



EUROPEAN COMMISSION

European Structural and Investment Funds

## Guidance for Member States on Audit of Accounts

**DISCLAIMER:** *This is a document prepared by the Commission services. On the basis of the applicable EU law, it provides technical guidance to colleagues and other bodies involved in the monitoring, control or implementation of the European Structural and Investment Funds (except for the European Agricultural Fund for Rural Development (EAFRD)) on how to interpret and apply the EU rules in this area. The aim of this document is to provide Commission's services explanations and interpretations of the said rules in order to facilitate the programmes' implementation and to encourage good practice(s). This guidance note is without prejudice to the interpretation of the Court of Justice and the General Court or decisions of the Commission*

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## LIST OF ACRONYMS AND ABBREVIATIONS

AA	Audit Authority
CA	Certifying Authority
CDR	Commission Delegated Regulation (EU) No 480/2014) of 3.3.2014 supplementing Regulation (EU) No 1303/2013 of the European Parliament and of the Council <sup>1</sup>
CPR	Common Provisions Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17.12.2013) <sup>2</sup>
CIR	Commission Implementing Regulation (EU) No 1011/2014 of 22.9.2014
EMFF	European Maritime and Fisheries Fund
ESIF	ESIF corresponds to all European Structural and Investment Funds. This guidance applies to all except for the European Agricultural Fund for Rural Development (EAFRD)
ETC	European Territorial Cooperation Regulation (Regulation (EU) No 1299/2013 of the European Parliament and of the Council of 17.12.2013)
IB	Intermediate Body
MA	Managing Authority
MCS	Management and Control System
YEI	Youth Employment Initiative

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<sup>1</sup> [http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L\\_.2014.138.01.0005.01.ENG](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2014.138.01.0005.01.ENG)

<sup>2</sup> <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32013R1303>

## **1. BACKGROUND**

### **1.1. Regulatory references**

<b>Regulation</b>	<b>Articles</b>
Reg. (EU) N° 1303/2013 Common Provisions Regulation ( <i>hereafter CPR</i> )	Article 137 – Preparation, examination and acceptance of accounts
Commission Delegated Regulation (EU) 480/2014	Article 29 - Audit of accounts
Commission Implemented Regulation (EU) 1011/2014	Article 7 – Model for the accounts Annex VII

### **1.2. Purpose of the guidance**

The purpose of this note is to give practical guidance to the Member States, in particular the audit authorities, on their responsibilities with regard to the audit of accounts in compliance with Article 137 (1) of Regulation (EU) 1303/2013 and Article 29 of Delegated Act (EU) 480/2014. This guidance note explains how the audit authorities can use existing audit work to reduce at the minimum possible their additional effort in relation to the audit of accounts.

The guidance note describes the audit work to be carried out by the audit authorities to support their audit opinion on the completeness, accuracy and veracity of the accounts

## **2. AUDIT OF THE ACCOUNTS BY THE AUDIT AUTHORITY**

The audit of accounts referred to in Article 137(1) of Regulation (EU) 1303/2013 shall be carried out by the AA in respect of each accounting year and in accordance with the audit strategy.

The audit of accounts in combination with the other audit procedures shall provide reasonable assurance on the truth, completeness, accuracy and veracity of the amounts declared in the accounts, for which the AA should implement an appropriate audit approach and methodology.

This audit approach should take into account the results of existing audit work, i.e. the results of the system audits carried out, in particular those regarding the CA, and the results of the audits of operations. Moreover, it should include final additional verifications on the accounts which would allow the AA to provide an opinion to establish whether the accounts give a true and fair view.

In order to provide an audit opinion on the accounts, the AA should carry out final additional verifications on the (draft) certified accounts provided by the CA. These verifications will aim to confirm that all the elements required by Article 137 of the CPR are correctly included in the accounts and supported by underlying accounting records maintained by the relevant

authorities (or bodies) and beneficiaries. Based on the draft accounts provided to it by the CA, the AA verifies that:

- (a) the total amount of eligible expenditure declared in accordance with Article 137(1)(a) of the CPR reconciles with the expenditure (and the corresponding public contribution) included in the final payment application submitted to the Commission for the relevant accounting year. If there are differences, the AA shall assess the adequacy of the explanations provided in the accounts (see Appendix 8 of Annex VII to CIR on reconciliation of expenditure);
- (b) the amounts withdrawn and recovered during the accounting year, the amounts to be recovered as at the end of the accounting year, the recoveries effected pursuant to Article 71 of the CPR, and the irrecoverable amounts presented in the accounts, all correspond to the amounts entered in the CA's accounting systems and are based on reasoned decisions taken by the responsible MA or CA;
- (c) expenditure has been excluded from the accounts in accordance with Article 137(2) of the CPR, where applicable, due to an ongoing assessment of its legality and regularity. The AA also verifies, possibly on the basis of a sample, that all other required corrections as a result of management verifications or audits were correctly reflected in the accounts for the accounting year concerned;
- (d) the amounts of programme contributions paid to financial instruments and advances of State Aid paid to beneficiaries are supported by the information available, in particular from the MA.

The AA has to check that the draft accounts have been prepared in accordance with the templates set out in the Implementing Regulation No. 1011/1024. In this context, the AA needs to check that there is a disclosure in the relevant appendices of the financial corrections as a result of the audit of operations according to Article 127 (1) of CPR.

The following audits and controls should be considered when their conclusions are available at the date of the signature of the audit opinion:

- System audits
- Audits of operations
- Audits performed by the Commission
- Audits carried out by the European Court of Auditors and its follow-up performed by the Commission
- Checks performed by other programme authorities (administrative verifications, on-the-spot verifications, checks carried out by certifying authorities).
- Others audit and control results to which the AAs have access.

The AA should put in place effective procedures to monitor the implementation of the recommendations and corrective measures resulting from the audits of accounts.

In accordance with Article 139 (2) of CPR, the Commission will base its examination of the accounts on the opinion provided by the AA who, therefore, will provide in the corresponding chapter of the ACR<sup>3</sup> detailed information of the audit work carried out and results obtained from their audits of accounts.

### **3. USE OF RESULTS OF SYSTEM AUDITS FOR THE AUDIT OF ACCOUNTS**

Article 29(4) of CDR establishes that the system audit shall include verification of the reliability of the accounting system of the certifying authority and, on a sample basis, of the accuracy of expenditure, of amounts withdrawn and amounts recovered recorded in the CA's accounting system.

Through the system audit of the CA, the AA obtains reasonable assurance that the following procedures are being adequately implemented<sup>4</sup>: to report and monitor irregularities; to account for the amounts to be withdrawn or to be recovered and to be deducted from payment claims during the accounting year; and to follow-up pending recoveries and irrecoverable amounts. The system audit should also cover the reliability of the IT system implemented by the CA to run its accounting system, taking account of internationally accepted IT standards<sup>5</sup>.

System audits can already start early in the accounting year. A comprehensive system audit of the CA (and its intermediate bodies when relevant) is expected to be carried out as from the first year of implementation of the programme, after the designation of the MA and CA in order to prepare the annual opinion on the accounts. The conclusions of audit work carried by the independent audit body (IAB) in accordance with Article 124 of the CPR can be taken into account to decide the extent of the first system audit of the CA. In any event as the audit work of the IAB covers only the fulfilment of the designation assessment criteria, the AA should audit the effective functioning of the CA systems.

In following years, the AA should carry out follow-up audit work (i.e. system audits or review of specific elements of the functioning of the CA), focusing on the implementation of the recommendations issued in previous system audit reports and on the key requirements of the CA which were assessed as category 3 or 4. However, another full system audit should be considered when the CA has changed significantly their procedures or staff. Further system

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<sup>3</sup> See Guidance note on Annual Control Report and Audit Opinion (EGESIF\_15-0002-02 of 09/10/2015)

<sup>4</sup> The assumption is that the design/set-up of these procedures has already been audited during the designation stage.

<sup>5</sup> In addition to the COBIT (Control Objectives for Information and related Technology) framework, internationally accepted standards for information security include but are not limited to the ISO/IEC standard 27001 ("Information technology - Security techniques - Information security management systems – Requirements") and the ISO/IEC 27002 ("Information technology - Security techniques - Code of practice for information security controls"), last re-issued in 2013. The AA may also take into consideration any related national standards.

audits can be envisaged during the programming period in order to confirm that previous audit conclusions are still valid.

When performing a system audit of the CA, the AA will pay special attention to the assessment of key requirement 13 on “adequate procedures to drawing up and certifying the completeness, accuracy and veracity of the accounts”<sup>6</sup>. In practice, this means that system audit concerning the CA's accounting system should include at least the verification of whether the CA's procedures (including controls built-in the IT system) effectively ensure that the total amount of eligible expenditure entered into the accounting system reconciles with the expenditure (including the corresponding public contribution) included in interim payment applications submitted to the Commission for the relevant accounting year, less the relevant financial corrections and/or other adjustments made by the CA for the expenditure at stake.

The annex of this guidance note provides an example of a list of the control testing of the CA's procedures to be carried out by the AA in relation to the accounts<sup>7</sup>.

Some of these tests can be combined with the audit work carried out through the audits of operations to obtain a sufficient degree of assurance avoiding duplications.

Additionally, in the context of system audits, the AA should verify the existence and correct implementation of procedures ensuring that:

- the draft accounts are submitted by the CA in due time to the AA for the purposes of issuing the audit opinion;
- expenditure has been excluded from the accounts in accordance with Article 137(2) CPR, where applicable, and that all the required corrections are reflected in the accounts for the accounting year concerned, as established by Article 29(5.c) CDR.

The AA is recommended to develop a dedicated section in the system audit checklist or develop a separate checklist to be applied to the CA covering all the elements of the accounts, as described in Article 29(5) of the CDR.

The AA may cover with a single system audit of the CA the accounts of the different funds and operational programmes under its responsibility.

When some elements of the elements listed in annex of this guidance note cannot be checked at the moment of the system audit, the AA will have to cover them through the final additional verifications explained in section 5.

If the system audit carried out at the level of CA reveals serious deficiencies in the management and control system (in particular for the essential requirement relating to the

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<sup>6</sup> See Commission's "Guidance on a common methodology for the assessment of management and control systems in the Member States" (EGESIF\_14-0010 of 18/12/2014)

<sup>7</sup> The control testing will be carried out by the AA on the basis of the information entered in the accounting systems of the CA at the moment of the system audit

CA), a qualified audit opinion for the accounting year in question will be issued. Such qualified opinion would cover, not only the functioning of the management and control system, but could also lead to a qualification on the audit opinion whether the accounts give a true and fair view (as established by Article 29(5) CDR).

#### **4. USE OF RESULTS OF AUDIT OF OPERATIONS FOR THE AUDIT OF ACCOUNTS**

Audits of operations can already start during the accounting year. This also means that the sample of operations to be audited can be split into two (or more) parts in the course of the accounting year, in accordance with the progress of certification of expenditure in interim payments, with limited impact on the sample size. The audit effort can thus be spread more evenly throughout the year. This will allow AA to complete their work in time in order to provide the annual audit opinion in accordance with the second subparagraph of Article 59(5) of the Financial Regulation and Article 127 (5)(a) CPR.

For the sample of operations selected and for the purpose of drawing assurance for its audit opinion on the accounts<sup>8</sup>, the AA should check that:

- the total amount of eligible expenditure declared in accordance with Article 137(1.a) CPR reconciles with the expenditure (and the corresponding public contribution) included in payment applications submitted to the Commission;
- all irregular amounts detected in the operations sampled have been excluded from the accounts;

The last test will have to be finalised under the final verifications of the accounts explained in section 5 below.

If applicable for the operations in the audited sample, the AA will verify that the amounts of programme contributions paid to financial instruments and advances of State aid paid to beneficiaries are supported by the information available at the level of the MA and of the CA. The objective of these checks will be also to confirm the reliability of the audit trail of the accounting system.

It is advisable that the AA develops a dedicated section in the audit of operations checklists or a separate checklist to confirm the effective functioning of the system regarding elements of the accounts as described Article 29(5) CDR.

#### **5. FINAL ADDITIONAL VERIFICATIONS ON THE DRAFT CERTIFIED ACCOUNTS**

In accordance with Article 127(5)(a) CPR and Article 59(5) of the Financial Regulation, the AA has to provide an opinion on whether the accounts give a true and fair view, and whether the audit work puts in doubt the assertions made in the management declaration on the proper presentation of the accounts, their completeness and accuracy.

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<sup>8</sup> This is without prejudice, of course, to the assurance required on the legality and regularity of expenditure.



For this purpose, it is expected that the AA:

- analyse the results from system audits carried out on the CA (and its intermediate bodies when relevant) and MA (when relevant), particularly on the controls related to the accounts, as explained in the section 3 above;
- when auditing the sample of operations, examine the audit trail and accuracy of the corresponding expenditure entered in the accounts to verify the reliability of the accounting systems, as explained in the section 4 above;
- once it has received the (draft) accounts from the CA and depending on the level of assurance obtained from the system audits (section 3) and audits of operations ( section 4) :
  - The AA should carry out a final validation of the underlying registered data (expenditure-certified items, withdrawals, recoveries, amounts to be recovered and irrecoverable amounts). Regarding the expenditure-certified items, the AA will have confirmed the correctness of the amounts included in the interim payment applications submitted during the accounting year through the representative sample of the audit of operations. Consequently, at this stage, the additional verifications can be limited to the verification of the corrections and adjustments made by the CA after the submission of the final application for interim payment and reflected in appendix 8 of the accounts.
  - In relation to the other items (withdrawals, recoveries, to be recovered and irrecoverable amounts), the AA will carry out additional verifications on individual records. The extent of these verifications will be determined by the AA taking into account the results of the system audits on the CA and of audits of operations. The AAs are recommended to verify on a sample basis the accuracy of the records registered in the accounts covering each type of record (amounts withdrawn, recovered, to be recovered and irrecoverable amounts).
  - Confirm that in the appendix 8 of the accounts the CA has provided a reconciliation of the total amount of eligible expenditure entered in the draft accounts to the total amount in the accounting systems of the CA and the expenditure (and the corresponding public contribution) included in the payment applications submitted to the Commission for the relevant accounting year;

There is no formal deadline set in the CPR for the CA to provide the (draft) accounts to the AA. However, it is recommended that the national authorities set, from the beginning of the programming period, internal deadlines for the transmission of the draft accounts to the AA. The AA should have sufficient time for its review to enable it to issue a soundly-based audit opinion by 15 February of year N+1.

## **6. AUDIT OPINION ON THE ACCOUNTS**

If there are any differences between the expenditure declared in the final interim payment application and the amount certified in the draft accounts due to deductions made by the CA (see section 1.4 of "Guidance on amounts withdrawn, recovered, to be recovered and irrecoverable"), the AA assesses the adequacy of the explanations provided by performing suitable audit procedures: these should be designed to obtain sufficient appropriate audit evidence that events resulting in deductions have been identified and examined before submission of the audit opinion and the annual control report referred to in points (a) and (b) of the first subparagraph of Article 127(5) CPR.

The audit authority checks that the results of any audit or control activity as defined under section 2 above are adequately reflected in the accounts, including the expenditure under an ongoing assessment of legality and regularity in application of Article 137(2) CPR. This verification of the effective correction of irregularities detected by the audit work (by withdrawal or recovery from an interim payment application during the accounting year or deduction in the accounts) will be particularly useful for AA's calculation of the residual error rate, to be provided in the annual control report.

The results of the audit work performed by the AA on the draft accounts, once communicated to the CA, will allow the former to further adjust its accounts if necessary, before certification to the Commission. It is recommended that this includes all adjustments including the non-material ones identified by the AA during its audits, in order to subsequently ensure a swift process for the acceptance of the accounts by the Commission.

For the purposes of its audit opinion on the accounts, the AA will analyse the material impact of the adjustments to be made in the accounts taken into account as materiality level the 2% of the amounts entered in the draft accounts presented to the AA. If the AA agrees with the adjustments made to the draft accounts by the CA, the audit opinion on the accounts can be unqualified, meaning that the AA has reasonable assurance that the accounts are complete, accurate and true. Where incorrect or incomplete elements have been detected in the accounts but they are considered immaterial by the AA and remains not corrected in the accounts, the information on those elements should be disclosed in the ACR and in the audit opinion as an emphasis of matter.

It is recommended that the AA properly document all phases of the audit of accounts in order to ensure that an adequate audit trail is maintained, taking into account the provisions on availability of documents set out in Article 140 CPR.

*Example of control testing procedures to be carried out by the AA on the basis of the information entered in the accounting systems of the CA at the moment of the system audit*

The control testing of CA's procedures may involve at least the following stages, covering, for example, the main priority axis of the operational programme<sup>9</sup>:

- i. concerning appendix 1 (columns A and B) of the accounts:
  - verify that it contains the same amount of expenditure declared in the final interim payment application (columns B and C, respectively);
  - check if the expenditure declared in the final interim payment application for the accounting year in question correspond to the expenditure declared in the interim payment applications for that year, plus eventual new expenditure and less the amounts withdrawn and recovered during the accounting year and in relation to this accounting year (as to be shown in appendix 2 of the accounts) and/or other adjustments made by the CA;
  - on the basis of the information available at the MA's level:
    - verify that the expenditure declared in the (two or three) interim payment applications with the highest amounts of expenditure declared correspond to expenditure incurred by beneficiaries and paid in implementing operations;
    - for a sample of transactions (e.g. 30 payment claims submitted by the beneficiaries to the MA), verify the audit trail meaning if the expenditure incurred by beneficiaries and paid in implementing operations has been included in interim payment applications considered in the accounts at stake; this test can be combined with the audit work carried out through the audits of operations;
- ii. concerning appendixes 2 and 4 of the accounts:
  - verify that these appendixes contain (at least) the amounts withdrawn (only in appendix 2) and recovered during the accounting year and there is an adequate split by accounting year and that such withdrawals and recoveries are based on a decision to correct, taken by the Member State at the appropriate level (i.e. MA or CA);
  - the amounts corrected as a result of audits of operations (shown at the end of appendix 2) correspond to the irregularities detected by the audit authority;

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<sup>9</sup> These would be the priority axis with expenditure declared above a certain threshold, to be defined by the AA based on its professional judgment. In case of a multi-fund programme, the selected priority axis should cover all the Funds concerned.

- iii. in relation to appendix 3 of the accounts:
  - verify that it only contains the amounts to be recovered in relation to the expenditure declared in previous accounting year(s)<sup>10</sup> and that such recoveries are based on a decision to correct, taken by the Member State at the appropriate level (i.e. MA or CA);
- iv. verify that appendix 5 contains only irrecoverable amounts relating to expenditure declared in previous accounting year(s); these amounts should be supported by a reasoned decision justifying the irrecoverability of the irregularities at stake, taken by the Member State at an appropriate level (in general, the MA); an additional consistency check can also be done in this regard, checking appendix 5 against the date on irrecoverable amounts recorded in the IT system;
- v. verify the audit trail by comparing appendix 6 against the amounts of programme contributions paid to financial instruments cumulative from the start of the programme; this consistency test should be done on the basis of the data provided by the relevant MA/IB (or available in their IT systems);
- vi. verify the audit trail by comparing appendix 7 against the advances paid in the context of State aid (cumulative from the start of the programme) as recorded in the MA/IB's IT system (and, where feasible, other national IT system registering data on State aid);
- vii. concerning appendix 8 of the accounts:
  - check whether the expenditure shown in columns C and D, is supported by the expenditure declared in the final interim payment application, less any corrections/adjustments applied by the CA afterwards;
  - assess the explanations provided in column G for each priority against the information disclosed in the ACR and in the annual summary in regard to financial corrections applied after 31 July of the preceding financial year and reflected in the accounts as a follow-up to the results of the system audits and/or audit on operations and further management verifications carried out before submission of accounts.

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<sup>10</sup> Appendix 3 should not contain amounts to be recovered in relation to expenditure declared in the accounting year in question.