



Performance Audit

Structural Funds: Environmental Programme

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Abbreviations

AIR	Annual Implementation Report
CAP	Common Agricultural Policy
CSF	Community Strategic Framework
DG EMPL	Directorate General for Employment and Social Affairs
DG REGIO	Directorate General for Regional Policy
DoC	Department of Contracts
EAGGF	European Agricultural Guidance and Guarantee Fund
ECA	European Court of Auditors
ERDF	European Regional Development Fund
ESF	European Social Fund
EU	European Union
FB	Final Beneficiaries
FIFG	Financial Instrument for Fisheries Guidance
IB	Intermediate Body
MA	Managing Authority
MC	Monitoring Committee
MEPA	Malta Environment and Planning Authority
MoP	Manual of Procedures for Structural Funds 2004-2006
NAO	National Audit Office
NGO	Non-Government Organisation
NSRF	National Strategic Reference Framework
OPI	Operational Programme I
OP II	Operational Programme II
OPM	Office of the Prime Minister
PC	Programme Complement
PL	Project Leaders
PPCD	Planning and Priorities Co-ordination Division
PSC	Project Selection Committee
SAI	Supreme Audit Institution
SEA	Strategic Environment Assessment
SF	Structural Funds
SFD	Structural Funds Database
SMSC	Sectoral Monitoring Sub-Committee
SPD	Single Programming Document
WSC	Water Services Corporation

Executive Summary and Conclusions



Executive Summary and Conclusions

Introduction

1. During the period June 2007 and February 2008, the National Audit Office (NAO) carried out a performance audit on the Structural Funds Programme implemented in the area of the environment. This exercise was undertaken simultaneously with thirteen other Member States of the European Union (EU).
2. For the period 2004-2006, Malta received €56.16 million [€46.7 million - European Regional Development Fund (ERDF) and €9.46 million – European Social Fund (ESF)]. For the following period, that is 2007-2013, an allocation of €556 million was made (€444 million - ERDF and €112 million – ESF). It is pertinent to point out that the EU and Member States co-finance the respective Structural Funds Programme. The majority of Structural Funds were ERDF allocated for strategic investments and competitiveness. Measure 1.1 within this category of funds relates specifically to improving the local environment. For the period 2004-2006, €20.3 million (36.2 per cent of the total SFs allocation) were specifically allocated to Measure 1.1.

Audit Objectives

3. This performance audit sought to determine the extent to which:
 - I. Structural Funds allocated for the period 2004-2006 were implemented and monitored to ascertain the sustainable success of the funded measure;
 - II. corrective action was taken to ensure that concerns arising will not recur in the following period.
4. The NAO reviewed five out of the seven projects being funded under Measure 1.1 ‘Improving the Environment Situation’ of the Programme Complement – the main selection criteria for the audit of the projects

reviewed by NAO related to the fact that these five projects were either completed or were expected to be completed in the second quarter of 2007. The projects under review through this performance audit constituted around 35 per cent of the ERDF allocated for environmental purposes for the period 2004-2006.

5. This audit also sought to evaluate whether the relative governmental entities took remedial action for the period 2007-2013 in instances that such concerns became apparent in the preceding period.

Improving the Environmental Situation Evaluation of Period 2004-2006

6. The mechanisms in place and the procedures adopted to implement the ‘Environment’ measure within the Structural Funds Programme were conducive to lead to improvements to the local environment.
7. The initial phases of implementing the Structural Funds Programme entailed programme planning and project selection. There was a direct relationship between the primary goals expected to be attained through the Structural Funds Programme, and Malta’s environmental concerns, as outlined in the Single Programming Document and the Programme Complement. The ex-ante evaluation also confirmed the potential benefits to be reaped through the implementation of the measures listed in the Single Programming Document.
8. Generally, the criteria established to select projects, following a call for applications, encouraged the attainment of project goals. Moreover, criteria for the selection of projects were further strengthened for period 2007-2013 by increasingly allocating importance to the concept of sustainability.

9. Project applications submitted provided adequate information including feasibility studies on the projects' direct outcomes. A feasibility study was carried out on all the projects reviewed during the audit. A cost benefit analysis related to one of the projects on waste separation was also carried out. It is to be noted that the cost-benefit analysis are not a legal requirement under EU regulations for projects falling under Malta's Structural Funds Programme covering the 2000-2006 period, hence these studies were requested at the initiative of the Managing Authority (MA).
10. As at 13th September 2007, the five projects reviewed by the NAO necessitated fourteen addenda to the relative Letter of Offer of Grant. The changes were prompted by amendments to the financial tables related to component budget lines, extensions to project deadlines, changes in the performance indicators or changes in the components that make up the project.
11. The procedures adopted to award commercial contracts¹ by the Department of Contracts (DoC) and Implementing Bodies were generally conducive to encourage success of the measure since the award contained suitable conditions for the evaluation of the project's progress and success. Contracts were awarded in accordance with existing legislation and procedures.
12. The average duration of an award of a commercial contract, that is, from initial receipt of tender at the DoC to commencement date of project, was 344 days. Almost 60 per cent of this period was taken up by the time taken by the Final Beneficiaries to undertake the tender evaluation process and by the statutory timeframes for publication as well as submission of tenders. The longest duration to conclude departmental tenders totalled 76 days. The longest time taken by the Local Council in Gozo to conclude the awards' process was 123 days. It is to be noted, however, that the three different duration times quoted in this paragraph pertain to three different processes, and in addition, the complexity and values of the contracts involved varied very significantly.
13. The Structural Funds process allocates considerable importance to the scheduled delivery of projects. Delays in the award process would impinge negatively on project implementation, which subsequently could lead to a loss of Structural Funds.
14. There are four different monitoring levels to monitor the progress of the implementation of the Structural Funds Programme 2004-2006, namely, strategic, sectoral, territorial and day-to-day. The monitoring and reporting framework is in line with EU requirements. This framework compels and ensures that the appropriate data regarding aided measures is received regularly at the various monitoring levels.
15. The monitoring and reporting systems in place during the 2004-2006 Programme could have contributed further towards gauging the aided measures real contribution to the primary goals. This conclusion can be supported through the findings of the Mid-Term Evaluation Report commissioned by the MA. The Mid-Term Evaluation pointed out that the Structural Funds Database (SFD) was not accessible to all parties - particularly to organisations which did not fall directly within the government network. However, corrective action in this regard was immediately taken. It was also reported that the SFD had limited reporting facilities. For example, project leaders had limited end-user reporting facilities to summarise progress on projects. Furthermore, though training relating to the SFD was continuous, there were still several users who did not have the necessary skills to use the system. Generally, this was due to the staff turnover within the ministries.
16. The Mid-Term Report also remarked that a number of project indicators could be simplified, better defined and more relevant.

Building on Past Experience – Period 2007-2013

17. Building on the experiences of the 2004-2006 period, various changes were made in the implementation of 2007-2013 Structural Funds Programme.
18. The initial phases of the implementation of the Programme include the redefinition of project selection criteria. These criteria have now been amended to take aspects of project sustainability further into consideration.
19. Changes intended to streamline the project selection process have also been effected. As stipulated in Article 39 of the General Regulations (and Chapter 5 in Operational Programme 1 with regards to Cohesion Funds), major infrastructure projects can be selected in accordance to the Cabinet's instructions in lieu of going through the procedures of issuing calls for the proposal of the projects. Moreover, the MA may allocate funds directly for small projects without the need to carry out the process of selection. Applications for small projects may also be submitted outside the

¹ For the purpose of this report, contracts related to the implementation of projects between the Department of Contracts or Final Beneficiaries and the contractors are being referred to as commercial contracts.

period of an open call. The total cost of such projects is not to exceed €150,000 and will directly contribute to the achievements of the objectives of the Programme.

20. Various recommendations made through the Mid-Term Evaluation Report to expedite the awards of commercial contracts by the Department of Contracts have either been partly implemented or are still under the consideration of this Department. These recommendations were generally aimed at improving the Department of Contract's administrative, technical and legal capacity.
21. Various changes were made to strengthen the evaluation of measures through the Monitoring Systems in place. The more critical changes made to the Monitoring Systems included the holding of bilateral meetings involving the MA and other stakeholders (both vertical and horizontal), clearer and better defined indicators at project level and improvements in the Structural Funds Database.
22. For the 2007-2013 period, a cost-benefit analysis is required for all major projects, namely those exceeding €25 million for environmental projects and €50 million for projects in all other sectors. In relation to the carrying out of cost benefit analysis for other projects, the MA upholds the principles of simplification and proportionality. To this end a disclaimer has been added in the 2007-2013 application guidelines which reserves the right to request a feasibility study/analysis where the Project Selection Committee/Managing Authority has doubts relating to the project's declared viability and sustainability and also when the project could have implication of potential revenue.
23. The tasks of the Monitoring Committee (MC) are anchored in Article 5 of Council Regulation 1083/2006 and the tasks of the MC are quite similar to those of the 2004-2006 with minor revisions emanating from the new regulatory package. Given its terms of reference, the Monitoring Committee is adequately placed to monitor and assess the implementation and efficient spending of funds under Operational Programme I. The extent of such a contribution would become more apparent as the implementation of the Structural Funds Programme 2007-2013 gathers greater momentum.

Conclusions

24. It can be concluded that, generally, the Structural Funds allocated for the period 2004-2006 were appropriately implemented and monitored to ascertain the sustainable success of the 'environmental' measure. The mechanisms in place to implement the 'environmental' measure were conducive to ascertain that positive results would be reaped.
25. The environmental projects implemented through the Structural Funds Programme for 2004-2006 are considered to be novel initiatives in Malta and were supported with the relevant studies. The project deliverables were in accordance with those specified in the award. The projects selected contributed directly to the attainment of the environmental measure's primary goals.
26. Since the impact of environmental projects tends to be more apparent in the long term, then the sustainability of these projects – in terms of resources allocation, impact and monitoring – assumes critical importance. The sustainability concept was given more importance in the Structural Funds Programming period 2007-2013. To this end, the project selection criteria were redefined to further embrace the sustainability of projects falling within the new programme.
27. Except for some issues concerning the award of commercial contracts, a number of shortcomings which became apparent to the Managing Authority during the implementation of the 2004-2006 Programme were satisfactorily addressed. In addition to the project selection criteria, changes to the procedures for calling in project applications and monitoring systems were also made in respect to the 2007-2013 Programme.

Chapter 1

Introduction



Chapter 1 – Introduction

1.1 A parallel audit involving fourteen EU Member State SAIs

During the period June 2007 and February 2008, the National Audit Office carried out a performance audit on the Structural Funds Programme implemented in the area of the environment. This exercise was undertaken simultaneously with 13 other Member States of the European Union. Member States participating in this audit had to decide whether to focus their studies on Structural Funds directed towards the areas of employment and/or environment. Appendix 1 lists the member states participating in this parallel performance audit as well as the focus of their studies.

The initiative to carry out this parallel audit mainly originated from the Contact Committee² which gave a mandate to the Working Group on Structural Funds to review the output and effectiveness of the Structural Funds Programmes in the areas of employment and/or environment. Cooperation between the EU's Supreme Audit Institutions (SAI) and the European Court of Auditors (ECA) principally takes place within the framework of the Contact Committee structure. This structure consists of the Contact Committee, the Liaison Officers of the EU Member State SAIs and working groups on specific audit topics in accordance with Contract Committee Resolutions.

This parallel performance audit was carried out through a common audit plan, which was drawn up and agreed upon by the participating SAIs within the Working Group on Structural Funds.

1.2 The objectives and process of the Structural Funds

Historically, the Structural Funds date to 1957. They were reformed as a grouped package in the late 1980s and made part of five-year, then seven-year programming periods. The Structural Funds are the second largest part of the budget of the European Union, second only to the Common Agricultural Policy.³

It is the aim of the Structural Funds, voted since the 2000-2006 allocations, to promote the realization of the Lisbon Strategy. The Lisbon Strategy promotes the making of the EU as the most dynamic, knowledge-based economic area by 2010.⁴ Since the period 2000-2006, the Structural Funds were generally targeted on three specific priority objectives; Table 1 refers. Malta was eligible to receive Structural Funds under its Objective One status for the periods 2004-2006 and 2007-2013. The Structural Funds are the outcome of a complex set of negotiations at European level which are implemented by National Authorities in accordance to various EU regulations. Member States publish plans as to how they propose to spend the Structural Funds.

Negotiations then take place between the Commission and each member state to agree on precisely how the Funds will operate in each state, ensuring that they are compliant with the regulations. The Commission may reject plans or operational programmes that do not appear to be consistent with Community objectives or priorities. Systems are put in place to ensure that the Funds are properly tracked, audited, accounted for, monitored and evaluated.

² The Contact Committee is composed of the Heads of EU Member States SAIs (including the President of the ECA).

³ The largest single expenditure item is the Common Agricultural Policy (CAP) at around 45 per cent of the total budget. The second element is the regional policy, at 30 per cent. Foreign policy consumes eight per cent, administration six per cent, and research five per cent.

⁴ Council Decision of 6th October 2006 on Community Strategic Guidelines on Cohesion.

Table 1: Objectives of the Structural Funds

Objective	2000-2006	Objective	2007-2013
1	Areas where gross domestic product is less than 75% of EU average	Convergence	Areas where gross domestic product is less than 75% EU average
2	Areas undergoing economic conversion (both zoned)	Competitiveness	The rest (un-zoned)
3	Adaptation and modernization of systems of education, training and employment (theme)	Cooperation	Cross-border cooperation

Funds are then paid out in stages and according to certified expenditures. The Structural Funds Programme entails that projects are co-funded with European Union and national funds.

1.3 Implementing the Structural Funds Programmes in Malta

The Structural Funds operate according to an agreed set of objectives, funds and programmes, within a framework policy (such as, Agenda 2000, Third Cohesion Report and Lisbon Strategy).

For Structural Funds allocated for the period 2000-2006, Member States were invited to draw up documents outlining how they would spend Structural Funds, in Malta's case these documents were the Single Programming Document (SPD) and Programme Complement (PC). A Manual of Procedures (MoP) detailing the procedures to be adhered to by all involved with Structural Funds provides practical guidance to encourage efficiency in the implementation of programmes and to ascertain an audit trail.

For the period 2007-2013, Malta was required to draw up a document known as the National Strategic Reference Framework (NSRF). To complement the foregoing, two other documents were prepared by the Managing Authority, namely Operational Programme 1 (OP1) and Operational Programme 2 (OP2). The Operational Programmes outline the aims, objectives, priorities, measures to be undertaken as well as the monitoring and financial systems.

1.3.1 The Managing Authority

The bodies actually executing the Structural Funds Programme are known as Managing Authorities. In Malta, the Planning and Priorities Co-ordination Division (PPCD) within the Office of the Prime Minister (OPM) has been designated the duties of the Managing Authority (MA) in terms of Article 9(n) of Regulation (EC) 1260/99 by Cabinet decision 405/2000 of 25th September 2000.

The Managing Authority acts as the counterpart of the European Commission for issues concerning the Structural Funds. The MA acts as the Government's central contact and information point for issues concerning Structural Funds. The MA liaises and coordinates all aspects of the implementation of Structural Funds Programme with all stakeholders (including the Intermediate Body⁵ and Final Beneficiaries⁶, the EU Paying Authority, the Department of Contracts and line ministries).

The MA leads the negotiations on the plans related to the implementation of the Structural Funds Programme in Malta. The MA is also empowered to ensure the correctness of operations financed by the Structural Funds by keeping with the principles of sound financial management and acting in response to any observations or requests for corrective measures in line with Article 34(1) (f) of the General Regulations 1260/99.

In addition, the MA presides over the Structural Funds' project selection process and is obliged to draw up and submit the Annual Implementation Report (AIR) to the Commission through the Monitoring Committee.⁷ The MA is also responsible to ensure

⁵The Intermediate Body (IB) will act as the primary focal point for information pertaining to the specific fund and projects that are co-financed under the specific fund. It is pertinent to point out that an IB is not appointed for environmental projects funded through the European Regional Development Fund (ERDF).

⁶The Final Beneficiary (FB) is the body - public and / or private organizations - that is responsible for the commissioning of the operations within the Structural Funds Programmes.

⁷The Monitoring Committee (MC) is chaired by the Principal Permanent Secretary, OPM, and is comprised of Government representatives, social and economic partners, representatives of fisheries and agricultural sector and NGOs. The MC must satisfy itself with the effectiveness and quality of the implementation of EU-co-financed expenditure.

that comments and recommendations made by relevant bodies (including the EU Commission, the Monitoring Committee and auditors) are followed up.

1.3.2 The Final Beneficiary

In accordance with Article 9 (1) of the General Regulation 1260/1999, the Final Beneficiaries (FBs) are the bodies, public and/or private organisations that are responsible for the commissioning of the operations. In the case of the European Regional Development Fund (ERDF) allocated to Malta for the period 2004-2006, the FBs were all Governmental entities, namely, the Malta Environment and Planning Authority (MEPA), WasteServ Malta Limited, Water Services Corporation (WSC) and Għarb Local Council. Apart from being responsible for the implementation of projects in accordance with the terms and conditions set out in the Letter of Offer, the Final Beneficiaries (similarly to other entities involved in the implementation system) are also required to alert and consequently submit an irregularity report to the MA in cases where non-compliance with public contracts regulations or expenditure of funds that are not in line with EU regulations occurs. Irregularities in the implementation of projects can be detected by other stakeholders involved in the implementation of the projects including the MA.

Moreover, FBs are also required to submit bi-annual reports to the MA, as specified in the chapter on monitoring of the MoP.

1.4 Structural Funds allocated to Malta for the Environmental Measure

The Maltese Islands have the highest population density in Europe and, coupled with a very high percentage of built-up land, Malta faces wide-ranging environmental challenges relating to air quality, water quality, soil quality, the management of land use and the disposal of solid and liquid waste. The Structural Funds, as a priority, are being utilised to assist compliance with the environmental

standards established in Community Directives, in particular with regard to water and waste management.

For the period 2004-2006, Malta received €56.16 million (€46.7 million - ERDF and €9.46 million – ESF) under Objective One status. For the following period, that is 2007-2013, an allocation of €556 million was made; Table 2 refers. It is pertinent to point out that the EU and Member States co-finance the respective Structural Funds Programme.

The majority of these funds were ERDF allocated for strategic investments and competitiveness. Measure 1.1, within this category of funds relates specifically to improving the local environment. For the period 2004-2006, €20.3 million (36.2 per cent of the total SFs allocation) were specifically allocated to Measure 1.1; Table 3 refers. The first five projects listed in this Table were considered for NAO's audit analysis.

1.5 Audit focus and objectives

This audit focused on the projects co-financed by Structural Funds allocated for the environment for the period 2004-2006. The NAO reviewed five out of the seven projects undertaken – the NAO's main selection criteria related to the fact that these projects were either completed or were expected to be completed in the second quarter of 2007. The projects under review through this performance audit constituted around 35 per cent of the ERDF funds allocated for environmental purposes for the period 2004-2006.

This audit also sought to evaluate whether the relative governmental entities took remedial action for the period 2007-2013 in instances where such concerns became apparent in the preceding period.

1.5.1 Audit Objectives

This performance audit sought to determine the extent to which:

1. Structural Funds allocated for the period 2004-2006 were implemented and monitored to ascertain the sustainable success of the funded measure;

Table 2: Structural Funds Programme for the periods 2004-2006 and 2007-2013

Type of Fund	Structural Funds (2004-2006)		Structural Funds (2007-2013)	
	€ (Millions)	%	€ (Millions)	%
ERDF	46.70	83.2	444.00	79.9
ESF	9.46	16.8	112.00	20.1
Total	56.16	100	556.00⁸	100

Source: PPCD Website as at 15th May 2008.

⁸Excluding another €15 million allocated for the Territorial Cooperations Programme financed by the ERDF.

Table 3: Projects under Measure 1.1 co-financed by Structural Funds (2004-2006)⁹

Project Details	Implementing Body	Estimated Total Project Costs (€)
ERDF/2 : Wied il-Mielah restoration and management of storm water	<i>Gharb Local Council</i>	199,760
ERDF/10: Acquisition of air monitoring equipment to comply with acquis requirements	<i>Malta Environment and Planning Authority</i>	390,214
ERDF/22: Establishing civic amenity and bring-in sites, a separate household waste collection and an integrated communications strategy	<i>Wasteserv Ltd</i>	4,600,000
ERDF/23: Marine scientific surveys around Filfla for its conservation	<i>Malta Environment and Planning Authority</i>	194,161
ERDF/28: Drinking water quality project	<i>Water Services Corporation</i>	4,447,653
ERDF/21: Aerial emissions for Maghtab, Qortin and Wied Fulija landfills	<i>Wasteserv Ltd</i>	8,812,141
ERDF/29: Malta South sewage transmission infrastructure	<i>Water Services Corporation</i>	9,192,570
7 PROJECTS		27,836,500
EU co-financing rate (73%)		20,320,645
National Funds (27%)		7,515,855

- corrective action was taken to ensure that concerns arising will not recur in the following period.

This audit related to key areas of the strategic planning and the evaluation of aid measures. At the same time, the 'planning' aspect of the audit focused on single projects.

Based on the examination of measures from the period 2004-2006, the audit aimed to determine the extent governmental entities - by implementing aid measures co-financed by the Structural Funds - contributed to the realisation of the anticipated strategic goals. Due to the continuity of the old and the new period's goals, the findings from the audit of measures from the period 2000-2006 can lead to recommendations for the improvement of the new period 2007-2013. Therefore, the findings and recommendations of this audit will be relevant for the current period, although the audit samples were chosen from the past period.

1.6 Structure of the Report

The following chapters of this report aim to address each of the audit objectives respectively.

Chapter 2 discusses the implementation and the level of the sustainable success attained through the funded measure in the period 2004-2006.

Chapter 3 evaluates the extent to which corrective action was taken regarding concerns arising during the period 2004-2006 in order to ascertain that such issues do not recur for measures co-financed by Structural Funds in the period 2007-2013.

The report's conclusions are included in the Executive Summary on page eight.

⁹As at 31st March 2008.

Chapter 2

Improving the Environmental Situation Evaluation of Period 2004-2006



Chapter 2 - Improving the Environmental Situation Evaluation of Period 2004-2006

2. Introduction

This Chapter aims to evaluate the implementation and the level of the sustainable success attained through the co-financed Measure 1.1 – Improving the Environmental Situation. The implementation of this measure entailed a total fund allocation of €27.8 million, which was co-financed through the Structural Funds (€20.3 million) and National funds (€7.5 million). The SPD considers that improving the environmental situation is a top priority for Malta.

The SPD states that limited land and increasing pressures of urbanisation have led to a rapid degradation of the Islands' natural environment. Other environmental challenges relate to the quality of air, water and soil. Structural Funds have mainly been directed to tackle the above issues in line with the objectives of national policy documents. The objectives of the 'environment' measure are to:

- reduce sewage overflows;
- minimise use of landfills;
- reduce waste generated;
- improve air quality;
- improve the quality of drinking water throughout the Maltese Islands;
- protect nature; and
- promote renewable energy.

By addressing these issues, Malta will be able to upgrade its product as a tourist destination, provide its citizens with a better standard of living and ensure economic development.¹⁰

¹⁰ Source: Programme Complement, p.13.

¹¹ Refer to list in paragraph 2.

For the purpose of this performance audit, the NAO reviewed five out of the seven projects undertaken – the NAO's main selection criteria related to the fact that these projects were either completed or were expected to be completed in the second quarter of 2007 (vide Table 3).

In this part of the audit, the NAO reviewed processes, procedures, output, and where applicable the impact of the funds expended. In this chapter, the discussion will follow this chronology:

- The planning of measures and selection of projects.
- The extent to which project application procedures are goal oriented.
- Contract award procedures.
- The monitoring and reporting on the implementation of projects and its impact on Measure 1.1.
- The evaluation process undertaken to ensure the sustainable success attained through the co-financed measure.

2.1 Programme planning and project selection focused on the contribution of the Structural Funds' primary goals in the area of environment

Programme planning and the selection of projects, which would ultimately contribute towards the attainment of the primary goals¹¹, are rendered as critical in the Structural Funds' process. Such importance is attached to this

initial phase since any shortcomings would ultimately influence the final outcome of the funds expended.

2.1.1 There is a direct relationship between the primary goals and Malta's environmental concerns

The SPD and the PC specifically outline Malta's environmental problems. Moreover, these documents illustrate the direct relationship between the primary goals intended to be achieved through the Structural Funds and the environmental concerns experienced locally; Table 9 in Appendix 2 refers. It is to be noted that the environmental concerns listed in the SPD and PC are also highlighted as major problems in other publications, namely the State of the Environment Report.¹²

2.1.2 Ex-ante Evaluations and other assessments support the measures listed in the SPD

An Ex-ante Evaluation was carried out by an independent team of evaluators. The Ex-ante evaluation¹³ confirmed that:

- the SPD suitably addresses the weaknesses, strengths and the potential of development of Malta;
- the priorities, objectives and strategic axis are well defined;
- project selection procedures and criteria, and implementation and monitoring systems are adequate; and
- the implementation and monitoring systems regarding cross cutting priorities were taken into consideration.

Further to the Ex-ante Evaluation, an environmental assessment of the measures as listed in the SPD was performed by the MEPA. This assessment was included as an Annexe in the SPD.

2.1.3 Generally, project selection criteria encouraged the attainment of project goals

The selection of projects is the subsequent phase towards the attainment of the primary goals. The Programme Complement highlights that selected projects must comply with the following criteria:

1. Contribute to achieving compliance with the relevant environment acquis. Areas concerning solid waste management, sewage, air quality, nature protection and water; will be given preference;
2. Provide an added value contribution to the improvement of the environment that may lead to economic development; and
3. Contribute to the national priorities and to the environment strategy as indicated in the SPD.

In addition, the assessment of project applications by the Project Selection Committee (PSC) is also carried out in accordance with pre-determined criteria. These criteria were established and approved by the Monitoring Committee, in consultation with the EU Commission, and Cabinet. These criteria are outlined in the Programme Complement.

The selection criteria also favoured projects, which would bring about compliance with the relative 'environmental' area of the Acquis. One project incorporated energy efficiency.

2.1.4 For the period 2004-2006, the project selection criteria could give more consideration to the added value and sustainability of projects

Generally, the project selection criteria bear a direct relationship to project goals. Table 10 in Appendix 3 refers.

The selection criteria gave consideration to aspects which would provide an added value contribution to the environment and economic benefits. However, the Project Selection Committee could only assume that a project would lead to economic benefits since there was no quantification in the project application of the project's direct and indirect socio-economic contribution.

The foregoing is by no means implying that these projects did not or would not lead to socio-economic benefits, or that assumptions in this regard are fallacious or irrelevant. Assumptions in this regard were based on the fact that such projects are an innovation for Malta, and would therefore make a direct positive impact on the local environment. Consequently, this would translate in socio-economic improvements.

It is pertinent to point out that for the period 2007-2013, the concept of sustainability has

¹² Malta Environment and Planning Authority, State of the Environment Report, 2005.

¹³ Source: Single Programming Document (Further reference in Appendix 3).

been allocated increased importance with the project selection criteria. Section 3.2.3 refers.

2.2 National procedures concerning project applications aim to deliver a Programme that represents best value for money

2.2.1 Project applications were received and processed in accordance with established procedures

The call for applications under the ‘environmental’ measure published by the MA was in accordance with the relevant policy documents, namely the Single Programming Document and the Programme Complement. Applications received were subjected to a selection process by the Project Selection Committee in accordance with pre-determined criteria.

The analysis and evaluation of the application’s data was carried out in accordance with the Manual of Procedures and the provisions stipulated in the SPD and the Programme Complement. In addition, project ranking was performed in accordance with the predetermined criteria, as approved by the Monitoring Committee.

2.2.2 ‘Environmental’ project applications submitted provided adequate information on expected direct project outcomes

All applicants submitted the appropriate indicators on how the project would contribute towards the attainment of the primary goals highlighted in the SPD and PC. Applications also included information related to the expected direct results of projects – at least in terms of output.

The applications submitted also included the relative briefs on the proposed projects’ sustainability. There were outlines in the application on how the benefits of the projects will continue to be delivered after such projects would no longer be eligible for funds. However, as mentioned earlier in this report, it is felt that this issue should have been given more weight in the criteria adopted to select projects.

2.2.3 Projects’ cost-benefit analysis were not a legal requirement

Cost-benefit analysis and feasibility studies were not a legal requirement under EU Structural funds regulations for Malta’s 2004-2006 programme. Nevertheless, it is to be noted that all the projects reviewed had a feasibility study and one also had a cost-benefit analysis. The MA is guided

Table 4: Reasons cited for Addenda as at September 2007

Project	Number of Addenda	Modifications Proposed and Accepted ¹⁴				
		Amendment of the Public Procurement Time Table	Project Deadline Extension	Changes in the Performance Indicators	Change in Components Specified	Others
ERDF/2 - Wied il-Mielah restoration and management of storm water	3	x	x			x
ERDF/10 – Acquisition of air monitoring equipment to comply with acquis requirements	3	x	x	x		
ERDF/22 - Establishing civic amenity and bring in sites, a separate household waste collection and an integrated communications strategy	3	x			x	x
ERDF/23 - Marine scientific surveys around Filfla for its conservation	3	x	x	x		
ERDF/28 - Drinking water quality project	2	x		x		x

Source: Addenda supplemented with Letter of Offer of Grant.

¹⁴An addendum may comprise more than one reason.

by the principles of simplification and proportionality as well as issues such as revenue implications.

2.2.4 The five projects reviewed necessitated fourteen addenda to the Letter of Offer of Grant

It is pertinent to note that the awards reviewed contained provisions to allow for the appropriate flexibility to amend the Letter of Offer of Grant which is the basis of the objectives and make-up of the project together with its financial budget lines.

The Addenda contained changes for:

- an extension of the period of execution of tasks within the project if justified delays are encountered;
- conditions for the modification in the project's components for the proper completion and/or

functioning of the project itself; and

- modifications to budget lines where necessary.

The five projects reviewed necessitated fourteen addenda to the Letter of Offer of Grant to amend the original project application submitted. The reasons cited for the addenda are depicted in Table 4.

2.3 The procedures utilised to award contracts by the Department of Contracts and Implementing Bodies were generally conducive to encourage the success of the measure

Public (commercial) contracts are awarded either through the Department of Contracts (DoC) or the implementing body (Final Beneficiary), depending on the contract's estimated value. Contracts

Table 5: Contracts awarded through the Department of Contracts and the Implementing Body as at 13th September 2007

Project Name	Number of contracts awarded	Awards through the Department of Contracts	Awards through the Implementing Body			
			Departmental Tenders	Quotations Process	Direct Orders	Local Council Tenders
ERDF/2 - Wied il-Mielah restoration and management of storm water	5					5
ERDF/10 - Acquisition of air monitoring equipment to comply with acquis requirements	2	1		1		
ERDF/22 – Establishing civic amenity and bring in sites, a separate household waste collection and an integrated communications strategy	22	15	4		3	
ERDF/23 - Marine scientific surveys around Filfla for its conservation	2	1			1	
ERDF/28 - Drinking water quality project	4	4				

Source: Ministry for Rural Affairs and the Environment.

above the €47,000 are awarded through the DoC, while contracts below the €47,000 threshold are awarded through the implementing body. Table 5 depicts the number of lots (contracts) each project was divided and whether contracts were awarded through the DoC or the Implementing Body.

A total of 35 awards were awarded by the Department of Contracts and Implementing Bodies. Twenty-one of these awards were centrally awarded by the DoC. There were only four direct orders, and all of them were awarded following the necessary approvals, primarily through the Ministry of Finance. The reasons cited for the direct orders were either due to the specific expertise required or as a result of force majeure. The total cost related to these direct orders amounted to €161,454.46.

2.3.1 The awards of contracts complied with the Public Contracts Regulations

All processes relating to awards were compliant with local Public Contracts Regulations. For the purpose of this audit, the 35 contracts in question were reviewed in terms of publication periods and the evaluation process (that is: the scheduling of tenders received, evaluation reports submitted by the Implementing Body, award decision by the relative body – such as the General Contracts Committee or Departmental Boards, the appeals process and the issuing of the Letter of Acceptance).

An indication of the robustness of the awards procedures could be evidenced by the fact that out of the 35 awards, there were only three appeals – none of which were upheld.

2.3.2 Generally, the award contained suitable indicators for the evaluation of the project's progress and success

The five projects reviewed for the purpose of this audit comprised provisions which encouraged the evaluation of the project's progress and success. The awards included conditions such as:

- project milestones;
- provisions for audits and other verification exercises by Community bodies;
- project deliverables, including volumes to be processed by the completed project; and
- specific indicators for particular projects.

¹⁵ The average total time taken for the award of all contracts concerning ERDFs 10, 22, 23 and 28, at key stages, were calculated by averaging all the processes times of all contracts/tenders at key stages.

The above provisions were significantly more evident in the more material awards (in terms of value). The Department of Contracts and the implementing bodies did not consider it practical to include more measures oriented towards gauging a project's progress and success given the nature of some projects (such as those relating to the purchase of supplies and environmental surveys).

2.3.3 Opportunities exist for Implementing Bodies of environmental projects to expedite the evaluation phase of the commercial contracts award process

This performance audit also sought to determine whether any bottlenecks existed in the contract award process of 'environmental' projects co-financed through Structural Funds at the DoC. The average time of all the contracts pertaining to a particular project was established for each of the critical stages of the awards projects.

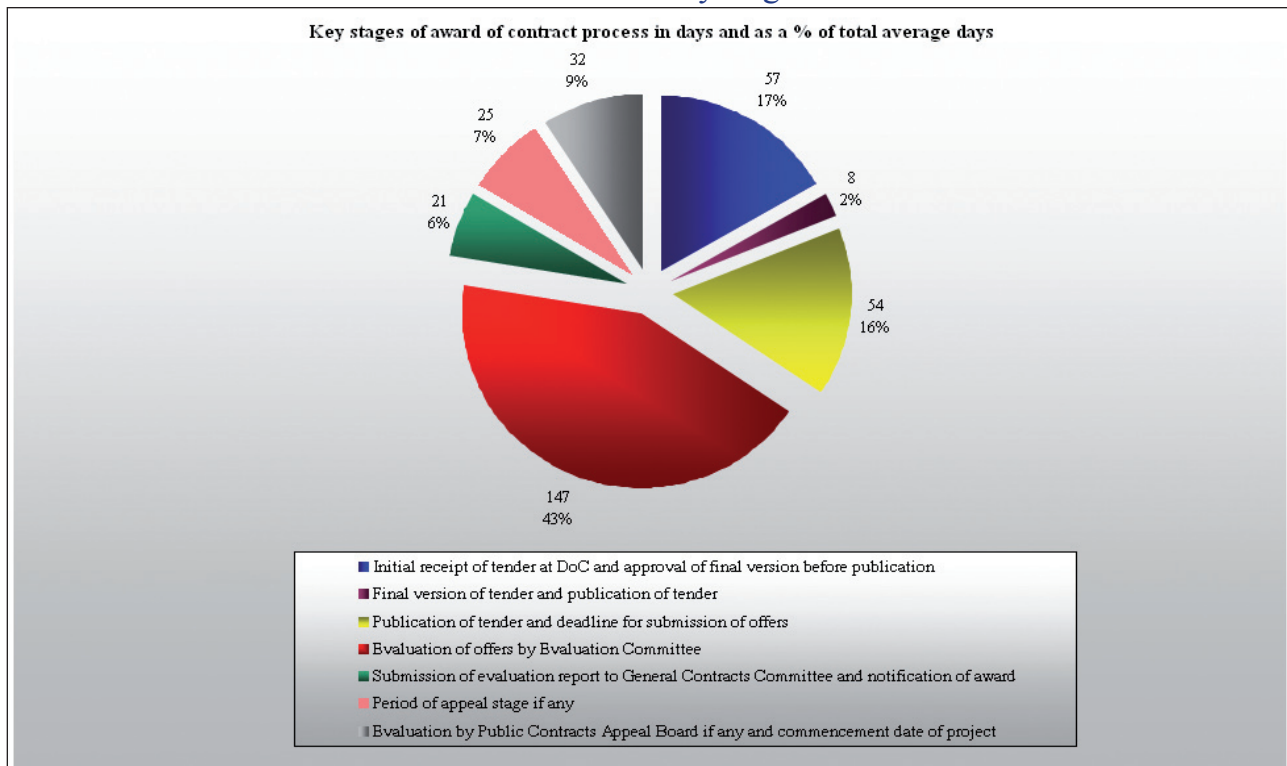
While the average duration of an award of a contract (that is from the initial receipt of the tender document by the DoC from the Implementing Body responsible for environmental projects) was 344 days¹⁵, a very significant chunk of this period (201 days) was taken up by the Technical Board's evaluation process and the statutory timeframes for publication and submission of offers. The longest duration to conclude departmental tenders totalled 76 days. The longest time taken by the Local Council in Gozo to conclude the awards' process was 123 days. It is to be noted that the three different duration times quoted in this paragraph pertain to three different processes, and in addition, the complexity and values of the contracts involved are significantly different.

The Structural Funds process allocates considerable importance to the scheduled delivery of projects. Delays in the award process would impinge negatively on project implementation, which subsequently could lead to a loss of Structural Funds.

Figure 1 provides a breakdown of the average duration of the processes of contracts awarded through the DoC. The evaluation of offers which is carried out by the Final Beneficiaries' Evaluation Board is the longest process. This accounts to an average of 147 days or 42.9 per cent of the total processing time. This is followed by the vetting of the tender document and approval of the final version for publication purposes. The latter process amounted to an average of 57 days or 16.6 per cent of the total process time.

Although the period between the publication of tender and the deadline for submission of offers represents the third highest percentage of the total processing

Figure 1: Average total time taken for the award of contracts through the Department of Contracts at key stages



time, this cannot be construed as representing any delay in the contract process as such duration is a legal requirement in the tendering process.

2.4 Monitoring and Reporting Systems in place during the 2000-2006 Programme could have contributed further towards gauging the aided measures real contribution to the primary goals

2.4.1 Information is provided regularly to the various monitoring bodies

The monitoring and reporting framework is in line with EU requirements. This framework compels and ensures that the appropriate data regarding aided measures is received at the various monitoring levels. There are four different monitoring levels to monitor the progress of the implementation of the Structural Funds Programme 2004-2006, namely strategic, sectoral, territorial and day-to-day (Appendix 4).

The strategic level is performed by the Monitoring Committee, the sectoral level is performed by the Sectoral Monitoring Sub-Committees, and the territorial level is carried out by the Regional Projects Committee. Day to day monitoring is performed by

the Final Beneficiaries and the Managing Authority.

Monitoring data is generated from various sources, such as the Structural Funds Database and the various reports prepared by the FBs and MA. Moreover, various other reports, for example mid-term evaluations are compiled and referred to the appropriate bodies for their information and to act on findings and concerns therein. Issues emanating from such reports are discussed in more detail in Section 2.4.2.

It is to be noted that since most projects have only recently been completed, the MA had not, up to the time of concluding this audit's fieldwork, requested any reports from the final beneficiaries of environmental projects. However it was indicated that FBs shall be required to compile a Closure Report indicating whether the objectives according to the Letter of Offer and related Addenda were attained and also a final indication of the funds disbursed. Furthermore, ex-post evaluations are carried out and commissioned by the European Commission namely DG Regional Policy, as indicated in the regulatory framework.

2.4.2 The Mid-Term Evaluation identified opportunities for enhancements to the national monitoring systems

Although in Malta's case it was not a requirement, the MA commissioned a Mid-Term Evaluation of the 2004-

2006 allocation of Structural Funds. This Evaluation focused, inter alia, on the national monitoring systems.

The Mid-Term Evaluation reviewed the effectiveness of the monitoring systems in terms of the monitoring indicators, the data being collected, the information technology system used and the human resources available for running the monitoring systems.

The Structural Funds Database, which is a fundamental tool in the monitoring of projects and measures, was reported to present a number of concerns related to 'monitoring'. Initially, the database was not accessible to all parties - particularly to organisations which did not fall directly within the government network. However, corrective action in this regard was immediately taken. It was also reported that the SFD had limited reporting facilities. For instance, project leaders had limited end-user reporting facilities to summarise progress on projects. Furthermore, though training of the SFD was continuous; there were still several users who did not have the necessary skills to use the system. Generally, this was due to the staff turnover within the ministries.¹⁶

The Mid-Term Report also remarked that a number of project indicators could be simplified, better defined and more relevant. The Report pointed out that indicators need to be well defined, be measurable and relate to one attribute/variable.

It is to be noted that the Mid-Term Evaluation remarked that indicators at measure level were considered to be well defined, clearly stating the expected output, result and impact indicator. These indicators would appropriately permit an evaluation of the measures' effectiveness.

The extent to which these concerns have been rectified is discussed in the following chapter of this Report.

2.4.3 Indirect impact of aided measures were not quantified

To date the indirect impact of aided measures were not quantified either by the Managing Authority or Final Beneficiaries. Moreover, ex-post evaluation on the Structural Funds programme is undertaken by the European Commission.

The de facto cost-benefits of a measure were not evaluated since this is not an EU regulations requirement.

The MA pointed out that it primarily focused on

the targets of the Programme and that these issues may be looked into as part of an ex-post evaluation.

2.5 Evaluations of the aided measures were carried out using the appropriate methodology

2.5.1 Ex-ante and Mid-Term Evaluations have been concluded

Ex-ante and Mid-Term Evaluations have been concluded in 2003 and 2005 respectively. Various recommendations, namely aimed at improving the efficiency of processes and administrative capacity, were proposed.

The Ex-ante Evaluation is appended in the SPD. Its main objective was to improve and strengthen the quality of the Single Programming Document under preparation. The Ex-ante Evaluation also comprised a study to assess the impact of the SPD on the environment.

The compilation of the ex-ante evaluation entailed the review of various documents and plans which were complemented with a series of interviews and meetings with key bodies. Since it was the first time Malta was participating in the Structural Funds Programme, some requirements of the ex-ante evaluation were not applicable, namely, the analysis of the preceding term. Amongst other objectives, the ex-ante evaluation aimed to assess the impact of the implementation of the SPD on the environment vis-à-vis air quality, landscape, sea, land, heritage and drinking water.

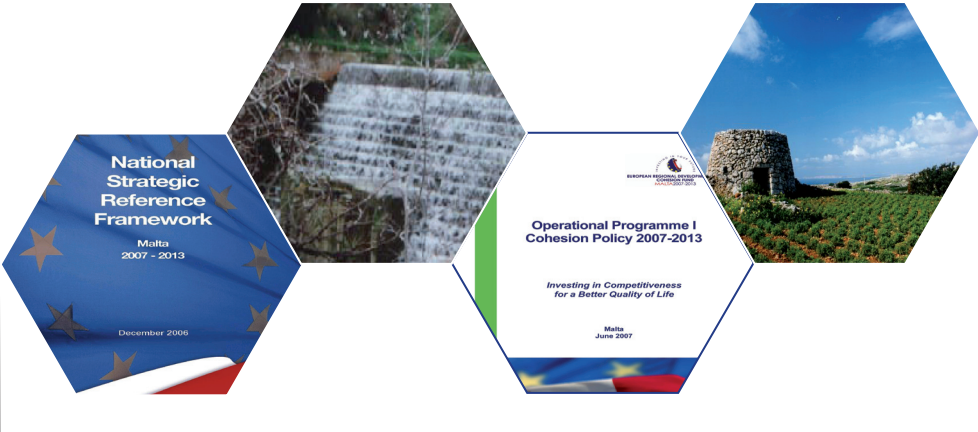
Despite the fact that it was not mandatory to perform a Mid-Term Evaluation, the MA commissioned an evaluation focusing on efficiency of the implementation of the SPD. According to the Council Regulation 1260/99, the Mid-Term Evaluation's goal is to assess, whilst considering the ex-ante evaluation, the initial results of the assistance, their relevance and the extent to which the targets have been attained.¹⁷ In addition, it should also examine how financial resources were used and the operation of monitoring and implementation. The NAO contends that the methodologies adopted were suitable to attain the objectives outlined in the preceding paragraph. A brief outline of the concerns raised and recommendations proposed in the Mid-Term Evaluation are attached at Appendix 5.

¹⁶Source: Mid-Term Evaluation, 31st January 2006, p14.

¹⁷Determining the extent to which targets were attained was not an applicable objective in Malta's case. In practice, the short time spent between the commencement of implementation of the SF Programme 2004-2006 and the conclusion of the Mid-Term Evaluation prohibited such an exercise.

Chapter 3

Building on Past Experiences



Chapter 3 - Building on Past Experiences

3. Introduction

This Chapter discusses the extent to which concerns that became apparent during the implementation of the Environmental Measure in the 2004-2006 Structural Funds period were rectified and adopted for the 2007-2013 period.

The Structural Funds process itself tends to facilitate the detection of shortcomings in the implementation of the co-financed programmes. The various reports drawn up (some of which are mandatory) as well as the various monitoring levels, for example, readily lend themselves for such a purpose.

For the purpose of this audit, the NAO reviewed and followed up the documentation discussed in the preceding paragraph to ascertain whether proposals therein were implemented in the following areas:

- Planning of measures and selection procedures;
- Goal Oriented Application Procedures;
- Award Procedures;
- Monitoring and Reporting; and
- Participation of the Monitoring Committee.

3.1 The current period's planning reflect the experiences of the old programme appropriately

3.1.1 'Planning' experiences from 2004-2006 reflected in the current SF period

During the 2004-2006 Structural Funds period, the selection of projects was generally carried out in the beginning of the programme within a limited period of time (around 38 days). This situation led to the following:¹⁸

1. Considerable pressure on the various stakeholders to plan for the forthcoming workloads – due to the increased activity associated with the involvement of Structural Funds Programmes.
2. Problems in appointing suitable board members to sit on the Project Selection Committee. Moreover, the over reliance on the appointed board members led to delays in the selection of projects.
3. Several delays in the implementation of the projects were registered due to the planning approval itself, delays in the granting of the necessary permits from the responsible authorities, as well as other mandatory documentation - such as the Environment Impact Assessment.

The appropriate action was taken by the MA to rectify the foregoing in time for the implementation of the 2007-2013 period.

¹⁸Source: Mid-Term Evaluation pp. 11-12.

Table 6: Comparison between the Project Selection Criteria utilised for the 2004-2006 and 2007-2013 SF programmes

		2007-2013	2004-2006
Eligibility Criteria	Complete Application Form	✓	✓
	Fits within one or more of the focus areas of intervention	✓	
	Contribution towards objectives	✓	✓
	Contribution towards indicators	✓	✓
	Project remit within the mandate of the Beneficiary	✓	
	Project Leader from Beneficiary organisation	✓	
	Proof of co-financing where applicable	✓	✓
	Project Implemented within the Eligible Territory	✓	✓
Selection Criteria	Justified need to implement the project	✓	✓
	National Priorities	✓	✓
	Contribution towards indicators beyond minimum required	✓	
	Project Sustainability	✓	
	Readiness	✓	✓
	Capacity of the Organisation	✓	
	Quality of Application Form	✓	
	Horizontal Priorities Environmental Sustainability and Equal Opportunities	✓	✓
	Carbon Impact	✓	
	Provide an added value to the environment situation which may lead to economic development	✓	✓
	Tangible improvement to existing environmental problems	✓	✓
	State Aid (approved by the State Aid Monitoring Board)	✓	✓
MEPA applications/permits are possible approved.	✓	✓	

Source: Programme Complement 2004-2006 and project applications form for the period 2007-2013.

3.1.2 Criteria for the selection of projects have been redefined

The selection criteria adopted in the new Structural Funds Programme have been enhanced, well defined and more focused towards the attainment of the objectives of the programme. The new criteria are more oriented towards ensuring the sustainability of projects.

The criteria defined by the programme for the selection of projects with respect to the environment objectives are divided into two parts. Firstly, the applications are evaluated according to a set of eligibility criteria. Secondly, project applications are adjudicated against a set of project selection criteria. Table 6 illustrates the changes between the current and previous criteria utilised for project selection.

¹⁹ Source: National Strategic Reference Framework, p. 55.

3.1.3 The Ex- ante Evaluation and the Strategic Environmental Assessment for the new period confirm that all objectives of the programme contribute towards achieving the Lisbon objectives

An Ex-ante Evaluation of the NSRF for the period 2007-2013 was undertaken to provide the relevant authorities with a prior judgment and to provide inputs intended to improve programming quality and assist in optimizing the allocation of budgetary resources.¹⁹

The Evaluation concludes that all objectives of the programme, including that of the environment, contributes towards achieving the 'Lisbon' objectives by focusing on the economic, social

and environment aspect of the national strategy.²⁰

With regards to the environmental objectives, the Ex-ante Evaluation also positively remarks about the inclusion of renewable energy sources initiatives and environmental protection in the programme for 2007-2013.

The Strategic Environment Assessment (SEA) of OP 1 2007-2013 was contracted out in 2006.²¹ The purpose of the SEA was to ensure that the OP 1 delivered a high level of environmental protection and enhancement.

Despite the SEA assuming the worst-case scenario during the assessment process, the impact of the Programme on the environment was judged to be positive. In fact, a number of positive environmental impacts have been identified for all Priority Axes and none of the Priority Axes has been deemed to have potentially major negative impacts.

3.2 Changes in the procedures for calling in, formulating and analysing applications

The procedures in the 2007-2013 programme for calling in, formulating and analysing data has undergone changes. These changes were mainly intended to streamline the relative processes, and render the application form more comprehensible and better defined. Moreover, the analysis of applications received is undertaken against sustainability oriented criteria.

3.2.1 The Project Selection process has been streamlined

The project selection process has been streamlined in cases relating to large and small projects. The main changes in this regard are the following:

- I. Large infrastructure projects will be selected in accordance to the Cabinet's instructions in lieu of going through the procedures of issuing calls for the proposal of the projects.²²

- II. The MA may allocate funds directly for small projects without the need to carry out the process of selection. Applications for small projects may also be submitted outside the period of an open call. The total cost of such projects is not to exceed €150,000 and will directly contribute to the achievements of the objectives of the programme. It is intended that surplus funds resulting from savings on approved projects' costs will be directed towards the funding of the 'small projects' scheme.

Table 13 in Appendix 6 shows in more detail the recommendations proposed in the Mid-Term Evaluation and relative action taken with regards to project selection.

3.2.2 Significant changes render the Projects' Application Form more comprehensible and user friendly

There were substantial modifications and enhancements in the application forms utilised in the new period. Application forms utilised in the new period are more comprehensible and user friendly.

The structure of the application form was modified. For instance, the 'new' form does not comprise the four attachments as was the case in the 2004-2006²³ period. The various sections in the application form pertaining to the current period are clearly identifiable and self explanatory.

Appendix 7 details the modifications made to the application form applicable to the 2007-2013 period.

3.2.3 More emphasis on sustainability in the project selection criteria

Similarly to the 2004-2006 programme, applications for projects are analysed, evaluated and ranked by a Project Selection Committee according to a set of eligibility and selection criteria. The selection criteria for the new programme allocate more weighting to the 'sustainability' aspects of the project.

²⁰ Ibid.

²¹ The Strategic Environment Assessment (SEA) Regulations, which implement EU Directive EC/42/2001 on the assessment of the effects of certain plans/programmes on the environment, require that a SEA of a wide range of plans/programmes is carried out prior to their implementation. The aim is to provide a high level of integration of environment and health considerations into the preparation and adoption of plans and programmes with a view to promoting sustainable development. Malta's OPI falls within the scope of the Regulations.

²² List of projects as identified in Operational Programme 1, p.149.

²³ The four attachments included in the project application form for the period 2004-2006 related to the following: Annex I Standard Project Document, Annex II – Public Procurement Form, Annex III – State Aid form, and Annex IV – MEPA Environmental Impact and Planning Consideration forms.

3.3 Recommendations of various evaluations to expedite the awards of contracts were either partly implemented or are under consideration

3.3.1 There were no significant changes to the award of commercial contracts procedures for the 2007-2013 Structural Funds Programme

While there were no significant changes to the award procedures for the 2007-2013 Structural Funds Programme, a number of shortcomings in the award of contracts procedures which had been identified in the Mid-Term Evaluation, were, to some extent, offset by measures taken by the Department of Contracts.

With respect to the 2004-2006 programme, changes were made in the contracts' templates which specified the roles and responsibilities of the FBs in relation to the contractor.

The recommendation for the introduction of a customer service desk to deal quickly and efficiently with Structural Funds awards-related queries from ministries, bidders and other customers was in part addressed through the deployment of the EU Unit within DoC to perform this help-desk function.

While the frequency of meetings of the General Contracts Committee has not been increased, the duration of said

meetings has been extended and the DoC confirmed that the Committee had no backlog of recommendations to consider.

With regard to the recommendation to increase the maximum appeals application fee to minimise the incidence of vexatious claims, the DoC maintains that, through the availability of the relevant information to bidders, the incidence of vexatious claims have been significantly reduced and no increase is therefore necessary.

It was noted that the number of staff employed in the EU Unit was not augmented. Consequently, the Department of Contracts is still not in a position to address recommendations aimed at enhancing this Department's administrative, legal and technical capacity.

However, even were manpower shortages was not a constraint, the DoC maintained that it could not agree to participate, to provide guidance, in an observer capacity during the tender evaluation proceedings undertaken by Final Beneficiaries, as this could give rise to a conflict of interest.

3.4 Monitoring systems have been strengthened to better support the evaluation of measures

The experiences gained through the implementation of the Structural Funds programme for 2004-2006, coupled with the recommendations of the Mid-Term

Table 7: Recommendations and lessons learnt

Recommendations / lessons	Follow-up action taken? (Yes or No)	If yes: Evidence?
Bi-lateral and multi-lateral meetings between the Managing Authority and line ministries/ project leaders in order to support the N+2 monitoring procedures and to monitor the progress of the projects. (Source: Mid Term Evaluation: p.v)	Yes	According to the NSRF, such meetings have already initiated in the old programme. (Source: NSRF p.59) In 2006, three sets of bi-lateral meetings were held with the FBs and stakeholders of projects which encountered difficulties. (Source: Presentation of Annual Implementation Report 2006: p. 18 dated 25 th May 2007) A project Steering Committee within each line Ministry will be set up to monitor the progress of projects and other related issues. (Source: OPI:p.163)
Well defined, relevant, measurable and consistent indicators at project level. (Source: Mid Term Evaluation: p.v)	Yes	Application of ERDF projects of the programme 2007-2013.
Enhancement of SFD (Source: NSRF: p. 58)	Yes	The SFD has being reviewed to facilitate access and to incorporate additional features. (Source: NSRF: p. 58)

Evaluation led to enhancements of the monitoring systems. An outline of the monitoring systems prevailing in the 2004-2006 period is attached at Appendix 4.

3.4.1 Various changes were made to the monitoring systems

The prevailing monitoring systems in place comply with the EU legislation. Moreover, the OP 1 clearly outlines their terms of reference and jurisdiction.

The monitoring systems and relative practices and procedures are considered to contribute to the evaluation of the aided measures' real contribution to the primary goals. However, it is to be remarked that the impact of environmental initiatives tends to be more apparent in the long-term. Consequently, only limited scope evaluations of the impact of the aided measures on the environmental primary goals could be carried out and some of the impacts could, therefore, not be quantified.

The more critical changes made to the monitoring systems include meetings involving the MA and other stakeholders, namely project leaders, clearer and better defined indicators at project level and improvements to the Structural Funds Database. Table 7 refers.

3.4.2 Generally, the appropriate mechanisms are in place to ensure that the Annual reporting requirements for period 2007-2013 comply with Regulations

Article 67-68 of EU Regulations 1083/2006 states that the Managing Authority shall forward the Commission an annual report by the 30th June each year (from 2008 onwards). Additionally, the Managing Authority shall forward the Commission a final report on the implementation of the operational programme by 31st March 2017.

This audit also confirmed that the appropriate mechanisms are in place to ensure compliance with the requirements of annual reporting; Table 15 in Appendix 8 refers. The Managing Authority confirmed that there are no significant differences in the reporting system of the two Structural Funds periods. However, the MA remarked that the implementation of this reporting system is being fine tuned to reflect better the new requirements.

3.5 The Monitoring Committee was appropriately involved in the planning of the new Structural Funds programme

3.5.1 The MC is in a position to make an effective contribution throughout the implementation of the SF Programme for period 2007-2013

The tasks of the Monitoring Committee are anchored in Article 5 of Council Regulation 1083/2006 and the tasks of the MC are quite similar to those of the 2004-2006 with minor revisions emanating from the new regulatory package.

The roles of the new Monitoring Committee were discussed in meeting of 19th July 2007.²⁴ Its main purpose is to monitor and assess the implementation and efficient spending of funds under Operational Programme I. This function was being appropriately fulfilled. In fact, the MC meets 3-4 times annually (as against the one obligatory meeting stipulated in the Committee's terms of Reference), discusses annual reports compiled, and other presentations regarding the implementation of measures.

In addition, the terms of reference of the Monitoring Committee, as also indicated in the Operational Programme 1, are conducive to ensure the effective contribution of the Monitoring Committee.

²⁴ The Monitoring Committee is composed of Government Representatives, Local Government Representatives, Socio-economic partners, Relevant Non-Governmental Organisations, European Commission, European Investment Bank, and European Investment Fund.

Appendices



Appendix 1 – Areas covered by the national SAIs

Table 8: SAIs participating in the parallel audit

Funds, Objectives and Fields Covered in the Audit						
Country	ERDF	ESF	Objective 1 (Convergence)	Objective 2 (Competitiveness)	Environment	Employment
Austria		x	x			x
Bulgaria	OBSERVER					
Czech Republic	OBSERVER					
Finland		x	x	x		x
Germany	x	x	x	x	x	x
Hungary	x	x	x		x	
Italy	x	x	x	x	x	x
Latvia	x		x		x	
Lithuania	OBSERVER					
Malta	x		x		x	
Netherlands	x	x		x		x
Poland		x	x			x
Portugal		x	x	x		x
Slovakia		x	x	x		x
Slovenia		x	x			x
Spain	x		x		x	
United Kingdom	x		x	x	x	x

Appendix 2 – Relationship between projects and the objectives of the SPD and PC

Table 9: Contribution of the sampled projects to the objectives of the SPD and PC

Projects	Total Project Cost (€)	Reduce Sewage Outflow	Minimise use of landfills	Reduce waste generated	Improve air quality	Improve the quality of drinking water	Protect Nature	Promote Renewable Energy ²⁵
ERDF/2: Wied il-Mielah restoration and management of storm water	199,760	✓					✓	
ERDF/10: Acquisition of air monitoring equipment to comply with acquis requirements	390,214				✓			
ERDF/22: Establishing civic amenity and bring-in sites, a separate household waste collection and an integrated communications strategy	4,599,999		✓	✓				
ERDF/23: Marine scientific surveys around Filfa for its conservation	200,000						✓	
ERDF/28: Drinking Water Quality Projects	6,246,826					✓		

Source: Applications of projects.

²⁵ Project ERDF/28 also encompassed energy efficiency. The renewable energy objective is being given significant prominence in the Structural Funds Programme for 2007 – 2013.

Appendix 3 – Project selection criteria and the Funds’ Primary Objectives

Table 10: Relationship between Project Selection Criteria and Primary Objectives

Criteria \ Objectives	To reduce sewage overflows	To minimise use of landfills	To reduce waste generated	To improve air quality	To improve the quality of drinking water	To protect nature	To promote renewable energy
1. Contribute to achieving compliance with the relevant environment acquis. Areas concerning solid waste management, sewage, air quality, nature protection and water; will be given preference	✓	✓	✓	✓	✓	✓	✓
2. Provide an added value contribution to the improvement of the environment that may lead to economic development	✓	✓	✓	✓	✓	✓	✓
3. Contribute to the national priorities and to the environment strategy (annex ii of the SPD)	✓	✓	✓	✓	✓	✓	✓
4. Tangible improvement of existing environmental problems	✓	✓	✓	✓	✓	✓	✓
5. Are mature and ready for implementation							
6. Provide proof of co-financing (where applicable)							
7. Where applicable, contribute to the attainment of the horizontal priorities: equal opportunities, environment and information society	✓	✓	✓	✓	✓	✓	✓
8. Demonstrate completeness of the application (overall and preparatory work for the project)							
9. Are carried out by organisations with a proven capacity to carry out EU co-funded projects							
10. Are accompanied with a procurement plan approved by department of contracts in line with public contracts regulations, 2003							
11. In case of state aid, are accompanied with a signed declaration by the state aid monitoring board stating that project does not infringe state aid regulations							
12. Have attached the relevant MEPA applications/possibly approved permits and EIAs, where applicable							
13. Contribute to the attainment of the relevant indicators	✓	✓	✓	✓	✓	✓	✓

Six out of the 13 selection criteria (indicated in the table by ‘✓’) can be related specifically to the attainment of the Primary Goals for environment. The blank cells in the table (due to their administrative orientation) denote the indirect contribution of the Primary Goals. The selection criteria are more oriented towards the:

- administrative aspect such as criteria 8, 11, 12; and
- financial aspects of the projects such as criteria 6.

Appendix 4 – The Monitoring Systems

Table 11: Monitoring systems of the programme 2004-2006

Monitoring Level	Monitoring Bodies	Obtaining monitoring data	Utilisation of Monitoring Data
Strategic	Monitoring Committee	Acquired through the information prepared by the MA.	To improve and monitor the implementation of the programme 2004-2006 and progress of 2007-2013. (Source: AIR2006: p.16)
Sectoral	The Sectoral Monitoring Sub-Committees	Obtained through the reporting templates by the PLs prior to and after the SMSC meetings. (Source: AIR2006: p.17)	<ul style="list-style-type: none"> - To review the implementation and progress of projects. (Source: AIR2006: p.17) - To allow for discussions with respect to efficiency between the project leader and the horizontal stakeholders. (Source: AIR2006: p.17)
Territorial	The Regional Projects Committee (Gozo)	Acquired from quarterly reports prepared to the MA and from the committee meetings. (Source AIR2006: pp.24-25)	Follow-up of the implementation of the projects co-financed under Priority 4. (Source AIR2006: p. 25)
Day-to-Day	Projects Leaders Final Beneficiaries	Data is obtained through: <ul style="list-style-type: none"> - the Structural Fund Database (SFD). - Information provided by the PLs upon the stakeholder request regarding the project status (Source: AIR2006: p. 24) - Summary sheets produced by the PLs regarding the project's progress. (Source: AIR2006: p.24) 	The SFD is used to: <ul style="list-style-type: none"> - Assist the MA to monitor the progress of the Programme. (Source: AIR2006: p.14) - Obtain information on the physical and financial progress of the project - Acquire information on the progress achieved in terms of indicators, summary of irregularity reports, Article 4 checks reports and all the necessary documentation relevant to projects. (Source: AIR2006)
	EU Affairs Director and MA through its PMs	Data is acquired by means of: <ul style="list-style-type: none"> - Internal bi-annual progress reports by Programme Managers with the MA. - Regular meeting between the Director of EU Affairs and the Programme manager within the MA. - Daily Contact between Programme Managers and PLs. 	<ul style="list-style-type: none"> - To keep abreast of project progress, to provide guidance, to escalate matters should the need arise and to liaise with other stakeholder when necessary. (Source: AIR2006: p.24) - Ensure smooth project implementation. (Source AIR2006: p.24)

Appendix 5 – The Mid-Term Evaluation

Table 12: Findings and Recommendations of the Mid-Term Evaluation 2006

Findings from the Mid-Term Evaluation	Recommendation
<p><i>Project selection:</i></p> <ul style="list-style-type: none"> - There was only one Project Selection Committee. - Although all the relevant and adequate information was available and all FBs had sufficient lead time before the formal call of projects, some projects experienced difficulties during the planning stage due to limited timescales. - Due to the short period of time available to approve the projects, pressure has been placed on some implementation structures making it difficult to plan workloads. 	<ul style="list-style-type: none"> - Increase the number of project selection committees, where these should be well structured.
<p><i>Award procedures:</i></p> <ul style="list-style-type: none"> - Delays to projects due to the tendering process. - Communication between the line ministries and DoC needs to be improved. - Limited resources and staff within the Department of Contracts. - The 90 day statutory limit can act as a disincentive to expedite procurement. - Technical advice from the DoC to the tender evaluation committees of FB/line Ministries lacks. - Lack of experience within line ministries. - The number of appeals delays the implementation of the projects. 	<ul style="list-style-type: none"> - The introduction of a customer service desk within the Contracts Department to enable this department to deal quickly and efficiently with queries from ministries, bidders and other users. - Increasing the administrative, legal and technical capacity within the Contracts Department. - Revising the current practice of the General Contracts Committee so that it can meet more often rather than twice weekly as is the current practice. - Revising the current practice of the Appeals Committee so that it can meet on an ad hoc basis whenever the need arises. - Increasing the maximum appeals application fee to minimise the incidence of vexatious claims. - Providing administrative technical assistance from the Contracts Department to tender evaluation committees nominated by final beneficiaries providing further training that may be needed by officers within governmental bodies associated with the procurement process. - Enhancing the SFD to be updated with stages associated with the procurement process such that the tender process can be followed up and the contracts department can be instigated to expedite matters rather than stick to the 90 day statutory limit for the adjudication of tenders. - Including the principal stages of the procurement cycle as key milestones in the project monitoring process and in the assessment of the progress across the programme.
<p><i>Monitoring system:</i></p> <ul style="list-style-type: none"> - Number of weaknesses in the SFD such as limited reporting. Due to staff turnover not all users of the SFD were trained. - Some of the indicators would need to be revised and simplified. 	<ul style="list-style-type: none"> - The SF database should be enhanced to reflect the key elements of the project management framework, to realise a comprehensive approach to programme management, to follow the projects pipeline and to monitor the key elements involved in the project lifecycle. - Review of project indicators in such a way that they are more consistent and well defined.

Table 12: Findings and Recommendations of the Mid-Term Evaluation 2006 (continued)

Findings from the Mid-Term Evaluation	Recommendation
	<ul style="list-style-type: none"> - Bi-lateral and multi-lateral meetings between the Managing Authority and line ministries/project leaders in order to support the N+2 monitoring procedures and to monitor the progress of the projects. - Introducing Project Steering Committee (PSC) function within each line ministry to steer projects and to address critical issues that are raised by project leaders. The PSC should be composed of Director EU affairs, the Permanent Secretary, the Programme Implementation Director and other officers who can address issues escalated by project leaders - Review of roles of the SMSCs, IBs and Gozo Regional Project Committee. Namely, The SMSCs need to focus on the strategic issues of sectoral nature rather than being involved in addressing project matters that can be more effectively dealt with by Steering Committees. The IBs should only be retained in so far as they can provide additional capacity and add value to the implementation process. The Gozo Regional Project Committee should focus on the Gozo's strategic priorities especially during programme development rather than involve itself in monitoring progress at project level or deal with issues of a project nature. These tasks would be more effectively addressed by the Steering Committee that would be set up within the Ministry for Gozo. - Allocation of projects related to Gozo should feature under all priorities of the programme rather than on one separate priority for Gozo needs. - The MA should encourage and assist the final beneficiaries in the adoption of a project management framework that ensures a comprehensive approach to plan, evaluate and manage projects. The framework would cover project definition, risk analysis and selection, project mobilisation, milestone planning, resource management, change control, stakeholder management, issue resolution, budgetary control, risk monitoring and benefits realisation. - A project support office function may be set up within the MA to help support the project leaders with the day to day management of projects.
<p><i>Results / effectiveness:</i></p> <p>Since the Mid-Term Evaluation was carried out by the end of the 2005, most of the projects were not yet completed. As a result, it was too early to assess the outcomes and impacts of these projects, and comment on the efficiency of the programme.</p>	<p>N/A</p>
<p><i>Cost-benefit analysis:</i></p> <p>N/A</p>	<p>N/A</p>

Appendix 6 – Action taken following Mid-Term Evaluation

Table 13: Recommendations, follow-up action taken and evidence

Recommendation	Follow-up action taken? (Yes or No)	If yes: Evidence?
<p>The Mid-Term Evaluation highlighted several problems related to the selection procedures of the projects. The evaluators recommended that there should be more than one Project Selection Committee since the old system led to bottlenecks and delays in the approval of projects. <i>(Source: Mid Term Evaluation and Operational Programme 1: p.70)</i></p>	Yes	<p>Calls for projects will be spread out over a number of years unlike the old period where there was only one call in the beginning of the programme. (The first call was issued on 30th July 2007 and the closing date was 7th September 2007. This means that the Final Beneficiaries had some 39 days to complete the application. (Source: Application)</p> <p>Large infrastructure projects will be determined by the Cabinet (and approved by the Commission) rather than issued for identification of the projects procedures, i.e. no call of application will be issued for such projects. A list of major projects is attached in OP 1 which includes projects such as Improving the TEN-T Road Infrastructure (Phase 1), Improving the TEN-T Road Infrastructure (Phase 2), Reduction of Emissions from the Delimara Power Station, Urban Waste Water Treatment Plant for the South of Malta, Mechanical Biological Treatment Plant, Rehabilitation and Restoration of Existing and Former Waste Dump Sites, An Integrated Water Management Approach to Flood Relief and Water Conservation. <i>(Source: Operational Programme 1: p.171)</i></p> <p>The MA may allocate funds directly to small projects, the total of which does not exceed €150,000 and which will directly contribute to the achievements of the objectives of the programme. There is no need to undergo the process of selection and such applications may be submitted outside the period of an open call. According to the MA, small savings which accrued from original approved projects may be allocated to new projects without the need to undergo the selection process which incorporates time and several administrative procedures. <i>(Source: Operational Programme 1: p.171)</i></p>
<p>The Mid-Term Evaluation remarked that the following structure should remain as it is, i.e. one Managing Authority, one Paying Authority, one Audit Authority, one Treasury and one Contract Authority all located within the OPM or MFIN. <i>(Source: Mid Term Evaluation and Operational Programme 1: p.69)</i></p>	Yes	<p>The proposed structure has been maintained by Government.</p>

Appendix 7 – Changes effected in the ERDF applications for the programme 2007-2013

The following ratings were used to describe the overall changes made to each particular section as indicated in Table 14 overleaf :

- No Changes (NC) – The section remained similar to that of the previous period.
- Enhanced (EH) – The section was improved though some of the sub-sections remained similar.
- New (NE) – Refers to sections newly included in the application.
- Considerably Defined (CD) – The section was significantly re-defined following recommendations made.

Modifications of the ERDF applications for the programme 2007-2013 are indicated through the following notation:

- ✓ : Improved
- - : No Changes
- ★ : New

Table 14: Modifications of ERDF applications for the programme 2007-2013 vs. Applications of the programme 2004-2006

Sections	ERDF Application for 2007-2013
The Applicant	EH
Details of the Organisation	-
Type of Organisation (Government Ministry or Department Government Entity / Authority / Commission etc. Local Council Social Partners Voluntary Organisation)	★
Legal Status (Whether it is a Public organization, Public equivalent body, or Voluntary Organisation)	★
VAT Status (Indicates what type of economic activity the project would entail so as to determine whether it would be subject to full, partial or no VAT refund).	★
Involvement of other Organisations	-
Institutional Framework (It describes the institutional framework within which the project will have to operate and how the project will fit within this framework. The description will indicate who is responsible for what (e.g. procurement, payments, financial control, etc) and indicate which units will be involved in the different stages of project management and implementation.	★
Coordinating Body	-
Project Details	-
Project Title	-
Project Intervention Code	EH
Codes by Priority Theme	✓
Code by Economic Activity	✓
Operational Programme	EH
Priority Axis	-
Operational Objectives	-
Focus Area of Intervention	★
How projects links the Priority Axis with Focus Area	★
Links with the Community Strategic Guidelines and the National Reform Programme	NE
Community Strategic Guidelines	★
National Reform Programme	★
National Priorities	★
Project Description	CD
Short Summary of Project	-
Overall Objective	-
Project Purpose	-
Target Groups	-
Background and Justification	-
Evidence of Demand (The applicant should give proof of demand and explain the need for the project including a summary of the key findings of any: market research; statistical evidence of market failure; statistical evidence of gaps in provision. Projects should be able to substantiate and quantify this failure and also the demand that exists for the service/resource/infrastructure that they are looking to provide).	★
Results	-
Activities	-
Project Duration	★

Table 14: Modifications of ERDF applications for the programme 2007-2013 vs. Applications of the programme 2004-2006 (continued)

Sections	ERDF Application for 2007-2013
Performance Duration (Project duration should factor in the time spent in the preparation and launching of tenders/calls)	CD
Output and Results Indicators	✓
Impact Indicators	✓
Other Targets	✓
Linked Activities	-
Financial Details	CD
Estimated Budget Breakdown	-
Revenue Generation (Projects will now feature both a feasibility study and a cost-benefit analysis)	★
Contracting and Implementation	EH
Public Procurement Table	-
Employment Contract	-
Implementation Schedule	-
Contracting and Disbursement Schedule	✓
Planning and Environmental Permits (Under this section the Applicant should indicate whether any of the activities envisaged under the project is going to have a negative effect on the environment and whether any component of the project requires a planning/environmental permit).	✓
State Aid	✓
Horizontal Priorities	
Equal Opportunities	✓
Sustainable Development	✓
Project Impact on the Environment	✓
Publicity	✓
Added Value	✓
Readiness	-
Sustainability of Project	✓
Conditionality and Risks	-
Additional Information	-
Declaration/Certification	-

Source: Compiled from Project Applications.

Appendix 8 – Annual Reporting Requirements

Table 15: The MA’s initiatives to meet annual reporting requirements

Annual reporting requirements	How the MA intends to meet the requirements
1. The progress made in implementing the operational programme and priority axes in relation to their specific, verifiable targets, with a quantification, wherever and whenever they lend themselves to quantification, using the indicators referred to in Article 37(1)(c) at the level of the priority axis.	Through the Structural Fund Database and the periodic reports prepared by the FBs and MA. Meetings with relevant bodies such as projects leaders, FBs and IBs.
2. The financial implementation of the operational programme, detailing for each priority axis: <ul style="list-style-type: none"> • the expenditure paid out by the beneficiaries included in applications for payment sent to the managing authority and the corresponding public contribution; • the total payments received from the Commission and quantification of the financial indicators referred to in Article 66(2); and • the expenditure paid out by the body responsible for making payments to the beneficiaries. Where appropriate, financial implementation in areas receiving transitional support shall be presented separately within each operational programme.	Through the Structural Fund Database and the periodic reports prepared by the FBs and MA.
3. For information purposes only, the indicative breakdown of the allocation of Funds by categories, in accordance with the implementation rules adopted by the Commission in accordance with the procedure referred to in Article 103(3).	Through the Structural Fund Database and the periodic reports prepared by the FBs and MA.
4. The steps taken by the managing authority or the monitoring committee to ensure the quality and effectiveness of implementation, in particular: <ul style="list-style-type: none"> • monitoring and evaluation measures, including data collection arrangements; • a summary of any significant problems encountered in implementing the operational programme and any measures taken, including the response to comments made under Article 68(2) where appropriate; and • the use made of technical assistance. 	Through the Structural Fund Database and the periodic reports prepared by the FBs and MA.
5. The measures taken to provide information on and publicise the operational programme.	Through the Structural Fund Database and the periodic reports prepared by the FBs and MA.
6. Information about significant problems relating to compliance with Community law which have been encountered in the implementation of the operational programme and the measures taken to deal with them.	Through periodic reports and meetings with the relevant bodies.
7. Where appropriate, the progress and financing of major projects.	Through the Structural Fund Database and the periodic reports prepared by the FBs and MA.
8. The use made of assistance released following cancellation as referred to in Article 98(2) to the managing authority to another public authority during the period of implementation of the operational programme.	Through the Structural Fund Database and the periodic reports prepared by the FBs and MA.
9. Cases where a substantial modification has been detected under Article 57, which related to the durability and operations pertaining to Structural Funds.	Through periodic reports and meetings with the relevant bodies.

Source: Article 67-68 of EU Regulations 1083/2006.