European Union
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Investing in jobs and skills

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Clarification re irregularities in match funding, extrapolation of errors and revised guidance re Self Declared Adjustments

WHO

ESF Co-financing Organisations (CFO), ESF non-Co-financing Organisations (non-CFO), European Secretariat Government of Gibraltar, Greater London Authority (GLA), ITM Unit, Audit Authority and ESFD Managing / Certifying Authority

WHAT

This Action Note provides clarification around the following issues:-

- irregularities identified in match funding,
- irregularities in Non CFO agreements which carry an Indirect Costs %
- Extrapolation of errors - requirement for CFOs to conduct additional testing following A13 or A16 uncovering extrapolated errors
- revised guidance relating to Self Declared Adjustment (SDAs)

- SDAs in Non CFO agreements which carry an Indirect Costs %

CLEARED

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Background

Guidance relating to ESF irregular expenditure can be found in the ESF Managing Authority (MA) Guidance Manual 4, section 4.22. This guidance has been subject to a number of changes in response to operational practice and European Commission interpretations. This Action Note provides further clarification on the calculation and handling of irregularities. Manual 4 will be amended in due course to reflect the changes set out in this Action Note.

Action

Irregularities

1. All irregularities are divided (via Priority Intervention Rate) between ESF and match funding regardless of where the irregular expenditure was identified. Therefore an irregularity identified in match funding will impact on ESF resulting in a reduction to the next claim payment, then a variation to the agreement and re-profiling to account for the ESF proportion of the irregularity.

2. Where an irregularity is identified in match funding it must be noted that the ineligible match cannot be removed and replaced with eligible match to negate the irregularity. This is due to claims being submitted for in-period costs which is a change from the 2000-06 programming period where providers submitted claims based upon cumulative costs.

3. Implementation of Stage 3 INES allows for the automatic calculation of the indirect costs percentage associated to the value of the irregularity. For example where an irregularity is identified for £1000 and the agreement carries an indirect cost percentage of 10%; INES automatically includes an additional 10% to the value of the irregularity making it £1100.

Extrapolation of irregularities – CFOs

4. Where A13 On the Spot verification visits establish that there are irregularities within one or more subset populations being tested (such as participants with job outcomes) and they have similar characteristics (such as missing participant records), the sample will be extended. This will establish whether or not the irregularity is likely to be repeated within the rest of the subset population.

5. If the extended sample establishes that there are similar irregularities, the principle of extrapolation will apply. The extrapolation will cover the remaining unchecked population in order to calculate the full extent of the irregularity within that subset population. A formula will be applied to extrapolate the error across the whole population under that payment type, provision and claim period. This process is also in line with A16 procedures.

6. CFOs should also note that the impact may extend beyond the period tested to the remaining unchecked subset population, other claims or operations. If this is the case the CFO will be asked to conduct further work on the remaining population to identify any additional irregular expenditure. CFOs should inform the MA of the methodology used, subsets and periods covered by their audit activities to demonstrate the basis for any additional irregular expenditure. This work may be reviewed by the Managing and Audit Authorities.

Self Declared Adjustments (SDAs)

7. Where either a CFO or a project provider identifies voluntarily that an error has been made on a previous claim then they can submit a self declared adjustment (SDA) in a subsequent claim. Identified errors that can be corrected include clerical errors or ineligible expenditure that has been discovered as part of the CFO or project providers own management and control system.

8. Self declared adjustments (SDAs) <u>cannot</u> be declared by the CFO or project provider on claims where they have been notified that it has been selected for inspection during an Article 13/16 visit. Where the CFO or provider has been notified that the whole agreement has been selected for audit by another audit body e.g. NAO, ECA etc then no self declared adjustments can be made on that agreement.

9. Where a CFO or provider has identified an error prior to receiving notification of an Article 13/16 inspection or an audit and have not yet declared the adjustment; then the CFO or provider should collate evidence of detection and action taken as part of their evidence to highlight the robustness of their management and control systems.

SDAs in Non CFO agreements which carry an Indirect Costs %

10. Please note that INES’s automatic calculation of the indirect costs percentage in relation to irregularities (see 3 above) does not apply to self declared adjustments (SDAs). Therefore CFOs and project providers will continue to enter the value of the self declared adjustment (SDA) plus the value of the indirect costs percentage proportion for each self declared adjustment.

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