</b>	<b>0,00</b>	<b>0,00</b>
<b>Total DG EMPL</b>		<b>18.066.567,81</b>	<b>4.615.997,24</b>	<b>22.682.565,05</b>	<b>15.950.867,17</b>	<b>2.730.297,62</b>	<b>18.681.164,79</b>	<b>4.001.400,26</b>

**TABLE 8 : RECOVERY OF UNDUE PAYMENTS**  
**(Number of Recovery Contexts and corresponding Transaction Amount)**

RECOVERY ORDERS ISSUED IN 2010 Year of Origin (commitment)	Error		Follow Up		Irregularity		OLAF Notified		No error / irregularity		TOTALS	
	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount
1999					2	50.193,90					2	50.193,90
2004					5	44.291,30					5	44.291,30
2005	1	1.123,41									1	1.123,41
2006	4	53.555,73			1	5.039,93			2	47.008,88	7	105.604,54
2007	8	591.991,72							9	318.266,27	17	910.257,99
2008	6	228.934,18	1	296.390,04					20	5.843.957,18	27	6.369.281,40
2009	2	39.731,09							14	2.265.122,05	16	2.304.853,14
2010	1	571,68							6	161.600,18	7	162.171,86
No Link					17	7.663.322,05	3	59.392,50	2	17.155,64	22	7.739.870,19
	22	915.907,81	1	296.390,04	25	7.762.847,18	3	59.392,50	53	8.653.110,20	104	17.687.647,73

**EXPENSES**

No error / irregularity	
Nbr	Amount
2	-38.532,15

INCOME LINES IN INVOICES

	Error		Irregularity		No error / irregularity		OLAF Notified	
	Nbr	Non-Eligible Amount	Nbr	Non-Eligible Amount	Nbr	Non-Eligible Amount	Nbr	Non-Eligible Amount
NON ELIGIBLE AMOUNT IN COST CLAIMS	29	272.524,60	1	9.312,43	83	116.494.993,76	1	212.801,86

	Error		Irregularity		No error / irregularity	
	Nbr	Credit Note Amount	Nbr	Credit Note Amount	Nbr	Credit Note Amount
CREDIT NOTES	27	-1.232.343,92	1	-1.660,44	80	-2.911.212,36

**TABLE 9: AGEING BALANCE OF RECOVERY ORDERS AT 31/12/2010 FOR EMPL**

<b>Year of Origin</b>	<b>Number at 01/01/2010</b>	<b>Number at 31/12/2010</b>	<b>Evolution</b>	<b>Open Amount (Eur) at 01/01/2010</b>	<b>Open Amount (Eur) at 31/12/2010</b>	<b>Evolution</b>
1995	1	1	0,00 %	415.039,27	415.039,27	0,00 %
1997	1	1	0,00 %	21.608,71	21.608,71	0,00 %
1998	2	1	-50,00 %	123.560,64	118.391,29	-4,18 %
2002	2	1	-50,00 %	351.938,36	326.827,80	-7,13 %
2003	2		-100,00 %	274.647,56		-100,00 %
2004	3	2	-33,33 %	597.593,73	593.994,07	-0,60 %
2005	1		-100,00 %	16.214,05		-100,00 %
2006	2	1	-50,00 %	458.184,63	160.054,37	-65,07 %
2007	2	1	-50,00 %	1.050.750,57	2.631,20	-99,75 %
2008	4	3	-25,00 %	259.875,95	237.957,35	-8,43 %
2009	25	1	-96,00 %	1.046.583,77	9.195,56	-99,12 %
2010		23			2.115.700,64	
<b>Totals</b>	<b>45</b>	<b>35</b>	<b>-22,22 %</b>	<b>4.615.997,24</b>	<b>4.001.400,26</b>	<b>-13,31 %</b>

TABLE 10 : RECOVERY ORDER WAIVERS IN 2010 >= EUR 100.000

	Waiver Central Key	Linked RO Central Key	RO Accepted Amount (Eur)	LE Account Group	Commission Decision	Comments
1	3233100252	3240502129	-252.110,86	Private Companies		

<b>Total DG EMPL</b>	<b>-252.110,86</b>
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<b>Number of RO waivers</b>	<b>1</b>
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*Justifications:*

*Commission Decision*

*insolvability of Forum des Migrants*

**TABLE 11 : CENSUS OF NEGOTIATED PROCEDURES - DG EMPL - YEAR 2010****Contracts > 60.000**

<b>Negotiated Procedure Legal base</b>	<b>Number of Procedures</b>	<b>Amount (€)</b>
Art. 126 1a	1,	149.300,00
Art. 126 1f	2,	199.735,00
<b>Total</b>	<b>3,</b>	<b>349.035,00</b>

**TABLE 12 : SUMMARY OF PROCEDURES OF DG EMPL EXCLUDING BUILDING CONTRACTS**

<b>Internal procedures &gt; €60,000</b>	<b>2009</b>		<b>2010</b>	
<b>Contract Class</b>	<b>Count</b>	<b>Amount (€)</b>	<b>Count</b>	<b>Amount (€)</b>
Service	52,	124.889.339,10	41,	62.775.931,61
<b>TOTAL</b>	<b>52,</b>	<b>124.889.339,10</b>	<b>41,</b>	<b>62.775.931,61</b>

<b>Procedure Type</b>	<b>Count</b>	<b>Amount (€)</b>	<b>Count</b>	<b>Amount (€)</b>
Negotiated Procedure without publication of a contract notice Art. 126 IR	2,	199.745,00	3,	349.035,00
Open Procedure (Art. 122.2 IR)	49,	104.689.594,10	38,	62.426.896,61
Service - Negotiated Procedure with a single offer (Art. 242 IR)	1,	20.000.000,00		
<b>TOTAL</b>	<b>52</b>	<b>124.889.339,10</b>	<b>41</b>	<b>62.775.931,61</b>

<b>External procedures &gt; €10,000</b>
<b>Contract Class</b>
<b>TOTAL</b>

<b>Procedure Type</b>
<b>TOTAL</b>

**Additional comments**

TABLE 13 : BUILDING CONTRACTS

Total number of contracts :	0
Total amount :	

Legal base	Contract Number	Contractor Name	Description	Amount (€)
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No data to be reported

**TABLE 14 : CONTRACTS DECLARED SECRET**

Total Number of Contracts :	0
Total amount :	

Legal base	Contract Number	Contractor Name	Type of contract	Description	Amount (€)
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**No data to be reported**

## Annex 4 - Materiality criteria

For direct management, the qualitative factors are based on the detection of significant and/or repetitive weaknesses which would be identified through the internal control system within the framework of supervision.

Following the conclusions of a Commission Working Group on Materiality (direct management), which has developed relevant criteria and thresholds, a reserve should only be envisaged if the error rate resulting from the annual ex-post audit missions would account for more than 2 % of the payments of the selected files. The level of 2 % is an acceptable indicator due to the fact that the selection of the files to be audited is based on a risk analysis approach in order to select files in the area at risk.

For shared management, the materiality criteria used are based on those recommended by the Commission in Communication COM(2003)28 of 21.01.2003 and the "Guidelines for assessment of materiality of deficiencies in Member States' management and control systems under shared management for the purposes of Annual Activity Reports" agreed in December 2005 between the structural funds Directorate Generals.

In qualitative terms the materiality of a deficiency is judged on whether it concerns a combination of the following elements:

- Is a key control system at stake;
- What is the importance of the area/measure concerned;
- Is there an accumulation of weaknesses;
- Has/have the weakness(es) persisted for a long time;
- Have remedial measures been implemented to address the weakness(es);
- What is DG EMPL's responsibility in managing the issue at stake;
- Is the reputation of DG EMPL/the Commission compromised;

The assurance is built on the Management Opinion of the Authorising Officers by Sub-Delegation which uses all available information built up in the following steps:

- a) Single audit approach
- b) Peer review by senior management
- c) Categorisation of OPs
- d) Assessment of risk.

This approach results in a single DG EMPL opinion for each ESF programme which makes it possible to classify operational programmes into one of 4 categories.

The criteria for the 4 categories are:

- **Category 1 – Reasonable assurance.** There are no or only minor deficiencies found. These deficiencies do not have any significant impact on the functioning of the key requirements / authorities / system. For this category, the risk for payments made in 2010 is estimated at less than 2% (very low risk) which does not need to be quantified.
- **Category 2 – Reasonable assurance with moderate impact.** Some deficiencies were found. These deficiencies have a moderate impact on the functioning of the key requirements / authorities / system. Recommendations are formulated and should be implemented by the audited body. For this category, the evaluation of the risk for payments made in 2010 is estimated at less than 5 % (low risk). This level of risk is considered acceptable during programme implementation since payments cannot exceed 95 % of the committed funds prior programme closure and it is managed by the national and Commission procedures for programme closure.
- **Category 3 – Limited assurance with significant impact.** Deficiencies were found that have led or may lead to irregularities. The impact on the effective functioning of the key

requirements / authorities / system is significant. Recommendations and/or an action plan are put into place. The Member State / the European Commission may decide to take corrective measures (e.g. interruption or suspension of payments) in order to mitigate the risk of improper use of EU funds.

➤ **Category 4 – No assurance.** Numerous deficiencies were found which have led or may lead to irregularities. The impact on the effective functioning of the key requirements / authorities / system is significant – it does not function at all or functions poorly. The deficiencies are systemic and wide-ranging. As a consequence there is no assurance obtained with regard to the assessment of the key requirements / authorities / system. A formal action plan is prepared and has to be followed up. The Member State / the European Commission (or both) take corrective measures (e.g. suspension of payments) in order to mitigate the risk of improper use of EU funds. This category also includes the programmes for which there is no or very limited audit evidence available.

In determining the level of assurance, a prudent approach is adopted. Consequently, DG EMPL quantifies the risk arising from both categories 3 and 4. The risk for payments made is quantified by using, when they are assessed as reliable, the error rate provided by the national Audit Authorities in their Annual Control Reports. As these error rates are now disclosed for the programmes implemented under the 2007-2013 programming period, it is considered more reliable to quantify the risk using these error rates instead of using the scales applicable for flat-rate corrections as it was the case in previous years. The flat rates are used for the programmes for which no or unreliable error rates are reported by the Audit Authorities in the Annual Control Reports.

For operational programmes for which the management and control systems are not in conformity with the principle of sound financial management and/or are unsatisfactory leading to a high level of estimated risk, DG EMPL cannot give reasonable assurance and therefore must make a reservation.

The quantification of the risk to Community funds resulting from significant deficiencies in the management and control systems is calculated by

- identifying the "expenditure population" concerned. For the Structural Funds, that concerns the payments carried out by the DG during the year covered by the AAR in the programmes managed by the systems in which deficiencies were identified;
- estimate the percentage of the expenditure in this "population" which could be regarded as affected by deficiencies. Otherwise, the estimate is made on the basis of the guidelines of the Commission for flat-rate corrections;
- compare the amount thus obtained to the total payments carried out during the year for the ESF.

In quantitative terms the materiality threshold used is the 2% level recommended at Commission level.

Reputational risk is a major factor for DG EMPL in determining whether to make reservations in the Director-General's annual declaration. In practice, the issues considered relate to the implementation under shared management of measures/systems in the Member States. When deficiencies are identified, the risk to the Community Budget is covered by imposing financial corrections on the Member States. However, although the financial risk is thereby covered, the reputation of the Commission as the guardian of the Treaty could be at stake, notwithstanding that such types of deficiencies may lie entirely with the Member State.

From the examination carried out on the basis of the above factors, it must be concluded that deficiencies are significant, and thus lead to the consideration of a reserve.

## ***ANNEX 5 – Internal Control Template for Budget implementation***

### ***Key figures 2010 by management modes***

	Commitments	Payments	Number of transactions
	M€	M€	
Shared	10.947	7.184	553
Decentralised	88	4	9
Direct	260	212	4.242
	11.295	7.400	4.804

### ***Inherent risks by management modes***

**Shared management of the European Social Fund:** The ESF operates under shared management in accordance with the Article 53b of the Financial Regulation. Thus the Member States have the primary responsibility to take all measures necessary to ensure that the funds are used in accordance with the applicable rules and principles and to protect the Community's financial interests. However, the Commission retains final responsibility for the implementation of the budget under Article 317 of the Treaty. The major inherent risk relates to the complexity of the operations and activities financed under the ESF, the typology and variety of the recipients targeted by the ESF (involving multiple local partners, often of modest size), and numerous DG EMPL interventions annually. The Commission exercises supervisory controls, mainly by audit of the Member States' management and control systems, including transactions tests at beneficiary level, but also by controls carried out in relation to the flow of funds to Member States. The multi-annual nature of the system helps to offset this risk, allowing corrections to be made some years after the disbursement of funds by the Member State to the beneficiaries and by the Commission to the Member State.

**Pre-accession programmes in decentralised management:** Since 2007, DG EMPL has been in charge of a new financial instrument, IPA – Human Resources component. This fund is managed in a decentralised way but with strong similarities to the approach used for the ESF. The inherent risk is related to the ability of the candidate countries to set up and operate the structures and controls necessary for sound management of the appropriations allocated.

**Direct management:** In the area of employment and social affairs, direct management involves (a) the attribution of numerous contracts and subsidies for actions, and (b) the payment of numerous operating grants to non-governmental organisations, associations and trade unions. The risk related to these activities concerns capacity of (especially) smaller organisations to effectively control expenditure.

### ***1 Control environment***

DG EMPL manages the ESF and the EGF through shared management, IPA through decentralised management and the internal policies programmes and actions through direct management of grants and contracts. The annual contributions to Agencies are managed through direct management.

The same financial circuit has been put in place inside the DG to implement the whole budget: the current circuit is based on model 1, decentralised at the level of the Units with complementary verification by sampling. The Heads of Units are authorising officers by sub-delegation (AOSD) and Directors are the deputies in the event of absence.

This organisation respects the "principle of the 4 eyes" in total accordance with the Financial Regulation and has a high level of risk control because of:

- increased legal and financial awareness of the operational units;
- optimum coordination of the operational and financial aspects because of the proximity of OIA and FIA;
- advisory function and expertise by the CVA function;
- optimisation of human resources, making it possible to ensure backups;
- independence of the financial unit in its role of advisor and of control of the procedures without intervention in the financial workflow;
- for the ESF, technical and legal support provided by both the ESF coordination unit and the ex ante control unit, including the provision of manual for operational procedures, internal guidelines and legal interpretation guidance and advise, internal coordination network through the "Coordination and Support Group";
- supervision is ensured by the AOSD on the one hand and by the director on the other hand through their hierarchical position; through the monitoring activity of the FVA; as well as by DG EMPL Procurements and Contracts Internal Committee (EPIC/CIAME) in the case of calls for tender;
- double checking of the transactions: FVA: 100% of the transactions; CVA: selection of approximately 15% of the transactions accounting for approximately 55% of the amounts for direct management and for the ESF, approximately 30% of the transactions accounting for 80% of the amounts.

In addition, an accounting cell is in place in the financial unit in order to process accounting ex-post controls in addition to ex-ante accounting controls taken in charge by FVA and CVA when verifying transactions. Following an accounting risk analysis, the control programme is revised every year.

## ***2 Planning, programming and reporting process***

The objectives of the DG are integrated into the Commission Strategic and Programming Process (SPP) through contributions to the Annual Policy Strategy (APS), the annual Legislative Work Programme (CLWP) and the Management Plan (MP) in accordance with the Commission requirements for Activity Based Management.

For each activity of the DG, specific objectives and performance indicators have been defined, as well as general objectives for the policy area. In their quarterly reports, directors and heads of unit ensure a follow-up of the year-to-date implementation of their annual work programme and specific objectives. A synthesis is provided every quarter to the Policy and Management Board (PMB) of DG EMPL.

In the quarterly reports, directors and heads of units also report on their main problems and risks, as well as on the implementation of the audit recommendations from IAC, IAS and ECA. They also report on the use of the resources allocated to their activity (budget execution, RAL, recovery orders, payment delays ...).

A monthly scoreboard is communicated to the management and discussed at the PMB meeting. It covers all main financial and human resources indicators.

Work programme, budget execution and audit matters are subject to regular meetings between the Commissioner and the DG.

## ***3 Management and control systems – Direct management***

<b>Selection process</b>	DG EMPL fully applies the rules defined in the Financial Regulation
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	<p>for grants and contracts and</p> <ul style="list-style-type: none"> <li>- uses Commission contract templates;</li> <li>- checks the financial viability of beneficiaries and contractors.</li> </ul> <p>Specifically DG EMPL controls:</p> <p>1) calls for proposals</p> <ul style="list-style-type: none"> <li>- a standard application form exists for the whole DG;</li> <li>- before publication, a formal opinion of Financial unit to check if the documents are complete, have been correctly drafted and all the required procedures have been respected;</li> <li>- evaluation committee appointed by the AOSD and composed of at least 3 persons representing at least 2 directorates;</li> <li>- the management of the evaluation process has been standardised via the IT application Defis Evaluations;</li> <li>- formal opinion issued by the financial unit on the evaluation and selection procedure prior to budgetary and legal commitments</li> <li>- publication on Europa of the grants awarded after control by the financial unit.</li> </ul> <p>2) grants given to bodies in a monopoly situation</p> <ul style="list-style-type: none"> <li>- formal opinion issued by the financial unit on the evaluation procedure prior to budgetary and legal commitments</li> </ul> <p>3) joint management actions</p> <ul style="list-style-type: none"> <li>- formal opinion issued by the financial unit on the evaluation procedure prior to budgetary and legal commitments</li> </ul> <p>4) calls for tender</p> <ul style="list-style-type: none"> <li>- prior Information Notice checked by financial unit before publication;</li> <li>- invitation to tender sent by AOSD to financial unit for verification of the documents and the procedure before publication;</li> <li>- opening and evaluation committees appointed by the AOSD and composed of at least 3 persons representing at least 2 directorates (obligatory: one representative from the financial unit in opening committees)</li> <li>- calls for tender &gt; 60.000 € checked by DG EMPL Procurements and Contracts Internal Committee (EPIC/CIAME)</li> <li>- negotiated procedures &gt; 25.000 € : prior agreement from financial unit as well as agreement on the evaluation procedure prior to budgetary and legal commitments;</li> <li>- for negotiated procedures &gt; 60.000 € : prior opinion from CIAME and exception formally recorded</li> </ul>
<p><b>Communication and information measures to improve the quality of financial management</b></p>	<p>All financial actors must follow financial training. In addition, specific coaching is provided by the financial unit to address specific needs.</p> <ul style="list-style-type: none"> <li>- Chairs and members of the evaluation committees for awarding contracts are requested to follow a specific training.</li> <li>- Information sessions and individual coaching are provided by the financial unit to the members of the DG EMPL Procurements and Contracts Internal Committee (EPIC/CIAME)</li> <li>- financial unit and the CVA function provide guidance and ex ante expertise to operational units particularly to financial officers through general updated manuals and website as well as through ad hoc support on specific questions or problems and individual training to newcomers;</li> <li>- network of financial coordinators;</li> <li>- meetings with beneficiaries, information sessions and guides provided by the financial unit;</li> <li>- advance meetings with MS for presidency conferences, information sessions and guides provided by the financial unit;</li> </ul>

	- publication of call for tenders and for proposal on Europa website;
<b>Detective and corrective controls at initial phases</b>	Interim reports are checked by operational officers to verify how the project is implemented; Financial officers review interim cost claims.
<b>Detective and corrective controls during the final/closure phase</b>	- final reports are analysed by operational officers to verify conformity of the implemented actions / deliverables with the contractual provisions; these analyses include cross-checking the final accounts and the final report on the implementation of the action to verify the coherence of the costs declared with the action actually implemented; - budget information, in the case of calls for proposals, is monitored through the application Budget Versioning; - final cost claims are checked by financial officers to verify the eligibility of the costs, arithmetical checks, conformity with the initial budget, co-financing rate, etc. - prior to payment of the balance, on the spot checks, if necessary, and always in case of irregularity/fraud presumption.
<b>Preventive and corrective controls and audits (ex-ante and ex-post audits)</b>	- financial and operational verifying agents check all transactions; - complementary verifying agents check transactions on a sampling basis, taking into consideration the follow-up to previously detected errors in transactions. - ex-post audit unit carries out audits on the spot to verify the legality and regularity of the amounts declared by the beneficiary in its declaration of expenditure. The audit unit operates to a pre-defined audit strategy and methodology. Its annual work programme is based on a risk analysis approach.

#### ***4 Management and control systems – Shared management - ESF***

##### ***2007-2013 period***

<b>Negotiation and approval of programmes,</b> including main elements of management and control systems in Member States	<b>Member States:</b> Establishment of satisfactory system architecture (Managing Authority, Certifying Authority, Intermediate Bodies and Audit Authority) is a condition of programme approval. <b>DG EMPL</b> ensured that existing relevant information about weaknesses in the 2000-2006 systems was used to improve the systems to avoid recurrence in the 2007-2013 programme period.
<b>Preventive and supervisory measures:</b> Compliance assessment of set-up of management and control systems	<b>Member States:</b> <u>Compliance Assessment of the management and control systems:</u> MS must submit the description of the systems, the results of an independent assessment of the set-up of the systems and an independent report and opinion on their compliance within 12 months after the approval of each operational programme and, before the submission of the first interim application for payment. <u>Audit Strategy</u> must be provided to the Commission within 9 months after the approval of each operational programme. <b>Commission:</b> The Commission has 2 months counting from the date of submission of the Compliance Assessment to accept or reject the Compliance Assessment. However, the Commission may interrupt this process in order to request additional information or clarification concerning the key elements of the systems (where there are reservations in the opinion or the Commission itself has observations), The processing of the first interim payment can only be carried out when the Compliance Assessment has been

	<p>accepted by the Commission.</p> <p>Within 3 months of receipt of the Audit Strategy, the Commission provides its opinion (accept/reject) to the Member State. However, in this case also, the Commission may interrupt the analysis process in order to request the Member State additional information and/or clarifications.</p>
<p><b>Detective and corrective controls:</b> Primary level verification by <b>managing authority</b> of correctness of expenditure declared from financed operations and their compliance with grant conditions; reporting to the Commission on interim payments and key milestones</p>	<p>Throughout the implementation period the managing authorities in <b>Member States</b> are required to carry out the following checks (art 60 of Reg 1083/2006):</p> <ul style="list-style-type: none"> <li>- ensure that operations are selected for funding in accordance with the criteria applicable to the operational programme</li> <li>- verify that the co-financed products and services are delivered and that the expenditure declared by the beneficiaries has been incurred and comply with Community and national rules</li> <li>- ensure that there is a system for recording and storing in computerised form accounting record for each operation</li> <li>- ensure that beneficiaries maintain either a separate accounting system or accounting code for all transactions relating to operations</li> <li>- set up procedures to ensure that all documents regarding expenditure and audits required to ensure an adequate audit trail</li> <li>- ensure that the certifying authority receives all necessary information on the procedures and verifications carried out.</li> </ul>
<p><b>Detective and corrective controls :</b> Secondary level verification by <b>certifying authority</b>, including reporting of irregularities and recoveries</p>	<p>Each periodic statement of expenditure is checked and certified as correct by the Certifying Authority (art 61 of Reg 1083/2006). The assurance is based on its own desk checks and, if necessary, on-the-spot-verifications as well as information on checks performed by the managing and audit authorities.</p> <p>At <b>Commission</b> level:</p> <ul style="list-style-type: none"> <li>- financial and operational verifying agents check all transactions;</li> <li>- complementary verifying agents check transactions on a sampling selection, taking into consideration the follow-up to previously detected errors in transactions.</li> </ul>
<p><b>Supervisory and corrective controls:</b> Audits by the programme <b>audit authority</b></p>	<p>For the 2007-2013 period, the Audit Authority in the <b>Member states</b> for each programme provides an annual control report accompanied by an annual audit opinion on the functioning of systems (art 62 of Reg 1083/2006).</p> <p>Finally, the Member States have to submit annually by the 15<sup>th</sup> February, an annual summary of the audit results of the previous calendar year. These annual summaries are analysed by DG EMPL and their results are taken into account for the Annual Activity Report</p>
<p><b>Supervisory and corrective controls:</b> Audits by the <b>Commission</b></p>	<p>Throughout the implementation period, and up to three years after the final closure of programmes, the <b>ESF audit unit of DG EMPL</b> carries out <u>systems audits with limited substantive testing</u> to confirm assurance on the effective functioning of the systems in the Member States. With a view of informing, in a timely manner, a "flash report" of the audit results is sent to the geo-units and the hierarchy. As a result, the interruption of payments, in case of negative audit results, is initiated without delays.</p> <p>DG EMPL uses the results of its own audits as well as the results of the national audit bodies and of other Community audits (European Court of Auditors and OLAF) to determine the assurance levels obtained from the management and control systems.</p> <p>If serious irregularities or systems deficiencies are detected, DG EMPL may interrupt the deadline for processing the interim</p>

	<p>payment request by a Member State for a maximum of 6 months (art. 91 Reg. 1083/2006); the Commission may also suspend payments at OP or priority axis level and then require Member States to correct the system weaknesses detected and the irregular expenditure found. If the Member State fails to take the corrective measures, the Commission may impose the financial corrections by a specific decision (art. 99 Reg. 1083/2006), possibly by using extrapolation or flat rates.</p>
<p><b>Supervisory and corrective controls:</b> Audits by the <b>European Court of Auditors</b></p>	<p>At any time during the programme implementation period, and up to three years after the final closure of programmes, the <b>European Court of Auditors</b> can carry out substantive testing of a sample of transactions complemented by systems audits at national and Commission level, as part of the audit work performed to support its <u>annual opinion issued on the European Union budget (DAS)</u>. The ECA performs regular revisions of its DAS methodology and error rate calculation over the period. In particular, concerning ESF programmes, the ECA verifies that the Commission has ensured proper follow up of its previous recommendations (including financial corrections) and has carried out its supervisory role in a satisfactory manner.</p>

### **2000-2006 period**

<p><b>Detective and corrective controls:</b> Primary level verification by managing authority of correctness of expenditure declared from financed operations and their compliance with grant conditions; reporting to the Commission on interim payments and key milestones</p>	<p>Throughout the implementation period the managing authorities in <b>Member States</b> are required to carry out the following checks:</p> <ul style="list-style-type: none"> <li>- Ensure compliance of projects with selection criteria and that beneficiaries are informed of and understand the terms and conditions;</li> <li>- Desk checks of all expenditure based on supporting documents, including progress reports, etc.;</li> <li>- On-the-spot visits to a significant number of projects selected on a risk based analysis to verify delivery of the project outputs (investment, services) and reality and eligibility of expenditure declared;</li> <li>- Correcting irregular expenditure and recovery of EU funds as appropriate;</li> <li>- Drawing up annual reports on implementation as well as a final report summarising the implementation of the entire programme, which are submitted to scrutiny by the <b>Commission</b>.</li> </ul>
<p><b>Detective and corrective controls :</b> Secondary level verification by paying authority, including reporting of irregularities and recoveries</p>	<p>Each periodic statement of expenditure is checked and certified as correct by the <b>Paying Authority</b>. The assurance is based on its own desk checks and, if necessary, on-the-spot-verifications as well as information on checks performed by the managing and audit authorities. The Paying Authority also monitors and reports to the Commission information on irregularities and suspected fraud and recoveries made.</p> <p>At <b>Commission</b> level:</p> <ul style="list-style-type: none"> <li>- financial and operational verifying agents check all transactions;</li> <li>- complementary verifying agents check transactions on a sampling selection, taking into consideration the follow-up to previously detected errors in transactions.</li> </ul>
<p><b>Supervisory and corrective controls:</b> Audits by the programme winding-up and audit</p>	<p>Responsible Audit Body in the <b>Member States</b> performs system audits and carries out substantive testing of projects to cover 5% of expenditure by programme closure; it passes on findings of systems weaknesses and irregular expenditure to the managing authority and to the paying authority for correction; it issues an</p>

body	<p>annual control report on the work carried out and conclusions drawn. This report is sent to the Commission and is used as a source of information to determine the DG EMPL's Audit Opinion for each programme.</p> <p>Finally, the Member States have to submit annually by the 15<sup>th</sup> February, an annual summary of the audit results of the previous calendar year. These annual summaries are analysed by DG EMPL and their results are taken into account for the Annual Activity Report.</p>
<p><b>Supervisory and corrective controls:</b> Audits by the Commission</p>	<p>Throughout the implementation period and up to three years after the final closure of operation programmes, the <b>ESF audit unit of DG EMPL</b> carries out <u>systems audits with limited substantive testing</u> to confirm assurance on the effective functioning of the systems in the Member States. With a view of informing, in a timely manner, the geo-units and the hierarchy of the audit results, a system of "flash reports" was created in 2008. As a result, the interruption of payments, in case of negative audit results, was initiated without delays.</p> <p>DG EMPL uses the results of its own audits as well as the results of communicated national audits and the results of other Community audits (European Court of Auditors reports and OLAF reports) to determine the assurance levels obtained from the management and control systems.</p> <p>If serious irregularities or systems deficiencies are detected, the Commission may decide to suspend payments at OP or measure level and then require the concerned Member State to correct the system weaknesses detected and the irregular expenditure found (art. 39(2) Reg. 1260/1999). If the Member State fails to take the corrective measures, the Commission may impose the financial corrections by a specific decision (art. 39(3) Reg. 1260/1999), possibly by using extrapolation or flat rates ranging from 2% to 100% in conformity to Guidelines of 2 March 2001 [C(2001)476].</p>
<p><b>Supervisory and corrective controls:</b> Audits by the European Court of Auditors</p>	<p>At any time during the programme implementation period, and up to three years after the final closure of programmes, the <b>European Court of Auditors</b> can carry out substantive testing of a sample of transactions complemented by systems audits at national and Commission level, as part of the audit work performed to support its <u>annual opinion issued on the European Union budget (DAS)</u>.</p> <p>The ECA performs regular revisions of its DAS methodology and error rate calculation over the period. In particular, concerning ESF programmes, the ECA verifies that the Commission has ensured proper follow up of its previous recommendations (including financial corrections) and has carried out its supervisory role in a satisfactory manner.</p>
<p><b>Corrective controls and audit:</b> Final payment and programme closure</p>	<p><b>Member States:</b> at the end of the programme period, an independent winding up person or body in the Member State (Article 15-16 of Reg. 438/2001) reviews the audit work done and gives its opinion on the expenditure declared from the programmes as a whole ("winding-up declarations"). All negative audit results lead to corresponding financial corrections/ communication of irregularities. Supporting documents have to be accessible for audit by DG EMPL and ECA for three years after partial or final closure.</p> <p><b>DG EMPL:</b> will analyse all such "winding-up" declarations for their compliance and acceptability and, where necessary, will ask for further information or for the performance of more audit work. DG EMPL plans to audit a number of high risk programmes and</p>

	<p>projects after closure, to determine the residual level of error in programmes. In case negative results are found, DG EMPL may make complementary financial corrections (flat rate or based on extrapolation of errors on samples) to correct residual errors.</p> <p><b>ECA:</b> For three years after final closure, the ECA may carry out substantive testing of a sample of transactions complemented by system audits at national or Commission level, as part of the audit work performed to support its annual DAS. The ECA may particularly verify that the Commission has ensured proper follow up of its previous recommendations (including financial corrections).</p>
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### *5 Management and control systems – Decentralised management – IPA HR component*

<p><b>Negotiation and approval of programmes,</b></p>	<p><b>Candidate countries:</b> Establishment of satisfactory system architecture is a condition for the signature of the framework agreement.</p> <p><b>Commission:</b> decisions adopting multi-annual programmes shall meet the requirements necessary to constitute financing decisions</p>
<p><b>Preventive and supervisory measures:</b> Accreditation and conferral of management powers</p>	<p><b>Candidate countries:</b> The following bodies and authorities are designated:</p> <ul style="list-style-type: none"> <li>- a national IPA coordinator</li> <li>- a strategic coordinator</li> <li>- a competent accrediting officer</li> <li>- a national authorising officer</li> <li>- a national fund</li> <li>- an operating structure</li> <li>- an audit authority</li> </ul> <p>The accrediting officer is responsible for the accreditation of the national authorising officer, the national operating structure.</p> <p><b>Commission:</b> After review of the accreditations and examination of the procedures and structures put in place, the Commission decides to confer management powers. The conferral of management powers lays down the list of ex-ante controls to be performed by the Commission on the tendering of contracts, launch of calls for proposals and the award of grants and contracts.</p>
<p><b>Detective and corrective controls:</b> Primary level verification by <b>the national authorising officer</b></p>	<p><b>Candidate countries</b> (art 25-28 of Reg 718/2007): The national authorising officer is responsible of the legality and regularity of the underlying transactions, and responsible for the effective functioning of management and control system. For this purpose, he will, through the operating structure put in place:</p> <ul style="list-style-type: none"> <li>- ensure that operations are selected for funding in accordance with the criteria applicable to the operational programme</li> <li>- verify that the co-financed products and services are delivered and that the expenditure declared by the beneficiaries has been incurred and comply with Community and national rules</li> <li>- ensure that there is a system for recording and storing in computerised form accounting record for each operation</li> <li>- ensure that beneficiaries maintain either a separate accounting system or accounting code for all transactions relating to operations</li> <li>- set up procedures to ensure that all documents regarding expenditure and audits required to ensure an adequate audit trail</li> <li>- ensure that the certifying authority receives all necessary information on the procedures and verifications carried out.</li> </ul>

	<p>Annually, the national authorising officer provides the Commission with a statement of assurance.</p> <p>At <b>Commission</b> level: The Delegations in the candidate countries perform the controls on the tendering of contracts, launch of calls and payment claims, and inform the AOSD on the legality and regularity of the transactions.</p>
<b>Supervisory and corrective controls:</b> Audits by the <b>audit authority</b>	<p>The Audit Authority in the <b>Candidate countries</b> provides an annual audit opinion on the functioning of systems (art 29 of Reg 718/2007).</p> <p>The annual audit activity report summarises any weaknesses found in the management and control systems or in transactions findings from the audit carried out in accordance with the annual audit work plan.</p>
<b>Supervisory and corrective controls:</b> Audits by the <b>Commission</b>	<p>Throughout the implementation period, the <b>audit unit of DG EMPL</b> carries out <u>systems audits with limited substantive testing</u> to confirm assurance on the effective functioning of the systems in the Candidate countries. With a view of informing, in a timely manner, a "flash report" of the audit results is sent to the geo-units and the hierarchy. As a result, the interruption of payments, in case of negative audit results, is initiated without delays.</p> <p>DG EMPL uses the results of its own audits as well as the results of the national audit bodies, and results of audits of the European Court of Auditors to determine the assurance levels obtained from the management and control systems.</p> <p>DG EMPL requires Candidate countries to correct any system weaknesses and irregular expenditure found or imposes financial corrections.</p>
<b>Supervisory and corrective controls:</b> Audits by the <b>European Court of Auditors</b>	<p>At any time during the implementation period, and for three years after final closure, the <b>European Court of Auditors</b> can carry out substantive testing of a sample of transactions complemented by limited system audits, as part of the audit work performed to support the <u>annual opinion issued by the ECA on the European Union budget (DAS)</u>.</p> <p>ECA performs regular revisions of DAS methodology and error rate calculation over the period.</p> <p>ECA verifies that the Commission has ensured proper follow up of its previous recommendations (including financial corrections).</p>

### ***6 Feedback which enables control activities to be optimised***

<b>Verification that processes are working as designed</b>	<ul style="list-style-type: none"> <li>- Annual Internal Control Standards self-assessment: survey by management and synthesis by the Internal Control Coordinator.</li> <li>- Use of information available through quarterly reports, IAC reports, quarterly and annual synthesis reports of the CVA and CIAME.</li> <li>- Financial coordinators and administrative assistants' networks.</li> </ul>
<b>Monitoring of performance of externally contracted auditors</b>	<p>DG EMPL uses external auditors both for ex-post audits in direct management (BUDG framework contract) and for ESF projects in Member states (EMPL framework contract). The external auditors are monitored respectively by EMPL ex-post audit in direct management and ESF audit units, as a part of their own annual work programmes and coverage of the activity. These units are in charge of defining the missions, giving guidance to external auditors and validation of the audit reports.</p>
<b>High level management</b>	<ul style="list-style-type: none"> <li>- Weekly meetings of the DG EMPL management board (PMB and ESF PMB) to inform the participants of all problems and risks which</li> </ul>

<p><b>reporting</b> (e.g. to the Director General) and its role in monitoring problem issues</p>	<p>are identified in quarterly reports, scoreboard, audits, ESF Identification of Potential Problem (IPP), bi-monthly progress table to ESF PMB on interrupted payments, suspension and financial correction procedures,...</p> <ul style="list-style-type: none"><li>- Bi-annual reporting to the Commissioner about follow-up of audit recommendations, OLAF cases and relations with the European Court of Auditors.</li></ul>
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