

T: 0131-244 5598  
E: DGEconomy@gov.scot

Jenny Marra MSP  
Convener  
Public Audit and Post Legislative Scrutiny Committee  
The Scottish Parliament  
EDINBURGH  
EH99 1SP

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Dear Ms Marra

Thank you for your letter of 13 March seeking clarification on points covered in my letter of 31 January. I am sorry that leave and other commitments meant that I was unable to meet your deadline of 10 April.

It may be helpful if I explain that the Scottish Government submitted to the European Commission all the documentation to formally close the 2007 – 2013 programmes before their deadline of 31 March 2017. The EC will now conduct its own scrutiny exercise, as it will for all member states where the programmes operate. As the Permanent Secretary said in her evidence to the Committee on 10 November we expect that the EC will have completed the scrutiny process by March 2018. At that point we will know the final figures for both repayment of advances and the final payment claim which was submitted as part of the closure documentation – and will of course provide a further report to the Committee.

Taking each of the questions in your letter in turn.

- *The number of Scottish bodies that committed errors in respect of structural funds, the amount of the error, when the error was first uncovered and confirmation that the Scottish Government formally contacted each body in question with a view to addressing the error.*

Routine monitoring and audits undertaken during the lifetime of the projects identified errors in 211 of the 221 bodies (a correction from the approximate figure referred to in my earlier letter). I can confirm that Scottish Government officials were in regular contact with each body in person, by email and phone and writing throughout the programmes and particularly after errors were identified to provide an opportunity to address those errors.

Errors were uncovered through one of three main scrutiny mechanisms:

- A verification check of every claim made to the SG for payment
- An Article 60(b)\* audit by the SG officials overseeing the programmes
- An Article 62(b)\* audit by SG Internal Audit Directorate on behalf of the EC

\*Article 60(b) and Article 62(b) audits are set out within the EC regulations that govern the programmes

## ***Verification check of claims made to the SG for payment***

Verification visits were triggered at the point claims were made, which was generally quarterly for the majority of projects, although this could extend to annually in some complex projects, including for example those for Community Planning Partnerships. For every claim a sample of the expenditure was checked by the SG staff visiting the body to confirm the accuracy and eligibility of the items being claimed. Where those checks identified errors the body was informed at that time and any ineligible expenditure removed from the claim. This approach is as set out in the Management and Control System required by the EC for these programmes.

## ***Article 60(b) audit by the SG officials overseeing the programmes***

Article 60(b) checks were carried out on every project that formed part of the ERDF programmes and all sponsor bodies that delivered projects under the ESF programmes. In both cases a report was prepared and given to the body setting out the errors and detailing any financial correction required. Since many bodies delivering projects using European Funding operated more than one project, there was an opportunity to transfer lessons between projects.

## ***Article 62(b) audit by SG Internal Audit Directorate on behalf of the EC***

Article 62(b) audits were carried out after each claim for payment made by the SG to the EC. They were made each year between 2008 and 2016. A sample of the projects which were included in the payment claim were visited by the SG Internal Audit Directorate acting on behalf of the EC. Audit findings were shared with the body which included any financial correction to be made. A final round of 70 Article 62(b) audits were carried out following the final payment claim made in July 2016. The emerging findings from these audits were shared with each body in December 2016 and where necessary further information was requested to finalise the report in time for closure of the programmes.

I trust that the Committee will find this a helpful description of the arrangements in place across the lifetime of the programmes to ensure compliance and identify and resolve errors.

## **Closure of 2007- 2013 programmes**

The question also asks about the amount of errors.

The verification process and final audit reports for 2016 showed a level of error consistent with previous years. The EC will not pay a claim where errors are greater than 2%. The error rate for the 2007-2013 programmes as a whole is 6.17%, confirmed in the Final Control Report submitted as part of the closure documentation. In order to get below the 2% threshold, expenditure is removed from the payment claim: this is called a self-correction and is what was highlighted by the Auditor General in her review of the 2015-16 SG accounts. At the time of preparing those accounts we estimated that a self-correction of £11.2 million would be necessary based on the value of claims made during the period of the account. However as a result of claims made by the Scottish Government at the closure of the programme in March 2017 our new estimate of the level of self-correction needed has increased by £2.1 million and now stands at £13.3 million.

- *Have you calculated how many people may have been involved in spending European funding who were not provided with the appropriate auditing training?*

We do not hold information about how many people involved with the programmes have received audit training. In the period from 2007-2012 responsibility for day to day management of the programme was contracted to the Highlands and Islands Partnership and the East of Scotland European Programme which included the provision of guidance and training on behalf of the Scottish Government. Staff from both organisations were transferred into the Scottish Government under TUPE in 2012.

In the early part of the 2007-2013 programmes annual calls were made for proposals to be considered for funding. A series of roadshows staffed by SG officials were held across the country. These roadshows included training in the applications process. Successful applicants were also offered training about the claims and compliance processes, with attendance encouraged although not mandatory. These operated throughout the early part of the programmes and were available on request throughout the lifetime of the programmes. In addition to formal training courses, extensive guidance and frequently asked questions & answers is published on the Scottish Government website.

In her evidence to the Committee on 10 November the Permanent Secretary described action taken to increase awareness among key programme sponsors of their obligations for projects which they sponsor, but which are often delivered by smaller organisations who can lack the capacity or experience to meet the strict conditions associated with European Funding. I have previously set out some of the areas where we have learnt from the 2007-2013 programmes. These are built into our published Management and Control system and guidance for the current programmes.

- *Have any groups of people and/ or geographical areas suffered disproportionately?*

We have inspected the distribution of errors across the programmes (Lowland and Upland Scotland ERDF & ESF, and Highlands & Islands ERDF & ESF). No particular pattern is indicated by the distribution and there is no evidence that any groups of people or geographical area has performed significantly differently from another.

- *Have any projects in Scotland had to be abandoned or downgraded as a result of the loss of structural funds?*

A total of 827 projects were approved. Of that total, 43 bodies decided to withdraw on the basis that they could not meet the relevant criteria or were unable to attract match funding. A further 112 projects were withdrawn as a result of errors identified and on the basis that the Scottish Government had concluded that funding was unlikely to be recoverable from the European Commission. In those cases where grants had already been made, the Scottish Government is pursuing recovery where to do so would be consistent with our policy for reclaiming grants. The remaining 752 projects were completed.

You also asked about time pressures affecting the start of some projects under the 2014 – 2020 programmes. The first project applications were submitted in 2015. Over 200 project proposals have now been received and have been processed and we do not anticipate any further processing delays.

In some cases bodies decided to start their project before European funding was formally in place. However, other bodies chose not to start the project until they had received formal notification of funding. It has taken longer to process applications from those bodies who waited for funding to be confirmed since staff who would normally undertake those appraisals were focused on work to lift the EC-imposed suspension of the 2007-2013 programmes over 2015 and early 2016.

Half of the overall value of the programme has now been committed in line with our plan at the outset of the programmes. The first payment was made to a Lead Partner in September 2016, and we are now receiving and processing regular claims for payment. Where a project start has been delayed we are providing support to delivery bodies including discussing appropriate extensions to the timetable.

I hope that the Committee finds this information helpful.

LIZ DITCHBURN  
DG Economy