

# **An assessment of effectiveness of EU funds financial management and control system**

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In the assessment a number of approaches were applied: an independent review of results of all types of EU funds control procedures, data collection from EU funds management system JIS and directly from institutions involved in the administration of EU funds, a calculation of actual control costs based on data made available and collected, interviews with staff performing control procedures, discussion in focus group on control procedures applied to payment claims.

The assessment covers four control functions set out in EC regulation No. 1386/2002 and EC regulation No. 438/2001:

- Management verifications,
- Certification of expenditure,
- System audits and sample checks,
- Declaration at winding-up of the assistance.

Total control costs for EU structural funds in the planning period 2004-2008 were LVL 11million of which 28% were incurred by LAD (Rural Support Service), 21% by LIAA (Latvian Investment and Development Agency), 13% by VIAA (State Education Development Agency) and 14% by SIF (Society Integration Foundation).

Total control costs for EU Cohesion fund in planning period 2004-2008 were 2.6 million of which 49% were incurred by VIDM (Ministry of Environment) and 31% by SM (Ministry of Transport).

Control costs per declared EUR in SF varied every year in the range from 1% to 4% of declared expenses in the respective year or EUR 1.4 to 5.7 cents per each declared EUR, in average EUR 4 cents (which is below the EU average of EUR 7 cents per each EUR in ERDF projects in 2006 (Communication from the Commission: Towards a common understanding of the concept of tolerable risk of error, SEC (2008), Brussels, 16.12.2008., page 8.)).

But in EU Cohesion fund control costs per declared EUR varied every year in the range from 1% - 3% of declared expenses in the respective year of EUR 1.4 to 4.3 cents per each declared EUR. When assessing efficiency of different type of controls, checks and audits in terms of identifying irregularities, errors or shortcomings it was concluded that all types of checks and audits were efficient in this aspect. A combination of administrative checks and on the spot verifications and executing simultaneously were agreed to be most effective.

39 recommendations on potential efficiency improvements to EU funds control system are presented in the report, including a proposed risk based approach for administrative checks, setting an error amount under which control costs are considered as cost inefficient, allowing to submit payment claims and supporting documentation electronically.