

Importance of existence of proper audit function as precondition for efficient and effective utilization of EU funds

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**Важноста на постоењето на соодветна ревизорска
функција како предуслов за ефикасно и ефективно
искористување на ЕУ фондовите**

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➤ **Ivan Ignjatov**

- 17 years audit experience (State Audit Office, European Court of Auditors, Audit Authority for IPA)
- Assistant General IPA Auditor (Audit Authority for auditing Instrument for Pre – Accession Assistance)
- Docent at UGD "Goce Delcev" Shtip, Faculty of Economy
- Doctor in Economic Sciences (PhD),
- Certified State Auditor (CSA)
- Certified Management Consultant (CMC©)
- Certified Lead / External Auditor for ISO/IEC 27001:2013
- Certified Lead / External Auditor for ISO 37001:2016
- Certified Lead / External Auditor for ISO 9001:2015
- Freelance consultant / Trainer

Presentation Agenda

- EU / IPA funds
- Importance of the audit function (tasks, responsibilities, audit approach)
- Main risks and challenge's that Beneficiary countries are facing with
- Lessons learned & Recommendations for the future



€ EU Funding



**IPA INSTRUMENT FOR
PRE-ACCESSION ASSISTANCE**

Why IPA

- IPA as a pre-accession instrument is addressing the ultimate political goal... EU Accession
- IPA supports Beneficiary country:
 - to manage efficiently and effectively EU funds,
 - to improve own financial management systems,
 - to increase ownership on EU assistance, and
 - to gradually prepare candidate countries to manage upon accession the structural, cohesion, social, agriculture funds...

IPA Timetable



Financial envelope – IPA Budget

- **IPA I (2007 - 2013) = € 11.5 billion.**
- **IPA II (2014 - 2020) = € 11.7 billion.**





- **622 million euro through the IPA I (2007-2013)**
- **664.2 million euro through the IPA II (2014-2020)**

IPA bodies and authorities

- NIPAC
- Strategic Coordinator
- CAO
- NAO / NAOSO
- NF / MS
- CFCD
- IPARD Agency
- MA
- AA

EU IPA assistance for period 2007 – 2013

➤ IPA Components

- **IPA Component I** – Transitional Assistance and Institutional Building
- **IPA Component II** – Cross Border Cooperation
- **IPA Component III** – Regional Development
- **IPA Component IV** – Human Resources Development
- **IPA Component V** – Rural Development

EU IPA assistance for period 2014 – 2020

➤ IPA Components are replaced with Policy areas:

- **PA 1** - Reforms in preparation for Union membership and related institution and capacity-building;
- **PA 2** - Socio-economic and regional development;
- **PA 3** - Employment, social policies, education, promotion of gender equality, and human resources development
- **PA 4** - Agriculture and rural development;
- **PA 5** - Regional and territorial cooperation.

EU IPA assistance for period 2014 – 2020

Policy area 1 = (IPA Component I)

Policy area 2 = (IPA Component III)

Policy area 3 = (IPA Component IV)

Policy area 4 = (IPA Component V)

Policy area 5 = (IPA Component II)

EU IPA assistance for period 2007 - 2013

- ❑ IPA Component I = DG ENLARG/NEAR**
- ❑ IPA Component II = DG ENLARG/NEAR + DG REGIO**
- ❑ IPA Component III = DG REGIO**
- ❑ IPA Component IV = DG EMPL**
- ❑ IPA Component V = DG AGRI**

EU IPA assistance for period 2014 – 2020

- **Policy Area I = DG NEAR**
- **Policy Area II = DG NEAR**
- **Policy Area III = DG NEAR**
- **Policy Area IV = DG AGRI**
- **Policy Area V = DG NEAR**

CoM / BIT IS THE START - NOT THE END



EU assistance requirements

- The **ownership principle** is **crucial** for obtaining meaningful results!
- **Ownership principle means:**
 - ✓ Not only achieve specific outputs (such as strategies and laws drafted), but
 - ✓ To have a real impact on the country (due to their general acceptance and appropriate application).

EU assistance requirements

- The IPA II regulation particularly underlines that the **progress** will be assessed through previously determined indicators.
- On the basis of progress, the EC will have the authorization to **reallocate** financial assistance between different programmes, as well as between IPA beneficiaries.

EU REQUIREMENT



**Verification of the efficient and effective implementation
of the EU support**

- ✓ Proper functioning of the established MCS
- ✓ Reliability of the financial information



Internal and external audit European & National

**EXTERNAL -
EU LEVEL**

**European Court of Auditors
(ECA)**

**INTERNAL -
EU LEVEL**

**Audit Service of DG's
(EC)**

**EXTERNAL -
NATIONAL LEVEL**

Audit Authority

**INTERNAL -
NATIONAL LEVEL**

Internal Audit



In God We Trust — Everyone Else We Audit



Audits

**System
audit**

**Audit of
operation
IPA
Projects**

**Financial
audit**

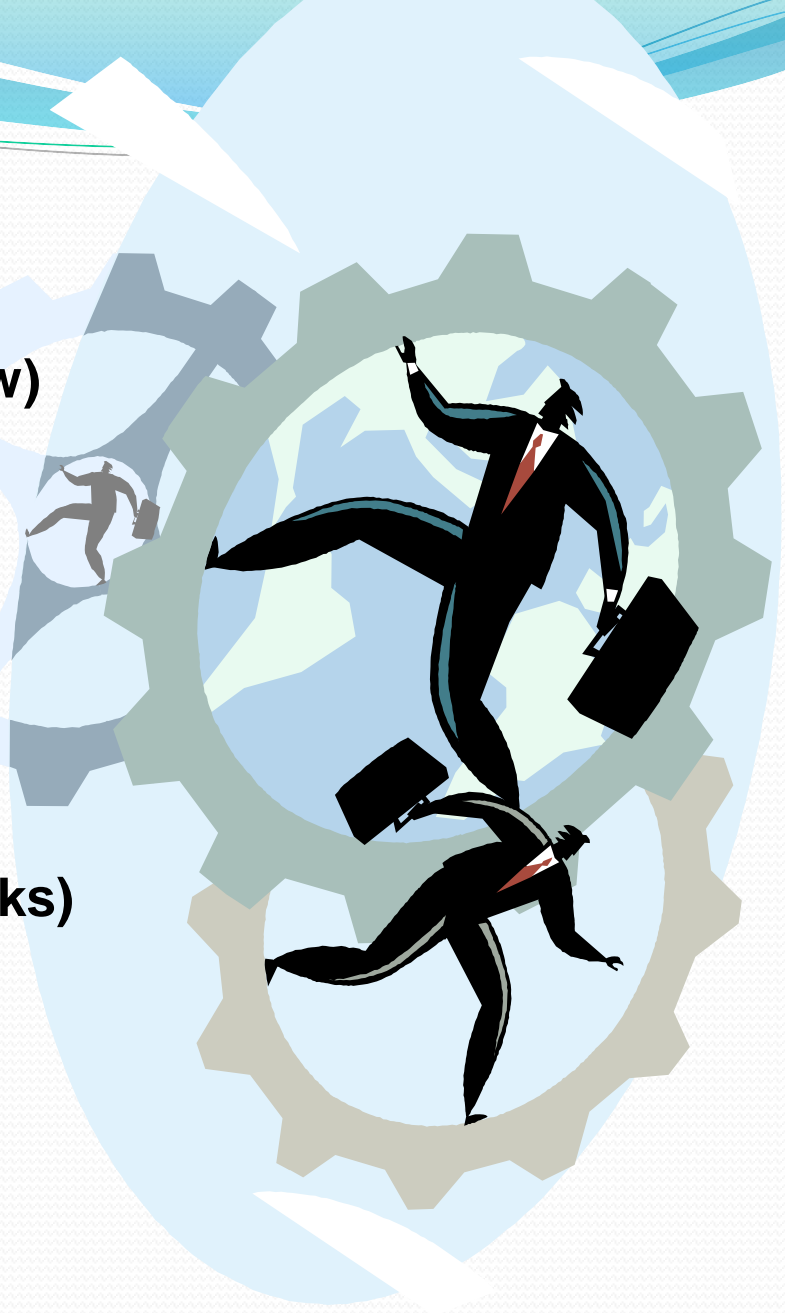
AUDIT

Types of verifications:

- **Administrative verifications (desk review)**



- **Physical verifications (on-the-spot checks)**



What's Appropriate technical support and expertise for both: required

➤ administrative and on-the-spot verifications



- ✓ IT equipment
- ✓ Cars for on-the spot

Administrative verifications - Audit techniques



Check lists



Interviews



**Document
review**




**Walk
through test
/ flow
charts**



**Audit programs
/test of controls**

BE AWARE OF “TOO PERFECT” PROJECT FILES



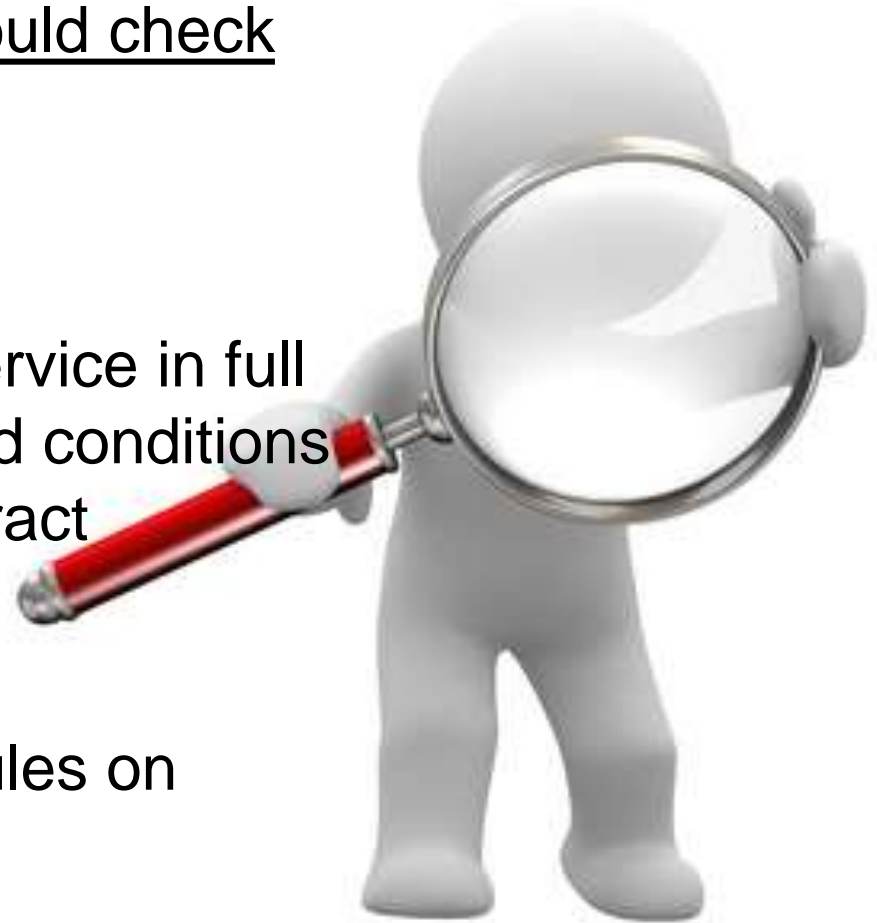
A magnifying glass is held over a document, focusing on the text. The text is in red and bold, with some parts underlined. The background is a blurred image of a document.

**ADMINISTRATIVE
VERIFICATIONS**
are starting point
and they must be confirmed with
PHYSICAL
VERIFICATIONS
(on-the-spot checks)



On the spot verifications, should check

- The reality of the operation
- The delivery of the product/service in full compliance with the terms and conditions of the grant agreement / contract
- The physical progress
- The respect for Community rules on visibility





What is wrong on the picture?

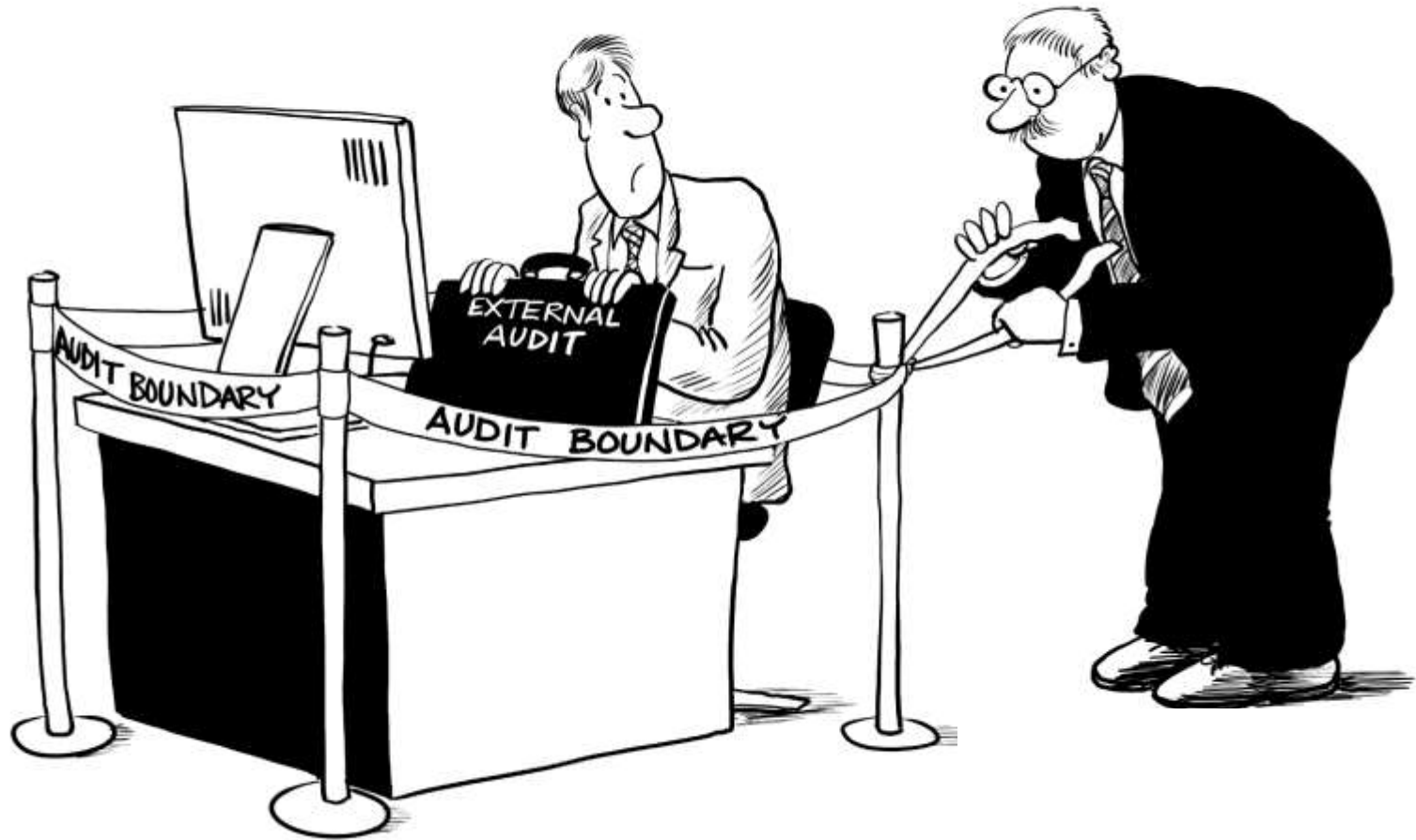
COMMUNICATE



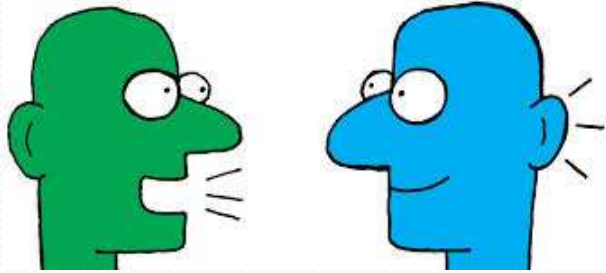
Why we need good communication with auditee?

NO SURPRISES APPROACH!!!

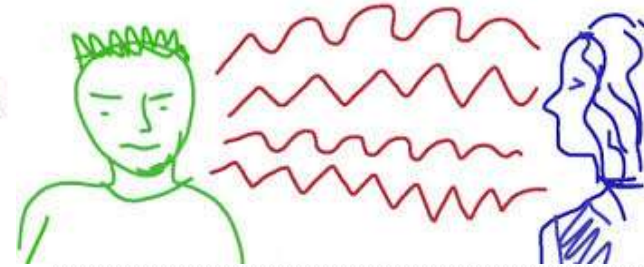
What is wrong here?



**Open and continuous cooperation is essential
for efficient and effective audit!!!**



*Good
communication
means
good business*



Communication and cooperation



Better audit results!





MAIN RISKS



- **High contracting rate & Low implementation rate**
- **Delays in implementation**
- **Low absorption rate**
- **EU funds are not properly implemented/used**
- **Needed controls are not done (on the spot)**
- **Not eligible expenditure declared**
- **Financial corrections**
- **Jeopardize the country's international reputation**

Lessons learned / future recommendations



- ❖ **Administrative capacity** (proper establishment of IPA structures and authorities)
- ❖ **Staffing** (employment, **retention and motivation policy**)
- ❖ **Training** (continuous activity)
- ❖ **Equipment** (assets for the work)
- ❖ **Accounting system** (financial information)
- ❖ **Relations between IPA actors** (communication)
- ❖ **IPA procedures** (comply with accreditation package, any modifications)
- ❖ **Audit function** (properly established and **functioning**)



Lessons learned /
future recommendations

- **MAINTAIN A PROPER AND STABLE IPA STRUCTURE**
(no changes in KEY actors/positions)
- **PROPER USAGE OF EU FUNDS** (according to EU rules)
- **INCREASE APPSORPTION CAPACITY** (use as much as possible)
- **NO FINANCIAL CORRECTIONS** (paid from the National Budget)
- **NO SUSPENZION / WITHDROW OF ACRREDITATION**
(bad international reputation)

CHALLENGE

**TAKE
ACTION
NOW!**

- When problems are identified – immediate management action is required!
- By taking appropriate action, management sends a strong message to Brussels!



BRAINSTORMING



- **What are the auditors most interested in?**
- **What are key risk (red flag) areas that should receive considerable management attention?**
- **What is blocking the absorption?**
- **What do people complain about within the IPA system?**
- **What you don't want on the front page of the newspaper?**
- **What do other IPA beneficiary countries do better?**
- **What keeps you up at night?**

THANK YOU FOR YOUR ATTENTION!!!



Remember... auditors never sleep!

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