



Flanders
State of the Art

ANNUAL REPORT

FLANDERS AUDIT AUTHORITY 2021

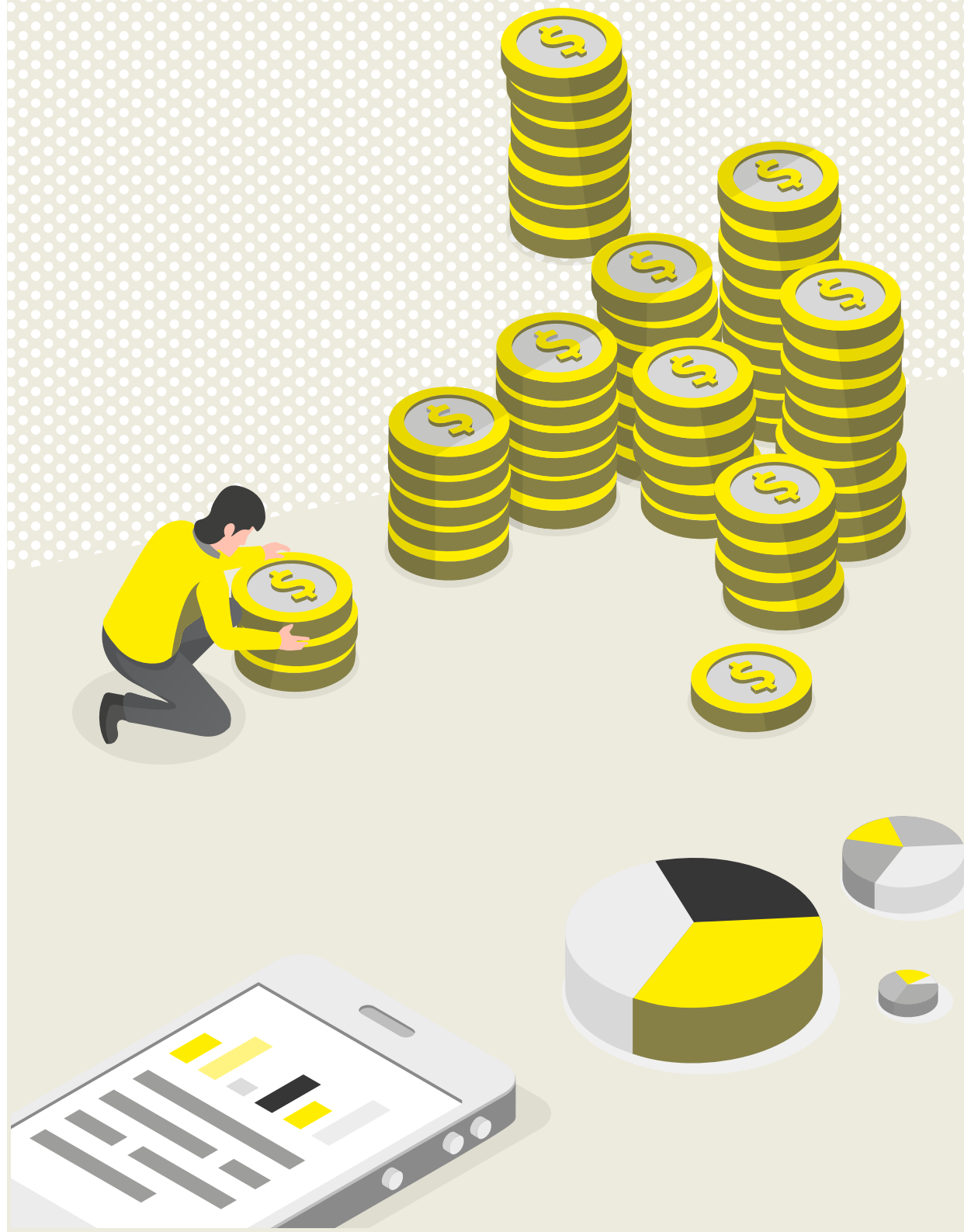
FLANDERS
AUDIT AUTHORITY



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ANNUAL REPORT

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2021: the year 'zero'

After 2020, with its COVID outbreak and inevitable impact on our audit operations, the year 2021 appeared to bring more of the same at first sight. The only difference this time seemed to be that we were already acquainted with audit operations under COVID restrictions. However, nothing was further from the truth and it was 'business as usual, in an unusual time'.

To meet the need for recovery, the RRF (Recovery and Resilience facility) and the BAR fund (Brexid Adjustment Reserve) were launched, together with REACT EU. Flanders Audit Authority was appointed by the Flemish Government to also carry out the audits for these funds and will launch operations for BAR and REACT EU in 2022.

With regard to the ongoing audit activities for structural funds, we continued to use the same approach as in 2020, with minimal audit burden for the parties concerned and substantiated assurance for external actors. This method has also shown its limits: face-to-face human contact during audit site visits clearly encourages timely submissions. 2022 will therefore be partially focused on resuming the site visits as part of operational audits.

As for ATEF, the year 2021 was characterized by the completion of the first two events: The World Choir Games and the Cycling World Championship. Partly as a result of the rigorous follow-up by the audit team, it could be demonstrated with sufficient certainty that the allocated funding was used correctly, which was, after all, ATEF's initial aim.

Finally, the innovation procedure for the CATE-project¹ was concluded, which resulted in a contract award to a consortium comprising Deloitte and the AI company ML6. In 2022, the first milestones will be reached on the way to fully integrating AI components into audit operations.

The above-mentioned achievements cannot be viewed separately from the organisation of FAA's audit team. RRF and BAR have created a 'year zero' scenario: the entire organisation had to be reviewed in a short period of time and new challenges were taken up. Day by day, the expanding team has shown to be more than able to cope with these challenges, thanks to their professional approach, self-management and added value.

Notwithstanding all the challenges the past year brought along, there were also many positive outcomes, which allow us to look forward to 2022 with confidence.

Tony Mortier

Inspector General of Finance
Flanders Audit Authority

¹ *Continuous Auditing based on Technological Evolution and Data Mining.*

LIST OF ABBREVIATIONS

ACR	Annual Control Report
AMIF	European Asylum, Migration and Integration Fund
AO	Audit of operations
BAR	Brexid Adjustment Reserve
CA	Certifying authority
ERDF	European Regional Development Fund
ESF	European Social Fund
FAA	Flanders Audit Authority
FLC	First Level Control
FSI	Flemish Social Inspectorate of the Department of Work and Social Economy
FU	Follow-up audit of a system audit
GFO	Government of Flanders Order
IB	Intermediate body
Interreg VA	Interregional cooperation programme (e.g. border region: Flanders and South Netherlands)
KR	Key requirement
MA	Managing authority
MCS	Management and control system
QR	Quality review
SYA	System audit
REACT-EU	Recovery Assistance for Cohesion and the Territories of Europe
RRF	Recovery and Resilience Facility
RTER	Residual Total Error Rate
TER	Total Error Rate

1

Flanders Audit Authority (FAA)

The mandate of Flanders Audit Authority (FAA) for the 2014-2020 programme period of the **European Structural Funds** was extended in the management agreement of 17 July 2015.

In order to carry out the work of Flanders Audit Authority (FAA) two Finance Inspectors were appointed, under the authority of the Flemish Government, to fulfil its tasks. For the moment, these are undertaken by one Inspector General of Finance, Tony Mortier.

FAA executes the functions mentioned in article 127 and article 128 of Regulation (EU) No 1303/2013, as well as the provisions that have already been issued for its implementation and those that will be issued in the future.

The Finance Inspector concerned belongs to the Interfederal Corps of the Inspectorate of Finance, whose organisational structure is regulated by the Royal Decree of 28 April 1998 concerning the organisation of the Interfederal Corps of the Inspectorate of Finance.

With the GFO of 23 December 2016, the Flemish Government decided to transfer the competence to carry out second line checks for specific cooperation programmes (Interreg) to FAA. Initially, this competence was assigned to Flanders Innovation & Entrepreneurship.

Top events financed by the Flemish Government through Event Flanders are monitored and supported by the **Audit Committee Top Events Flanders (ATEF)**, established by protocol as of 1 January 2019. For the execution of its tasks, ATEF can rely upon FAA. More specifically, ATEF relies upon FAA for the external audit of accounts and consultancy,

in accordance with international standards on auditing. For these audits, FAA bases itself on the applicable legislation and auditing standards.

On 30 April 2021, the Flemish Government decided to appoint FAA to implement the proposed audit strategy for the **Recovery and Resilience Facility**. As independent audit body, FAA will carry out audits on projects and the facility's management and control system.

The Flemish Government also consented to the financing and procedure of the **CATE** project. The procedure to set up an innovation partnership was concluded at the end of December 2021 by awarding the contract to a consortium comprising Deloitte and ML6.

Flanders Audit Authority for the time being consists of one inspector of finance: Tony Mortier. FAA is supported by 8 auditors.

For its operations, FAA is assisted by 8 auditors. Article 2 of the GFO of 30 November 2007 states that these auditors are working under the functional authority of FAA and under the administrative framework of the Finance and Budget department.

The present report aims to provide all stakeholders with an overview of the activities carried out by FAA in 2021.

2

Structure

In order to carry out the work of FAA, two half-time Finance Inspectors were appointed to fulfil its tasks, under the authority of the Flemish Government and as part of the government system for administrative and budgetary control. For the moment, these tasks are undertaken by just one Finance Inspector:

- **Tony Mortier**

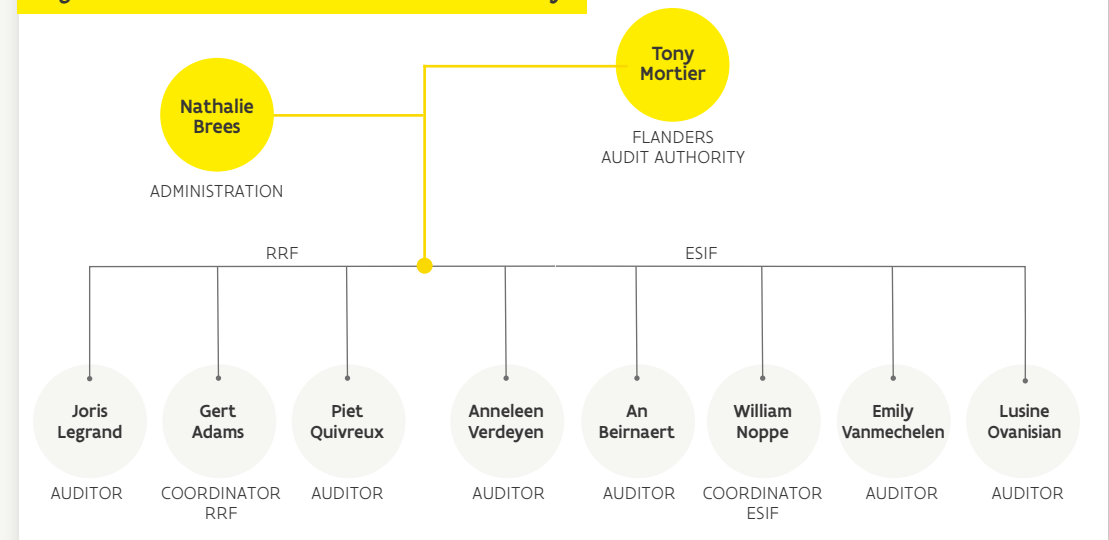
At the beginning of 2021, FAA consisted of 5 auditors. The team expanded to 8 auditors in the course of the year, thanks to the additional staff resources provided for RRF and BAR. The following staff members are working as full-time auditors for FAA

and are seconded from the Finance and Budget department:

- **William Noppe (coordinator structural funds)**
- **Gert Adams (coordinator RRF)**
- **An Beirnaert**
- **Lusine Ovanisian**
- **Emily Vanmechelen**
- **Joris Legrand**
- **Anneleen Verdeyen**
- **Piet Quivreux**

FAA is supported by an administrative assistant, **Nathalie Brees..**

Organisational chart of Flanders Audit Authority



European Structural Funds

3.1. Introduction

The central aim consists in providing the European Commission with a reasonable degree of assurance with respect to:

- the operations of the management and control system of the bodies managing assistance packages (MA, CA and IBs) and of the projects cofinanced by the European Structural Funds;
- the accuracy of the expenditure statements presented to the Commission in order to provide reasonable assurance on the legality and regularity of the underlying transactions.

The main audit activities within the framework of the European Structural Funds are listed below. These activities were carried out in order to obtain a reliable picture of the functioning of MA's and CA's management and control systems.

- sampling of operations to be audited (projects or payment requests);
- carry out AOs;
- follow up AO results;
- carry out SYAs;
- carry out follow-up audits (FU) of SYAs where problems have been identified;
- carry out an audit of the accounts and check the annual summary;
- draw up annual control reports for the European Commission;
- ...

All these activities contributed to FAA's aims.

In addition, other activities were undertaken, such as:

- permanently monitoring and updating audit strategies where necessary;
- providing continuous professional development opportunities;
- consultations with the European Commission, other audit authorities, MA and CA, as well as the steering committees involved and political decision-makers;
- preparatory activities for the new programme period 2021-2027.

For its operations, FAA is assisted by auditors who:

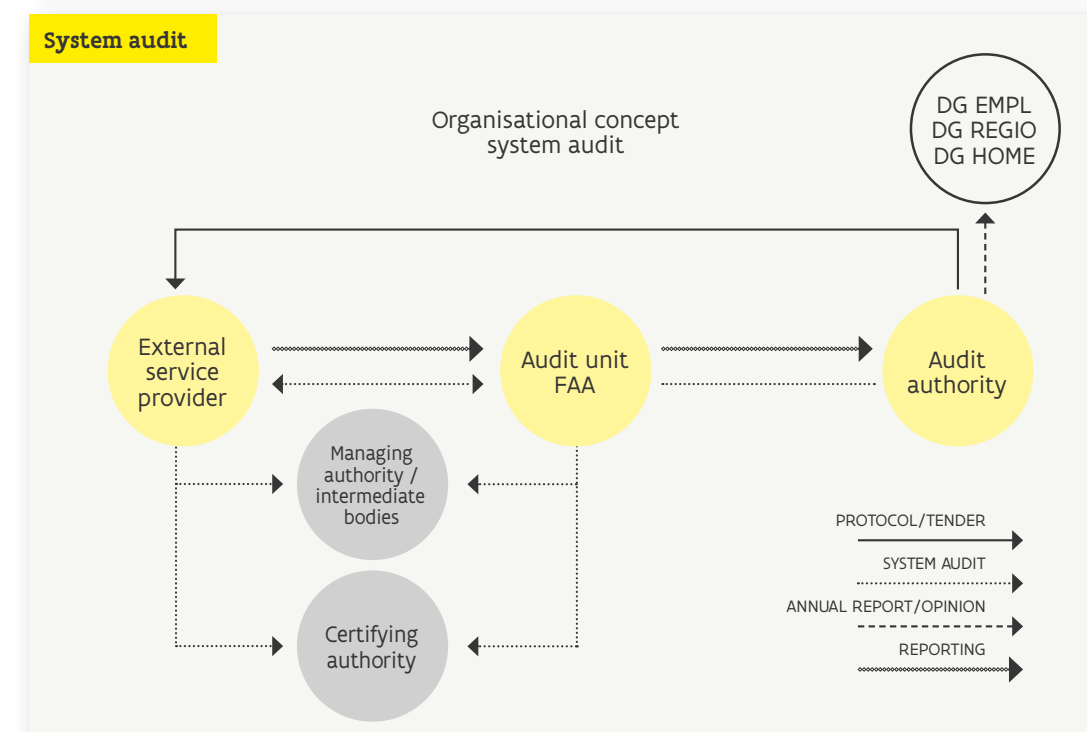
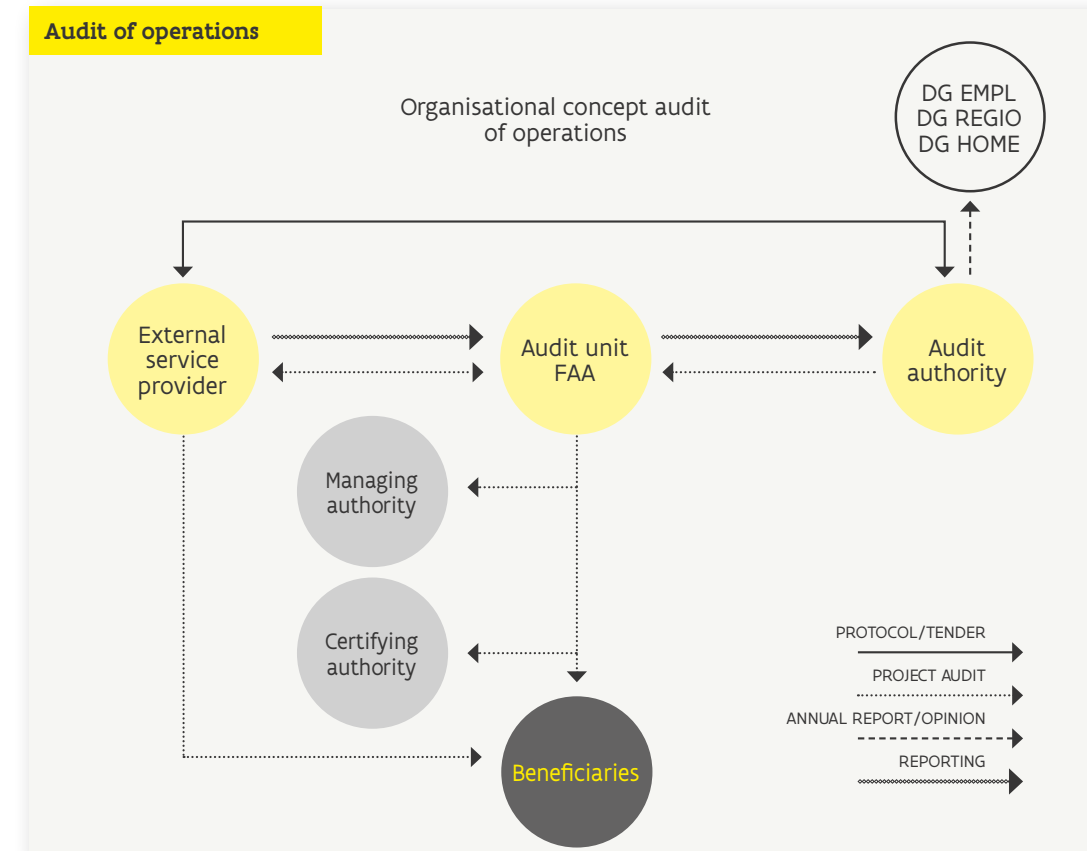
- carry out SYAs to check if the management and control system of operational programmes is functioning effectively;
- carry out AOs to verify the expenditure declared to the European Commission.

The outcomes of both activities should enable FAA to report to the European Commission before 15th February of the current year, on the basis of the audit operations for the accounting year in question², by providing for each fund:

- an annual report with the results of these audits, reporting on possible shortcomings in the management and control system of the programme;
- an annual audit opinion about the reliability of the management and control system, and the correct use of EU funding.

² An accounting year runs from 1 July year N-1 to 30 June year N.

The diagrams below illustrate AO and SYA activities:



3.2. Activities in 2021 relating to the programme period 2014–2020

The table below shows the funding related to the 2014-2020 Operational Programme (OP) for all funds under the responsibility of FAA, including European financing from structural funds as well as Flemish private and public cofinancing. Project costs relating to the 2014-2020 OP can be incurred until 31 December 2023.

Funding programme period 2014–2020

	ESF (€)	ERDF PA (€)	INTERREG VA FL-NL (€)	AMIF (€)
TOTAL	1.024.665.509	435.508.940	305.151.170	16.678.503
European funding	398.502.847	175.592.098	152.575.585	16.678.503
Flemish cofinancing	561.333.319	178.131.968	152.575.585 ³	Determined separately for each call ⁴
Private funding	64.829.343	81.784.874	40.889.571 ⁵	

The table below provides a summary of the expenditure declared per fund, and the audit results for the accounting year 2020-2021. It also includes more detailed information on each fund.

Expenditure declared and audit samples per fund

Fund	Expenditure declared	Expenditure selected for audit		Value of errors identified in sample	Total extra-polated Error Rate (TER)	Residual Total Extrapolated Error Rate (RTER)
	AMOUNT (€)	AMOUNT (€)	COVERAGE %	AMOUNT (€)	%	%
ESF	135.865.317	44.379.825	32,66	101.543	1,28	1,20
ERDF PA2	69.538.927	24.002.552	34,52	107.910	0,98	0,71
Inter. VA	53.912.080,55	1.991.355,30	3,69	2.693,78	0,12	0,11
AMIF ⁶	746.467,86	85.986,42	11,52	306,06	0,36	0,31

3 Flemish-Dutch cofinancing.
4 The Flemish cofinancing and private funding are not determined by the National Programme. The amount of Flemish cofinancing is determined separately for each project call. The minimum co-financing rate for AMIF actions is 25%.
5 The private funding is part of the national cofinancing of € 152,575,585.
6 This only includes AMIF balances.

3.3. Activities in 2021 relating to the programme period 2021–2027

FAA assists ESF, ERDF and Interreg Flanders-Netherlands with their preparations for the new programme period 2021-2027. Article 94 of the Regulation 2021/1060 of 24 June 2021 mentions various assessment methods and the possibility to calculate programme funding based on unit costs,

lump sums and flat rates. In order to make use of this method, funds will have to submit a request to the European Commission through their respective programme, including an ex-ante assessment by the audit authority.

3.4. Activities of FAA

In 2021, maximal use was made of remote audits due to the COVID-19 pandemic (no audit site visits were conducted).

The execution of both SYAs and AOs involves different tasks. These activities can be subdivided as follows:

- **PREPARATION:** making appointments, downloading project data from the programme database or retrieving data from the MA and making a first assessment, asking questions to the auditee and/ or MA, deciding for which audits site visits are necessary, making additional appointments if needed, reading up on the project aims...
- **LETTER OF INTENT:** The auditee receives a letter of intent by e-mail in order to inform them that an audit will be conducted. This letter includes the planning of the audit, contact details and a first series of questions based on the auditor's preparations.
- **SCREENING:** Collecting previously requested documents during the on-site visit, checking the items under examination and items selected through expansion of the sample, verifying the

- physical existence of the project, consulting original documents, asking specific questions about project administration, accounting or HR, examining specific issues related to the terms of approval (reality check), checking public procurement legislation and specific conditions for state aid, completing checklists, verifying publicity rules, taking pictures,...
- **REPORT:** Filling in the tool, extrapolating where necessary, transferring findings to the report, finishing checklists, keeping working documents in order, writing the accompanying letter, QR and possible adjustments after QR.
- **ADVERSARIAL PROCEDURE:** Updating tool and report, assessing the rebuttal, adjusting and recalculating the findings if needed, calculating and updating the error rate, updating working documents, writing the accompanying letter, QR and possible adjustments after QR.
- **FOLLOW-UP EXTERNAL PARTIES:** QR and possible adjustments after QR, follow-up of the adversarial procedure...
- **ADMINISTRATION EXTERNAL PARTIES:** random sampling, QR, writing the accompanying letter, organize trainings...

3.5 European Social Fund (ESF)

This fund aims to support projects that will strengthen the labour market and increase employment. It helps people retrain for a new career or assists those whose are looking for their first job. The fund offers support to companies wishing to improve their work organisation structure and the work-life balance of their employees. It also targets socially vulnerable groups, such as low-skilled workers, immigrants or persons with an employment disability. Moreover, the ESF encourages organisations to work innovatively and internationally.

In order to help Flemish workers, job-seekers and organisations face the changing labour market, the ESF receives funding from the European Union and the Flemish government. These resources are distributed by ESF Flanders in the form of subsidies paid to organisations that stimulate the Flemish labour market in order to create new opportunities for job-seekers and keep employees satisfied with their jobs. ESF Flanders falls within the competence of the Flemish ministers of Work and Social Economy.

ESF Flanders receives € 398,502,847 from the European Social Fund to invest in valuable projects between 2014 and 2020.

3.5.1 Annual control report (ACR)

The ACR must be submitted each year to the European Commission on 15 February. The ACR contains the main results of the audits carried out, including findings with regard to deficiencies found in the management and control systems, and the proposed and implemented corrective actions. This report provides information on audits of expenditure declared to the European Commission in the period between 1 July 2020 and 30 June 2021.

FAA believes that the implemented management and control systems were functioning properly during the above-mentioned period, that the expenditure declared to the European Commission and included in the annual accounts is legal and regular, and that the annual accounts give a true and fair view as laid down in Article 29, paragraph 5 of Regulation (EU) No 480/2014. The RTER is 1.20 %.

The error rate of the random sample is largely determined by typological errors⁷:

- **12.2:** 'Wrong application of simplified cost options';
 - Staff costs are based on a standard hourly rate and time registration data. In a number of cases, time registration did not meet the necessary requirements (non-authentic signature, double registration, working hours not linked to the project).
- **15.2:** 'Incorrect result data'.
 - For one of the projects, the auditor deemed that fewer result indicators had been achieved.

3.5.2 System audits

The SYAs focused on the follow-up of open recommendations resulting from previous SYAs. Several recommendations were closed. Some will be subject to further follow-up during future SYAs. New recommendations were also proposed.

All SYA activities were performed by FAA, except for the IT audit, which was carried out by an external service provider.

System audits performed for ESF

SYSTEM AUDIT OR FU AUDIT	AUDITED AUTHORITY
FU 1ITA3 – IT: SV 6 and 11	Managing authority
FU 1SYA20 - CA: SV 9-13	Certifying authority
FU 1SYA18 - FLC: SV 4	Managing authority
FU 1SYA21 - indicators: SV 1, 3, 4, 5, 6 and 8	Managing authority
FU 1SYA22 - supervision IBs: SV 1	Managing authority
FU 1SYA17 – fraud prevention: SV7	Managing authority

The different SYAs conducted at the MA and CA sufficiently confirm the appropriateness and effectiveness of the procedures. All findings corresponded to category 1 or 2, which means that the management and control system still has some minor deficiencies with limited impact. These are not fundamental problems that obstruct the proper functioning of the programme. The level of assurance obtained based on the SYAs is average.

Based on the SYAs and follow-up audits, FAA believes that the management and control systems in place at both the MA and CA are functioning properly, but some improvements are needed.

3.5.3 Audits of operations

The audits of operations for this programme are carried out by FAA and VSI, an external service provider.

All draft and final reports (including working documents) written by the external service provider are subject to a quality check and final approval by FAA.

The selection of the AOs to be carried out is based on the 'Guidance on sampling methods for audit authorities EGESIF_16-0014-01' of 20 January 2017, (hereafter 'Guidance') published by the EC and with the help of the template provided by the EC.

The sample included 1 'high value' project and 30 randomly selected projects from a population of 513 projects with a total value of € 135,865,317.20. The 31 selected projects with a total value of € 44,379,824.66 have a coverage rate of 32.66 %. The TER for the whole population is 1.28 %. The RTER is 1.20 %.

Both the TER and RTER are below the materiality threshold of 2%, so no additional financial corrections are needed apart from the corrections made as result of the audits.

Both the TER and RTER are below the materiality threshold of 2%, so no additional financial corrections are needed apart from the corrections made as result of the audits.

7 The typology of project findings is set out in European Commission guidelines.

3.6. European Regional Development Fund (ERDF) priority area 2

This fund aims to support projects that strengthen regional competitiveness and increase employment. With regard to ERDF PA2, sufficient economic growth must be achieved in Flanders in order to maintain and increase the level of prosperity and well-being, taking into account the economic and demographic developments (population ageing).

Flanders receives €175,592,098 from the ERDF to invest in valuable projects between 2014 and 2020.

3.6.1. Annual control report (ACR)

The ACR must be submitted each year to the European Commission on 15 February. For ERDF an extension was granted until 1 March 2021. The ACR contains the main results of the audits carried out, including findings with regard to deficiencies found in the management and control systems, and the proposed and implemented corrective actions. This report provides information on audits of expenditure declared to the European Commission in the period between 1 July 2020 and 30 June 2021.

FAA believes that the implemented management and control systems were sufficiently functioning during the above-mentioned period despite some deficiencies with limited impact, that the expenditure declared to the European Commission and included in the annual accounts is legal and regular, and that the annual accounts give a true and fair view as laid down in Article 29, paragraph 5 of Regulation (EU) No 480/2014. The residual total error rate (RTER) is 0.71 %.

The error rate of the random sample is largely determined by typological errors⁸:

- 8.3 'Expenditure is not related to the project' for 10 payment requests;
- 1.1 'Lack of publication of contract notice or unjustified direct award' for 3 payment requests;
- 8.9: Other ineligible expenditure (such as a horizontal correction for shortcomings relating to promotion and publicity).

3.6.2. System audits

The SYAs focused on the follow-up of open recommendations resulting from previous SYAs. Several recommendations were closed. Some will be subject to further follow-up during future SYAs. New recommendations were also proposed.

All SYA activities were performed by FAA, except for the IT audit, which was carried out by an external service provider.

System audits performed for ERDF

SYSTEM AUDIT OR FU AUDIT	AUDITED AUTHORITY
FU 2ITA2 – IT: SV 6 and 11	Managing authority/IB
FU 2SYA16 - MA/IB: SV 1-3	Managing authority/IB
FU 2SYA17 - CA: SV 9-13	Certifying authority
FU 2SYA18 - FLC: SV 4	Managing authority/IB
FU 2SYA15 - indicators: SV 1, 3, 4, 5, 6 and 8	Managing authority/IB
FU 2SYA19 – fraud prevention: SV7	Managing authority/IB

8 The typology of project findings is set out in European Commission guidelines.

The different SYAs conducted at the MA and CA sufficiently confirm the appropriateness and effectiveness of the procedures. All findings corresponded to category 1 or 2, which means there are no fundamental problems that obstruct the proper functioning of the programme. The level of assurance obtained based on the SYAs is average.

Based on the SYAs and follow-up audits, FAA believes that the management and control systems in place at both the MA and CA are functioning properly, but some improvements are needed.

3.6.3. Audits of operations

The selection of the AOs to be carried out is based on the Guidance published by the EC and made with the help of a template provided by the EC.

The sample included two 'high value' items and 28 randomly selected projects from a population of 269 payment requests with a total value of € 68,836,700. The 30 selected payment requests with a total value of € 24,002,551.96 have a coverage rate of 34.52 %. The TER for the whole population is 0.98 %. The RTER is 0.71 %.

Both the TER and RTER are below the materiality threshold of 2%, so no additional financial corrections are needed apart from the corrections made as result of the audits.



3.7. Interreg VA Flanders-Netherlands

The aim of Interreg VA Flanders-Netherlands is to contribute to sustainable social and economic development throughout the border region of Flanders and the southern provinces of the Netherlands by means of targeted crossborder initiatives. Interreg VA Flanders-Netherlands is a subsidy programme which has worked to foster collaboration between (border) regions in different member states of the European Union since 1990. The programme is financed by the European Regional Development Fund (ERDF). This structural fund supports authorities and organisations in different regions to carry out crossborder projects that contribute to the economic and/or social development of those regions. Interreg V is the fifth phase of this programme, running from 2014 to 2020. The programme is subdivided into three types: Interreg VA for crossborder cooperation, Interreg VB for transnational cooperation and Interreg VC for interregional cooperation. FAA is responsible for carrying out the second line checks for Interreg VA Flanders-Netherlands.

Interreg Flanders – Netherlands receives € 305,151,170 (including € 152,575,585 from the ERDF) to invest in valuable crossborder projects between 2014 and 2020.

3.7.1. Annual control report (ACR)

The ACR must be submitted each year to the European Commission on 15 February. The ACR contains the main results of the audits carried out, including findings with regard to deficiencies found in the management and control systems, and the proposed and implemented corrective actions. This report provides information on audits of expenditure declared to the European Commission in the period between 1 July 2020 and 30 June 2021.

FAA believes that the implemented management and control systems were functioning properly during the above-mentioned period, that the expenditure declared to the European Commission and included in the annual accounts is legal and regular, and that the annual accounts give a true and fair view as laid down in Article 29, paragraph 5 of Regulation (EU) No 480/2014. The residual total error rate (RTER) is 0.11 %.

The error rate of the random sample is largely determined by typological errors⁹:

- **1.1:** 'Lack of publication of contract notice or unjustified direct award':
 - a product was purchased under an existing framework agreement that had expired. It could not be demonstrated that the framework agreement had been renewed.
- **8.9:** 'Other ineligible expenditure'.

3.7.2. System audits

The SYAs focused on the follow-up of open recommendations resulting from previous SYAs.

All SYA activities were performed by FAA, except for the IT audit, which was carried out by an external service provider.

System audits performed for Interreg VA

SYSTEM AUDIT OR FU AUDIT	AUDITED AUTHORITY
FU 3ITA3 – IT: SV 6 and 11	Managing authority
FU 3SYA16 MA: SV 1-3	Managing authority
FU 3SYA17 CA: SV 9-13	Certifying authority
FU 3SYA18 FLC: SV 4	Managing authority
FU 3SYA19 indicators: SV 1, 3, 4, 5, 6 and 8	Managing authority
FU 3SYA20 fraud prevention: SV 7	Managing authority

The different SYAs conducted at the MA and CA sufficiently confirm the appropriateness and effectiveness of the procedures. All findings corresponded to category 1 or 2, which means there are no fundamental problems that obstruct the proper functioning of the programme. The level of assurance obtained based on the SYAs is average.

Based on the SYAs and follow-up audits, FAA believes that the management and control systems in place at both the MA and CA are functioning properly, but some improvements are needed.

3.7.3. Audits of operations

The sample audits for this programme were carried out by the Group of Auditors under supervision of FAA, as described in the approved audit strategy. This group of auditors consists of Flemish and Dutch audit authorities. The audits of operations for Flemish project partners (= subsample unit) were conducted by FAA. The Central Government Audit Service of the Dutch Ministry of Finance is responsible for audits of Dutch project partners.

The selection of the AOs to be carried out is based on the Guidance published by the EC and made with the help of a template provided by the EC.

A non-statistical sampling method was used, spread over 2 periods, based on equal probability (EP) selection. In total (period 1 and 2), the sample included 7 randomly selected projects from a population of 85 projects with a value of € 53,922,280.17. The 8 selected project partners worth € 1,991,355.30 have a coverage rate of 8.24 %. The TER for the whole population is 0.12 %. The RTER is 0.11 %.

Both the TER and RTER are below the materiality threshold of 2%, so no additional financial corrections are needed apart from the corrections made as result of the audits.

⁹ The typology of project findings is set out in European Commission [guidelines](#).

3.8. European Asylum, Migration and Integration Fund (AMIF)

The European Asylum, Migration and Integration Fund (AMIF) is a European Commission financial tool aiming to promote a more efficient management of migration flows and the strengthening and development of a common approach to asylum, migration and integration.

AMIF resulted from the merge of 3 funds from the 2007-2013 programming period: the European Integration Fund (EIF), the European Refugee Fund (ERF) and the European Return Fund (RF).

As an EU member state, Belgium can draw on AMIF funding. The available European funding amounts to 89 million euros for the entire programming period 2014-2020. About one third of the budget is allocated to integration.

As delegated authority, the ESF department is responsible for the management of the Flemish integration component of AMIF. The ESF department has years of experience with programme management in the context of the European Social Fund (ESF) and can also use this expertise for the call and project management processes of AMIF. For the preparation of project calls, the ESF department closely cooperates with the Civic Integration Team at the Agency for Home Affairs, which also provides cofinancing for these projects.

The AMIF National Programme 2014-2020 describes the strategy, objectives and results for Belgium. Flanders will use the European resources to boost its inclusive and horizontal integration policy. The funding will primarily be used to close the employment gap, improve access to public services and set up initiatives for specific target groups (e.g. women, youngsters,...). All initiatives specifically target non-EU nationals (third country nationals).

3.8.1. Annual control report (ACR)

Each year on 15 February, the ACR must be submitted by the federal audit authority to the European Commission. For AMIF an extension was granted until 1 March 2021. The ACR of the Flemish component contains the main results of the audits carried out, including findings with regard to

deficiencies found in the management and control systems, and the proposed and implemented corrective actions. This report provides information on audits of expenditure declared to the European Commission in the period between 16 October 2020 and 15 October 2021.

FAA believes that the implemented management and control systems were functioning properly during the above-mentioned period, that the expenditure declared to the European Commission and included in the annual accounts is legal and regular, and that the annual accounts give a true and fair view as laid down in Article 14, paragraph 5 of Delegated Regulation (EU) No 1042/2014. The residual total error rate (RTER) is 0.31 %.

The error rate of the random sample is largely determined by typological errors¹⁰:

- 12.2: 'Wrong application of simplified cost options'.
 - Registered working hours were corrected and the hours in the time registration system were not converted into decimals for submission.

3.8.2. System audits

The ESF department carried out several SYAs of the management and control system for the ESF operational programme. These audits also apply to AMIF, since its management and control system is based on the ESF programme. The procedures for AMIF did not change, so in 2021 no additional SYA was needed in relation to differences between AMIF and ESF.

3.8.3. Audits of operations

Based on the data of 15 October 2021, the delegated audit authority responsible for AMIF takes stock of the situation by using the evaluation reports for accounting year 2020-2021. The expenditure audits were conducted by FAA.

The sample included 3 randomly selected project reports from a population of 22 with a total value of 3,029,273.93, including € 1,853,547.64 AMIF funding. The AMIF funding was subdivided in two parts: € 745,318.37 of balances and € 1,108,229.27 of advances relating to accounting year 2019-2020. The

3 selected reports corresponding to a total value of € 85,986.42 (AMIF balances) have a coverage rate of 11.52 %. The TER for the whole population is 0.36 % and the RTER 0.31 %.

Both the TER and RTER are below the materiality threshold of 2%, so no additional financial corrections are needed.

3.9. Supporting activities for other programmes

In a supporting role, FAA conducts AOs for other programmes involving Flemish project partners where FAA is not the responsible audit authority. These programmes include:

1. Interreg VA France – Wallonia – Flanders;
2. Interreg VA Euregion Meuse-Rhine;
3. Interreg VA 2 Seas;
4. Interreg VB North Sea Region;
5. Interreg VB North-West Europe;
6. Interreg Europe;
7. Interreg VA South-Baltic;
8. Urbact III.

Overview of the population and sample

FUND	EXPENDITURE DECLARED	NUMBER OF SAMPLE ITEMS IN POPULATION	NUMBER OF AUDITS CONDUCTED BY FAA
	AMOUNT (€)	%	%
Interreg V A France-Wallonia-Flanders	58.768.911,38	30	7
Interreg V A Euregion Meuse-Rhine	36.309.580,89	12	1
Interreg V A 2 Seas	56.263.982,33	8	2
Interreg V B North Sea Region	70.569.395,00	25	3
Interreg V B North-West Europe	110.011.882,23	6	0
Interreg Europe	76.774.133,24	25	0
Interreg V A South Baltic	23.145.231,64	30	0
Urbact III	6.289.717,06	5	0

Results of the audits

FUND	EXPENDITURE SELECTED FOR AUDIT		TOTAL ERROR	TOTAL EXTRA-POLATED ERROR RATE (TER)	RESIDUAL TOTAL EXTRA-POLATED ERROR RATE (RTER)
	AMOUNT (€)	COVERAGE %	AMOUNT (€)	%	%
Interreg V A France-Wallonia-Flanders	3.079.811,88	5,24	76.010,90	2,86	2,70
Interreg V A Euregion Meuse-Rhine	4.975.031,14	13,70	45.295,99	0,28	0,15
Interreg V A 2 Seas	2.494.886,88	4,44	1.658,85	0,06	0,05
Interreg V B North Sea Region	3.473.688,00	4,92	96.618	2,16	2,02
Interreg V B North-West Europe	4.325.760,38	3,93	27.084,33	0,63	0,61
Interreg Europe	3.916.657,11	5,11	4.942,29	0,22	0,21
Interreg V A South Baltic	1.099.166,70	4,75	5.384,89	0,38	0,34
Urbact III	327.561,90	5,21	186,39	0,05	0,04

10 The typology of project findings is set out in European Commission [guidelines](#).

3.9.1. Interreg VA France – Wallonia – Flanders

The responsible audit authority is the Cellule Audit de l'Inspection des finances pour les fonds européens (CAIF) in Wallonia.

For the AOs, the responsible audit authority used statistical sampling spread over two periods. The sample included 30 items and 7 of these involved a Flemish beneficiary, with a value of € 3,079,811.88 selected from a total population of € 58,768,911.38. The financial error in the sample amounts to € 76,010.90. The extrapolated error rate is 2.86 %. The RTER is 2.70 %.

The RTER is above the materiality threshold of 2%, so an additional financial correction of € 422,040.41 was required, supplementary to the corrections made as result of AOs and first line checks, which made it possible to express an opinion without reservation on the legality and regularity of expenditure.

3.9.2. Interreg VA Euregion Meuse-Rhine

The responsible audit authority is the Central Government Audit Service in the Netherlands.

A non-statistical sampling method was used for the AOs. The sample consisted of 12 items, including 1 Flemish project partner, with a value of € 4,975,031.14 selected from a total population of € 36,309,580.89. The financial error in the sample amounts to € 45,295.99. The TER is 0.28 % and the RTER 0.15 %.

3.9.3. Interreg VA 2 Seas

The responsible audit authority is the Coordination des Contrôles des fonds européens (CICC) in France.

E&Y used a non-statistical sampling method for the AOs. The sample included 5 projects and the expenditure worth € 2,494,886.88 (selected from a total population of € 56,263,982.33) was submitted

by 8 partners, including 2 Flemish ones.

The financial error in the sample amounts to € 1,658.85. The TER is 0.06 % and the RTER 0.05 %.

3.9.4. Interreg VA North Sea Region

The responsible audit authority is the EU Audit Danish Business Authority in Denmark.

A non-statistical sampling method was used for the AOs. The sample included 6 projects and the expenditure worth € 3,473,688 (selected from a total population of € 70,569,395) was submitted by 25 partners, including 3 Flemish ones. The financial error in the sample amounts to € 96,618. The TER is 2.16 % and the RTER 2.02 %.

The RTER is above the materiality threshold of 2%, so an additional financial correction of € 15,893 was required, supplementary to the corrections made as result of AOs and first line checks, which made it possible to express an opinion without reservation on the legality and regularity of expenditure.

3.9.5. Interreg VB North-West Europe

The responsible audit authority is the Commission Interministérielle de Coordination des Contrôles des fonds européens (CICC) in France.

A non-statistical sampling method was used for the AOs, with checks carried out by E&Y. The sample included 6 items (of which none were Flemish) with a value of € 4,325,760.38 selected from a total population of € 110,011,882.23. The financial error in the sample amounts to € 27,084.33. The error rate is 0.63 % and the RTER 0.61 %.

3.9.6. Interreg Europe

The responsible audit authority is the Commission Interministérielle de Coordination des Contrôles des

fonds européens (CICC) in France.

A non-statistical sampling method was used for the AOs, with checks carried out by E&Y. The sample included 13 projects and the expenditure worth € 3,916,657.11 (selected from a total population of € 76,774,133.24) was submitted by 25 partners, of which none were Flemish. The financial error in the sample amounts to € 4,942.29. The TER is 0.22 % and the RTER 0.21 %.

3.9.7. Interreg VA South Baltic

The responsible audit authority of this fund is the 'Head of the National Revenue Administration' in Poland.

For the AOs, a statistical sampling was used spread over two periods. The sample included 30 items, of which none were Flemish, with a value of € 1,099,166.70 selected from a total population of € 23,145,231.64. The financial error in the sample amounts to € 5,384.89. The TER is 0.38 % and the RTER 0.34 %.

3.9.8. Urbact III

The responsible audit authority is the Commission Interministérielle de Coordination des Contrôles des fonds européens (CICC) in France.

A non-statistical sampling method was used for the AOs. The sample included 3 projects and the expenditure worth € 327,561.90 (selected from a total population of € 6,289,717.06) was submitted by 5 partners, of which none were Flemish. The financial error in the sample amounts to € 186.39. The TER is 0.05 % and the RTER 0.04 %.





Top events supported by the Flemish Government through Event Flanders are followed and supported by the Audit Committee Top Event Flanders (ATEF), of which FAA is part.

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Audit committee Top Events Flanders – ATEF

4.1. Introduction

The GFO of 19 January 2001 establishes the activities of the Finance Inspectors, who are accredited by the Flemish government. This order also includes the possibility to assign specific audit tasks to the inspectors; the GFO of 30 November 2007 focuses on the appointment of FAA and its organisation.

On 20 May 2016, the Flemish government approved the concept paper 'Top event policy – Event Flanders', presenting a framework for the development of a Flemish top event policy with the aim of attracting more major international events to Flanders or supporting the organisation of Flemish top events. The implementation of this concept paper resulted in the creation of 'Event Flanders', a specialised service established within Visit Flanders.

Audit committee Top Events Flanders (ATEF) is responsible for the support and follow-up of top events financed by the Flemish government through Event Flanders. ATEF was established through a protocol which entered into force on 1 January 2019 and its tasks consist in checking financial aspects related to contract performance, in line with single audit principles. This implies that all grant files for top events, defined as such by the Flemish government, are monitored by ATEF.

4.2. Responsibilities

1: FINANCIAL REPORTING

A Monitor the integrity of legal transactions and financial statements of beneficiaries relating to Flemish government subsidies granted for top events organised by Event Flanders, while taking into account:

- possible changes in the assessment rules and associated accounting principles/procedures;
- compliance with the accounting standards, laws and regulations applicable in particular to listed companies;
- the applicable public procurement legislation.

B Examine all other published documents and check if the information included corresponds to the annual statutory and/or consolidated financial statements.

C Evaluate interim financial statements with the members of the board and if necessary the supervisory director, as well as all other announcements or financial publications aimed at shareholders, analysts and/or the general public.

D Report at regular intervals to the steering committee on the progress of audit activities, final audit results and possible major deficiencies that fall outside the standard reporting scope.

E Inform the competent ministers at regular intervals about the progress of audit activities.

2. INTERNAL CONTROL – RISK MANAGEMENT AND COMPLIANCE

A. Make sure that appropriate risk management and control systems are put in place, ensure their proper functioning, and evaluate potential proposals to identify and reduce major risks. Provide the necessary assurance in the absence of such systems, if so required by the steering committee.

B. Examine information about internal control and risk management systems published in the annual report.

C. Evaluate all results of inspections conducted at beneficiaries in the event of fraud, errors or for any other reason; analyse the subsequent decisions made by the Flemish government and make own recommendations.

D. Monitor specific systems that enable the beneficiary's staff to confidentially voice their concerns about possible irregularities in the way financial information is reported or about other subjects.

3. OTHER

A. Formulate recommendations to the steering committee about all domains which fall within the remit of the audit committee.

B. Fulfil all other assignments delegated by the steering committee.

4.3. Objectives, structure and organisation

The audit committee consists of 4 members: 1 member of FAA, 2 members of the Inspectorate of Finance and an independent member. In addition, a secretary was appointed.

Members of the Audit committee
Top Events Flanders (ATEF)

NAME	ROLE	APPOINTMENT	AS FROM
Tony Mortier	President	MB 15/10/2020	15/10/2020
Geert De Roover	Member	MB 15/10/2020	15/10/2020
Filip Strobbe	Member	MB 15/10/2020	15/10/2020
Paul van Sprundel	Member	MB 15/10/2020	15/10/2020
William Noppe	Secretary	MB 15/10/2020	15/10/2020

The role of the audit committee is to assist the Event Flanders steering committee with the organisation of top events. Their assistance includes:

- guaranteeing the independence, objectivity and quality of FAA's audit capacity during supporting audit activities;
- monitoring the efficiency of FAA;
- making proposals relating to FAA in order to detect opportunities and exploit possible synergies;
- monitoring the efficiency of audit reports on the auditees' internal control and risk management systems;
- providing audit reports to the Event Flanders steering committee and informing the competent ministers;

- streamlining and finetuning the activities included in FAA's audit plan and programmes with external audit plans and programmes, and possible ex ante audit tasks of the competent Finance Inspector in order to avoid overlap and reduce the audit burden on auditees ('single audit').

4.4. Reporting and information exchange

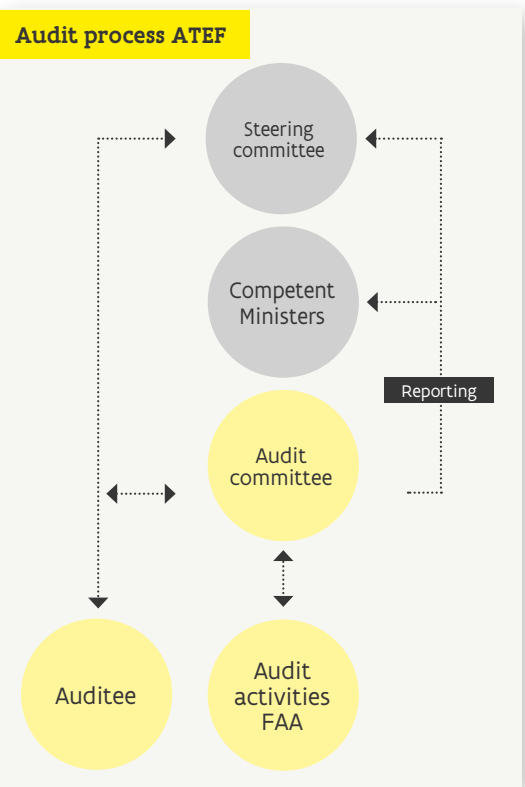
The audit committee reports to the Event Flanders steering committee, informs the competent minister and coordinates the activities of the auditors.

All audit reports are written in Dutch.

The scope of this assignment requires only limited legal interpretations or advice.

The reports, presentations and all relevant or supporting documents are exclusively addressed to and solely intended for the auditees and the parties concerned.

All information of a stable nature resulting from verification activities is communicated in written form within the most reasonable timescale and in a structured way, in accordance with the Charter.



4.5. Single Audit approach

The audit committee consists of a Finance Inspector and persons responsible for the auditing. This means that the single audit principle is applied towards Event Flanders and the auditees, as described in the GFO of 7 September 2012, and that the Inspectorate of Finance does not have to provide a separate opinion apart from the report on the audit structure.

4.6. Projects Event Flanders

Event Flanders is part of Visit Flanders and supported by the Department of Foreign Affairs, the Department of Culture, Youth and Media and Sports Flanders.

Some of the events planned by Event Flanders for the next few years are:

- European Open ATP 2022;
- FIBA 3*3 2022;
- World Breakdancing Championship 2023;
- World Gymnastics Championships 2023.

The following events were organised in 2021:

- European Open ATP (edition 2021);
- World Choir Games 2020 (postponed to 2021 due to COVID-19 pandemic);
- Flanders Food 2020: The World's 50 Best Restaurants + UNWTO World Forum on Gastronomy Tourism 2020 (postponed to 2021 due to COVID-19 pandemic);
- Flanders is a Festival 2021;
- Cycling World Championships 2021;
- Cyclocross World Championships 2021;
- Paradise 2021.

4.7. ATEF activities

The audit committee assembled 10 times in 2021 and issued 28 opinions, which were sent to the steering committee:

- 6 for World Choir Games;
- 2 for Flanders Urban Festival;
- 5 for Cycling World Championships;
- 1 for FIBA – Womens' Olympic Qualifying Tournament 2020;
- 1 for World Breakdancing Championship;
- 3 for Cyclocross World Championships;
- 1 for Arts Festival Paradise;
- 1 for FIBA 3*3;
- 1 for European Open ATP;
- 1 for Flanders Food;
- 2 for Event Flanders;
- 2 for ATEF;
- 1 for KMSKA (Royal Museum of Fine Arts Antwerp);
- 1 for Flanders is a festival.

These opinions mostly relate to questions about budgetary aspects, public procurement legislation and the eligibility of submitted costs.

In addition, 9 audits were conducted for the World Choir Games, Cycling World Championships, Cyclocross World Championships, FIBA and FIAF.

These audits focused on compliance with budgetary guidelines, accounting standards and public procurement legislation, and also examined the costs submitted.



Recovery and Resilience Facility - RRF

5.1. Introduction

The European Recovery and Resilience Facility is the key instrument at the heart of NextGenerationEU. Its 672.5 billion euro budget is intended for loans and grants that support reforms and investments by EU countries. The facility aims to mitigate the economic and social impact of the coronavirus pandemic, and to make European economies and societies more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transitions.

To achieve these aims, Flanders receives 2.225 billion euros of subsidies. This 2.225 billion euro budget is part of the recovery plan 'Flemish Resilience', which totals 4.3 billion euros and includes 180 projects. All RRF projects must not have started earlier than 2020 and must be implemented by 2026 at the latest. The reforms or investments are linked to specific milestones and targets.

One of the particularities of RRF is that the financing is not linked to costs but based on the fulfilment of those milestones and targets. Disbursements are requested twice a year (in June and December) and each payment request includes a detailed explanation on whether the agreed milestones and targets for this period have been met.

5.2. Responsibilities

1. ASSESSMENT OF PROJECTS SUBMITTED UNDER THE RECOVERY AND RESILIENCE PLAN

To benefit from the support of the Recovery and Resilience Facility, all member states had to submit a recovery and resilience plan. The submitted projects are structured around six axes: (1) climate, sustainability and innovation, (2) digital transformation, (3) mobility, (4) social cohesion and living together, (5) economy of the future and productivity and (6) public finances. Prior to the

submission of this plan in April, FAA was asked to assess the projects under the plan and check if the European Commission's requirements would be met. The projects were screened for the following aspects:

- feasibility of the projects: project monitoring and implementation;
- a detailed and substantiated budget plan/cost estimate, using SCOs (simplified cost options), historical data,... where appropriate;
- additionality of European funding;
- the presence of a data collection and registration system to keep track of the final recipients and beneficiaries of funds, using a standardised and readable electronic data format;
- reliability of the proposed indicators, milestones and data collection;
- conformity with state aid rules;
- a correct application of the green transition rates and digital transformation rates.

2. ASSESSMENT OF MANAGEMENT AND CONTROL SYSTEMS FOR POLICY AREAS

The RRF Regulation¹¹ states that in implementing the facility, member states should ensure the functioning of an effective and efficient internal control system. To that end, every Flemish policy area creates its own management and control system. FAA is responsible for monitoring the adequacy of the MCS and its compliance with the requirements established in the RRF Regulation. This assessment covers the following items:

- checking if resources are managed according to all applicable rules (both European and national);
- prevention, detection and correction of fraud, corruption and conflicts of interest;
- prevention of double funding;
- data collection and registration system to keep track of the final recipients and beneficiaries of funds, using a standardised and interoperable electronic format;

- collection of indicators, milestones...;
- communication strategy.

3 AUDITS OF PROJECTS

Tests are carried out to assess the adequacy of the MCS, its compliance with the requirements established in the RRF Regulation and its effectiveness based on the above-mentioned items.

These effectiveness audits are performed on projects that have already started. The selection of projects that will be audited (first) will be based on sampling and risk analysis. The procedure for project audits involves continuous auditing, so these audits will also be followed up.

4. ASSESSMENT OF THE ACCURACY AND RELIABILITY OF REPORTED MILESTONES AND TARGETS

From 2022, Belgium will submit a payment request to the European Commission twice a year (in June and December). This payment request will also report on whether the milestones and targets for this period have been met.

For each payment request FAA will express an opinion on whether the Flemish milestones and targets have been achieved based on the submitted supporting documents.

5. VERIFICATION OF THE MANAGEMENT DECLARATION, SUMMARY OF AUDITS, AND PROVIDING AN AUDIT OPINION FOR EACH PAYMENT REQUEST

For each payment request FAA will not only check the fulfilment of milestones and targets but will also verify the management declaration and provide a summary of audits undertaken.

When verifying the management declaration, FAA will check the correctness and completeness of the information included therein as well as the usage of the right template. FAA will also provide a summary of its audits undertaken during the period covered by the payment request.

Finally, FAA will formulate an audit opinion for each payment request. This opinion is based on the audit work performed and assesses the truthfulness of the statements in the management declaration.

5.3. Objectives, structure and organisation

Flanders Audit Authority supports the Recovery and Resilience Facility and has developed an audit strategy specific to this context (Flemish Government decision of 26 February 2021). As an independent audit body, FAA will conduct audits on the projects and the facility's management and control system. In addition, an assessment of the project fiches submitted to the European Commission was carried out together with the Inspectorate of Finance.

On 30 April, the Flemish Government decided on the Flemish component of the Recovery and Resilience Facility. It was decided that Flanders Audit Authority could implement the proposed audit strategy, for which the government would provide additional staff and operating resources.

The developed audit strategy should enable FAA to formulate an audit opinion on the completeness, accuracy and reliability of data reported to the European Commission. The management and control activities used are partly governed by the RRF Regulation and partly by international audit standards.

¹¹ Regulation (EU) 2021/241.

6.1. Challenges

The CATE project is part of the Programme for Innovation Procurement (PIP). This project wants to completely rethink the audit process on a technological as well as a conceptual level, with the following objectives: increased assurance at a lower cost, within a shorter time frame, with greater added value and lower loss of (European) resources.

With the CATE project, Flanders Audit Authority wants to obtain a platform that assesses the functioning of the management and control system of European structural funds in a fully autonomous way. To this end, FAA will collaborate with partners of the ESF, ERDF and Interreg Flanders-Netherlands fund. From this point of view, the opinion on the functioning of the management and control system of a European structural fund programme consists of various elements. The platform should, for instance, indicate where the risks of projects and MA's & CA's working methods lie, and when they will occur. This means that risks are already being followed up from the start of the audit process and that the possible emergence of problems within the management and control system is continuously being monitored. Feedback to stakeholders allowing for timely adjustments forms an integral part of this opinion, as well as the reporting of error rates or other problems to the EC.

Rethinking the audit process, both on a conceptual and a technological level, does not at all mean that the existing process will be automated, but only that a fundamentally new approach is required. More concretely, this means that there is complete freedom to entirely change the procedural stages, milestones, utilised data sources, algorithms, technologies and FAA's input, in order to create an autonomous end-to-end platform.

6.2. Implementation

For this project, FAA looked for a private partner to set up an innovative partnership. The procurement was launched during the first quarter of 2021.

The project partner is expected to fulfil the following objectives:

1. Have a thorough knowledge and experience of auditing and (innovative) technology (artificial intelligence, natural language processing, machine learning, RPA, OCR, databases,...).
2. Contribute to the vision and possibilities aimed at rethinking the audit process (including how potential risks will be detected and predicted within projects), as well as to the way this vision is translated into technological guidelines on AI, machine learning and data mining.
3. Provide additional data sources to supplement those shared by FAA, in order to adequately feed the platform and the associated models.
4. Make an own investment in the form of co-financing. FAA invests in each stage of the project and expects the partner to make an own contribution as well.
5. Build and implement the platform.

Deloitte Consulting & Advisory has started the project development in mid-March 2022.





**FLANDERS
AUDIT AUTHORITY**

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