European Social Fund measure 1.3 "Equal opportunities in the labour market"

Audit report No. OSIII-2-6/06/83 of 14 September 2006

Summary

The European Social Fund (hereinafter also the ESF) is a structural fund of the European Union, which is primarily engaged in providing support for increasing people's employability. Among other things the Fund contributes to improving the operation of the labour market. The purpose of the ESF measure 1.3 “Equal opportunities in the labour market” is to prevent and alleviate unemployment more broadly and effectively and thus also prevent and alleviate poverty and social seclusion.

Through 2004-2006 the expenses of various projects in the amount of EEK 413.6 million will be covered with the ESF support in the framework of measure 1.3.

During the audit the National Audit Office assessed the fulfilment of the recommendations regarding improvement of the audit systems made in the previous audits of measure 1.3, the organisation of the audit system of the implementing agency and final beneficiary and the compliance of the organisation of the projects included in the sample with the planned organisation.

Main observations

The recommendations made during previous audits have been largely taken into account and the audit system of support proceedings has been improved. The payments of the projects of the Labour Market Board (hereinafter also the LMB) and its departments were suspended in the beginning of 2005 due to suspicion that the separation of obligations between the Labour Market Board and former employment offices has not been ensured and the principle of equal treatment of the applicants has not been followed. Upon accreditation of the Labour Market Board as the final beneficiary, the management authority of the measure and the audit body should have foreseen possible problems upon fulfilment of the principle of separation of obligations if the Labour Market Board starts processing its own projects and the projects of its structural units. On the basis of the recommendations of the Financial Control Department of the Ministry of Finance the system has been changed so that the Minister of Social Affairs exercises supervision over the projects of the LMB and amends administrative rulings.

The criteria established with regard to the projects of the application round and the procedure for their assessment have been set out in considerably greater detail. The rules of procedure, some of which are yet to be approved, have been set out in greater detail as well.

The main problem upon implementation of measure 1.3 is the excessive complexity of the process. The rules have frequently been amended ex post facto and it has required additional for on the part of the implementing agency, the final beneficiary as well as the implementers of the project. By the present time it has become clear that upon processing the payment applications of measure 1.3 it is not reasonable to check the expense receipts at least 200% for it causes an unnecessary waste of time. At the same time some important things have received no attention at all: for instance, upon processing payment applications it was checked whether the public procurement had been organised, but no attention was paid to whether it was in compliance with the Public Procurement Act and the rules of requesting a price offer. The National Audit Office finds that although the audit system of the LBM has been considerably improved, it is non-permissible that upon checking the payment applications it is not checked whether the prior public procurement has been implemented correctly. During the audit a new methodology for processing payment applications was drawn up, according to which high-risk expense receipts are the primary object of auditing.

The audited projects have been changed a lot. Since upon planning a project its activities and budget must be described very precisely, there is inevitably the need to make changes in the project during the lifetime of the project. Changes in cost classes and transfer thereof from one row to another have become frequent. During the audit it became evident that often the project budget was amended only after submission of the payment applications when it turned out that not all expenses are eligible. Although the projects of the Structural Fund were implemented in 2004, the Minister of Finance approved the general conditions and procedure for designation of eligible expenses as late as in February 2006.

Projects have been implemented according to plans. During the on-site audit it became evident that the activities of the project have taken place according to plans and the number of participants in the projects has been as prescribed. Although the achievement of the performance figures of the projects can be assessed only a year after the end of the projects, some performance indicators had already been fulfilled or even exceeded in the case of two projects which belonged to the sample.

Some project money could be re-distributed. By now it has become clear that in some projects of measure 1.3 the entire planned amount will not be used. As of 31 May 2006 the ESF payments accumulated to EEK 123.6 million and it accounted for 36% of the ESF support allocated to the approved projects. Since by the end of 2006 most of the projects of rounds I and II should be completed, there will be the need to decide whether to continue the projects or complete them at the prescribed time. Continuance of the projects may bring about the threat that the project's management and operating expenses are increased, but the number of the members of the target group will not considerably increase the number of the members of the target group. The National Audit Office finds that the sum allocated to the projects should be reduced at the right time so that the unused funds could be distributed to new projects.

The report contains recommendations to the Minister of Finance, the Minister of Social Affairs and the Director General of the Labour Market Board.

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The Minister of Social Affairs stated in his reply that he took the recommendations of the National Audit Office into account and in the future it will be proceeded primarily from achievement of the project goals when considering the extension of the projects. Application round IV will be declared at the end of 2006 or at the beginning of 2007 for using the budget funds released from the completed projects.

The National Audit Office made some modifications to the audit report based on the reply of the Minister of Social Affairs.

In his reply **the Minister of Finance** stated that the management authority inspects the compliance of the data of the information system with the actual situation once a month. Any differences in the data are brought to the attention of the final beneficiaries. The Minister also stated that the paying authority has drawn up instructions for repayments.

The Acting Director General of the Labour Market Board replied that simplified rules of procedure for processing payment applications have been drawn up and the ESF started applying them as of September 2006. According to these rules it must be made certain, among other things, whether public procurement has been carried out correctly. In addition, detailed instructions for drawing up monitoring reports have been developed and rules of procedure for amendment of the project budget have been approved.

Jüri Kõrge
Director of Audit
Audit Department III