



EUROPEAN COMMISSION

European Structural and Investment Funds

Guidance for Member States on
Audit Strategy

(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) 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 ¹ |
| CIR | Commission Implementing Regulation (EU) No 2015/207) of 20.01.2015 ² |
| CPR | Common Provisions Regulation (Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17.12.2013) ³ |
| ESIF | ESIF corresponds to all European Structural and Investment Funds. This guidance applies to all except for the European Agricultural Fund for Rural Development (EAFRD) |
| ETC | European Territorial Cooperation (Regulation (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 |

¹ http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2014.138.01.0005.01.ENG

² <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015R0207&rid=1>

³ <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 (4)- Functions of the audit authority |
| Reg. (EU) No 2015/2007 Commission Implementing Regulation (<i>hereafter CIR</i>) | Articles 7 (1) and Annex VII (model for the audit strategy) |

2. Purpose of the guidance

The objective of this document is to provide guidance to the AA responsible for the preparation of the audit strategy (*hereafter "the strategy"*) under Article 127(4) CPR. This guidance is applicable to the ESIF with the exception of the EAFRD and follows the structure of the model audit strategy defined in Annex VII to CIR.

This guidance sets out the Commission's recommendations for the various sections of the strategy. These are drawn not only from the above-mentioned provisions but also from the Commission's experience with audit strategies of the previous programming period, existing internationally accepted audit standards and best practice.

The strategy is a building block in the assurance model for the ESIF (except for the EAFRD), as it is a planning document that sets out the audit methodology, the sampling method for audits on operations and the planning of audits in relation to the first three accounting years⁴ and needs to be updated annually from 2016 until and including 2024.

During the programming period 2014-2020, the AA is not obliged to transmit the strategy for Commission's assessment and prior approval. However, Article 127(4) CPR requires the AA to submit the audit strategy to the Commission upon request. The strategy will be a key element on the agenda for the annual coordination meetings held under the Article 128(3) CPR. In the context of its on-the-spot audits, the Commission may also assess the quality of the information contained in the strategy; including the relevant documentation and explanations of the professional judgement used by the AA when drawing up the strategy.

⁴ As defined in Article 2(29) of the Regulation (EU) No 1303/2013.

II. GUIDANCE

In each section below, the text inserted in a box is an extract of the relevant section of the model audit strategy (Annex VII of the CIR).

1. Introduction

This section shall include the following information:

- Identification of the operational programme(s) (title(s) and CCI (s)⁵), Funds and period covered by the audit strategy.*
- Identification of the audit authority responsible for drawing up, monitoring and updating the audit strategy and of any other bodies that have contributed to this document.*
- Reference to the status of the audit authority (national, regional or local public body) and the body in which it is located.*
- Reference to the mission statement, audit charter or national legislation (where applicable) setting out the functions and responsibilities of the audit authority and other bodies carrying out audits under its responsibility.*

The first audit strategy shall be finalised within eight months of adoption of the programme(s) concerned and shall cover the first three accounting years, as follows from Article 127(4) CPR. In case a single audit strategy is presented for several programmes with common MCS, such audit strategy may be finalized within eight months of adoption of the last programme, provided that strategy is in place in due time so that the AA performs its work and is able to draw an audit opinion in the regulatory deadline.

The AA should 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 copy of its 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 (e.g. at government/ministerial level or other considered appropriate by the national authorities) should set internal deadlines for the transmission of documents between national authorities for the purpose of their respective responsibilities.

In case a single audit strategy is presented for a common MCS, it is advisable that the national authorities (e.g. the MA, the CA, a national coordination body) agree with the AA that there is indeed such common system, since this decision has implications on the sample selection and on the projection of the sample results to all the programmes covered by that system. A common system can be considered to exist where the same MCS supports the activities of several programmes. The criterion to take into account is the presence of the same key control elements, i.e. when the following elements are essentially the same for a set of programmes: (i) description of the functions of each body involved in management and control, and the

⁵ Indicate the programmes covered by a common MCS, in case a single audit strategy is prepared for the programmes concerned, as foreseen in Article 127(4) CPR.

allocation of functions within each body; (ii) procedures for ensuring the correctness and regularity of expenditure declared, including an adequate audit trail and supervision of IBs, where applicable. The existence of common risk levels (for example, similar IBs across several programmes with a common risk linked to the type of IB) may also be a factor to consider when determining the existence of a common system. Due to their specificities, namely the involvement of at least two Member States, the ETC programmes should not be considered as pertaining to a common MCS together with mainstream programmes. Hence, the strategy for an ETC programme should be drawn up separately, even if the bodies involved in their MCS are the same as for mainstream programmes.

As defined in Annex IX CIR, the changes to the audit strategy should be disclosed in section 3 of the ACR. Factors to be taken into account for reviewing the strategy include changes in the MCS, for example, changes related with remedial actions required under Article 124(5) CPR related to the designation procedure, reallocation of the functions of the AA, MA, CA to other national authorities, organisational structures changes such as splitting a ministry, major changes in staff or new IT systems, etc.

It is recommended that the AA explains under this section how the audit strategy was drawn-up (in particular, in regard to the contributions from other bodies) and the arrangements in place to monitor and update the document. Within the AA, the documentation relating to drawing up, monitoring and updating the strategy should be kept for reference. When audit bodies have contributed to the strategy, the AA must ensure that their objectives are aligned with those of the strategy, as the AA takes responsibility for the final coordination and the quality of work. This process may include written instructions, regular meetings or other means considered useful. This is of particular relevance for the ETC programmes, where the audit work will be carried out in several Member States.

Concerning financial instruments implemented by the EIB pursuant to Article 38(4)(b)(i) CPR and as established by Article 9(3) CDR, the AA shall mandate a firm which shall operate under a common framework established by the Commission to carry out audits on the operations at stake. The current common audit framework is being updated by the Commission and will be discussed with the Member States. In the meantime, the AA is invited to consult the Commission and where such type of financial instruments are already being implemented, the AA is invited to consult the Commission to seek advice on the methodology in this regard, without prejudice to Article 9(4) of the said Regulation. The audit strategy should refer to the intentions of the AA in this regard; when a framework enters into force, the AA should update the strategy accordingly, mentioning the modifications in the next ACR.

In relation to financial instruments pursuant to Article 38(1)(a) CPR, the AA's audit strategy needs to consider the fact that it cannot carry out on-the-spot audits of these operations and it will have to draw its opinion from the regular control reports submitted by the bodies entrusted with the implementation of those financial instruments, as per Article 40(1) CPR.

The AA should have a clear mandate to perform the audit function in accordance with Article 127 CPR. This mandate is usually documented in an audit charter⁶ if the mandate is not

⁶ Examples of audit charters defined for internal audit departments are available in <https://global.theiia.org/standards-guidance/Public%20Documents/ModelCharter.pdf> ; https://www.ecb.europa.eu/ecb/pdf/orga/ecbauditcharter_en.pdf. These examples could be adapted by the AA for their specific responsibilities and legal framework.

already set out in national legislation. Where an audit charter exists for the audit function as a whole, the mandate specifically related to the function of the AA should be incorporated in that charter and should be formally accepted by the AA. A strong audit charter helps increase the independence of the AA.

For ETC, the specificities of the functions and responsibilities of each of the audit actors (AA, group of auditors and other audit bodies) should be described in the rules of procedure and the audit strategy should refer to these rules. In case the AA is authorised to carry out directly its functions in the whole of the territory covered by the programme, those rules indicate whether it is agreed that a national auditor (of each Member State or third country participating in the programme) can join the AA for on-the-spot audit missions, where relevant. In case each Member State or third country is responsible for carrying out the functions under Article 127 CPR, it should be clearly described for each Member State or third country participating in the ETC programme by whom and how the results of the audits on its territory will be transmitted to the AA in order for this body to perform its assessment.

This section shall include the following information:

Confirmation by the audit authority that the bodies carrying out audits pursuant to Article 127(2) of Regulation (EU) No 1303/2013 have the requisite functional independence (and organisational independence, where applicable under Article 123(5) of Regulation (EU) No 1303/2013).

Independence is the freedom from conditions that threaten the ability of the AA to carry out its responsibilities under Article 127 CPR in an unbiased manner. To achieve the degree of independence necessary to effectively carry out its responsibilities, the AA must have direct and unrestricted access to senior management at all levels, including the MA and the CA. During all stages of the audit cycle, the AA should ensure that its work (and the work done by the audit body) is performed in an independent⁷ and objective manner, free of conflict of interests with the audited entity, including the beneficiary as defined under Article 2(10) CPR.

Functional independence implies a sufficient degree of independence to ensure that there is no risk that linkages between different authorities create doubts as to the impartiality of decisions taken. To ensure that sufficient degree of independence, the MCS should provide for measures such as AA's staff not involved with MA or CA functions, AA's autonomy of decision on recruitment of staff, clear job descriptions and clear written arrangements between authorities⁸. It is essential that the AA can express disagreements with the MA or the CA and communicate in full independence its audit results to the stakeholders, in particular the Commission.

The organizational placement and status of the AA may pose a practical constraint or a limit on the scope of the AA work, in particular where the AA is located in the same public body as

⁷ Further advice on the concept of independence can be found in the Commission's recommendation on statutory auditors' independence of 16 May 2002 (OJ L191/22 of 19.07.2002) and in Chapter 3 of the INTOSAI Code of Ethics.

⁸ These arrangements can be reflected for example in a governmental decision mentioning the authorities involved in the implementation of a programme, authorities that will perform the tasks imposed by the regulations, or written protocols between authorities, working procedures, etc.

(some of) the audited entities. In general, the higher the reporting level, the greater the potential scope of engagements that can be undertaken by the AA while remaining independent of the audited entity⁹. At a minimum, the head of the AA needs to report to the hierarchy level within that public body that allows the AA to fulfil its responsibilities; the AA must be free from interference in determining the scope of its audit work, performing work, and communicating results.

As results from Article 123(4) CPR, the AA must be functionally independent from the MA and the CA. This term means that the AA does not have any role in the functions pertaining to the MA, the CA or IBs carrying out tasks of the MA or the CA under the responsibility of that authority. Additionally, their reporting lines should be different, i.e. the AA should report to a different hierarchical level than the MA's and CA's reporting levels. This concept is also reflected in the first paragraph of Article 123(5) CPR, which allows the AA to be part of the same public authority or body (e.g. a ministry) together with the MA and the CA, provided that the principle of separation of functions is respected and under the conditions set out in the last paragraph of the same provision.

The same approach applies to the audit bodies carrying out audits under the AA's remit. In case where audit bodies are internal audit units, special considerations should be taken into account: the AA should be aware of the organisational set up and reporting lines within the organisation in question, in order to assess the position of the internal audit unit and the risk of impaired independence.

For ETC programmes, the audit strategy should explain how the independence of each member of the group of auditors is ensured, namely in those cases where the members of the group of auditors carry out audit work themselves in their Member State, supervise or outsource the audit work. Where the audit work is outsourced, the contractor should be obliged by the contract to immediately inform the AA in case of possible conflict of interests so that the AA, assisted by the group of auditors, can take appropriate measures. The AA should also be functionally independent from the joint secretariat (set up by the MA under Article 23(2) ETC) and from the 'controller(s)' foreseen under Article 23(4) ETC.

The AA should indicate in the audit strategy how the mentioned functional independence is ensured, describing the relations between the AA and the MA, CA and where applicable the IBs. Such indication should refer to the relevant organisation chart and the reporting lines between the AA and these bodies and, where applicable the public authority or body to which the MA and the CA also report.

In the context of the audit strategy, the term "organisational independence" refers to a situation where the AA cannot be part of the same public authority or body (e.g. a ministry) together with the MA or the CA. As follows from Article 123(5) CPR, the AA may be part of the same public authority¹⁰ together with the MA or the CA where the total amount of

⁹ See also: International Standard for the Professional Practice of Internal Auditing (IPPF) 1100, related Practice Advisory 1110-1 and IPPF Practice Guide on "Independence and Objectivity".

¹⁰ In the context of Article 123(5) CPR, the concept of "public authority or body" means that the AA and the MA have separate lines of political accountability. At national level and as general practice, "public authority or body" means a ministry. At regional level, a similar approach should be applied, i.e. "public authority or body" means a separate regional ministry or equivalent.

support from the Funds to a programme is less or equal to EUR 250 million (for the EMFF, this threshold is EUR 100 million). Where this threshold is exceeded, the AA may be part of the same public authority together with the MA and the CA, if one of the following conditions are fulfilled:

- a) Either, pursuant to the applicable provisions for the previous programming period, the Commission has informed the Member State prior to the date of adoption of the programme concerned of its conclusion that it can rely principally on its audit opinion,¹¹
- b) Or the Commission is satisfied on the basis of the experience of the previous programming period that the institutional organisation and accountability of the AA provide adequate guarantees of its functional independence and reliability¹².

2. Risk Assessment

This section shall include the following information:

- *Explanation of the risk assessment method followed.*
- *Reference to internal procedures for updating the risk assessment.*

When setting up the overall risk assessment method for prioritising the system audit work on the measures, bodies and key requirements, the AA should consider the relevant risk factors, set a quantification grid from low to high risk¹³ and apply them to all priorities and bodies relating to the programme(s) covered by the strategy. Some examples of risk factors which may be considered are the following: amount, management competence, quality of internal controls, degree of change of stability in the control environment, time of last audit engagement, complexity of the organisational structure, type of operations, type of beneficiaries, risk of fraud, etc.

As a best practice, the results of the AA's risk assessment are reported in a table where the programmes and the main bodies involved in the MCS are classified by risk level. A non-exhaustive example of such table is provided in section III of this document. This table would need to be adapted and complemented by the AA with the risk factors that it considers the relevant ones for the programmes concerned. For small systems (e.g. where all bodies and main key requirements can be audited in the first exercise), the risk assessment may be less elaborated. Other risk assessment methods are also acceptable.

On the basis of the results of the risk assessment, the AA will be able to prioritize the system audits of programmes and bodies for which the detection risk is higher over the audit period.

¹¹ This condition is to be understood that the Commission has formally sent a letter to the Member State notifying it that its audit services can rely mainly on the opinion of the AA for well-identified programmes, under the terms of Article 73(3) of Regulation (EC) No 1083/2006.

¹² Concerning the reliability of the AA, this condition is fulfilled if the Commission's audit results so far allowed the Commission to assess the AA's key requirements for the period 2007-2013 in category 1 or 2, following the common methodology for the evaluation of the MCS. Obviously, the condition is that the same system applies for the 2007-2013 and 2014-2020 programmes (the AA remains in the same public authority or body).

¹³ Ensuring a balanced weighting of risk scoring.

Such prioritization should cover also the specific thematic areas described in section 3.2 below. The timing and scope of the audits might also be influenced by the implementation rate of the programme, e.g. the (expected) late timing of declaration of expenditure for a measure or body to the Commission would mean that not all key requirements might be "auditable" at the same point in time.

3. Methodology

3.1 Overview

This section shall include the following information:

Reference to audit manuals or procedures containing the description of the main steps of the audit work, including the classification and treatment of the errors detected.

Reference to the internationally accepted audit standards that the audit authority will take account of for its audit work, as established by Article 127(3) of the Regulation (EU) No 1303/2013.

Reference to the procedures in place for drawing up the control report and audit opinion to be submitted to the Commission in accordance with Article 127(5) of Regulation (EU) No 1303/2013.

For an ETC programme, reference to specific audit arrangements and explanation of how the audit authority intends to ensure the coordination and supervision process with the group of auditors from the other Member States concerned by this programme and a description of the rules of procedure adopted under Article 25(2) of Regulation (EU) No 1299/2013.

The AA's audit manual should provide a description of the working procedures for the different phases of an audit, i.e. audit planning, risk assessment, performance of engagements, recording and documentation, supervision, reporting, quality assurance process and external review, using the work of other auditors, use of any computer assisted audit techniques, sampling methods used, etc.

The audit manual should contain reference to materiality thresholds and other quantitative and qualitative factors to consider when assessing the materiality of audit findings for system audits, audits of operations and audits of the accounts.

The audit manual should also include a description of the different phases of reporting (such as draft audit reports, contradictory procedure with the auditee and final audit reports), deadlines for reporting, follow-up processes. Moreover, the audit manual should include a brief explanation of the reporting process of the AA with the coordinating body that may be designated by the Member State under Articles 123(8) and 128(2) CPR.

The audit manual can be constituted by a series of different procedures and notes, regrouped in an electronic folder or document known and accessible to all the AA and audit bodies' staff.

3.2 Audits on the functioning of MCS (system audits)

This section shall include the following information:

Indication of the bodies to be audited and the related key requirements in the context of system audits. Where applicable, reference to the audit body on which the audit authority

relies to perform these audits.

Indication of any system audits targeted to specific thematic areas, such as:

- quality of the administrative and the on-the-spot verifications foreseen in Article 125 (5) of the Regulation (EU) No 1303/2013, including in relation to the respect of public procurement rules, State aid rules, environmental requirements, equal opportunities;*
- quality of project selection and administrative and on-the-spot verifications (foreseen in Article 125 (5) of the Regulation (EU) No.1303/2013), related to the implementation of financial instruments;*
- functioning and security of IT systems set up in accordance with Articles 72(d), 125(2)(d) and 126(d) of Regulation (EU) No 1303/2013; and their connection with the IT system "SFC2014" as foreseen in Article 74(4) of Regulation (EU) No 1303/2013;*
- reliability of data relating to indicators and milestones and on the progress of the operational programme in achieving its objectives provided by the managing authority under Article 125(2)(a) of Regulation (EU) No 1303/2013;*
- reporting of withdrawals and recoveries;*
- implementation of effective and proportionate anti-fraud measures underpinned by a fraud risk assessment in line with Article 125(4)(c) of Regulation (EU) No 1303/2013.*

A complete list of the bodies and functions that will be covered by the system audits can be provided in the indicative schedule of audit assignments foreseen under this section of the audit strategy, in line with the risk assessment explained in section 2 above. It is expected that the AA will audit all authorities and functions included in the MCS of a given programme (including the IBs selected on the basis of the AA's risk assessment) at least once during the programming period. System audits should be carried out as from the first year of implementation of the programme, after the designation of the MA and CA. The scope of the first system audits should take account of the AA work performed during the designation stage, focusing on the entities, programmes and areas where the risk is higher.

For ETC programmes, the specification of the bodies to be audited during the programming period should cover all bodies having responsibilities for ETC programmes in all Member States with responsibilities on a given programme, including the controllers under Article 23 (4) ETC.

System audits should be carried out on a regular and timely basis throughout the year and in view of the expression of the annual audit opinion, covering primarily the key requirements set out in Annex IV CDR and taking account of 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) and the implementation of the procedures mentioned in MCS description. The AA should have tailored checklists and work programmes for its system audits, ensuring that all key requirements and procedures are covered regularly either through full audits or follow-up audits, in order to enable the AA to conclude on the functioning of the MCS from the first ACR onwards. Concerning the frequency and scope of system audits, the AA should decide based on its risk assessment, taking account of ISA 330 on the auditor's responses to assessed risks¹⁴. In any case, system audits should be carried out

¹⁴ <http://www.ifac.org/system/files/downloads/a019-2010-iaasb-handbook-isa-330.pdf>

in a timely manner, in order to contribute to the adequate planning and selection of audits of operations under Article 27 CDR and to the expression of the annual audit opinion.

System audits targeted to specific thematic areas correspond to audits covering one or two key requirements (for example, the ones mentioned above and set out in the model ACR under section 3.2) for a set of entities and programmes, aiming at assessing a horizontal risk for this population on specific matters covered by those requirements.

In practice, depending on the situation and the MCS and on the basis of the risk assessment carried out, the AA may choose to carry out system audits per programme or MCS covering at least all the essential key requirements in the first years of the programme's implementation (with subsequent follow-up audits each year). This may be complemented with thematic audits where and when considered necessary in order to cover the remaining key requirements and particular requirements where the risk is considered to be systemic.

If during implementation of the programme(s), the MCS is subject to substantial changes (e.g. modification of procedures affecting the essential key requirements), the AA should perform a new system audit to this MCS, covering the new aspects and update the risk assessment accordingly.

Audits carried out in the period 2007-2013 may be used as a reference point for the AA, in particular in the risk assessment, when planning the systems audits for 2014-2020 when the MCS are similar. However, system audits still need to be carried out in 2014-2020, which aim at assessing whether the MCS is properly functioning in this period.

On site, the auditor must aim to obtain sufficient and reliable evidence that the MCS in place functions effectively and as described, in order to conclude whether those systems are adequate to ensure the legality and regularity of ESIF expenditure and the accuracy and completeness of financial and other information, including the one presented in the CA's accounts. Test of controls may include walkthrough tests of the relevant files held by the authorities concerned, interviews with relevant staff and examination of a sample of transactions. Taken together, sufficient testing should be carried out to enable sound conclusions to be reached on the proper functioning of the systems under examination. The actual content of each audit should be adjusted by the auditor to take account of the control environment as part of the preparation stage for the audit.

The sample of transactions for tests of controls during system audits may take account of the specific section on "sampling technique applicable to system audits" included in the Commission's guidance on sampling. In system audits, attribute sampling is normally used to test several attributes of the population at stake. In any event, the sample selection method for system audits is a matter for the AA's professional judgment.

During system audits, the AA has to test the different key internal controls established. When determining the number of items for controls testing, one should consider certain overall factors, taking account the internationally accepted audit standards (e.g. ISA 330 on the auditor's responses to assessed risks, the ISSAI 4100¹⁵ on the factors to be taken when

¹⁵ http://www.issai.org/media/13196/issai_4100_e_.pdf

defining materiality, ISSAI 1320 on "Materiality in Planning and Performing an Audit"¹⁶, ISSAI 1450 on "Evaluation of Misstatements Identified during the Audit"¹⁷.

When planning a system audit, the AA should define in advance the threshold above which a deficiency will be considered material. For example, in the context of such audit and having tested the controls related with a given key requirement (e.g. appropriate procedures for selection of operations) on a sample of 10 grant agreements (out of a population of say 50 grants), the AA may consider that the controls for that key requirement are materially deficient (i.e. the requirement is rated at least as "works partially, substantial improvements are needed") when 4 out of 10 (i.e. 40%) of the selected grant agreements show that the controls in place were not applied or were inefficient in detecting and correcting irregular expenditure. The following table provides indicative thresholds that can be used by the AA in defining their materiality thresholds for planning purposes and for reporting deficiencies. Different thresholds may be considered depending, for example, on the type of controls at stake. In any case, the assessment of the materiality in system audits needs also to take account of qualitative factors, in addition to the simple quantitative approach suggested here.

| | | | |
|--|--|--|---------------------------|
| Works well. Only minor improvements are needed | Works but some improvements are needed | Works partially, substantial improvements are needed | Essentially does not work |
| less than 10% exceptions | less than 25% exceptions | less than 40% exceptions | more than 40% exceptions |

When the system audit concludes that the deviation rate detected is higher than the materiality threshold defined by the AA for that audit, this means that the MCS does not meet the criterion set for a high assurance level. As a result, the MCS must be classified as having an average or low assurance level, with implications in the determination of the sample size of the audits of operations.

Concerning system audits on the reliability of data reporting the programme's performance, the AA should assess whether effective controls are implemented over collecting, summarizing and reporting the related data, and whether the reported compiled figures reconcile with the source data.

Regarding system audits on the functioning of IT systems, standards related to information technology are not as well-developed or universally accepted as in some other audit areas. The lack of generally accepted information system standards has prompted many organizations to develop their own standards. However, there have been efforts to develop uniform standards for processing and audit activities. In addition to the COBIT (Control Objectives for Information and related Technology) framework¹⁸, internationally accepted

¹⁶ http://www.issai.org/media/13028/issai_1320_e_.pdf

¹⁷ http://www.issai.org/media/13064/issai_1450_e_.pdf

¹⁸ Information on COBIT can be obtained from <http://www.isaca.org/Knowledge-Center/COBIT/Pages/Overview.aspx>

standards for information security include but are not limited to the ISO/IEC standard 27001 ("Information technology - Security techniques - Information security management systems – Requirements") and the ISO/IEC 27002 ("Information technology - Security techniques - Code of practice for information security controls"), last re-issued in 2013¹⁹. The AA may also take into consideration any related national standards²⁰.

3.3 Audits of operations

This section shall include the following information:

Description of (or reference to internal document specifying) the sampling methodology to be used in line with Article 127(1) Regulation (EU) No 1303/2013 and Article 28 of the Regulation (EU) No 480/2014, and other specific procedures in place for audits of operations, namely related with the classification and treatment of the errors detected, including suspected fraud.

The sampling methodology (sampling method, sampling unit and the parameters for calculating the sample size) is determined by the AA based on professional judgment and taking into account the regulatory requirements and factors such as the characteristics of the population and the expectation regarding the level and variability of errors. Different sampling methods and their respective advantages and considerations for their application are presented in the Commission's guidance on sampling²¹. The need for revising the sampling methodology should be assessed regularly and especially before each sampling exercise.

Based on Article 28(11) CDR, the confidence level for sampling is determined according to the reliability level obtained from the system audits.

The complete cycle of the assurance model is illustrated by the scheme presented in section IV of this guidance.

If several programmes belonging to a common system are grouped for sampling, a single confidence level is applied. It is possible to use a sampling design stratified by programme to improve precision or allow a smaller sample size. However, audit conclusions are normally possible for the whole group of programmes, not for the individual programmes, unless stratification was designed and applied to obtain sufficient evidence to concluded as well by stratum separately.

The AA is expected to describe in the audit strategy its approach to stratification, to be applied 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 or funds (in case of multi-fund programmes).

The requirements of proportional control of programmes are set out under Article 148(1) CPR. Regarding the practical implementation of this provision, Article 28(8) CDR establishes that the AA may exclude from the population to be sampled the operations for which the

¹⁹ Further information can be obtained from <http://www.iso27001security.com/index.html> or from ISO website (<http://www.iso.org/iso/home/standards/management-standards/iso27001.htm>).

²⁰ Such as the "IT-Grundschutz Catalogues" of the Federal Office for Information Security in Germany (BSI).

²¹ COCOF_08-0021-03, currently under review.

conditions for the proportional control provided for in Article 148(1) CPR apply. In case the operation concerned has already been selected in the sample, the AA has to replace it using appropriate random selection. The easiest way to implement this substitution is to select additional items, in the same number of the ones excluded from the sample, using exactly the same selection methodology (either random selection or probability proportional to expenditure selection). When selecting the new items for the sample, the ones already included in the sample and the ones covered by this article should be excluded from the population. The extrapolation can be performed as usual, not forgetting to correct the total expenditure of the population with the expenditure of items under the article.

Article 28(14) CDR establishes the definition of total error rate "[...] *which shall correspond to the sum of the projected random errors and, if applicable, systemic errors and uncorrected anomalous errors, divided by the population.*"

A systemic error corresponds to a systemic irregularity as defined under Article 2(38) CPR. An anomalous error is an error of exceptional nature that is demonstrably not representative of the population. A random error²² is an error that is neither systemic nor anomalous.

The procedure in place for the classification of errors should include the following elements in relation to each audit of operations: (i) a report or conclusion should be prepared and attached to the audit file containing planning documentation and other documents supporting the findings; (ii) such report or conclusion should contain a complete description of the findings, covering all elements (conditions or actual situation, criteria or standard, effect and – especially - the cause of the errors), as well as the classification of each error.

The error rate resulting from the audits of operations is to be disclosed in the ACR without deducting corrections. However, the AA will also calculate the residual error rate and will consider any corrective measures taken with regard to irregularities detected when drawing up the audit opinion (cf. Commission's *Guidance on ACR and Audit Opinion*, EGESIF 15_0002/2015, sections II.5 and II.9).

The approach to be used by the AA in regard to non-statistical sampling must comply with the requirements of Article 127(1) CPR. As follows from Article 28(3) CDR, the random sample drawn by the AA for its audits of operations has to enable the AA to extrapolate the results to the population from which the sample was drawn, also in case a non-statistical sampling method is used. The necessary sample size is determined by the AA based on professional judgment and taking account of the level of assurance provided by the system audits. The requirement of 5% of operations and 10 % of the expenditure in Article 127(1) CPR corresponds in the Commission's view to the 'best case scenario' of high or average assurance from the system (i.e. category 1 or 2, since the legislator has set these requirements as a minimum). In line with annex 3 of the ISA 530, the higher the auditor's assessment of the risk of material misstatement, the larger the sample size needs to be. In this regard, the

²² This concept presumes the probability that random errors found in the audited sample are also present in the non-audited population.

Commission reminds below the statement it made in relation to Article 127 CPR on non-statistical sampling²³:

"The Commission notes that in relation to the issue of non-statistical sampling, Article 127(1) provides that such a sample must cover at least 5 % of operations for which expenditure has been declared to the Commission during an accounting year and 10 % of expenditure which has been declared to the Commission during an accounting year. It further notes that guidance issued by the Commission on sampling methods for audit authorities for the 2007-13 programming period indicates that the sample size in the case of non-statistical sampling should generally be not less than 10 % of the population of operations. The Commission considers that the possibility of reduction in the size of the sample of operations to 5 % presents a risk that the sample will be insufficiently representative and will therefore have the effect of weakening the audit assurance."

3.4 Audits of the accounts

This section shall include the following information:

Description of the audit approach for the audit of the accounts.

The AA should give a brief description of its audit approach that it uses to audit the accounts to reach an audit opinion for each accounting year.

In this section, the AA should explain how it plans to draw 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 operations²⁴;
- 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 CA to the AA.

Concerning the latter point, the AA should describe how it intends to carry out its 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* (EGESIF_15_0016). In particular, the AA should describe the work planned 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

²³ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2013:375:0002:0004:EN:PDF>

²⁴ 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 CA's accounting system down to the beneficiary's/operation level, via any IBs, an issue already covered in current audits.

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.

3.5 Verification of the management declaration

This section shall include the following information:
Reference to the internal procedures setting out the work involved in the verification of the assertions contained in the management declaration, for the purpose of the audit opinion.

Since the AA has to provide on a yearly basis a statement on whether the audit work carried out puts in doubt the assertions made in the management declaration, it should put in place a procedure ensuring that it receives the management declaration in due time and that the management declaration has taken into account the conclusions of any audits and controls carried out by or under supervision of the AA.

4. Audit work planned

This section shall include the following information:

- *Description and justification of the audit priorities and specific objectives in relation to the current accounting year and the two subsequent accounting years, together with an explanation of the linkage of the risk assessment results to the audit work planned.*
- *An indicative schedule of audit assignments in relation to the current accounting year and the two subsequent accounting years for system audits (including audits targeted to specific thematic areas), as follows.*

| Authorities/Bodies or specific thematic areas to be audited | CCI | OP Title | Body responsible for auditing | Result of risk assessment | 20xx Audit objective and scope | 20xx Audit objective and scope | 20xx Audit objective and scope |
|---|-----|----------|-------------------------------|---------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| | | | | | | | |

A description of the criteria used to determine the audit priorities and the justification should be included. The results of the risk assessment exercise should be the main basis for prioritising the system audit work planned.

It is recommended that the AA prepares a general plan for the whole programming period to cover the entire MCS in order to obtain reasonable assurance on its effectiveness, in addition to the mandatory detailed "rolling" planning setting out the priorities for the current accounting year and the subsequent two accounting years. Annex V presents indicative timelines for the AA's work concerning one accounting year.

5. Resources

This section shall include the following information:

- Organisation chart of the audit authority and information on its relationship with any audit body that carries out audits as foreseen in Article 127(2) of the Regulation (EU) No 1303/2013, where appropriate.*
- Indication of planned resources to be allocated in relation to the current accounting year and the two subsequent accounting years.*

The audit strategy should indicate the human resources in auditor-days available (or to be mobilised) to accomplish its objectives for the coming years²⁵, including the resources of other audit bodies and outsourced audit activities. It is recommended to indicate separately the auditor-days available at the level of the AA, other audit bodies and outsourced activities. An indication of available auditor-days per audit type (system audit, audit of accounts and audit of operations) should be included.

It is essential to provide for adequate resources from the beginning of the programming period. The use of technical assistance might be considered as a possibility to meet the needs. It is recommended to have a long-term planning so that future requirements in recruitment, training and continuous professional development can be adequately planned. The use of any specialist skills required should be identified and planned, i.e. where outsourcing is envisaged.

In case the AA and audit bodies are the same as those for the programming period 2007-2013, it is important that adequate resources are also be planned with respect to the on-going period. Therefore, the AA should confirm that the resources indicated are available in addition to the resources allocated to the remaining audit work for the current programming period, having in mind that the workload for the closure of 2007-2013 programmes will affect mostly the last two years of the first strategy for the period 2014-2020, i.e. 2015 and 2016.

In terms of audit resources, guidance is provided by the INTOSAI European Implementing Guidelines N° 11 and the IIA standards.

²⁵ Preferably, this indication should be based on a workload analysis, considering the overlap of the two programming periods (2007-2013 and 2014-2020).

III. EXAMPLE OF A TEMPLATE FOR A RISK ASSESSMENT TABLE (TO BE ADAPTED BY THE AA)

| Programme CCI | Body | Inherent risk factors ²⁶ | | | | | | | Total scoring for inherent risk (maximum: 100%) | Control risk factors ²⁷ | | | | Total scoring for control risk (maximum: 100%) ²⁸ | Total risk score (Inherent * control risk) | |
|---------------|------|-------------------------------------|--|------------------------------------|--|-----------------------------------|--|-----|---|---|---|-----|-----|--|--|-----|
| | | Budgetary amount | Complexity of the organisational structure ²⁹ | Complexity of rules and procedures | Wide variety of complex operations ³⁰ | Risky beneficiaries ³¹ | Insufficient staff and/or Lack of competences on key areas ³² | ... | | Degree of change from 2007-2013 ³³ | Quality of internal controls (key requirements from Guidance on the assessment of MCS in the Member States) ³⁴ | | | | | |
| | | | | | | | | | | | e.g. M.1 | ... | ... | | | M.8 |
| 2014xy | MA | | | | | | | | | | | | | | | |
| | IB 1 | | | | | | | | | | | | | | | |

²⁶ For each factor, assess risk using a scale that ensures that the maximum total scoring for the inherent risk is 100%. With four risk factors, the scale can be: High: 25%; Medium: 12,5%; Low: 6,25%. With more risk factors, this scale would have to be modified accordingly. Some of the factors may not be applicable to a given body; in this case, the scale needs also to be adjusted in order to ensure that for that body the total inherent risk scoring can reach 100%.

²⁷ For each factor, assess risk using a scale that ensures that the maximum total scoring for the control risk is 100%. With two risk factors, the scale would be: High: 50%, Medium: 25%, Low: 12,5%. With more risk factors, these scales would have to be modified accordingly.

²⁸ The total scoring for control risk results from adding the scoring given for each of the control risk factors. In the examples given below, the maximum score for "degree of change from 2007-2013" is 50% and the maximum score for "quality of internal controls (...)" is also 50%, thus making a maximum total of 100%. Of course, if this needs to be adapted to the number of control risk factors that the AA decides to consider in the risk assessment.

²⁹ The complexity may be due to the number of actors/ IBs involved and/or their relation with each other (e.g. a small sized MA responsible to supervise several IBs or to a new MA responsible to supervise experienced IBs that are the ones with the effective power in the management of the programme).

³⁰ The complexity of the operations may be related with financial instruments, public procurement, State aid, among other areas where a high degree of judgment and estimation is involved. The specific situation applicable to each programme needs to be explained in detail in a separate sheet, cross-reference to the risk assessment table.

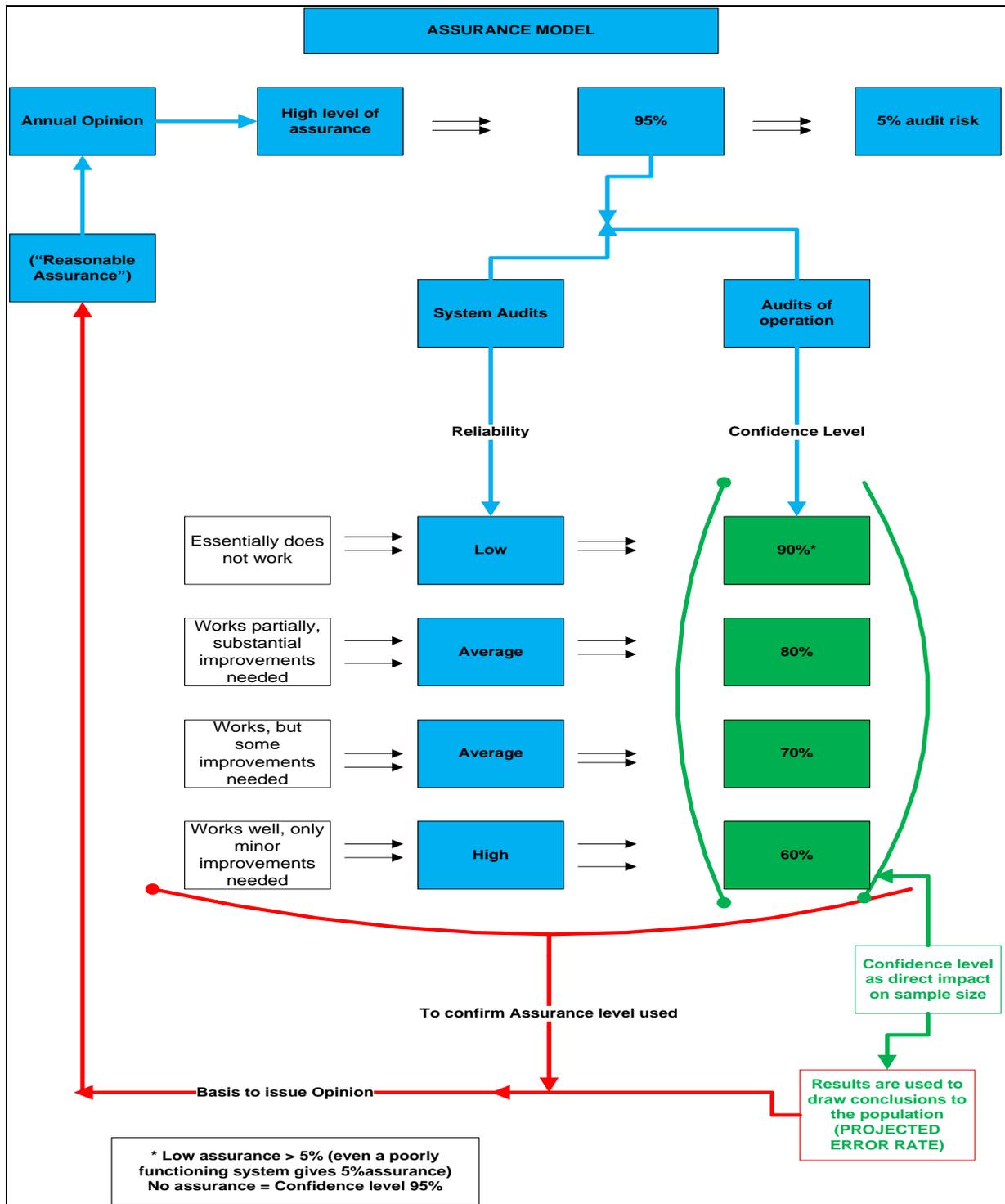
³¹ Beneficiaries with no experience with the Funds rules and/or beneficiaries with high error rates in past audits.

³² The specific situation in terms of human resources allocated to the programme's authority needs to be explained in detail in a separate sheet, cross-reference to the risk assessment table.

³³ For example: No changes =12,5%; Some changes =25%, Significant changes or totally new system = 50%

³⁴ Assessment based on audit results from 2007-2013 period or the process of assessing compliance with the designation criteria. For example: Category 1: 5%, category 2: 20%, category 3: 35%, category 4: 50%.

IV. ASSURANCE MODEL



V. AUDIT WORK INDICATIVE TIMELINES

