



EUROPEAN COMMISSION

European Structural and Investment Funds

Guidance for Member States  
on the Annual Control Report and Audit Opinion

**(Programming period 2014-2020)**

***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
ACR	Annual Control Report
Audit Body	Body carrying out audits under AA's remit, as foreseen in Article 127(2) of the CPR
CA	Certifying Authority
CCI	Code Commun d'Identification (reference number of each programme, attributed by the Commission)
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>
CIR	Commission Implementing Regulation (EU) No 2015/207 of 20.01.2015 <sup>2</sup>
CPR	Common Provisions Regulation (Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17.12.2013 <sup>3</sup>
ESIF	ESIF means 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 (under 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
TER	Total Error Rate
RTER	Residual Total Error Rate

<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/FR/TXT/?qid=1426689332441&uri=CELEX:32015R0207>

<sup>3</sup> <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32013R1303>

## I. BACKGROUND

### 1. Regulatory references

Regulation	Articles
Reg. (EU) No 1303/2013 Common Provisions Regulation ( <i>hereafter CPR</i> )	Article 127 (5)- Functions of the audit authority
Reg. (EU) No 2015/207 Commission Implementing Regulation ( <i>hereafter CIR</i> )	Articles 7 (2 and 3) and Annexes VIII and IX (models for the audit opinion and the annual control report)

### 2. Purpose of the guidance

The objective of this document is to provide guidance as regards the ACRs and opinions to be submitted by the Member States to the Commission, as provided for in Article 127(5) CPR. This guidance is applicable to the ESIF, except for the European Agricultural Fund for Rural Development (EAFRD), and follows the structure of the models of the ACR and audit opinion defined in Annexes VIII and IX CIR.

Together with the management declaration, the annual summary (both under the responsibility of the MA) and the accounts (under the responsibility of the CA), the ACR and audit opinion by the AA is an important element through which the Commission obtains reasonable assurance on the proper functioning of the ESIF MCS in the Member States, the legality and regularity of the expenditure declared and the accuracy, completeness and veracity of the accounts.

According to Article 317 of the Treaty on the Functioning of the European Union, in areas of the Community budget which are managed through shared management arrangements, the Commission retains overall responsibility for implementing the budget, while the Member States cooperate with the Commission and are responsible for day-to-day administration and control of the implementation of the programmes.

The assurance process under shared management with the Member States is based on the single audit concept (cf. Article 148 CPR). The Commission aims to rely as much as possible on the audit opinion expressed by the AA, provided that the Commission has gained sufficient assurance on the quality of the audit work conducted by the AA. The Commission therefore carefully analyses the ACR and opinion submitted by the AA in order to reach its own opinion on the MCS for each programme.

As established by the last paragraph of Article 127(5) CPR, where a common MCS applies to more than one programme, a single ACR covering those programmes may be drawn-up by the

AA. Further considerations on a common MCS are provided in section 2 of the Commission's *Guidance for Member States on Audit Strategy* (ref. EGESIF\_14-0011).

In case of a multi-fund programme, the AA submits an ACR identifying the Funds concerned. . Multi-fund programmes are the programmes co-financed by ERDF and ESF and, where applicable, Cohesion Fund.

### **3. Timing of audit work**

Article 59(5) of the Financial Regulation (Regulation (EU, EURATOM) No 966/2012<sup>4</sup>) states that accounts on expenditure incurred during the reference period and the annual summary of the final audit reports and controls carried out need to be provided to the Commission by 15 February of the following year. The deadline of 15 February may exceptionally be extended by the Commission to 1<sup>st</sup> March, upon communication by the Member State concerned.

In the ACR to be submitted by 15/02/N+2, the AA reports on system audits, audits of operations and audits of accounts, conducted on expenditure included in a payment application presented to the Commission, in relation to the accounting year from 01/07/N till 30/06/N+1 (deadline for the last payment request related to the accounting year 31/07/N+1).

On the basis of its audit strategy, the AA should implement all the audit work necessary to draw a valid audit opinion for each accounting year. The above-mentioned Commission's guidance on the audit strategy includes in section V indicative timelines for the audit work.

As no audit period is explicitly foreseen in the CPR, the AA needs to agree in advance with the MA and CA the timeframe for the preparation of the accounts in connection with the audit process, having in mind the need to ensure a timely submission of a high quality ACR and audit opinion, in accordance with Article 127(5) CPR. Moreover, the MA should make available to the AA a draft of the management declaration and the annual summary of the final audit reports and controls carried out, including an analysis of the nature and content of errors and weaknesses identified in systems, together with details of the corrective actions taken or planned in light of these. The Member State should set internal deadlines for the transmission of documents between authorities for the purpose of their respective responsibilities.

The first ACR and audit opinion must be provided by 15 February 2016 and will be based on expenditure included in a payment application presented to the Commission between the start date for eligibility and 31 July 2015. The final accounting year shall be from 1st July 2023 to 30 June 2024 and the related audit work will be reported in the last ACR due by 15 February 2025.

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<sup>4</sup> <http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1416480945454&uri=CELEX:32012R0966>

## II. GUIDANCE ON ACR

In each section below, the text inserted in a box is an extract of the relevant section of the model ACR - Annex IX CIR.

### 1. Introduction

1.1 Identification of the responsible audit authority and other bodies that have been involved in preparing the report.

1.2 Reference period (i.e. the accounting year)<sup>5</sup>.

1.3 Audit period (during which the audit work took place).

1.4 Identification of the operational programme(s) covered by the report and of its/their managing and certifying authorities. [Where the annual control report covers more than one programme or Fund, the information shall be broken down by programme and by Fund, identifying in each section the information that is specific for the programme and/or the Fund, except for section 10.2 where such information shall be provided under section 5.]

1.5 Description of the steps taken to prepare the report and to draw the audit opinion.

The period during which the audit work took place should be mentioned. Reference should be made to the version of the audit strategy applicable. In cases of changes to the strategy related to the accounting period covered by this ACR, this should be mentioned in section 3.

Section 1.5 should cover the preparatory phase, documentation analysed, coordination with other bodies (if applicable), audit work conducted as described in sections 4,5 and 6, and final drawing up of the audit opinion. This section is of particular relevance in cases where the AA relies on the work of other audit bodies. Finally, this section should cover also the AA's consistency checks on the management declaration, for the purposes of the audit opinion (including checks on whether the management declaration is consistent with the conclusions of all audits and controls). For more details, refer to the Commission's *Guidance on the drawing of Management Declaration and Annual Summary for Member States* (EGESIF\_15\_0008), to be finalized soon.

### 2. Significant changes in management and control systems

2.1 Details of any significant changes in the management and control systems related with managing and certifying authorities' responsibilities, in particular with respect to the delegation of functions to new intermediate bodies, and confirmation of its compliance with Articles 72 and 73 of Regulation (EU) No 1303/2013 based on the audit work carried out by the audit authority under Article 127 of the same Regulation.

2.2 Information relating to the monitoring of the designated bodies according to Article 124(5) and (6) of Regulation (EU) No 1303/2013.

<sup>5</sup> As defined in Article 2(29) CPR.

2.3 The dates from which these changes apply, the dates of notification of the changes to the audit authority, as well as the impact of these changes to the audit work are to be indicated.

Significant changes refer to changes which could have an impact on the proper functioning of the MCS and the level of assurance they provide as to management of ESIF. It is expected that the AA confirms that the changed MCS are still in compliance with Articles 72, 73 and 74 CPR, on the basis of audit work performed related to the MCS changes.

In case no audit work has been carried out in relation to these changes, the AA should, when establishing its conclusions and providing its opinion, estimate their impact on the set up and functioning of the MCS.

When Article 124 (5) and (6) of the CPR apply, and when the AA has been mandated by the Member State to confirm that the relevant remedial action plan<sup>6</sup> has been implemented during the probation period, it should disclose in the ACR the work conducted in this regard. If such plan has not yet been implemented before submission of the ACR, the AA should disclose in the ACR the decided timetable of the plan, the state of play and the impact of this situation on the AA's audit opinion.

### **3. Changes to the audit strategy**

3.1 Details of any changes to the audit strategy, and explanation of the reasons. In particular, indicate any change to the sampling method used for the audit of operations (see Section 5 below).

3.2 Differentiation between the changes made or proposed at a late stage, which do not affect the work done during the reference period and the changes made during the reference period, that affect the audit work and results. Only the changes compared to the previous version of the audit strategy are included.

### **4. System audits**

4.1 Details of the bodies (including the Audit Authority) that have carried out audits on the proper functioning of the management and control system of the programme (as foreseen in Article 127(1) of Regulation (EU) No 1303/2013) – hereafter "system audits".

The bodies mentioned in section 4.1 concern either the AA or any audit body that carries out audits as foreseen in Article 127(2) of the CPR, where appropriate. If part of the systems audits has been outsourced, the contract details<sup>7</sup> and the tasks outsourced to the contractor(s) should be specified. For multi-fund programmes, it should be indicated, if the AA performs

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<sup>6</sup> As established in the mentioned provisions, where existing audit and control results show that the designated authority (MA or CA) no longer fulfils the designation criteria, the Member State shall, at an appropriate level, fix, according to the severity of the problem, a period of probation, during which the necessary remedial action shall be taken.

<sup>7</sup> Such as the name of the contractor, scope and objectives, definition of tasks, etc.

the audit work for all Funds, and, if not, the responsible bodies for each fund should be mentioned.

4.2 Description of the basis for the audits carried out, including a reference to the audit strategy applicable, more particularly to the risk assessment methodology and the results that led to establishing the audit plan for system audits. In case the risk assessment has been updated, this is described in section 3 above covering the changes of the audit strategy.

A complete list of the bodies and functions that will be covered by the system audits is provided in the indicative schedule of audit assignments included in the audit strategy.

The ACR should include information concerning the state of implementation of the audit strategy with regard to system audits. In case the audit strategy was not (fully) implemented, the AA should explain the reason for it and indicate the timing for completion of the system audits planned, which will be reported in the next ACR or another report. In any case, the AA should implement all the audit work necessary to draw a valid audit opinion for each accounting year.

In the case of multi-fund programmes, the above information should be provided for each of the Funds (or, in case the same information applies to all Funds, this should be clearly stated).

4.3 In relation to the table in section 10.1 below, description of the main findings and conclusions drawn from system audits, including the audits targeted to specific thematic areas, as defined in section 3.2 of Annex VII of this Regulation.

4.4 Indication of whether any problems identified were considered to be of a systemic character, and of the measures taken, including a quantification of the irregular expenditure and any related financial corrections, in line with Article 27(5) of Regulation (EU) No 480/2014.

Under Section 4.3, the main findings resulting from system audits should be clearly separated by programme and by Fund. The bodies concerned by the findings should be clearly indicated.

The table set out in Section 10.1 of Annex IX of the CIR should be completed and annexed to the ACR. This table indicates for each body audited by the AA the assessment related to each key requirement, resulting also from audits conducted during previous accounting years of the same programming period. Further information on the assessment of these key requirements is presented in the 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).

Horizontal audits<sup>8</sup> targeting specific thematic areas (as foreseen in the audit strategy and carried out in relation to the accounting year) should also be reported in this section, such as:

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<sup>8</sup> Horizontal audits can cover more than one fund or programme.



- the quality of management verifications, including in relation to the respect of public procurement rules, State aid rules, environmental requirements, equal opportunities;
- the quality of project selection and management verifications related to the implementation of financial instruments;
- the functioning and security of IT systems set up in accordance with Articles 72(d), 125(2)(d) and 126(d) CPR, and their connection with the IT system "SFC2014", as foreseen in Article 74(4) CPR;
- the reliability of reported data relating to indicators and milestones, and appropriateness of the underlying data management and reporting systems for output, financial and result indicators on investment priority level and therefore the progress of the OP in achieving its objectives, provided by the MA under Article 125(2)(a) CPR;
- the reporting of withdrawals and recoveries;
- the implementation of effective and proportionate anti-fraud measures taking into account the risks identified.

Where no system audits have been carried out in relation to the accounting year, an adequate justification should be provided or information about this being in line with the audit strategy. In exceptional cases where system audits were performed or finalised in relation to the accounting year, but not submitted to the Commission yet, they should be submitted at the latest at the same time as the ACR. Where system audits have not yet been finalised at the time of the ACR, an indication of the preliminary conclusions should be provided in the ACR, as well as an estimation of their impact on the overall assessment.

Under section 4.4. the AA should include information about the state of implementation of any action plans following its system audits carried out in relation to the accounting year to which the ACR refers. The financial impact should be indicated as well as the state of play of the corrections. The payment application submitted to the Commission in which the corrections have been deducted should be indicated.

In case no systemic<sup>9</sup> problems were identified, this should also be indicated in the ACR.

In case of multi-fund programmes, the above information should be provided for each of the Funds (or, in case the same information applies to all Funds, this should be clearly stated).

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<sup>9</sup> Systemic errors are errors that have an impact on the non-audited population and occur in well-defined and similar circumstances. These errors generally have a common feature, e.g. type of operation, location or period of time. They are in general associated with ineffective control procedures within (part of) the management and control systems. For more details, refer to the Commission's *Guidance on the Treatment of Errors Disclosed in the Annual Control Reports*.

4.5 Information on the follow-up of audit recommendations from systems audits from previous accounting years.

In case of financial corrections resulting from systems audits from previous accounting years, the payment claim to the Commission in which the corrections have been deducted should be indicated.

4.6 Description (where applicable) of specific deficiencies related to the management of financial instruments or other type of expenditure covered by particular rules (e.g. State aid, revenue-generating projects, simplified cost options), detected during system audits and of the follow-up given by the managing authority to remedy these shortcomings.

In this section, the AA is expected to describe the work carried out specifically concerning financial instruments and the deficiencies and irregularities detected, as well the corrective measures taken in that respect. The AA should also describe the assurance provided by the regular control reports provided in accordance with Article 40(2) CPR. Where audits have been carried out at the level of final recipients, in line with Article 40(3) CPR, the AA should describe the reasons for such approach and the main conclusions drawn from those audits.

The Fund supporting the financial instrument should be mentioned for multi-fund programmes.

4.7 Level of assurance obtained following the system audits (low/average/high) and justification.

This refers to the degree of assurance which can be attributed to the MCS, as to their ability to ensure the legality and regularity of expenditure. The assessment by the AA is based on the results of all system audits related to the accounting year and, if appropriate, previous accounting years, and the corresponding conclusions. Systems assessed with category 1 provide a high degree of assurance on the legality and regularity of expenditure, systems assessed with category 2 provide an average assurance, systems assessed in category 3 provide an average or a low assurance, depending on the impact of the weaknesses identified, and systems assessed with category 4 provide a low assurance.

In the case of multi-fund programmes and where the assurance obtained on MCS differs between the different Funds, the AA should clearly present the qualifications applicable to each fund and explain the difference.

## 5. Audits of operations

5.1 Indication of the bodies (including the audit authority) that carried out the audits of operations (as foreseen in Article 127(1) of the Regulation (EU) No 1303/2013 and Article 27 of Regulation (EU) No 480/2014).

The AA is expected to explain in this section the measures taken to supervise the work of the bodies that carried out the audits of operations on its behalf (delegated or outsourced), in line with the EU regulatory framework, the audit strategy and the internationally accepted audit standards<sup>10</sup>. The AA should confirm that the work done by those bodies can be relied on for purposes of the ACR and allows the AA to draw-up a valid audit opinion.

In case of multi-fund programmes, the above information should be provided for each of the Funds.

If part of the audits of operations has been outsourced, the contract details<sup>11</sup> and the tasks outsourced to the contractor(s) should be specified.

In the case of ETC programmes, the AA should describe the way it has ensured that the rules of procedure set up by the group of auditors have been adhered to.

5.2 Description of the sampling methodology applied and information whether the methodology is in accordance with the audit strategy.

5.3 Indication of the parameters used for statistical sampling and explanation of the underlying calculations and professional judgement applied. The sampling parameters include: materiality level, confidence level, sampling unit, expected error rate, sampling interval, population value, population size, sample size, information on stratification (if applicable). The underlying calculations for sample selection and the total error rate (as defined in Article 28(14) of Regulation (EU) No 480/2014) shall be disclosed in section 10.3 below, in a format allowing an understanding of the basic steps taken, in accordance with the specific sampling method used.

5.4 Reconciliation between the total expenditure declared in euro to the Commission in respect of the accounting year and the population from which the random sample was drawn (column "A" of table in section 10.2 below). Reconciling items include negative sampling units where financial corrections have been made in respect of the accounting year.

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<sup>10</sup> The main principle in all the standards (e.g. Guideline No 25 of the European Implementing Guidelines for the INTOSAI Auditing Standards) is that the principal auditor is expected to perform audit procedures to ensure that the quality of the work by the other auditors is acceptable and adequate. Re-performance of some of the audit work carried out by these auditors may be envisaged but it is not mandatory. The decision on whether to re-perform that work should be based on AA's professional judgement and scepticism.

<sup>11</sup> Such as the name of the contractor, address, scope and objectives, definition of tasks, etc.

5.5 Where there are negative sampling units, confirmation that they have been treated as a separate population according to Article 28(7) of Commission Delegated Regulation (EU) No 480/2014. Analysis of the principal results of the audits of these units, namely focusing on verifying whether the decisions to apply financial corrections (taken by the Member State or by the Commission) have been registered in the accounts as withdrawals or recoveries.

5.6 In case of the use of non-statistical sampling, indicate the reasons for using the method in line with Article 127(1) of Regulation (EU) No 1303/2013, the percentage of operations/expenditure covered through audits, the steps taken to ensure randomness of the sample (and thus its representativity) and to ensure a sufficient size of the sample enabling the Audit Authority to draw up a valid audit opinion. A projected error rate is calculated also in case of non-statistical sampling.

Under section 5.2, the AA should describe the sampling method used, in line with Article 127(7) CPR and Article 28 CDR. Deviations from the sampling methodology set out in the audit strategy should be indicated and explained in this section.

In section 5.3, the AA should indicate and justify the **parameters used for the sampling**, such as expected error, materiality level, sampling unit (i.e. an operation, a project within an operation or a payment claim by a beneficiary) and, where applicable, the confidence level applied in line with Article 28(11) CDR<sup>12</sup> and the sampling interval, if applicable. The AACR should also disclose the population size, the sample size and the number of sampling units actually audited in the accounting year, where appropriate<sup>13</sup>.

In section 5.3, the AA is also expected to describe its approach to stratification (if applicable under Article 28(10) CDR), covering sub-populations with similar characteristics such as operations consisting of financial contributions from a programme to financial instruments, high-value items, Funds (in case of multi-Fund programmes).

In the period 2007-2013, it was possible to use a single sample for several programmes covered by the same MCS. This remains valid for the period 2014-2020, with the addition of multi-fund programmes. In these cases, the same audit opinion and corrective measures apply to all programmes or Funds, even when the deficiencies relate only to one programme or one Fund. This can be avoided when sufficient audit evidence is available to draw a conclusion for each programme or Fund.

In case of error rate above 2% or system deficiencies in a multi-fund programme, it is in the Member State's interest to implement targeted financial corrections for each Fund, rather than corrective measures affecting the whole programme. The Commission therefore recommends

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<sup>12</sup> Article 28(11) of the CDR establishes that for a system assessed as having high reliability the confidence level used for sampling operations shall not be less than 60%; for a system assessed as having low reliability the confidence level used for sampling operations shall not be below 90%.

<sup>13</sup> In case of multiple sampling periods, the data should be indicated for each of the samples.

that the AA seeks reasonable assurance for each Fund. This implies that the sample selected for a multi-fund programme provides sufficient audit evidence for each Fund, i.e. the rule of thumb of 30 sampling units<sup>14</sup> by Fund should be applied. For this purpose, the AA could use stratification by Fund, as foreseen by Article 28(10) CDR, ensuring that each stratum is of sufficient size to draw a conclusion per stratum. This is particularly important when different results are expected for the Funds under a multi-fund programme.

The AA should provide in Annex 10.3 of the ACR the calculation tables (and, where applicable and upon request of the Commission auditors, the computer logs from ACL, IDEA or similar software) relevant to understand the sampling method applied, using the templates provided in the Commission's guidance on sampling<sup>15</sup>. Where the AA has followed a sampling method not foreseen in these templates, the relevant calculation sheet should be provided instead. The audit trail for the selection of the sample should be ensured.

In section 5.3, the AA should explain how it has implemented in practice the requirements of proportional control of operational programmes are set out under Article 148(1) CPR and Article 28(8) CDR, when applicable.

When the AA has used the approach allowed under Article 28(9) CDR, section 5.3 of the ACR should indicate the methodology applied for sub-sampling. In this case and for the purposes of the table 10.2 of the ACR - column entitled "*Expenditure in reference to the accounting year audited for the random sample*"-, the AA should only consider the expenditure actually audited and not the expenditure declared for the sampling unit (e.g. operation, payment claim) to which the sub-sampling was applied. The data in this column is disclosed for information purposes only and is independent from the calculation of the extrapolated error rate at sampling unit level, which should be applied to the expenditure declared for the sampling unit.

The AA should disclose in section 5.4 the value of the **population** sampled and a reconciliation of this amount with the amount of expenditure declared by the CA to the Commission in relation to the accounting year. Reconciling items should include negative sampling units where financial corrections have been made<sup>16</sup>.

The population for sampling purposes includes the expenditure declared to the Commission for operations within a programme or group of programmes for the accounting year. All operations, for which declared expenditure has been included in request for payment submitted to the Commission during the year subject to sample, should be comprised in the sampled population, except where Article 148(1) CPR applies.

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<sup>14</sup> This rule of thumb is also reflected in Article 28(9) CDR, in the context of sub-sampling.

<sup>15</sup> Update version of the Guidance on sampling methods for audit authorities (COCOF\_08-0021-03\_EN of 04/04/2013), to be finalized soon.

<sup>16</sup> See section 5.5, third and fourth paragraphs, of the guidance on sampling.

In section 5.5, the AA should confirm that the amount of the **negative sampling units** is consistent with the amount of financial corrections registered in the CA's accounting system and ensure that those units have been treated as a separate population, in line with Article 28(7) CDR. Further explanations on how to deal with negative sampling units is provided in the guidance.

In case of **non-statistical sampling**<sup>17</sup>, the AA should describe in section 5.6 the reasoning made to select the sample, with reference to its professional judgement, regulatory requirements and applicable internationally accepted audit standards. In particular, the AA should explain why it considers the sample representative of the population from which it was selected and enables the AA to draw up a valid audit opinion.

5.7 Analysis of the principal results of the audits of operations, describing the number of sample items audited, the respective amount and types of errors by operation, the nature of errors found, the stratum error rate and corresponding main deficiencies or irregularities, the upper limit of the error rate (where applicable), root causes, corrective measures proposed (including those intending to avoid these errors in subsequent payment applications) and the impact on the audit opinion. Where necessary, provide further explanations on the data presented in sections 10.2 and 10.3 below, in particular concerning the total error rate.

5.8 Explanations concerning the financial corrections relating to the accounting year and implemented by the certifying authority/managing authority before submitting the accounts to the Commission, and resulting from the audits of operations, including flat rate or extrapolated corrections, as detailed in section 10.2 below.

5.9 Comparison of the total error rate and the residual total error rate (as shown in section 10.2 below) with the set materiality level, in order to ascertain if the population is materially misstated and the impact on the audit opinion.

5.10 Information on the results of the audit of the complementary sample (as established in Article 28(12) of Regulation (EU) No 480/2014), if any.

5.11 Details of whether any problems identified were considered to be systemic in nature, and the measures taken, including a quantification of the irregular expenditure and any related financial corrections.

5.12 Information on the follow-up of audits of operations carried out in previous years, in particular on deficiencies of systemic nature.

5.13 Conclusions drawn from the overall results of the audits of operations with regard to the effectiveness of the management and control system.

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<sup>17</sup> The minimum regulatory requirement of 5% of operations and 10 % of the expenditure corresponds to the 'best case scenario' of high assurance from the system. In this respect, further details are provided in the guidance on audit strategy (cf. section 4.3) – ref. EGESIF EGESIF\_14-0011 and the guidance on sampling.

The AA should carry out all the audit work necessary to draw a valid audit opinion for each accounting year. This includes the audits of all the operations selected through random sampling. Where the AA is not able to audit a given operation, a detailed justification should be provided in the ACR as well the measures taken by the AA to mitigate the situation and its impact on the audit opinion.

The errors considered in the TER should relate to findings disclosed in a final audit report, i.e. after the contradictory procedure with the auditee has been concluded. In duly justified cases where such contradictory procedure was not concluded before submission of the ACR, this could constitute a limitation in scope and a qualified opinion may be provided on the basis of the AA's professional judgement. The quantification of the qualification in the audit opinion may be calculated on the basis of the maximum amount of error that the AA considers reasonable on the basis of the information it has available at the time of expressing its audit opinion.

Under section 5.7, the AA should include the qualitative analysis performed on the errors found. The number and types of errors, their significance and their causes, as estimated by the AA, should be indicated.

In section 5.9, the AA should disclose the TER, calculated as established by Article 28(14) CDR:

*"On the basis of the results of the audits of operations for the purpose of the audit opinion and control report referred to in Article 127(5)(a) of Regulation (EU) No 1303/2013, the audit authority shall calculate a total error rate, which shall be the sum of the projected random errors and, if applicable, systemic errors and uncorrected anomalous errors, divided by the population."*<sup>18</sup>

The TER should then be compared with the materiality threshold, i.e. the maximum of 2% of the expenditure included in the population<sup>19</sup>. Where corrective measures have been taken before the ACR is finalized, the AA should also calculate the RTER, i.e. the TER less financial corrections applied as a result of the AA's audit of operations. The RTER should then be compared with the materiality threshold.

The RTER corresponds to the TER less the financial corrections that may have been applied by the Member State in relation to the errors detected by the AA in its audits of operations, including projected random errors or systemic irregularities. Usually, these corrections are applied after the TER is determined. However, financial corrections applied by the Member State after the AA drew its sample and before the TER has been established by the AA may also be deducted from the RTER, if such corrections intend to reduce the risks identified by the TER. A typical example would be when there are corrections made on the basis of MA's work carried out when determining the extent of systemic irregularities detected by the AA in its audits of operations. In any case, besides the professional judgement applied by the AA when considering the financial corrections to be considered in the calculation of the RTER, the AA should have reasonable assurance that the financial corrections to be considered in the

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<sup>18</sup> Where the expenditure declared includes negative sampling units, these are to be treated as a separate population. In this case, the TER is calculated in relation to the population of positive sampling units.

<sup>19</sup> The 2% materiality threshold refers to the expenditure declared for the accounting year, as defined in Article 28(11) of the Regulation (EU) No 480/2014.

RTER are indeed corrections of irregular expenditure and not, for example, corrections of clerical mistakes, reversal entries in the accounts not corresponding to financial corrections, revenues of revenue-generating projects, transfer of operations from one programme to another (or within a programme) or management decisions to cancel a project and which are unrelated with irregularities found in that project. Finally, the corrections related with individual irregularities<sup>20</sup> not included as such in the TER (e.g. the particular cases of anomalous errors corrected before submission of the ACR, irregularities already detected and acted upon by the IB, the MA and the CA but not yet corrected before the sample was drawn by AA<sup>21</sup>) should not be deducted in the RER, in order to avoid its underestimation.

Where an extrapolated financial correction is applied on the basis of the projected random error rate (where the total error rate is only constituted by random errors), the projected error rate is applied to the whole population. The resulting amount is then reduced by the errors detected in the sample (to be corrected separately<sup>22</sup>), which will correspond to the amount of the required extrapolated correction. This assumes the simplest scenario where no systemic errors have been detected by the AA in the context of its audits of operations<sup>23</sup>.

Under the premises above-mentioned, the Commission would consider an extrapolated financial correction to be appropriate when it is calculated within the limits of the interval between A and B:

A: Extrapolated financial correction = Projected random error<sup>24</sup> - Errors in the sample  
 B: Extrapolated financial correction = Projected random error – (Population\*2%) - Errors in the sample

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<sup>20</sup> An individual irregularity is a one-off error which is independent of other errors in the population or deficiencies in the systems.

<sup>21</sup> Under the conditions explained in section 7.1.1 of the Guidance on Treatment of Errors.

<sup>22</sup> Errors in the sample are corrected only once.

<sup>23</sup> For the purposes of calculating the financial correction, the corrections made in regard to the systemic errors should be deducted from the extrapolated financial correction.

In case systemic errors are detected by the AA's audits of operations and those errors are delimited for the whole population (cf. section 2.2 above), this implies that, when extrapolating the random errors found in the sample to the population, the AA should deduct the amount of systemic error from the population, whenever this value is part of the projection formula, as explained in detail in appendix 1 of the guidance on sampling.

<sup>24</sup> The projected random error is to be calculated using the applicable formulas required by the sampling method used to select the random sample, as explained in the guidance on sampling. For Monetary Unit Sampling and Simple Random Sampling (ratio estimation), the formulas take account of the book value of the population; for Simple Random Sampling (mean per unit estimation) and Difference Estimation, the formula considers the number of operations in the population.



Example:

Projected rate for random errors: 4%

Population: 1 000 million €

Errors in the sample (already corrected): 3 million €

Correction should be between 37 and 17 million €:

- 37 million € =  $(4\% * 1000) - 3$
- 17 million € =  $(4\% * 1000) - (2\% * 1000) - 3$  [=> correction to a level below materiality]

Errors found in systems audits (control testing) are not added to the total error, but should be corrected and disclosed in section 4 of the ACR.

As follows from Article 28(11) CDR and where applicable, the AA should explain under section 5.11 of the ACR, whether, besides the random errors, some of the errors found are systemic or anomalous errors. A systemic error corresponds to a systemic irregularity defined under Article 2(38) CPR. An anomalous error is an error of exceptional nature that is demonstrably not representative of the population.

A separate guidance with further explanations on the treatment of errors is under preparation, based on the guidance on treatment of errors for 2007-2013 programming period.

In view of the existence of annual accounts in the period 2014-2020, revised error rates for previous years are no longer relevant and need not be disclosed in the ACR.

## 6. Audits of accounts

6.1 Indication of the authorities/bodies that have carried out audits of accounts.

6.2 Description of audit approach used to verify the elements of the accounts defined in Article 137 of Regulation (EU) No 1303/2013. This should include a reference to the audit work carried out in the context of system audits (detailed in section 4) and audits of operations (detailed in section 5) with relevancy for the assurance required on the accounts.

6.3 Indication of the conclusions drawn from the results of the audits in regard to the completeness, accuracy and veracity of the accounts, including an indication on the financial corrections made and reflected in the accounts as a follow-up to the results of the system audits and/or audit on operations.

6.4 Indication of whether any problems identified were considered to be systemic in nature, and the measures taken.

The AA should explain in section 6.2 the audit work carried out to audit the accounts, in the framework of Article 137 CPR and Article 29 CDR and taking account of the Commission's Guidance on Audit of Accounts (EGESIF\_15\_0016-00), to be finalized soon.

The AA should also explain the timetable and working arrangements agreed with the CA and the MA necessary for the AA to be able to perform its audit work on the accounts in due time<sup>25</sup>.

In section 6.3, the AA should explain how it has drawn assurance on the completeness, accuracy and veracity of the accounts on the basis of:

- its system audits (in particular the ones carried out on the CA, as determined in Article 29(4) CDR);
- its audits of operations<sup>26</sup>;
- final audit reports sent by the Commission and the Court of Auditors;
- its assessment of the management declaration and the annual summary;
- the nature and extent of the testing done on the accounts submitted by the Certifying Authority to the AA.

Concerning the latter point, the AA should describe their final additional verifications on the draft certified accounts, before the regulatory deadline of 15 February, as set out in the guidance on audits of accounts. In particular, the ACR should describe the work done in regard to the CA's reconciliation in appendix 8 of the accounts, including the AA's assessment of the adequacy of the CA explanations for the adjustments disclosed in that appendix and their consistency with the information disclosed in the ACR and in the annual summary in regard to financial corrections made and reflected in the accounts as a follow-up to the results of the system audits and audit on operations and management verifications carried out before submission of accounts.

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<sup>25</sup> Taking account of ISA 700 paragraph A39, the AA's opinion is provided on the accounts that are the responsibility of the CA. Thus, the AA is not in a position to conclude that sufficient appropriate audit evidence has been obtained until the accounts have been prepared and management has accepted responsibility for them. This implies that the AA is only able to draw its opinion on the accounts after the CA has submitted them to the MA and the AA and after the MA has submitted its management declaration to the AA. The AA should however start its audit work on the accounts prior to their finalization by the CA and prior to the MA's management declaration, in order to ensure sufficient time to draw its opinion by 15 February of year N+2. A timetable and working arrangements should be agreed between the CA, MA and AA to ensure a smooth process.

<sup>26</sup> Audits on operations will allow for the verification of the accuracy of the amounts and completeness of the corresponding expenditure included in the payment claims (and subsequently in the accounts if found to be fully legal and regular). It also allows for the reconciliation of the audit trail from the certifying authority's accounting system down to the level of the beneficiary and /operation, via any IBs, an issue already covered in current audits.

## 7. Coordination between audit bodies and supervisory work of the AA

7.1 Description of the procedure for coordination between the audit authority and any audit body that carries out audits as foreseen in Article 127(2) of the Regulation (EU) No 1303/2013, where appropriate.

7.2 Description of the procedure for supervision and quality review applied by the audit authority to such audit body(ies).

Under section 7.1, the procedure should cover coordination in relation to audit planning and coordination and verification of audit results with a view to reaching definitive conclusions and establishing the audit opinion .

Section 7.2 should cover the description of the procedure for supervision applied by the AA to other audit bodies (if applicable). The description should include an overview of the supervision actually performed in relation to the accounting year, considering the existing internationally accepted audit standards or guidance.

In this respect, the AA should consider the Guideline No 25 of the European Implementing Guidelines for the INTOSAI Auditing Standards<sup>27</sup>, related to the concept of using the work of other auditors and experts by the European Supreme Audit Institutions. This guideline specifically refers to the requirements to be respected depending on the extent of the reliance on the work done by other auditors at each phase of the audit, whether for planning purposes, as part of the audit evidence or at the end of the testing. The extent of procedures that the principal auditor should perform to obtain sufficient appropriate audit evidence that the work of the other auditor is adequate for the principal auditor's purposes, in the context of the specific assignment, depends on the phases of the audit where the work of other auditors may be used. Especially when the work is used as audit evidence, the AA's review will have to be more detailed.

Further guidance is provided by the ISSAI 1600 concerning group audits<sup>28</sup>, ISSAI 1610<sup>29</sup> (includes ISA 610) on the use of the work of internal auditor, and by ISSAI 1620<sup>30</sup> on using the work of an auditor's expert.

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<sup>27</sup> <http://eca.europa.eu/portal/pls/portal/docs/1/133817.PDF>

<sup>28</sup> <http://www.intosai.org/issai-executive-summaries/view/article/issai-1600-special-considerations-audits-of-group-financial-statements-including-the-work-o.html>

<sup>29</sup> [http://www.issai.org/media/13128/issai\\_1610\\_e\\_.pdf](http://www.issai.org/media/13128/issai_1610_e_.pdf)

<sup>30</sup> [http://www.issai.org/media/13188/issai\\_1620\\_e\\_.pdf](http://www.issai.org/media/13188/issai_1620_e_.pdf)

## 8. Other information

8.1 Where applicable, information on reported fraud and suspicions of fraud detected in the context of the audits performed by the audit authority (including the cases reported by other national or EU bodies and related to operations audited by the audit authority), together with the measures taken.

In section 8.1 of the ACR, the AA should indicate the steps taken in regard to cases of suspected fraud identified during the audit work performed up to the submission of the ACR.

All cases of suspected fraud concerning the accounting year and detected by the AA should be reported and for multi-fund programmes, the Fund concerned should be indicated.

The ACR should disclose whether the cases of suspected fraud detected by the AA<sup>31</sup> were communicated to OLAF. Suspected fraud must be reported to OLAF by the authority designated by the Member State in line with requirements under Article 122 (2) CPR and the Delegated and Implementing Acts foreseen in this provision<sup>32</sup>.

If allowed by national rules for on-going investigations, the AA should gather information on the nature of the fraud and assess if this is a systemic issue and, if yes, whether mitigating actions have been taken.

The state of implementation of financial corrections in relation to fraud or suspected fraud and the information about the interim payment application to the Commission in which the corrections were included should be reported in the ACR, if applicable.

Further information and guidance for actions to be taken by national authorities (including AAs) in view of preventing, detecting and correcting instances of fraud is available at <http://ec.europa.eu/sfc/en/2014/anti-fraud>. As results from ISA 240, *the auditors may come across circumstances that suggest that fraud may have occurred. In these cases, they must inform the relevant authority without delay for further action. The auditor may conclude that potential fraud affects the whole system or only part of it, or he/she may conclude that there are one or more isolated potential fraud cases. In all cases, he/she must react quickly and inform the relevant authorities, taking into account all circumstances surrounding the case(s). The auditor, based on the evidence discovered, must rigorously and thoroughly analyse the situation, structure the evidence on which the finding is based, and decide whom to inform. In the first instance, the right people to inform are likely to be those charged with governance of*

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<sup>31</sup> Auditors conduct administrative not criminal procedures. The scope of their power and authority is therefore rather limited when it comes to detecting the particular circumstances of suspected fraudulent activity. In addition, the key objectives of criminal and audit procedures are different. An audit of operations is of administrative nature, aiming to assess the legality and regularity of the implementation of a project, while the criminal procedure aims to detect and investigate operations to provide evidence the intention to defraud.

<sup>32</sup> To be adopted soon.

*the audited entity, if there is no reason to think that they are involved in the case(s). (...) Otherwise the auditor must notify the case(s) directly to the judicial authorities, without prejudice to any national legislation relating to the confidentiality of information obtained during an audit. Auditors must also inform the responsible national authorities which have to notify the Commission (OLAF) of irregularities and suspected fraud cases in line with the applicable sectoral rules on reporting irregularities."*

8.2 Where applicable, subsequent events occurred after the submission of the accounts to the audit authority and before the transmission of the annual control report under Article 127(5)(b) of Regulation (EU) No 1303/2013 to the Commission and considered when establishing the level of assurance and opinion by the audit authority.

The concept of subsequent events is drawn from the international audit standard 560, with the necessary adaptations for the shared management under cohesion policy. As stated in that standard, one of the objectives of the auditor is *"to obtain sufficient appropriate audit evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework"*. In the context of shared management, the "financial statements" should be understood as the accounts drawn-up by the CA and under its responsibility. The "date of the financial statements" corresponds to the date when the CA submits the accounts to the AA for its final verifications.

The assumption is that the AA will receive the accounts from the CA before their submission to the Commission, in order to be able to conclude on their completeness, accuracy and veracity. During the period between reception of those accounts and the drawing-up of the audit opinion, the AA may become aware of events that affect the amounts disclosed in the accounts, in particular the expenditure declared as legal and regular.

For this purpose, the AA should *"perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements [the accounts] and the date of the auditor's report [the ACR] that require adjustment of, or disclosure in, the financial statements [the accounts] have been identified"*. As also foreseen in ISA 560, the AA *"is not, however, expected to perform additional audit procedures on matters to which previously applied audit procedures have provided satisfactory conclusions"*.

Some subsequent events might have an important impact on the functioning of MCS and/or on the qualifications (in cases of qualified or adverse opinion) and therefore cannot be ignored by the AA. These events may correspond either to positive actions (e.g. corrective measures implemented after the accounts have been drawn-up by the CA and before its submission to the Commission) or have a negative impact (e.g. deficiencies in the system or errors detected in that period).

In the context of the 2014-2020 regulatory framework, "subsequent events" as described above are not the corrective measures that the Member State (MA or CA) needs to take as a result of the deficiencies and irregularities detected by the AA or the EU. The assumption is that the corrective measures are taken by the Member State and are adequately reflected in the accounts before their approval by the CA. When this is not the case, a qualified opinion by the AA is deemed appropriate, taking into account the materiality of the corrective measures at stake.

For multi-fund programmes, the respective Fund should be indicated for each of the reported subsequent events.

## **9. Overall level of assurance**

9.1 Indication of the overall level of assurance on the proper functioning of the management and control system, and explanation of how such level was obtained from the combination of the results of the system audits (as reflected in section 10.2 below) and audits of operations (as reflected in section 10.3 below). Where relevant, the audit authority shall take also account of the results of other national or Union audit work carried out in relation to the accounting year.

9.2 Assessment of any mitigating actions implemented, such as as financial corrections and assess the need for any additional corrective measures necessary, both from a system and financial perspective.

For the purposes of the audit opinion to be drawn-up by the AA, the assurance on the legality and regularity of expenditure and the proper functioning of the MCS is based on the combined results of both the system audits (section 4 above) and the audits of operations (section 5 above). The assurance on the accounts is fed in by the results of these audits and the conclusions on this matter should be disclosed in section 6.3 above.

In case of multi-fund programmes, the AA is expected to confirm that the conclusions reached apply to all Funds or, in case of differences, explain how they come to a conclusion for each Fund, based on their analysis of the results of the system audits and audits of operations.

Based on experience, the table below indicates, for the most common situations, the link between the audit opinion (on the proper functioning of the MCS and the legality and regularity of the expenditure) and the conclusions obtained from the system audits and audits of operations. This table is indicative only and requires the AA to use its professional judgment, in particular for situations not foreseen below. The corrective measures may concern financial corrections (aiming at a RTER below or equal 2%) or improvements to overcome deficiencies in the MCS (not covered by the financial corrections) or a combination of both.

<b>Audit opinion on legality and regularity of expenditure and proper functioning of MCS</b>	<b>AA's assessment on</b>		
	<b>Functioning of MCS (results of system audits)</b>	<b>TER (results from audits of operations)</b>	<b>Implementation<sup>33</sup> of the required corrective measures by the Member State</b>
1-Unqualified	category 1 or 2	and TER ≤ 2%	Corrections (e.g. errors in the sample) implemented.
2-Qualified (qualifications have a limited impact)	category 2	and/or 2% <TER ≤ 5%	Except if adequate corrective measures (including extrapolated financial corrections are implemented to bring the RTER below or equal to 2% (unqualified opinion possible).
3- Qualified (qualifications have a significant impact)	category 3	and/or 5% <TER ≤ 10%	Corrective measures not fully implemented (including if extrapolated financial corrections are implemented to bring the RTER below or equal to 2% but system deficiencies remain).
4-Adverse	category 4	and/or TER > 10%	Corrective measures not fully implemented (including if extrapolated financial corrections are implemented to bring the RTER below or equal to 2% but system deficiencies remain).

If the AA considers that the MCS is in category 2 and the TER is below or equal the materiality level of 2%, the audit opinion may be unqualified.

If the MCS is classified in category 1 or 2 and/or the TER is above 2% this indicates that, despite the positive assessment resulting from the systems audits carried out by the AA, the MCS is in practice not sufficiently effective in preventing, detecting and correcting irregularities and recovering amounts unduly paid. A qualified audit opinion is therefore deemed appropriate<sup>34</sup>. However, if the residual total error rate (RTER) is below or equal to

<sup>33</sup> Cf. section 5 of this guidance.

2% and corrective measures have been implemented by the Member State before the ACR is finalized, the AA may issue an unqualified opinion

A qualified opinion should be disclosed when the MCS is in category 3 and the TER is above 2%, except where the RER is below or equal to 2% and the corrective measures (including the ones relating to systems deficiencies) have been implemented before the ACR is finalized, the AA may issue an unqualified opinion.

Concerning the estimation of the impact of a qualification as "limited" or "significant" please refer to section III below.

A TER above 5% and/or a MCS in category 3 or 4 should lead to a qualified opinion.

A TER above 10% and/or a MCS in category 4 would normally lead to an adverse opinion.

Reference shall be also made to subsequent events and any other information reported under section 9.2 that were taken into account by the AA for formulation of the overall level of assurance and the audit opinion. Impact of these subsequent events and additional information on the formulation of the overall level of assurance and the audit opinion should be described.

Where relevant, other national or EU audit work carried out in relation to the accounting year should be taken into account.

### **III. GUIDANCE ON THE AUDIT OPINION**

The audit opinion is based on the conclusions drawn from the audit evidence obtained. The CIR provides in Annex VIII a model audit opinion which foresees three types of opinions:

#### Unqualified opinion:

In my opinion, and based on the audit work performed:

- the accounts give a true and fair view, as established by Article 29(5) of Regulation (EU) No 408/2014;
- the expenditure in the accounts for which reimbursement has been requested from the Commission is legal and regular,
- the management and control systems put in place function properly.

The audit work carried out does not put in doubt the assertions made in the management declaration.

[The audit authority may also include emphasis of matter, not affecting its opinion, as established by internationally accepted auditing standards. A disclaimer of opinion can be foreseen in exceptional cases.]



Qualified opinion:

In my opinion, and based on the audit work performed:

- the accounts give a true and fair view, as established by Article 29(5) of Regulation (EU) No 480/2014;

- the expenditure in the accounts for which reimbursement has been requested from the Commission is legal and regular;

- the management and control system put in place function properly,

except in the following aspects:

in relation to material matters related to the accounts: ...

and/or [delete as appropriate]

in relation to material matters related to the legality and regularity of the expenditure in the accounts for which reimbursement has been requested from the Commission: ...

and/or [delete as appropriate] in relation to material matters related to the functioning of the management and control system : ....

Therefore, I estimate that the impact of the qualification(s) is [limited] / [significant]. [delete as appropriate]

This impact corresponds to ..... [amount in € and %] of the total expenditure declared. The Union contribution affected is thus ... [amount in €].

The audit work carried out does not put / puts [delete as appropriate] in doubt the assertions made in the management declaration.

*[Where the audit work carried out puts in doubt the assertions made in the management declaration, the Audit Authority shall disclose in this paragraph the aspects leading to this conclusion.]*

[The audit authority may also include emphasis of matter, not affecting its opinion, as established by internationally accepted auditing standards. A disclaimer of opinion can be foreseen in exceptional cases.]

The AA should:

- detail and explain the qualifications;
- estimate their impact: limited or significant;
- quantify the impact, in relation to the expenditure declared and in absolute terms.

The estimation of the impact of a qualification as "limited" is deemed appropriate when it relates to irregularities (not yet corrected in the accounts) corresponding to expenditure above 2% but below or equal to 5% of the total expenditure certified in these accounts. If those irregularities exceed 5% of the total expenditure certified in these accounts, the corresponding qualification should be estimated as "significant". The same reasoning applies when the exact amount of the irregularities cannot be quantified precisely by the AA and a flat rate is used; this may be the case of system deficiencies.

The quantification of the impact may be done either on the basis of the TER (or the RTER, where corrective measures have been implemented by the Member State before the ACR is finalized) established for the accounting year, or on a flat-rate basis, taking into account all the information available to the AA.

The AA should make very clear whether the qualifications relate to the accounts, the legality and regularity of expenditure, or the management and control systems.

In case of multi-fund programmes and when the situation is different depending on the Fund, the AA should indicate if and how the qualifications apply to each Fund.

Adverse opinion:

In my opinion, and based on the audit work performed:

- the accounts give / do not give [delete as appropriate] a true and fair view, as established by Article 29(5) of Regulation (EU) No 480/2014;
- the expenditure in the accounts for which reimbursement has been requested from the Commission is / is not [delete as appropriate] legal and regular;
- the management and control system put in place function / does not function [delete as appropriate] properly.

This adverse opinion is based on the following aspects:

in relation to material matters related to the accounts: ....

and/or [delete as appropriate]

in relation to material matters related to the legality and regularity of the expenditure in the accounts for which reimbursement has been requested from the Commission: ...

and/or [delete as appropriate]

in relation to material matters related to the functioning of the management and control system: ...

The audit work carried out puts in doubt the assertions made in the management declaration for the following aspects:...

[The audit authority may also include emphasis of matter, not affecting its opinion, as established by internationally accepted auditing standards. A disclaimer of opinion can be foreseen in exceptional cases.]

Where a limitation of scope is identified in the audit opinion, the impact (if any) of the limitation on the expenditure declared shall be estimated. In case the impact is estimated as material, an unqualified opinion cannot be given.

In particular in cases of qualified or adverse opinion, the AA is expected to indicate the corrective actions planned or taken by the different authorities involved. The AA should follow up if these actions have actually been implemented and report the following year on the implementation in points 4.5 and 5.18 of the ACR.

While establishing the audit opinions and setting the levels of assurance, appropriate professional judgement should be applied in order to decide whether the gravity of findings justifies a qualified or an adverse opinion.

#### Disclaimer of opinion

In exceptional cases, the AA can present a disclaimer of opinion. This is the case only when the AA is not able to audit the accounts, the expenditure declared or the functioning of the management and control system due to external factors outside the responsibilities of the AA. In such cases, the AA should explain why it could not reach an audit opinion. The particular case of the audit opinions to be submitted by 15 February 2016 is set out in Annex 3 to this guidance.

The disclaimer could be drafted as follows:

Because of the significance of the matter described in the scope limitation paragraph above, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the following aspects:

– the accounts;

and/or [delete as appropriate]

– the legality and regularity of the expenditure for which reimbursement has been requested from the Commission;

and/or [delete as appropriate]

– the functioning of the management and control system.

**ANNEX 1 – SECTION 10.1 "RESULTS OF SYSTEMS AUDITS" OF THE MODEL ACR**

Audited Entity	Fund (Multi-funds OP)	Title of the audit	Date of the final audit report	Operational Programme: [CCI and Name of the OP]													Overall assessment (category 1, 2, 3, 4) [as defined in Table 2- Annex IV of Regulation (EU) No 480/2014]	Comments	
				Key requirements (as applicable) [as defined in Table 1- Annex IV of Regulation (EU) No 480/2014]															
				KR 1	KR 2	KR 3	KR 4	KR 5	KR 6	KR 7	KR 8	KR 9	KR 10	KR 11	KR 12	KR 13			
MA																			
IB(s)																			
CA																			

Note: The parts in grey in the table above refer to key requirements that are not applicable to audited entity.

**ANNEX 2 - SECTION 10.2 "RESULTS OF AUDITS OF OPERATIONS" OF THE MODEL ACR**

Fund	Programme CCI number	Programme title	A		B		C	D	E	F	G	H
			Amount in Euros corresponding to the population from which the sample was drawn <sup>35</sup>	Expenditure in reference to the accounting year audited for the random sample	Amount of irregular expenditure in random sample	Total error rate (TER) <sup>36</sup>	Corrections implemented as a result of the total error rate	Residual total error rate (RTER) <sup>37</sup>	Other expenditure audited <sup>38</sup>	Amount of irregular expenditure in other expenditure audited		
Amount <sup>39</sup>	% <sup>40</sup>											

<sup>35</sup>The column "A" shall refer to the population from which the random sample was drawn, i.e. total amount of eligible expenditure entered into the accounting system of the certifying authority which has been included in payment applications submitted to the Commission (as established by Article 137(1)(a) of Regulation (EU) No 1303/2013), less negative sampling units if any. For example, if 23 million € have been declared as eligible expenditure and this includes 3 million € of negative sampling units, then the amount to be disclosed in the column A is 26 million € since this corresponds to the population of positive amounts. Where applicable, explanations shall be provided in section 5.4 above.

<sup>36</sup>The total error rate is the sum of the projected random errors and, if applicable, systemic errors and uncorrected anomalous errors, divided by the population, as established by Article 28(14) of the CDR. Where the expenditure declared includes negative sampling units, these are to be treated as a separate population. In this case, the TER is calculated in relation to the population of positive sampling units. The TER is calculated before any financial corrections are applied in relation to the audited sample or the population from which the random sample was drawn. Where the random sample covers more than one Fund or programme, the total error rate (calculated) presented in column "D" concerns the whole population. Where stratification is used, further information by stratum shall be provided in section 5.7 above.

<sup>37</sup> See further explanations on the RTER in section 5 of this guidance.

<sup>38</sup>Where applicable, column "G" shall refer to expenditure audited in the context of a complementary sample.

<sup>39</sup>Amount of expenditure audited (in case sub-sampling is applied under Article 28(9) of Regulation (EU) No 480/2014, only the amount of the expenditure items effectively audited under Article 27 of the same Regulation, shall be included in this column).

<sup>40</sup>Percentage of expenditure audited in relation to the population.

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### **ANNEX 3 - ACRs AND AUDIT OPINIONS TO BE SUBMITTED BY 15/02/2016**

This Annex aims to provide specific guidance for the preparation of the first ACR and Audit Opinion under the period 2014-2020, in case only limited or no expenditure is declared to the Commission during the first accounting year (January 2014-June 2015).

#### **ACR**

The AA should report in the ACR the audit work conducted in relation to the first accounting year and the corresponding results. In case of deviation compared to the Audit Strategy, this should be explained under "*Section 3 Changes to the audit strategy*".

#### **Audit Opinion**

- On legality and regularity of expenditure:

In case no expenditure has been declared to the Commission in regard to the first accounting year, the AA may issue a disclaimer of opinion on the legality and regularity of expenditure.

In case limited expenditure has been declared to the Commission in regard to the first accounting year, audits of operations should be carried out by the AA, which should then issue an opinion on the legality and regularity of that expenditure.

- On MCS:

System audits can start before payment applications are submitted to the Commission. The audit opinion cannot be based solely on the results of the designation audit work. The Independent Audit Body's opinion in the context of the designation of the Managing/Certifying Authority(ies) relates to the set-up of the MCS, while the audit opinion to be drawn-up from the first accounting year onwards and submitted with the ACR is based on the AA's assessment on the functioning of these systems.

If no or only limited system audits (e.g. audit work based only on walkthrough tests on a sample of transactions included in payment requests submitted by the MA to the CA) have been carried out (i.e. during implementation of the programme and after the designation audit work), the AA may issue a disclaimer of opinion on the proper functioning of the MCS. The AA should justify the reasons for having performed no or limited audit work with reference to the state of implementation of the programme<sup>41</sup>.

- On the accounts

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<sup>41</sup> Elements to be considered include: progress on implementation of the operations, expenditure declared by beneficiaries, amounts disbursed to beneficiaries, number and value of contracts signed, etc.

In case no expenditure has been declared to the Commission in regard to the first accounting year and/or the CA has no amounts of programme contributions paid to financial instruments under Article 41(1) CPR or advances of State aid under Article 131(4) CPR registered in the accounts, the AA may still perform limited testing on the functioning of the systems in regard to the accounts but a disclaimer of opinion is deemed appropriate in this case.