



EUROPEAN COMMISSION

**AUDIT REFERENCE MANUAL
FOR THE STRUCTURAL FUNDS**

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1. INTRODUCTION

1.1. Objective of the Audit Reference Manual

The Audit Reference Manual brings together in one document the guidance relevant for the functions and tasks of the audit authorities designated under Article 62 of Council Regulation (EC) No 1083/2006. Since the adoption of the regulations for the programming period 2007-2013, the Commission has in collaboration with the national authorities produced guidance notes covering the most important requirements concerning the management and control arrangements.

The aim of the guidance notes is twofold:

- They explain regulatory requirements in a detailed and clear way so that inconsistencies in the application of rules by different Member States and between the Commission and a Member State are avoided.
- They give the Member States a useful tool for designing and organising their management and control systems by providing recommendations to ensure that the requirements of the regulations are fulfilled, with examples of good practice.

Further guidance notes may be added to the Audit Reference Manual in future, or existing guidance notes revised and updated if necessary.

The Audit Reference Manual does not replace the audit authorities' own audit manuals, which have to be prepared taking account of international audit standards.

1.2. Contents of the audit reference manual

The audit reference manual provides an overview of the actors involved in the management of structural actions and a set of relevant guidance notes.

The guidance notes included in the Audit Reference Manual can be divided into three categories: 1) guidance notes directly addressed to the audit authorities, 2) those related to the auditees, managing authorities and certifying authorities, and 3) general guidance notes of particular relevance to the audit authorities.

The Commission has issued many further guidance and information notes which are of relevance. A complete list is included.

The guidance notes related to the audit authorities were discussed during the technical group meetings with the audit authorities. All the guidance notes were presented in the COCOF meetings.

Guidance notes related to the audit authorities cover:

- The Compliance Assessment exercise (under Article 71 of Regulation (EC) 1083/2006) (COCOF 07/0039/01-EN);
- The Audit Strategy (under Article 62 of Regulation (EC) No 1083/2006) (COCOF 07/0038/01-EN);

- A common methodology for the assessment of management and control systems in the Member States (2007-2013 programming period)(COCOF 08/0019/01-EN);
- Sampling Methods for Audit Authorities (under Article 62 of Regulation (EC) No 1083/2006 and Article 16 of Commission Regulation (EC) No 1828/2006)(COCOF 08/0021/02-EN);
- The concept of the reliance on the work of other auditors (COCOF 09/0002/01-EN);
- Annual control reports and opinions (Article 62(d)(i) & (ii) of Council Regulation (EC) 1083/2006) (COCOF 09/004/01-EN);
- Audit approach with regard to the simplified rules of eligibility on flat-rate indirect costs, standard scales of unit costs and lump sums.

Guidance notes for managing and certifying authorities cover:

- The functions of the Certifying Authority for the 2007-2013 programming period (COCOF 08/0014/02-EN);
- Management verifications to be carried out by the Member States on operations co-financed by the Structural Funds and the Cohesion fund for the 2007-2013 programming period (COCOF 08/0020/04-EN);
- Brochure on eligibility rules;
- Self assessment tool for Managing Authorities (COCOF 09/0005/00-EN).

Guidelines on horizontal topics:

- Guidelines for determining financial corrections to be made to expenditure co-financed by the Structural Funds or the Cohesion Fund for non-compliance with the rules on public procurement (COCOF 07/0037/03-EN);
- Guidance note on Partial closure (under Article 88 of Regulation (EC) No 1083/2006) (COCOF 08/0043/02-EN);
- Guidance note on the Annual summary in relation to Structural Actions and the European Fisheries Fund (under Article 53b(3) of amended Financial Regulation) (revised 10/2008) (COCOF 07/0063/06-EN);
- Information note on Fraud indicators for ERDF, ESF and CF (COCOF 09/0003/00-EN).

The guidance notes are applicable to the European Territorial Cooperation Programmes, and contain specific sections where relevant.

2. OVERVIEW OF THE ACTORS INVOLVED IN THE MANAGEMENT OF STRUCTURAL ACTIONS

2.1. Shared management of Cohesion Policy

Responsibility for the management of structural actions is shared between the Commission and the Member States according to Article 14 of Regulation (EC) No 1083/2006. The division of responsibilities can be summarised as follows:

The Commission has a supervisory role:

- The Commission satisfies itself that the set up of the management and control systems in the Member States is compliant with the regulatory requirements (Article 71 and 72 of the Regulation (EC) No 1083/2006).
- The Commission verifies the effective functioning of the management and control systems in the Member States (Article 72 of the Regulation (EC) No 1083/2006).
- In case of significant deficiencies the Commission has the power of interruption and suspension of payments to the Member States (Articles 91 and 92 of the Regulation (EC) No 1083/2006).
- The Commission has the power to make financial corrections in case of detection of serious deficiencies under the specific circumstances (Article 99 of the Regulation (EC) No 1083/2006).

The Member States are primarily responsible for the management and control of the Funds:

- The Member State must set up a management and control system which complies with the requirements of the regulatory requirements (Articles 70 and 71 of the Regulation (EC) No 1083/2006).
- The Member State must ensure that the management and control systems function effectively (Article 70 of the Regulation (EC) No 1083/2006).
- The Member State has the responsibility for preventing, detecting and correcting irregularities including making any necessary financial corrections (Articles 70 and 98 of the Regulation (EC) No 1083/2006).

In order to establish a compliant and effective management and control system for each programme, the Member State must designate a managing authority, a certifying authority, and an audit authority as indicated in Articles 58 and 59 of Regulation (EC) No 1083/2006 with the functions described in Articles 60 to 62 of Regulation (EC) No 1083/2006.

2.2. The role of the audit authority

It is one of the important innovations for the 2007-2013 programming period in order to strengthen the control arrangements that, in accordance with Article 59 (1) (a) of Regulation (EC)

No 1083/2006, the Member State shall designate an audit authority for every operational programme.

The functions of the audit authority are set out in Article 62 of the Regulation (EC) No 1083/2006 and Articles 16, 17, 18 and 23 of the Commission Regulation (EC) No 1828/2006.

For each programme the designated audit authority has overall responsibility for all audit work. The audit authorities play the key role in providing assurance to the Commission on the set up and functioning of the management and control systems at the start up of the programme, during implementation, and at closure (see chapter 6 on gaining assurance on structural funds of this note).

A summary of the principal functions and the corresponding guidance issued is set out in the table below:

Functions of the audit authority	Guidance note
Ensures execution of systems audits (to verify effective functioning of the management and control systems) (Article 62§1 (a) of Regulation (EC) No 1083/2006).	A common methodology for the assessment of the management and control systems in the Member State (2007-2013 programming period) - COCOF08/0019/01-EN Guidance note on the concept of reliance on the work of other auditors - COCOF 09/0002/01-EN
Ensures execution of audits of an appropriate sample of operations (to verify expenditure declared) (Article 62§1 (b) of Regulation (EC) No 1083/2006)	Guidance note on sampling methods for audit authorities (under Article 62 of Regulation (EC) No 1083/2006 and Article 16 of Commission Regulation (EC) No 1828/2006) – COCOF 08/0021/02-EN Guidance note on the concept of reliance on the work of other auditors - COCOF 09/0002/01-EN
Presents audit strategy within nine months of approval of programme (Article 62§1 (c) of Regulation (EC) No 1083/2006) May present a combined audit strategy for several programmes where a common system applies (Article 62§1 (c) of Regulation (EC) No 1083/2006)	Guidance note on Audit Strategy (under Article 62 of Council Regulation (EC) No 1083/2006) – COCOF 07/0038/01-EN
Submits an annual control report and an annual audit opinion by 31 December each year; first annual control report to be submitted 31 December 2008 covering period 1/1/07 to 30/6/08 (see Diagram 2);	Guidance note on Annual Control Reports and Opinions under Article 62 (1) (d)(i) & (ii) of Council Regulation (EC) 1083/2006 – COCOF 09/004/01-EN

submits, under Article 88, declaration for partial closure where applicable (Article 62§1 (d) of Regulation (EC) No 1083/2006)	
Submits by 31 March 2017 a closure declaration supported by a final control report (see Diagram 2) (Article 62§1 (e) of Regulation (EC) No 1083/2006)	
Ensures that audit work is performed to internationally accepted audit standards (Article 62§2 of Regulation (EC) No 1083/2006)	References to the main sets of the international audit standards included in the Guidance Note on Audit Strategy (under Article 62 of Regulation (EC) N° 1083/2006- COCOF 07/0038/01-EN References included in the Guidance note on sampling methods for audit authorities (under Article 62 of Regulation (EC) No 1083/2006 and Article 16 of Commission Regulation (EC) N° 1828/2006) - COCOF 08/0021/02-EN
Ensures that bodies undertaking audit work are functional independent (Article 62§3 of Regulation (EC) No 1083/2006)	References to the requirements related to the functional independence are included in the Guidance note on Audit Strategy (under Article 62 of Council Regulation (EC) No 1083/2006) - COCOF 07/0038/01-EN

2.3. Coordination between the Commission and the audit authorities of the Member States (single audit concept).

The coordination between the audit authorities (or coordination body) is described in Article 73 of the Regulation (EC) No 1083/2006 and includes the following elements:

- Coordination of audit plans, methods and immediately exchange the results of audits carried out in order to make the best possible use of resources and to avoid unjustified duplication of work (Article 73 § 1 of Regulation (EC) No 1083/2006)

The exchange of the audit results is done through the submission of the system audit reports to the Commission¹.

- Commission and audit authorities (or coordination body) shall meet on a regular basis and at least once a year in order to examine together the annual control report and opinion presented under Article 62 (Article 73§1) and to exchange views on other issues relating to the

¹ The submission of audit reports will be possible via SFC 2007 in the future. As long this possibility is not available, the Member States are requested to submit the finalised reports via the following mailbox REGIO-AUDIT-REPORT@ec.europa.eu. The reports should be provided as soon as finalised.

improvement of the management and control of operational programmes (Article 73 § 1 Regulation (EC) No 1083/2006)

In this context, the Commission intends to continue with the organisation of the bilateral coordination meetings with the audit authorities, the homologues meeting on a yearly basis and the organisation of technical group meetings on a regular basis.

- As foreseen in Article 73 § 2 and 3 of Regulation (EC) No 1083/2006, during the programming period, the Commission shall identify those operational programmes for which the opinion on the compliance of systems under Article 71 (2) is without reservations, where the audit strategy of the audit authority is satisfactory and where reasonable assurance has been obtained that the management and control systems functions effectively on the basis of the results of audits by the Commission and the Member State. For those programmes, the Commission may conclude that it can rely principally on the opinion referred to on Article 62 (1) (d) (ii) Regulation (EC) No 1083/2006 with regard to the effective functioning of the systems and that it will carry out its own on the spots audits only if there is evidence to suggest shortcomings in the system.
- Where there are shortcomings, Commission may require Member States to carry out audits under Article 72(3) of Regulation (EC) No 1083/2006 or it may carry out audits itself under Article 72(2) of Regulation (EC) No 1083/2006
- In Article 74 of Regulation (EC) No 1083/2006, proportional control arrangements are described for operational programmes for which the total eligible public expenditure does not exceed EUR 750 million and for which the level of Community co-financing does not exceed 40 % of the total public expenditure.

2.4. Gaining assurance on structural funds expenditure in the 2007-2013 programming period.

a. Overview

The main sources of assurance in the 2007-13 programming period for the Commission are as follows (see

Diagram 1):

1. Assurances prior to reimbursement of expenditure

- Guarantees obtained during the programme negotiations;
- Ex ante assessment of the compliance of the design of the management and control systems;

2. Assurance on legality and regularity of the expenditure declared and the effective functioning of the management and control systems.

- Certification of expenditure by the certifying authority of each programme, and information about irregularities and the withdrawal and recovery of funding;
- The audit work of the audit authority in line with the agreed audit strategy and the reporting of the results with a formal annual opinion;
- The results of the Commission's audit work and the power to interrupt or suspend payments and to apply financial corrections;
- Declarations by the audit authority at partial and final closure.

In addition to these elements, the Commission also obtains assurance from the annual summaries submitted under Article 53 b (3) of the amended Financial Regulation.

Some Member States also provide voluntary national management declarations on the use of EU funds, which can make an important further contribution to the Commission's assurance.

b. Obtaining assurance on systems prior to reimbursement of expenditure.

Prior to the reimbursement of expenditure, the Commission obtains a minimum of assurance on the set up of the management and control systems. The two main sources of assurance are:

1. Guarantees obtained during the programme negotiations

The programme negotiations have been completed in 2006 and 2007. The establishment of the system architecture was a condition of programme approval (Article 37 of Regulation (EC) No 1083/2006). During the programme approval process, the Commission ensured as far as possible that structural weaknesses in the 2000-2006 systems were corrected and would not recur in the programming period 2007-2013.

2. Ex ante compliance assessment

Before submitting the first interim payment application, or at the latest within 12 months of programme approval, the Member State must submit a description of the management and control system, together with a report setting out the results of an

independent assessment of the setting up of the systems and an opinion on their compliance with the requirements (Article 71 of Regulation (EC) N° 1083/2006). Through the submission of these documents, the Member State confirms that the management and control systems established complies with the requirements of Article 58 and 62 of the Regulation (EC) N° 1083/2006 and section 3 of the Commission Regulation of No 1828/2006 and therefore provides an assurance on the set up of the systems. The compliance assessment covers the general principles of the management and control system, designation of the programme authorities, and the capacity of the programme authorities to perform their functions, such as verifications of legality and regularity by the managing authority, certification of expenditure by the certifying authority, and the delivery of an annual audit opinion by the audit authority.

The Commission's services will/have examine(d) the compliance assessment reports and opinions and monitor the implementation of corrective measures where opinions are qualified. The Commission will not make interim payments until it is satisfied that there is an unqualified opinion on which it can rely.

c. Obtaining assurance on legality and regularity of expenditure declared

During the implementation of the operational programmes, several sources of assurances have been built into the management and control system:

1. Certification of expenditure by the Certifying Authority

The role of the Certifying Authority is to certify the expenditure it declares to the Commission for reimbursement as accurate, as resulting from reliable accounting systems, and as compliant with applicable Community and national rules (Article 61 of Regulation (EC) No 1083/2006). Certification provides assurance that the first-level checks by management, the foundation of the entire control system, have been properly carried out. Guidance notes on management verifications (COCOF 08/0020/04-EN) and on the functions of certifying authorities (COCOF 08/0014/02-EN) for the 2007-2013 were presented to the Member States. The rules on the reporting of irregularities, recoveries and withdrawals of expenditure from co-financing have also been clarified and rationalised for the 2007-13 period, in a way which will enable the Commission to make better use of the information provided for gaining assurance on the corrective mechanisms at national level.

2. Audit authorities' audit work

The regulatory framework has strengthened the single audit approach in relation to the role played by the audit authorities through the requirements for the designation for each programme of a responsible audit authority (Article 59 of Regulation (EC) No 1083/2006), the submission of an audit strategy which is subject to approval by the Commission (Article 62 of Regulation (EC) No 1083/2006), and the requirement for an annual control report and audit opinion (Article 62 of Regulation (EC) No 1083/2006).

The audit authority carries out audit work during the audit year (1 July to 30 June) on the basis of the audit strategy approved by the Commission and updated each year. It reports on the results of its work in the annual control report submitted by 31 December. On the basis of its conclusions it provides an audit opinion on the functioning of the systems. The Commission will assess the information included

in the annual control report and the audit opinion and compare with the results coming from other sources of information (ECA audits and EC audits). As a result of this timetable, the Commission is able to take account of the annual control report and opinions for the Annual Activity Reports prepared by the responsible Directorate Generals which are in turn audited by the European Court of Auditors for its annual DAS. This means that the results of the work of the audit authorities can be linked to the discharge procedure for the EU budget.

3. The Commission's audit work

The Commission's objective is to obtain assurance that the management and control systems have been set up in conformity with the regulatory requirements and that they function effectively for all programmes. Once the exercise of the compliance assessment procedure and audit strategy approval at the beginning of the period has been completed, the Commission's audit services will carry out audits to verify the functioning of the new systems, and they will review each year the annual control reports and annual opinions of the audit authority (Article 72§1 of Regulation (EC) No 1083/2006).

The Commission may also require a Member State to carry out on the spot audits to verify the effective functioning of systems or the correctness of one or more transactions. (Article 72§2 of the Regulation (EC) No 1083/2006).

The audit work will be coordinated between the two Directorates-General concerned under their joint audit strategy and with the Member States in line with Article 73 of the Regulation (EC) No 1083/2006, and the results will be shared.

Having regard to the role and functions of the audit authorities referred to above, the audit work of the Commission will focus primarily on verifying the reliability of their audit work in line with the concept of the single audit. However, the Commission may also conduct its own systems audits, together with substantive testing of operations.

During the programming period, the Commission will identify those operational programmes for which the opinion on the compliance of systems under Article 71 (2) is without reservations, where the audit strategy of the audit authority is satisfactory and where reasonable assurance has been obtained that the management and control systems functions effectively on the basis of the results of audits by the Commission and the Member State. For those programmes, the Commission will use the possibility provided by Article 73 (2) and (3) to reduce its own audit work by informing the Member State concerned that it will rely principally on the opinion of the audit authority with regard to the effective functioning of the management and control system.

The Commission will be able to use its powers to interrupt (Article 91 of Regulation (EC) No 1083/2006) or suspend (Article 92 of Regulation (EC) No 1083/2006) payments and to apply financial corrections (Article 99 of Regulation (EC) No 1083/2006). These powers provide assurance that if there is evidence of irregularities, corrective measures can be applied so that there is no financial loss to the EU budget. The main new element is that the interruption of payments can be effected by authorising officers by delegation without a Commission decision. The Commission has therefore the possibility to react rapidly when there is evidence to suggest a significant deficiency in the functioning of the management

and control systems or when the Commission was alerted that expenditure is linked to a serious irregularity which has not been corrected.

4. Audit opinions at partial and final closure

The requirements concerning the audit opinion to be provided at the closure of a programme are carried forward from the 2000-06 period (Article 62 of Regulation (EC) No 1083/2006). The fact that the audit authority will have formal responsibility for all audit work carried out and will provide an annual opinion on the effective functioning of the management and control systems should strengthen the level of assurance provided at closure. The new possibility of the partial closure of programmes for expenditure up to the end of a given year in the course of the programme period, for which an audit opinion will also be required (Article 88 of Regulation (EC) No 1083/2006), should reduce the burden on the audit authority at the end of the programme period, as it gives the possibility of a rolling closure of programmes for blocks of expenditure from completed operations fully disbursed and checked.

Diagram 1 – Building Assurance

How assurance will be built up 2007-2013

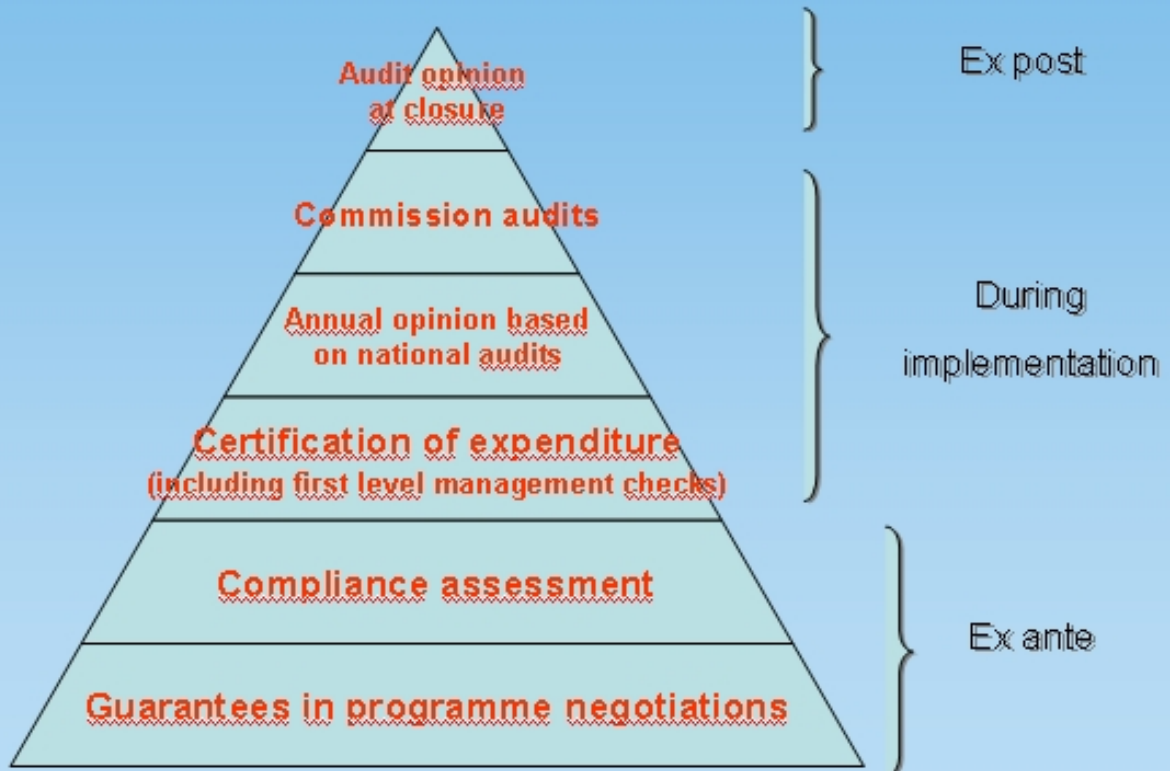


Diagram 2 - Time schedule for reporting by audit authority

