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Joan McAlpine MSP  
Convener, Culture, Tourism, Europe and External  
Affairs Committee

By email: [europe@parliament.scot](mailto:europe@parliament.scot)

18 October 2018

Dear Joan,

Thank you for your letter of 21 September asking about the issues that led to interruption of the European Structural Funds programmes.

The Regulations that govern all European Structural Funds programmes set out a series of 'key requirements' that must be continually met in order for the EU to have confidence that the funds are being spent in the manner agreed between the EU and the Member State. Checking this is the role of the Audit Authority who audit the operation of the systems put in place to fulfil those key requirements. In Scotland, the Scottish Government Internal Audit Directorate act as the Audit Authority, and in these circumstances are acting on behalf of the European Commission (EC).

In 2017, the Audit Authority tested four of the 'key requirements': 'Adequate separation of functions and adequate systems for reporting and monitoring where the responsible authority entrusts execution of tasks to another body' (reported as "good"), 'Adequate Information to Beneficiaries' and 'Insufficient or inadequate arrangements for the effective implementation of proportionate anti-fraud measures' (reported as "fair"); and 'Appropriate Selection of Operations' was reported as "poor". On the strength of these findings the EC imposed the interruption to payment of claims made by the Scottish Government until such time as the systems could be confirmed as working sufficiently well.

The recommendations made in the audit reports were implemented and the systems retested where possible. As a result of this work, the audit authority reported to the EC in May 2018 that the systems met the key requirements. In achieving this, the Managing Authority reviewed and updated guidance to staff and expanded the number and remit of staff carrying out quality assurance work.

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The interruption of the payment of the European Regional Development Fund (ERDF) claims for €26.9m was lifted in early July and has now been paid to the Scottish Government. The interruption to the payment of the European Social Fund (ESF) claim for €24.7m remains in place. An audit carried out by an EC audit team over two weeks in July is expected to report shortly on whether to lift the interruption. My officials are in regular contact with officials in the EC and are confident that the interruption will be lifted and the claim paid shortly.

The interruptions had no measureable impact on funding take-up since the Scottish Government has continued to pay verified claims. The Scottish Government receives advances from the EC each year in order to limit the exposure caused by the time taken to pay a claim within a Member State and for that to be claimed and paid by the EC.

Yours sincerely,



**IVAN McKEE**

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