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| ***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 bodies involved in the implementation of the Recovery and Resilience Facility on how to prepare summary of the audits in line with Article 22(2)(c)(ii) of the RRF Regulation. The aim of this document is to provide Commission's services explanations and interpretations of the said rules in order to facilitate the implementation of the Recovery and Resilience Facility and encourage good practice(s). This guidance is without prejudice to the interpretation of the Court of Justice and the General Court of decisions of the Commission.* |

**Guidance to Member States for the preparation
of the summary of audits under the Recovery and Resilience Facility**

**27/09/2021**

The objective of this document is to provide guidance for the preparation of the summary of audits to be submitted by the Member States to the Commission with each request for payment in line with Article 22(2)(c)(ii) of the RRF Regulation.

The summary of audits is intended to provide the Commission with information on the audits that the Member State has undertaken since the previous request for payment related to the implementation of the recovery and resilience plan. Together with the management declaration, the summary of audits is an important element for the Commission to understand the quality of the control systems established by the Member States and to have reassurance that the control systems are operating in line with the established requirements.

In line with Article 22(2)(a) and (b), that are provided for in Article 11(1)(a) and (b) of the Financing Agreement, Member States are required:

1. *to regularly check that the financing provided has been properly used in accordance with all applicable rules and that any measure for the implementation of reforms and investment projects under the recovery and resilience plan has been properly implemented in accordance with all applicable rules in particular regarding the prevention, detection and correction of fraud, corruption and conflicts of interests; and*
2. *to take appropriate measures to prevent, detect and correct fraud, corruption, and conflicts of interests as defined in Article 61(2) and (3) of the Financial Regulation affecting the financial interests of the Union and to take legal actions to recover funds that have been misappropriated, including in relation to any measure for the implementation of reforms and investment projects under the recovery and resilience plan.*

Annex I of the Financing Agreement (*Key requirements of the Member State’s control system*) further provides:

1. *In compliance with Article 22(1) of the RRF Regulation and to provide the information necessary for Article 22(2)(c)(ii) of the RRF Regulation, the Member State shall conduct adequate and independent audits of systems and cases of support to investments and reforms.*

*This includes:*

* *The identification of the body/ies which will carry out the audits of systems and cases of support to investments and reforms and how its/their functional independence is ensured;*
* *The allocation of sufficient the resources to this body/ies for the purpose of the RRF;*
* *The effective tackling by the audit body/ies of the risk of fraud, corruption, conflict of interest and double funding both through system audits and audits of cases of support to investments and reforms.*

In this context and in line with these provisions, Member States are required to conduct audits to ensure the protection of the financial interests of the Union, where such audits are required to be contained in the summary of audits.

Furthermore, in order to support the declaration in the management declaration “*that the information submitted with the request for payment is complete, accurate and reliable*”, Member States are encouraged to undertake audits to ensure the effective functioning of Member State systems in terms of collecting, storing, verifying and certifying reliable and accurate data on the achievement of milestones and targets.

The information submitted by the Member States in the summary of audits and scope and extent of the audit work by the audit body will be taken into account for the risk assessment and planning of the Commission audits in the Member States. Where the audit work of the audit body does not provide the Commission with the necessary assurances regarding the proper functioning of the internal control system(s) to ensure the protection of the financial interest of the Union and to ensure effective functioning of Member State systems in terms of collecting, storing, verifying and certifying reliable and accurate data on the achievement of milestones and targets (i.e. assurance gap), the Commission may carry out additional verifications and audits.

For this reason and in line with Article 12(2) of the Financing Agreement, it will be necessary to keep a well-documented audit trail of the audits performed and their results (detected irregularities and their follow-up). Finally, it is recalled that according to Article 22(2)(e) of the RRF Regulation the Commission, as well as OLAF, the Court of Auditors and where applicable EPPO are authorised to exert their rights according to Article 129(1) of the Financial Regulation.

**Timing of the audit work**

Article 24(2) of the RRF Regulation stipulates that Member States may submit requests for payments to the Commission twice a year. As per Article 22(2) of the RRF Regulation, the Member States are obliged to accompany a request for payment with a summary of the audits carried out, including weaknesses identified and any corrective measures taken.

The audits are not required to be specific to the investments and reforms that underpin the respective payment request. Rather they will cover the audits conducted between the previous payment request and the one submitted, plus any findings that have been discovered during that period, related to audits that have been conducted in the past. It is thus best practice that the audit and implementing bodies coordinate in advance the moment of the timing of submission of payment requests. This should be done in order to allow the audit body to organise its audit activities in such a way as to be able to provide assurance for the purpose of the management declaration in a timely manner.

**Content and frequency of the audit work**

Given the vastly different nature of RRPs between Member States, the different national control set-ups and different implementation risks, it is not possible for the Commission to provide a clear rule on what exact content should be covered by each summary of audit or how many audits should take place to be included. Nonetheless, Member States should consider the following:

* In terms of content to be covered by audits related to the protection of the financial interests of the Union, Article 22(2) of the RRF Regulation provides two distinct provisions, both of which should be addressed by Member States’ audits:
* Firstly, **Member States are solely responsible** to check “*that the financing provided has been properly used in accordance with all applicable rules*”. This is supported by the provision in Article 22(1) that Member States shall “*ensure that the use of funds in relation to measures supported by the Facility complies with the applicable Union and national law*”. In this respect, audit authorities should undertake audits targeted to ensure that all applicable rules are complied with, such as State aid, procurement, national eligibility rules.
* Secondly, Article 22(2) of the RRF Regulation, as well as the Key Requirements of the Member State’s control system contained in the RRF Financing Agreement, identify as a priority “*the prevention, detection and correction of fraud, corruption and conflicts of interests*”. Whilst such issues need to be addressed by measures wider than only audits, audits are a key aspect of providing assurance that the Member State systems to prevent, detect and correct fraud, corruption and conflicts of interests are functioning. Given the prominence of such provisions in the RRF legal framework, such audits should form a key pillar of the audit strategy.
* Furthermore, in terms of content to be covered by audits related to the protection of the financial interests of the Union, Article 4(2) of the Financing Agreement provides an obligation on Member States to “*ensure that no double funding takes place*”. Member States have put in place systems to avoid double funding, where audits to test the functioning of such systems provide assurance that a serious breach of obligation in the RRF Financing Agreement has not occurred related to this provision.
* In terms of content of to be covered by audits related to the effective functioning of Member State systems in terms of collecting, storing, verifying and certifying reliable and accurate data on the achievement of milestones and targets, these are part of the assurance framework that support the management declaration “*that the information submitted with the request for payment is complete, accurate and reliable*”, thereby contributing to the Commission’s assurance on the data/information that is provided as part of a payment request. The content of the substantive testing, whether specific to the data/information that underpins the respective payment request or not, should consider that the information and assurance obtained from such audits will underpin the management declaration and as such provide assurance to the authority signing off on the management declaration that the applicable rules have been complied with. In this respect, the audit body should highlight the audit work, in terms of substantive testing, that it may have conducted on the accuracy of the reliability and accuracy of the data on the achievement of milestones and targets for the underlying payment request.
* Finally, in terms of content to be covered by audits related to the protection of the financial interests of the Union and audits related to the effective functioning of Member State systems in terms of collecting, storing, verifying and certifying reliable and accurate data on the achievement of milestones and targets, it is recalled that both systems and how they would function were reported and assessed during the assessment of the RRP. This process took into account specifics of the RRP and the national framework, where the specific approach that was assessed in the context of the RRP should be reflected in the national audit strategy.
* When addressing the above audits related to the protection of the financial interests of the Union and audits related to the effective functioning of Member State systems in terms of collecting, storing, verifying and certifying reliable and accurate data on the achievement of milestones and targets, Member States should ensure an adequate balance between system audits and audits of cases of support to investments and reforms. Both audits, which are elaborated on below, target different issues and the summary of audits should cover both types.
* In terms of frequency, Article 22(2) provides that such checks should be undertaken “regularly”. Whilst this does not provide precise guidance on how many audits should be undertaken, the fact that these checks include checking that “*any measure*… *has been properly implemented*” would point to a need to ensure sufficient checks that there could be reasonable assurance that this standard of “*any measure*” was met. As RRPs are extremely different in size and number of measures, no precise frequency can be given. However, as a starting point, the larger the number of measures in a plan, the greater the number of audits that would be necessary in order to provide this assurance. Nonetheless, any discussion on frequency of audits would also need to consider the specific risk of measures, as well as the results of previous audits. Member States’ audit bodies, based on their profession judgement, will define the reliance obtained from the control systems in order to define the sample size for substantive testing. Samples drawn should be representative of the population and audit bodies will determine whether stratification is required.

Taking into account these considerations and on the basis of its audit strategy, the audit body should implement all the audit work necessary to provide assurance on the proper functioning of the internal control system(s) implementing the Recovery and Resilience Facility and as such underpin all the elements of § 1 to 4 of the management declaration. Commission staff remain available to bilaterally discuss with each Member State and their audit bodies the content of the summary of audits in order to align expectations.

**Initial Payment Request**

The exact period to be covered by a summary of audits depends on the frequency of payment requests. Assuming two payment requests per year, it could be expected that each summary of audits would cover a roughly six month period. Nonetheless, if payment requests are submitted shortly after the approval of the RRP, it is possible that such period will be shorter. In this respect, the expectations of the Commission in relation to the first payment request will take into account the length of time between the approval of the Council Implementing Decision and the payment request. If this is short (i.e. less than 6 months), the expectations for what should be covered may be less than a “normal” summary of audit.

In terms of content for the initial payment request, and notwithstanding the above timing issue, it is recalled that the initial payment request in most RRPs covers measures that were implemented before the Council Implementing Decision was adopted, notably including measures that started from 1 February 2020. Although the specific audit system for the RRP may not have been in place to audit such measures, all Member States have Supreme Audit Institutions (SAIs) and, depending on the governmental structure, different Member States have audit authorities at federal, national, regional, provincial or municipal level. Audit reports by these entities over expenditure that Member States have undertaken to satisfactorily fulfil milestones and targets can be used in the initial summary of audit to help close the assurance gap. Furthermore, a number of Member States have agreed to specific milestones and targets in the audit and control area. As indicated these milestones and targets have to be met before the first payment request. In some cases, these milestones and targets are audits.

**Overview of the Template**

**Section 1: Introduction**

The summary of audits should disclose basic information about all the audit body(ies) audit work described further in the summary.

**Section 2: Audit strategy and amendments in the internal control system(s)**

In line with Article 11(3) of the Financing Agreement, amendments to the Member State’s internal control system that was included in the RRP concerning elements that were assessed by the Commission shall be duly communicated to the Commission without delay. It is expected that the audit body confirms compliance of the amendments of the internal control system(s) with the key requirements specified in Annex I of the Financing Agreement (reproduced in Annex II of this guidance).

**Section 3: System audits**

In line with Annex I of the Financing Agreement and in compliance with Article 22(1) of the RRF Regulation and to provide the information necessary for Article 22(2)(c)(ii) of the RRF Regulation, the Member State shall conduct adequate and independent audits of systems and cases of support to investments and reforms. These are to include system audits on the functioning of the control systems in order to ensure protection of the financial interest of the Union, notably audits on the respect of the conditions included in the Financing- and/or Loan Agreement. It is also encouraged that this include system audits on the effective functioning of Member State’s control systems in terms of collecting, storing, verifying and certifying reliable and accurate data on the achievement of milestones and targets. Information and results from these audits should be described in the summary of audits together with the follow-up of open audit recommendations from the previous system audits.

If the risk assessment for the system audits has been updated, this should be described in Section 2 covering the changes in the audit strategy.

The corrective measures to improve the functioning of the internal control system(s) must be such to prevent the repetition of the identified weaknesses where applicable. The corrective measures shall also specify the remedial action taken in relation to the detected weaknesses.

**Section 4: Audit of cases of support to investments and reforms (substantive testing)[[1]](#footnote-2)**

Subsequently to the system audit, the audit body should perform substantive testing on the protection of the financial interests of the Union. Furthermore, the audit body is expected to describe in this section the audit work that it may have conducted on the accuracy of the reliability and accuracy of the data on the achievement of milestones and targets. Serious irregularities related to fraud, corruption, conflict of interest and/or double funding and their correction will also have to be reported as part of the management declaration. Member States are encouraged to report serious irregularities to OLAF.

If the risk assessment for the substantive testing has been updated, this should be described in Section 2 covering the changes in the audit strategy.

In case of issues observed, the audit should provide observations leading to recommendations on how to mitigate the observed issues. The corrective measures to improve the functioning of the internal control system(s) must be such to prevent the repetition of the identified weaknesses where applicable. The corrective measures shall also specify the remedial action taken in relation to the detected irregularities. Serious irregularities related to fraud, corruption, conflict of interest and/or double funding and their correction will also have to be reported as part of the management declaration.

**Section 5: Other information**

The summary of audits should indicate the steps taken in regards to cases of suspected fraud, corruption, conflict of interest and double funding identified during the audit work, including the state of implementation of financial corrections. The summary of audits should disclose whether the cases of suspected fraud detected were communicated to OLAF.

The concept of subsequent events is drawn from the international standards 560[[2]](#footnote-3). Some subsequent events might have an important impact on the functioning of internal control system(s) and therefore cannot be ignored by the audit body. These events may correspond either to positive actions (e.g. corrections implemented after the audit work have been finalized and before the submission of the summary of audits to the Commission) or have a negative impact (e.g. deficiencies in the system or errors detected in that period).

**Section 6: Overall level of assurance**

The overall assurance on the proper functioning of the internal control system(s) is based on combined results of both the system audits (section 3 of the summary of audits) and the substantive testing (section 4 of the summary of audits).

**ANNEX I
Template for a summary of the audits**

**Section 1. Introduction**

1.1 Reference to the payment request(s) submitted with the summary of audits

1.2 Identification of the audit body and other bodies that have been involved in the preparation of the summary

1.3 Period covered by the summary of audits

1.4. Description of the steps taken to prepare the summary

**Section 2. Audit strategy and amendments of the internal control system(s)**

2.1 Details of any changes made to the audit strategy and related explanations. In particular, indicate any change to the risk assessment and sampling method used for the system audits and substantive testing

2.2. Details of any amendments of the internal control system(s) concerning elements that were assessed by the Commission)

**Section 3. System audits**

3.1. Identification of the bodies (including the audit body) that have carried out audits on the proper functioning of the internal control system(s) (‘system audits’)

3.2. Description of the main scope of the audits (related to the protection of the financial interests of the Union or effective functioning of Member State systems in terms of collecting, storing, verifying and certifying reliable and accurate data on the achievement of milestones and targets), the risk assessment methodology and the results that led to establishing the audit plan for system audits

3.3. Description of the main findings and conclusions drawn from system audits, including the audits targeted at specific thematic areas (e.g. audits on IT system, anti-fraud measures, conflict of interests, double funding, etc.), recommendations on audit findings and details of the corrective measures proposed. The audit should provide an indication as to whether any findings identified were considered to be of a systemic character and that should result into an assessment of their impact.

3.4. Information on the follow up of audit recommendations from previous system audits

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

**Section 4. Audit of cases of support to investments and reforms (substantive testing)**

4.1. Identification of the bodies (including the audit body) that have carried out the substantive testing audits

4.2. Description of the scope of the audits (related to the protection of the financial interests of the Union or reliability and accuracy of the data on the achievement of milestones and targets)

4.3. Where relevant, a description of the sampling and sub-sampling methodology applied for the selection of audits. This should include an indication of the sampling parameters and other information for statistical or non-statistical sampling used, as well as an explanation of the underlying calculations and professional judgement applied. The information should include if relevant: population size, sample size, materiality level, confidence level, sampling unit, expected error rate, and information on stratification. The underlying calculations for sample size calculation and sample selection, in a format permitting an understanding of the basic steps taken, in accordance with the specific sampling method used should be attached to the summary of audits. Alternatively, attributes sampling techniques may be applied provided that the sample size is in accordance with the level of assurance required

4.4. Description and analysis of the main findings of the substantive testing (including details of whether any findings identified were considered to be systemic in nature and assessment of their impact), details of the corrective measures taken

4.5. Information on the follow-up of substantive testing carried out in previous payment requests, in particular on deficiencies of systemic nature

4.6. Conclusions drawn from the main findings of the combination of systems audits and of the substantive testing with regard to the proper functioning of the internal control system (Unqualified, qualified or adverse opinion)

**Section 5. Other information**

5.1. Information on detected cases of suspicions of fraud detected and fraud, corruption and conflict of interests in the context of the audits performed, together with the measures taken, including actions taken to recover funds that have been misappropriated and amounts recovered

5.2 In case the Member State uses the single data-mining and risk scoring tool, the summary of audits should explain how the tool was used. In particular, the audit scope should cover the analysis of the relevant data concerning the recipients of funding under RRF, the sufficiency of the relevant embedded control tools and the interoperability with other IT systems on preventing and detecting fraud, corruption, conflict of interest and double funding.

5.3. Subsequent events occurred after the end of the audit work and before the transmission of the payment request to the Commission

**Section 6. Overall level of assurance**

6.1. Indication of the overall level of assurance on the four items covered by the management declaration and an explanation of how the level was obtained from the combination of the results of the system audits and substantive testing. Where relevant, the audit body shall take also account of the results of other national or Union audit work carried out

6.2. Assessment of the need for any additional corrective measures, both from the perspective of improvements of the internal control system(s) and, where relevant, of the impact on the protection of the financial interests of the Union

**ANNEX II**

**Key requirements of the Member State’s co ntrol system**

1. In compliance with Article 22(1) of the RRF Regulation, the Member State shall provide an effective and efficient internal control system, including separation of functions and reporting and monitoring arrangements. Member States may rely on their regular national budget management systems.

This includes:

* the nomination of an authority as “coordinator” having the overall responsibility for monitoring the implementation of the RRP on behalf of the Member State and being the single point of contact for the Commission;
* that the coordinator has the (i) administrative capacity in terms of human resources (staff numbers and profiles), institutional experience and expertise, and (ii) the mandate and authority to exercise all relevant tasks, including reporting and monitoring responsibilities;
* the identification of the authorities entrusted with the implementation of the RRP measures;
* the identification of the authority responsible for signing the management declaration accompanying the payment requests with procedures ensuring that this authority will get assurance about the satisfactory fulfilment of the milestones and targets set in the RRP, that the funds were managed in accordance with all applicable rules, in particular rules on avoidance of conflicts of interests, fraud prevention, corruption and double funding;
* an appropriate separation between implementation and audit functions.
1. In compliance with Article 22(2)(a) of the RRF Regulation, the Member State shall conduct an effective implementation of proportionate anti-fraud and anti-corruption measures, as well as any necessary measure to effectively avoid conflict of interests.

This includes:

* appropriate measures related to the prevention, detection and correction of fraud, corruption and conflict of interest, as well as avoidance of double funding and to take legal actions to recover funds that have been misappropriated;
* a fraud risk assessment and the definition of appropriate anti-fraud mitigating measures.
1. In compliance with Article 22(2)(c) of the RRF Regulation, the Member State shall maintain appropriate procedures for drawing up the management declaration and summary of the audits carried out at national level.

This includes:

* An effective procedure for drawing up the Management Declaration, documenting the summary of audits and keeping the underlying information for audit trail;
* Effective procedures to ensure that all cases of fraud, corruption and conflict of interests are properly reported and corrected through recoveries.
1. To provide the information necessary for Article 22(2)(c)(i) of the RRF Regulation, the Member State shall ensure appropriate measures, including procedures for checking the fulfilment of milestones and targets and compliance with horizontal principles of sound financial management.

This includes:

* appropriate measures through which authorities entrusted with the implementation of the RRP measures will check the fulfilment of milestones and targets (e.g. desk reviews, on-the-spot checks);
* appropriate measures through which the authorities entrusted with the implementation of the RRP measures will check the absence of serious irregularities (fraud, corruption and conflict of interest) and double funding (e.g. desk reviews, on-the-spot checks);
1. In compliance with Article 22(1) of the RRF Regulation and to provide the information necessary for Article 22(2)(c)(ii) of the RRF Regulation, the Member State shall conduct adequate and independent audits of systems and cases of support to investments and reforms.

This includes:

* The identification of the body/ies which will carry out the audits of systems and cases of support to investments and reforms and how its/their functional independence is ensured;
* The allocation of sufficient the resources to this body/ies for the purpose of the RRF;
* The effective tackling by the audit body/ies of the risk of fraud, corruption, conflict of interest and double funding both through system audits and audits of cases of support to investments and reforms.
1. In compliance with Article 22(2)(d) and (e) of the RRF Regulation, the Member State shall maintain an effective system to ensure that all information and documents necessary for audit trail purposes are held.

This includes:

* effective collection and storage of data on the final recipients of funds;
* access for the Commission, OLAF, ECA and EPPO (where applicable) to the data on final recipients, contractors, subcontractors and beneficial owners for the purpose of audit and control.
1. Substantive testing means the audit of a limited sample of investments and reforms to confirm that control and procedures described in the control systems are effectively implemented. As such, this type of audit will also help defining the degree of assurance that can be derived from the control systems. [↑](#footnote-ref-2)
2. 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 or, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework*” [↑](#footnote-ref-3)