EUROPEAN COMMISSION

European Structural and Investment Funds

Guidance for Member States on the Annual Control Report and Audit Opinion to be reported by audit authorities

and

on the treatment of errors detected by audit authorities in view of establishing and reporting reliable total residual error rates

(Programming period 2014-2020)

Revision 2018

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*

CONTENTS

LIST OF ACRONYMS AND ABBREVIATIONS

AA	Audit Authority
ACR	Annual Control Report
Audit Body	Body carrying out audits under AA's remit, as foreseen in Article 127(2) of the CPR
CA	Certifying Authority
CCI	Code Commun d'Identification (reference number of each programme, attributed by the Commission)
CDR	Commission Delegated Regulation (EU) No 480/2014) of 3.3.2014 supplementing Regulation (EU) No 1303/2013 of the European Parliament and of the Council[1]
CIR	Commission Implementing Regulation (EU) No 2015/207 of 20.01.2015[2] as amended by Regulation (EU) No 2018/277
CPR	Common Provisions Regulation (Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17.12.2013 [3] as amended by Regulation (EU, Euratom) 2018/1046
ECA	European Court of Auditors
EIB	European Investment Bank
ESIF	ESIF means all European Structural and Investment Funds. This guidance applies to all except for the European Agricultural Fund for Rural Development (EAFRD).
ETC	European Territorial Cooperation (under Regulation (EU) No 1299/2013 of the European Parliament and of the Council of 17.12.2013)
FI	Financial Instruments
IB	Intermediate Body
L/R	Legality and regularity
MA	Managing Authority
MCS	Management and control system
TER	Total Error Rate
RTER	Residual Total Error Rate

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

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

GLOSSARY

Term	Definition
Anomalous error	An error that is demonstrably not representative of the population.
Assurance package	The 'assurance package' to be submitted by Member States' authorities by 15/02 (or 01/03 in exceptional cases agreed by the Commission) each year includes: the accounts drawn up by the certifying authority, the management declaration and the annual summary of final audit reports and controls carried out drawn up by the managing authority, the annual audit opinion and control report issued by the audit authority
Contradictory procedure	Procedure whereby (draft) audit reports are sent to the auditee with a request for a written reply/ comment on the facts described in the report within a given time-limit, with a view to clarify / agree on these facts.
Error	For the purposes of this guidance, an error/ misstatement is a quantifiable overstatement of the expenditure declared to the Commission due to an irregularity.
Expenditure of accounting year N	Expenditure declared to the Commission, based on which the sample of operations is selected.
Irregularity	Defined in Article 2 (36) CPR, referred to in this document also as error or misstatement.
Known error	A known error is an error found outside the sample audited.
Misstatements	Same meaning as error.
Population	The set of positive data in the population of expenditure declared to the Commission within the accounting year (through interim payment applications) from which the sample is selected (for the purposes of Article 127 (1) of Regulation (EU) No 1303/2013) and on which the auditor draws its conclusions (audit opinion).
Random error	The errors which are not considered as systemic, known or anomalous are classified as random errors. This concept presumes the

Term	Definition
	probability that random errors found in the audited sample are also present in the non-audited population.
Residual total error rate (RTER)	Residual Total Error Rate (RTER) corresponds to the Total Error Rate (TER) less the financial corrections that have been applied before submission of the accounts by the Member State in relation to the errors detected by the AA, including projected random errors, systemic and known errors. Usually, these corrections are applied after the TER is determined. However, financial corrections applied by the Member State after the AA drew its sample and before the TER has been established by the AA may also be deducted from the RTER, provided that such corrections intend to reduce the risks identified by the AA.
Systemic error	Systemic errors are errors found in the sample audited; and have an impact in the non-audited population; and occur in well-defined and similar circumstances. Such errors generally have a common feature, e.g. type of operation, location or period. They are in general associated with ineffective control procedures within (part of) the management and control systems.
Total error rate (TER)	The total error rate corresponds to the sum of the following errors: projected random errors (including errors established in the exhaustive strata), delimited systemic errors and uncorrected anomalous errors. The AA should compare the total error rate with the materiality threshold and combine this assessment with the results from system audits to reach conclusions on the proper functioning of the MCS.

BACKGROUND

1. Regulatory references

Regulation	Articles
Regulation (EU) 1303/2013 as amended by Regulation (EU, Euratom) 1046/2018 Common Provisions Regulation *(hereafter CPR)*	Article 127 (5)- Functions of the audit authority
Regulation (EU) 2015/207 as amended by Regulation (EU) No 2018/277 Commission Implementing Regulation *(hereafter CIR)*	Articles 7 (2 and 3) and Annexes VIII and IX (models for the audit opinion and the annual control report)
Regulation (EU, Euratom) 1046/2018 Financial Regulation	Article 63 – Shared management with Member States

2. Purpose of the guidance

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

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

According to Article 317 of the Treaty on the Functioning of the European Union, in areas of the Community budget, which are managed through shared management arrangements, the Commission retains overall responsibility for implementing the budget, while the Member

States cooperate with the Commission and are responsible for day-to-day administration and control of the implementation of the programmes.

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

As established by the last paragraph of Article 127(5) CPR, where a common MCS applies to more than one programme, a single ACR covering those programmes may be drawn-up by the AA. Further considerations on a common MCS are provided in section 2 of the Commission's *Guidance for Member States on Audit Strategy* (ref. EGESIF_14-0011).

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

3. Timing of the audit work

Article 63 (5) of the Financial Regulation states that accounts on expenditure incurred during the reference period and the annual summary of the final audit reports and controls carried out need to be provided to the Commission by 15 February of the following year. The deadline of 15 February may exceptionally be extended by the Commission to 1st March, upon communication by the Member State concerned.

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

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

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

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

GUIDANCE ON ACR

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

1. Introduction

1.1 Identification of the responsible audit authority and other bodies that have been involved in preparing the report. 1.2 Reference period (i.e. the accounting year)[4]. 1.3 Audit period (during which the audit work took place). 1.4 Identification of the operational programme(s) covered by the report and of its/their managing and certifying authorities. [Where the annual control report covers more than one programme or Fund, the information shall be broken down by programme and by Fund, identifying in each section the information that is specific for the programme and/or the Fund, except for section 10.2 where such information shall be provided under section 5.] 1.5 Description of the steps taken to prepare the report and to draw the audit opinion.

The period during which the audit work took place should be mentioned under **section 1.3**. In particular, the cases of system audits carried out between the end of the reference accounting year and the date of signature of the ACR, with an impact on the audit opinion, should be clearly indicated. Reference should be made to the version of the audit strategy applicable. In cases of changes to the strategy related to the accounting period covered by this ACR, this should be mentioned in section 3.

Section 1.5 should cover the preparatory phase, documentation analysed, coordination with other bodies (if applicable), audit work conducted as described in sections 4, 5 and 6, and final drawing up of the audit opinion. This section is of particular relevance in cases where the AA relies on the work of other audit bodies.

Finally, this section should cover also the description of the AA's consistency checks on the management declaration for the purposes of the audit opinion (including checks on whether

[4] As defined in Article 2(29) CPR.

the management declaration is consistent with the conclusions of all audits and controls). For more details, refer to the Commission's *Guidance on the drawing of Management Declaration and Annual Summary for Member States* (EGESIF_15_0008, as updated).

2. Significant changes in management and control systems

2.1 Details of any significant changes in the management and control systems related with managing and certifying authorities' responsibilities, in particular with respect to the delegation of functions to new intermediate bodies, and confirmation of its compliance with Articles 72 and 73 of Regulation (EU) No 1303/2013 based on the audit work carried out by the audit authority under Article 127 of the same Regulation. 2.2 Information relating to the monitoring of the designated bodies according to Article 124(5) and (6) of Regulation (EU) No 1303/2013. 2.3 The dates from which these changes apply, the dates of notification of the changes to the audit authority, as well as the impact of these changes to the audit work are to be indicated.

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

When Article 124 (5) and (6) of the CPR apply, and when the AA has been mandated by the Member State to confirm that the relevant remedial action plan[5] has been implemented during the probation period, it should disclose in the ACR the work conducted in this regard. If such plan has not yet been implemented before submission of the ACR, the AA should disclose in the ACR the decided timetable of the plan, the state of play and the impact of this situation on the AA's audit opinion. In case the AA has not been mandated by the Member State, the AA should disclose the information available to the AA (as provided by the body mandated by the Member State to confirm implementation of the remedial action plan), its assessment and impact on the AA's opinion.

3. Changes to the audit strategy

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

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

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

4. System audits

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

The bodies mentioned in section 4.1 concern either the AA or any audit body that carries out audits as foreseen in Article 127(2) of the CPR, where appropriate. If part of the system audits has been outsourced, the contract details[6] and the tasks outsourced to the contractor(s) should be specified. For multi-fund programmes, it should be indicated, if the AA performs the audit work for all Funds. If not, the responsible bodies for each fund should be mentioned.

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

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

The ACR should include information concerning the state of implementation of the audit strategy with regard to system audits carried out until the submission of the assurance package (including after the end of the accounting year). The AA is also invited to describe under this section the type and intensity of control testing procedures carried out for the reported system audits (or to refer to the relevant sections of the system audit reports where this information is provided). In case the audit strategy was not (fully) implemented, the AA should explain the reason for it, estimate the impact on the audit opinion and indicate the timing for completion of the system audits planned, which will be reported in the next ACR or another report. In any case, **the AA is expected to implement all the audit work necessary to draw a valid audit opinion for each accounting year**.

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

4.3 In relation to the table in section 10.1 below, description of the main findings and conclusions drawn from system audits, including the audits targeted to specific thematic areas, as defined in section 3.2 of Annex VII of Regulation (EU) 2015/207.

[6] Such as the name of the contractor, scope and objectives, definition of tasks, etc.

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

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

The table set out in Section 10.1 of Annex IX of the CIR should be completed and annexed to the ACR. This table indicates for each body audited by the AA the assessment related to each key requirement, resulting also from audits conducted during previous accounting years of the same programming period. Further information on the assessment of these key requirements is presented in the Commission's *Guidance on a Common Methodology for the Assessment of Management and Control Systems in the Member States* (EGESIF_14-0010 of 18/12/2014).

The table under 10.1 is generated in SFC 2014 with information from all reports submitted via SFC 2014.

Horizontal audits[7] targeting specific thematic areas (as foreseen in the audit strategy and carried out in relation to the accounting year) should also be reported in section 4.3, such as:

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

Where no system audits have been carried out in relation to the accounting year, an adequate justification should be provided or information about this being in line with the audit strategy.

[7] Horizontal audits can cover more than one Fund or programme.

In normal circumstances system audit reports are expected to be sent to the Commission immediately after finalisation of the final audit report throughout the year for timely information. However, in exceptional cases where system audits were performed or finalised in relation to the accounting year, but not submitted to the Commission yet, they should be submitted at the latest at the same time as the ACR. Where system audits have not yet been finalised at the time of the ACR, an indication of the preliminary conclusions should be provided in the ACR, as well as an estimation of their impact on the overall assessment.

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

In case no systemic errors were identified, the AA is expected to confirm this in the ACR.

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

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

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

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

In this section, the AA is expected to describe the work carried out specifically concerning financial instruments and the deficiencies and irregularities detected, as well the corrective measures taken in that respect. The AA should also describe the assurance on FIs implemented by EIB or other international financial institutions, provided by those institutions through the control reports and the annual audit report as set out in the 3rd sub-paragraph of Article 40(1) CPR as well as by the AA's own audit work carried out in accordance with Article 40(2) CPR.

The information disclosed in the ACR should present the results of the verification of compliance with the conditions of Article 41(1) CPR. The Fund supporting the financial instrument should be mentioned for multi-fund programmes.

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

This refers to the degree of assurance that can be attributed to the MCS, as to its ability to ensure the legality and regularity of expenditure. The assessment by the AA is based on the results of any system audit related to the accounting year including, if relevant, results from system audits carried out during previous accounting years and/or system audits finalised after the end of the accounting year until the submission of the assurance package. If qualifications are due to the issues detected during a system audit carried out after the end of the accounting year but before submission of the accounts, this should be clearly disclosed in the audit opinion.

Systems assessed with category 1 provide a high degree of assurance on the legality and regularity of expenditure, systems assessed with category 2 provide an average assurance, systems assessed in category 3 provide an average or a low assurance, depending on the impact of the weaknesses identified, and systems assessed with category 4 provide a low degree of assurance on the legality and regularity of expenditure.

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

5. Audits of operations

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

The AA is expected to explain in this section the measures taken to supervise the work of the bodies that carried out the audits of operations on its behalf (delegated or outsourced), in line with the EU regulatory framework, the audit strategy and the internationally accepted audit standards[8]. The AA should confirm that the work done by those bodies can be relied on for purposes of the ACR and allows the AA to draw-up a valid audit opinion.

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

If part of the audits of operations has been outsourced, the contract details[9] and the tasks outsourced to the contractor(s) should be specified.

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

[9] Such as the name of the contractor, address, scope and objectives, definition of tasks, etc.

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

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

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

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

In **section 5.3**, the AA should indicate and justify the **parameters used for the sampling**, such as expected error, materiality level, sampling unit (i.e. an operation, a project within an operation or a payment claim by a beneficiary) and, where applicable, the confidence level applied in line with Article 28(11) CDR[10] and the sampling interval, if applicable. The ACR should also disclose the population size, the sample size and the number of sampling units actually audited in the accounting year, where appropriate. In case of multiple sampling periods, the data should be indicated for each sampling period.

For Member States that have not adopted the euro as their currency, taking into consideration that the expenditure of beneficiaries subject to audit is in general incurred in national currency, it is recommended that the sampling and the related error rates are based on the national currency.[11] This approach aims at ensuring that exchange rate fluctuations do not impact the error rate calculation.

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

In the period 2007-2013, it was possible to use a single sample for several programmes for which a common MCS applied. This remains valid for the period 2014-2020.

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

[11] In case of any conversions, provisions of Article 133 CPR apply.

With regard to programmes included in a common MCS, the Commission recommends in particular when different results (i.e. error rate above 2% and/or system deficiencies for part of the programmes under the common MCS) are expected for some of those programmes, that the AA plans its work in order to seek reasonable assurance for the specific sub-group of programme(s). This can be achieved by ensuring a representative sample at stratum level covering the expenditure declared for that sub-group of programme(s). Where statistical sampling is used to select the random sample for the common MCS, the rule of thumb of at least 30 sampling units for such stratum applies, thus allowing drawing conclusions for the stratum. For non-statistical sampling, the options presented in the guidance on sampling are applicable.

Similarly, with regard to multi-fund programmes, in case of error rate above 2% or system deficiencies, it is in the Member State's interest to implement targeted financial corrections for each Fund, rather than corrective measures affecting the whole programme. The Commission therefore recommends that the AA seeks reasonable assurance for each Fund. This implies that the sample selected for a multi-fund programme provides sufficient audit evidence for each Fund. For this purpose, the AA could use stratification by Fund, as foreseen by Article 28(10) CDR, ensuring that each stratum is of sufficient size to draw a conclusion per stratum, i.e. the rule of thumb of 30 sampling units by Fund applies. This is particularly important when different results are expected for the Funds under a multi-fund programme.

Using the templates provided in the Commission's guidance on sampling, the AA should provide in Annex 10.3 of the ACR the calculation tables, preferably in Excel format[12], relevant to understand the sampling method applied. Where the AA has followed a sampling method not foreseen in these templates, the relevant calculation sheet should be provided instead. The audit trail for the selection of the sample should be ensured.

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

In particular, the AA should indicate which approach to sample selection was used in light of the restrictions laid down in Article 148(1) CPR:

a) exclusion of sampling units, or

b) replacement of sampling units.

Moreover, the AA should present the calculation of the projected error and precision for the whole population, in line with the clarifications provided in the *Guidance on sampling methods for audit authorities* (section on the impact of Article 148(1) on the sampling methodology)

[12] Where applicable and upon request of the Commission auditors, the computer logs from ACL, IDEA or similar software.

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

In this section, the AA should also provide the list of the selected sampling units, indicating for each sampling unit in the selected sample the following information:

a) expenditure declared in the sampling period,

b) detected error,

c) related stratum, if applicable,

d) indication whether the sampling unit is an advance payment to a Financial Instrument (FI).

This list can be added (as a separate sheet) in the spreadsheet file containing the calculations underlying the random sample selection and the TER and RTER (i.e. section 10.3).

Moreover, for cases where FI sampling units were selected in the sample, the following information should also be provided in the ACR, ideally in the spreadsheet file containing details of the RTER calculation:

a) FI amounts in the audit population per sampling period (included in value A of the RTER calculation[13]);

b) Confirmation whether all FI sampling units in the population were included in the sample. If not, the AA should indicate the amount of expenditure related to FI sampling units outside the sample per sampling period;

c) FI amount related to ongoing assessment or other negative amounts deducted from the population (included in value F of the RTER calculation);

d) financial corrections related to FI which the AA included in value H of the RTER calculation.

The purpose of the information requested above is to allow the Commission's assessment of the TER/RTER and evaluation of the risk excluding FI advance payments, if any[14].

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[13] See table 2 for the RTER calculation in section IV.4 of the current guidance.

5.4 Reconciliation between the total expenditure declared in euro to the Commission in respect of the accounting year and the population from which the random sample was drawn (column "A" of table in section 10.2 below). Reconciling items include negative sampling units where financial corrections have been made in respect of the accounting year. 5.5 Where there are negative sampling units, confirmation that they have been treated as a separate population according to Article 28(7) of Commission Delegated Regulation (EU) No 480/2014. Analysis of the principal results of the audits of these units, namely focusing on verifying whether the decisions to apply financial corrections (taken by the Member State or by the Commission) have been registered in the accounts as withdrawals or recoveries. 5.6 In case of the use of non-statistical sampling, indicate the reasons for using the method in line with Article 127(1) of Regulation (EU) No 1303/2013, the percentage of operations/expenditure covered through audits, the steps taken to ensure randomness of the sample (and thus its representativity) and to ensure a sufficient size of the sample enabling the Audit Authority to draw up a valid audit opinion. A projected error rate is calculated also in case of non-statistical sampling.

The AA should disclose in **section 5.4** the value of the **population** sampled and a reconciliation of this amount with the amount of expenditure declared by the CA to the Commission in relation to the accounting year[15].

The population for sampling purposes includes the expenditure declared to the Commission for operations within a programme or group of programmes for the accounting year. All operations, for which declared expenditure has been included in a request for payment submitted to the Commission during the year subject to sample, should be comprised in the sampled population, except where Article 148(1) CPR applies (see also section IV.5 below).

In **section 5.5**, the AA should confirm that the **negative sampling units** have been treated as a separate population, in line with Article 28(7) CDR. Further explanations on how to deal with negative sampling units is provided in the *Guidance on sampling methods for audit authorities.*

In case the AA detects issues in the negative population (such as insufficient corrections), it should analyse the seriousness and the extent of these errors and reflect the results of this assessment in its opinion on the MCS.

In case of **non-statistical sampling[16]**, the AA should describe in **section 5.6** the reasoning made to select the sample, with reference to its professional judgement, regulatory

[14] See ECA recommendation n° 2.a and paragraph 6.35 in its 2016 Annual Report. The Commission clarified to ECA and the AAs in various technical group meetings throughout 2017 that it is not seeking from the AA a separate audit opinion on expenditure declared for FI or separate / alternative TER calculation without FI.

[15] See the guidance on sampling for further details in this regard.

requirements and applicable internationally accepted audit standards. In particular, the AA should explain how randomness was ensured in the selection of sampling units and why it considers the sample sufficient to draw up a valid audit opinion.

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

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

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

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

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

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

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

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

The errors considered in the TER should relate to findings disclosed in a final audit report, i.e. after the contradictory procedure with the auditee has been finalised.

[16] The minimum regulatory requirement of 5% of operations and 10 % of the expenditure corresponds to the 'best case scenario' of high assurance from the system. In this respect, further details are provided in the guidance on the audit strategy (cf. section 4.3) – ref. EGESIF_14-0011 and the guidance on sampling.

In cases where such contradictory procedure was not completed before submission of the ACR, this should be clearly disclosed and if the impact is material a qualified opinion may be provided on the basis of the AA's professional judgement. With regard to the TER calculation, the preliminary errors (usually the maximum potential errors indicated in the draft audit reports) should be included[17].

Under **section 5.7**, the AA should include the qualitative analysis performed on the findings found. The number and types of findings, their significance and their root causes (important in particular in cases where the same type of error occurs several times, suggesting potential system weakness), as estimated by the AA, should be indicated.

With regard to the typology of project findings, the information should be presented in the form of a structured data in SFC2014 (see also table provided in Annex 5 as agreed jointly by the Commission and AAs for the 2014-2020 programming period).

With regard to the information provided under **section 5.8,** it should be noted that if a single sample for a multi-fund programmes or for a group of programmes covered by a common MCS leads to the calculation of a material error rate, the resulting TER and corrective measures apply to all those programmes and/or Funds, even when the irregularities detected relate only or more specifically to one programme or one Fund. However, it is for the Member State to consider how to apply the appropriate corrections so that the overall residual total error rate for the group of all concerned programmes and/or Funds is reduced to 2% or below.

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

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

The assessment of the TER and its impact on the MCS element of the audit opinion is presented in table 1 under section III.1.

The AA should also calculate and disclose the RTER (i.e. the remaining error in the population of expenditure included in the certified accounts) after the relevant financial corrections resulting from the AA's audits were applied. The RTER should then be compared with the materiality threshold of 2%.

[17] Further information regarding the impact of unfinished audits of operations on TER and RTER calculation is provided in Section IV.5.

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

In case of a RTER above 2%, the audit opinion should be qualified or adverse, at least in relation to legality and regularity of expenditure but most probably also in relation to the proper functioning of the MCS (see further guidance provided in section III.1 below). The Member State is expected to apply, before submission of the assurance package, additional (in particular extrapolated) financial corrections to bring the material residual risk (i.e. RTER) to 2% or below; this is the condition to allow for an unqualified opinion on the legality and regularity of the expenditure certified in the programme accounts.

In addition to the information on the TER and RTER presented in section 5 of the ACR, the table under section 10.2 of the ACR should also disclose the TER and RTER (see Annex 2 to the present document). The module in SFC2014 includes the above-mentioned table, which should be filled in directly.

The underlying calculations for TER and RTER should be provided under section 10. 3. of the ACR. Further explanations on the treatment of errors and further guidance regarding the TER and the RTER calculation is provided in section IV below.

As follows from Article 28(11) CDR and where applicable, the AA should explain under **section 5.11** of the ACR, whether, besides the random errors, some of the errors found are systemic or anomalous.

In view of the provisions of Financial Regulations and CPR[19] for annual accounts in the period 2014-2020, **revised error rates for previous years are no longer relevant and do not need to be disclosed in the ACR**. Consequently, all financial corrections applied in relation to the expenditure in the sampled population, certified in the accounts and reported with the assurance package are considered definitive.

6. Audits of accounts

6.1 Indication of the authorities/bodies that have carried out audits of accounts. 6.2 Description of audit approach used to verify the elements of the accounts defined in Article 137 of Regulation (EU) No 1303/2013. This should include a reference to the audit work carried out in the context of system audits (detailed in section 4) and audits of operations (detailed in section 5) with relevancy for the assurance required on the accounts. 6.3 Indication of the conclusions drawn from the results of the audits in regard to the completeness, accuracy and veracity of the accounts, including an indication on the financial corrections made and reflected in the accounts as a follow-up to the results of the system audits and/or audit on operations. 6.4 Indication of whether any problems identified were considered to be systemic in nature, and the measures taken.

[19] In particular Article 63 (5) and (6) of Financial Regulation and Article 137 (1) CPR

The AA should describe in **section 6.2** the audit work carried out to audit the accounts, in the framework of Article 137 CPR and Article 29 CDR and to support the audit opinion on the completeness, accuracy and veracity of the accounts, taking account of the Commission's *Guidance on audit of accounts* (EGESIF_15_0016) as updated.

The AA should also explain the timetable and working arrangements agreed with the CA and the MA necessary for the AA to be able to perform its audit work on the accounts in due time[20].

In **section 6.3**, the AA should explain how it has drawn conclusions on the completeness, accuracy and veracity of the accounts based on the following various sources of assurance:

- its system audits (in particular the ones carried out on the CA, as determined in Article 29(4) CDR);
- its audits of operations[21];
- 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 draft accounts submitted by the CA to the AA and any additional audit procedures carried out to reconcile and verify data in the accounts.

Concerning the latter, the AA should describe their final additional verifications carried out on the draft certified accounts, before the regulatory deadline of 15 February, as set out in the guidance on audits of accounts mentioned above. In particular, the AA should:

(1) confirm explicitly in the ACR that it has checked the reconciliation made by the CA concerning information presented in appendixes 2 and 8 of the accounts and its consistency with the information provided by the MA in the annual summary (in particular the amount disclosed in tables under sections A, B and C of the annual summary) and

(2) disclose and explain the discrepancies found between these two documents, if any.

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

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

The AA should describe the work done in this respect, including the AA's assessment of the adequacy of the CA's explanations for the adjustments disclosed in these appendixes and the verification of the consistency with the information disclosed in the ACR and in the annual summary. The verification should focus in particular on financial corrections made and reflected in the accounts as a follow-up to the results of the system audits, audits on operations and further management verifications carried out after submission of the final interim payment application to the Commission and before submission of the accounts. **Special attention and disclosure should be done of the amounts under ongoing assessment as refered to in Article 137(2) CPR**.

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

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

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

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

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

In this respect, the AA should consider Guideline No 25 of the European Implementing Guidelines for the INTOSAI Auditing Standards[22], related to the concept of using the work of other auditors and experts by the European Supreme Audit Institutions. This guideline specifically refers to the requirements to be respected depending on the extent of the reliance on the work done by other auditors at each phase of the audit, whether for planning purposes, as part of the audit evidence or at the end of the testing. The extent of procedures that the principal auditor should perform to obtain sufficient appropriate audit evidence that the work of the other auditor is adequate for the principal auditor's purposes, in the context of the specific assignment, depends on the phases of the audit where the work of other auditors may be used. Especially when the work is used as audit evidence, the AA's review will have to be more detailed.

[22] https://www.eca.europa.eu/Lists/ECADocuments/GUIDELINES/GUIDELINES_EN.PDF

Further guidance is provided by ISSAI 1600 concerning group audits[23], ISSAI 1610[24] (includes ISA 610) on the use of the work of internal auditor, and by ISSAI 1620[25]on using the work of an auditor's expert.

8. Other information

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

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

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

The ACR should disclose whether the cases of suspected fraud detected by the AA[26] were communicated to OLAF. Suspected fraud must be reported to OLAF by the authority designated by the Member State in line with requirements under Article 122 (2) CPR and the Delegated and Implementing Acts referred to in this provision[27].

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

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

[23] http://www.intosai.org/issai-executive-summaries/view/article/issai-1600-special-considerations-audits-of-group-financial-statements-including-the-work-o.html

[24] http://www.intosai.org/issai-executive-summaries/view/article/issai-1610-using-the-work-of-internal-auditors.html

[25] http://www.intosai.org/issai-executive-summaries/view/article/issai-1620-using-the-work-of-an-auditors-expert.html

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

[27] EU2015/1970-DA, EU2016/568-DA, EU2015/1974-IA

Further information and guidance for actions to be taken by national authorities (including AAs) in view of preventing, detecting and correcting instances of fraud is available at http://ec.europa.eu/sfc/en/2014/anti-fraud. Following the ISA 240, *"Auditors may come across circumstances that suggest that fraud may have occurred. In these cases, they must inform the relevant authority without delay for further action…. The auditor may conclude that potential fraud affects the whole system or only part of it, or he/she may conclude that there are one or more isolated potential fraud cases. In all cases, he/she must react quickly and inform the relevant authorities, taking into account all circumstances surrounding the case(s). The auditor, based on the evidence discovered, must rigorously and thoroughly analyse the situation, structure the evidence on which the finding is based, and decide whom to inform. In the first instance, the right people to inform are likely to be those charged with governance of the audited entity, if there is no reason to think that they are involved in the case(s). (…) Otherwise the auditor must notify the case(s) directly to the judicial authorities, without prejudice to any national legislation relating to the confidentiality of information obtained during an audit. Auditors must also inform the responsible national authorities which have to notify the Commission (OLAF) of irregularities and suspected fraud cases in line with the applicable sectoral rules on reporting irregularities."*[28]

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

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

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

[28] Handbook *The role of Member States' auditors in fraud prevention and detection* (https://ec.europa.eu/sfc/sites/sfc2014/files/Handbook%20the%20Role%20of%20Member%20states%27auditors%20in%20fraud%20prevention%20and%20detection%20%5BEN%5D.doc)

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

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

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

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

In addition, the AA is invited to summarise in section 8 the audit work carried out and the results in relation to performance data reliability, based on system audits of KR6 (in particular the aspect of performance data reliability), any specific thematic audits on performance data reliability, and audits of operations.

9. Overall level of assurance

9.1 Indication of the overall level of assurance on the proper functioning of the management and control system, and explanation of how such level was obtained from the combination of the results of the system audits (as reflected in section 10.1 below) and audits of operations (as reflected in section 10.2 below). Where relevant, the audit authority shall take also account of the results of other national or Union audit work carried out in relation to the accounting year. 9.2 Assessment of any mitigating actions implemented, such as financial corrections and assessment of the need for any additional corrective measures necessary, both from a system and financial perspective.

For the purposes of the overall assurance to be indicated by the AA in **section 9.1:**

- The assurance on the accounts is based on the results of the audits on the accounts (and other relevant sources of information as described in section 6.3 above) and conclusions on this matter should be disclosed in section 6.3[29].
- The assurance on the legality and regularity (L/R) of expenditure is based on the TER resulting from audits of operations taking into account the implementation of the required corrections before submitting the accounts (i.e. RTER – see section 5 above).
- The assurance on the proper functioning of the MCS is based on the combined results of both the system audits (system assessment – see section 4 above) and the audits of operations (TER – see section 5 above).

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

The overall level of assurance is reflected in the audit opinion (see section III below) to which the AA may refer in this section.

With regard to **section 9.2** the AA is recommended to describe the corrective measures taken by the Member State based on the results of the system audits and of the audits on operations reported by the AA.

In general, the existence of a TER above the materiality level confirms deficiencies in the management and control system (mostly at the level of KR4, management verifications but possibly also for other key requirements). In this case, and in particular where the MCS is classified in category 3 or 4, in order to mitigate the risk of material errors also for future payment applications, the responsible authorities should be recommended by the AA to implement remedial actions with the necessary corrective measures forming an action plan to be implemented within clear deadlines before the next assurance package and addressing the system deficiencies found. If already established, the remedial action plan should be described clearly and concisely in the ACR (and in the management declaration by the MA). If not yet established, at least the main areas of recommended remedial actions should be disclosed (further details on the remedial action plan and its implementation should then be provided in the next ACR, unless requested earlier by the Commission).

[29] With regard to the element of the audit opinion related to the accounts, further guidance is provided in the Commission's *Guidance on the audit of accounts* (EGESIF 15_0016_02) as updated.

GUIDANCE ON THE AUDIT OPINION TO BE PROVIDED ANNUALLY BY THE AA FOR EACH PROGRAMME

1. Audit Opinion

The audit opinion to be provided annually by the AA for each programme, in compliance with Article 127(5) CPR, is based on the conclusions drawn from the audit evidence obtained. The CIR provides in Annex VIII the model audit opinion to be used, covering the three elements of the assurance (accounts, legality & regularity of expenditure entered in the annual programme accounts and functioning of MCS). Three types of opinions are foreseen:

- Unqualified opinion
- Qualified opinion (either with limited or significant impact)
- Adverse opinion

The AA reports its audit opinion per programme in the ACR and as structured data in SFC 2014, indicating the possible different levels of assurance for each of the three elements quoted above.

If an unqualified opinion is issued, this applies to all three elements of the audit opinion, with no exception.

For the other types of opinion, i.e. qualified or adverse opinion, the AA should indicate in the audit opinion which of the three elements or combination of them (accounts, L/R, MCS) are affected.

Based on experience, the table below indicates, for the most commonly reported situations, the link between the audit opinion (related to the proper functioning of the MCS and the legality and regularity of the expenditure) and the conclusions obtained from system audits and audits of operations. **This table is indicative only and requires the AA to use its professional judgment, in particular for situations not foreseen below or in case of specific mitigating factors identified by the AA, based on audit evidence**. The corrective measures implemented as indicated in the table may concern financial corrections (aiming at reducing the RTER to 2% or below) or system / procedural improvements to overcome deficiencies in the MCS and to avoid future repetition of the same irregularities, or a combination of both.

Table 1: Types of audit opinion expected on the elements of assurance relating to the MCS, L/R and accounts [30] taking account of all available audit results and indicating the corrective measures needed.

Type of audit opinion	**Element of the audit opinion and overall assurance**				
	Functioning of MCS (results of system audits confirmed or amended by results of audits of operations – TER or/and improvements to overcome deficiencies in the MCS)		**Legality and Regularity of expenditure certified in the accounts**	**Accounts**	**Corrective measures needed (in view of the AA's conclusions in the ACR)** (either financial corrections or system/procedural improvements or both)
	Results of system audits	**TER** (Results of audits of operations)	**RTER** (TER mitigated by implemented financial corrections before submission of the accounts to the Commission)		
1- Unqualified	System in category 1 or 2	and TER ≤ 2%	and RTER ≤ 2%	and adjustments to be made in the accounts ≤ 2%	Corrections of the individual errors in the sample
2 - Qualified (qualification with **limited** impact)	System in category 2	and/or 2% <TER< 5%	NA[31]	NA[44]	Corrections of the individual errors in the sample Improvements to overcome any deficiencies in the MCS
3 - Qualified (qualification with **significant** impact)	System in category 3	and/or 5% ≤TER ≤ 10%	and/or RTER > 2%	and/or adjustments to be made in the accounts > 2%	Extrapolated financial corrections to bring the RTER below or equal to 2%, taking account of corrections already applied as a result of the AA's audits (including corrections of individual errors in the sample) + remedial action plan to overcome any deficiencies
4 - Adverse	System in category 4	and/or TER > 10%	and/or RTER > 2%	and/or	

[30] As for the assurance on the accounts, further guidance is provided in the Commission's *Guidance on audits of accounts* (EGESIF_15_0016) as updated

[31] When it comes to the element of assurance on legality/regularity and the accounts, the audit opinion is either qualified/adverse (material level of residual error) or not. Any adjustments or residual error above materiality for expenditure certified in the annual accounts is considered to be an inherent significant issue.

<table>
<tr><td rowspan="3">Type of audit opinion</td><td colspan="4">Element of the audit opinion and overall assurance</td><td></td></tr>
<tr><td colspan="2">Functioning of MCS
(results of system audits confirmed or amended by results of audits of operations – TER or/and improvements to overcome deficiencies in the MCS)</td><td>Legality and Regularity of expenditure certified in the accounts</td><td>Accounts</td><td>Corrective measures needed (in view of the AA's conclusions in the ACR)
(either financial corrections or system/procedural improvements or both)</td></tr>
<tr><td>Results of system audits</td><td>TER
(Results of audits of operations)</td><td>RTER
(TER mitigated by implemented financial corrections before submission of the accounts to the Commission)</td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td>adjustments to be made in the accounts > 2%</td><td>in the MCS
+ implementation of the adjustments to be made in the accounts</td></tr>
</table>

Table 1 above provides guidance to assess the level of assurance for the three elements of the audit opinion in the case of straightforward situations. For example, if the AA considers that the MCS is in category 1 or 2 and both the TER and RTER are below or equal the materiality level of 2%, the audit opinion on MCS and L/R may be unqualified (unless the AA considers that the required improvements and remedial actions for a MCS assessed in category 2 deserve a qualification).

However when formulating its audit opinion the AA needs to take account of the different levels of assurance and audit results obtained for each element of the audit opinion. In case there are any implemented corrective measures at system / L/R level at the time of elaborating its audit opinion, the AA may possibly review its initial assessment based on available audit results and evidence obtained. Several cases may appear:

- If the MCS is classified in category 1 or 2 and/or the TER is above 2% this indicates that, despite the positive assessment resulting from the system audits carried out by the AA, the MCS is in practice not sufficiently effective in preventing, detecting and correcting irregularities. A qualified audit opinion is therefore generally deemed appropriate for the MCS (possibly with only limited impact, if the reported TER is between 2%-5%; however, if the RTER is above 2%, the qualification is deemed to have significant impact for L/R).
- However, in the previous case, if appropriate corrective measures (i.e. financial corrections, individual or extrapolated, to bring the RTER below or equal to 2%) have been implemented by the Member State before the ACR is finalised, the AA may issue a qualified opinion with limited impact only due to improvements needed in the MCS, while the L/R aspect does not deserve a qualification (RTER brought down to/below 2%).
- Alternatively, if in addition to the required financial corrections remedial actions resulting in improvements to overcome deficiencies in MCS are considered needed (depending on the nature and type of errors leading to a TER above 2% and the seriousness of the TER) and are implemented, an unqualified opinion (meaning on both MCS and L/R) can be provided.
- A qualified opinion with significant impact should be disclosed when the MCS was assessed in category 3 and/or the TER is above 5%. However, the qualification can be limited to the MCS where the RTER was brought to 2% or below through appropriate (individual and/or extrapolated) financial corrections before the assurance package is submitted to the Commission. If in addition the AA has sufficient evidence of the effective implementation of corrective measures relating to system deficiencies and could even test their effective implementation before the ACR is finalised, the AA may decide to issue overall an unqualified opinion. Alternatively, if the corrective measures relating to the system deficiencies were not implemented, the audit opinion is expected to remain qualified due to the qualification on the MCS, even if the RTER

has been brought below or equal to 2%, since the MCS continues to generate expenditure containing a risk of error above 5%.

- If the AA establishes material errors in the accounts, the opinion should be qualified, even if the MCS is in category 1 or 2 and both the TER and RTER are below or equal to the materiality level of 2%. The qualification in this case refers only to the accuracy, completeness and/or correctness of the accounts.

2. Types of audit opinion

Unqualified opinion:

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

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

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

- the management and control systems put in place function properly.

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

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

Qualified opinion:

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

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

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

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

except in the following aspects [delete as appropriate]:

in relation to material matters related to the accounts: …

and/or [delete as appropriate]

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

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

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

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

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

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

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

The AA should:

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

In general, the quantification of the impact corresponds to the RTER (as %) multiplied by the expenditure certified in the accounts (as amount), except if the qualification relates only to the accounts. In this case, the quantification of the impact is the full amount identified by the AA as erroneous in the accounts.

In addition, when the qualification concerns only (part of) the MCS, the AA is recommended to indicate the amounts included in the accounts and related to the (this part of the) MCS and estimate the amounts affected by the qualification[32].

As indicated in the table under section III.1 above, the estimation of the impact of a qualification on the MCS as "limited" is deemed appropriate when it relates to irregularities (not yet corrected in the accounts) above 2% but below 5% of the total expenditure certified

[32] This can be done based for example on the TER, flat rate, etc.

in the accounts. If those irregularities equal to or exceed 5% of the total expenditure certified in the accounts, the corresponding qualification should be estimated as "significant". The same reasoning applies when the exact amount of the irregularities cannot be quantified precisely by the AA and a flat rate is used. This may be the case of system deficiencies.

As for the qualification on L/R, in all cases where the RTER is above 2% the impact is considered significant. Similarly, any qualification on the accounts is considered having significant impact.

As explained in this section the AA should clearly report whether the qualifications relate to the accounts, the legality and regularity of expenditure, or the management and control system.

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

Adverse opinion:

In my opinion, and based on the audit work performed: - the accounts give / do not give [delete as appropriate] a true and fair view, as established by Article 29(5) of Regulation (EU) No 480/2014; - the expenditure in the accounts for which reimbursement has been requested from the Commission is / is not [delete as appropriate] legal and regular; - the management and control system put in place function / does not function [delete as appropriate] properly. This adverse opinion is based on the following aspects [delete as appropriate] : in relation to material matters related to the accounts: …. and/or [delete as appropriate] in relation to material matters related to the legality and regularity of the expenditure in the accounts for which reimbursement has been requested from the Commission: … and/or [delete as appropriate] in relation to material matters related to the functioning of the management and control system: … The audit work carried out puts in doubt the assertions made in the management declaration for the following aspects:… [The audit authority may also include emphasis of matter, not affecting its opinion, as established by internationally accepted auditing standards. A disclaimer of opinion can be

foreseen in exceptional cases.]

The above clarifications concerning quantification of the impact of qualifications apply also for adverse opinions.

Furthermore, and in particular in cases of qualified or adverse opinion, the AA is expected to indicate the corrective actions planned or taken by the different authorities involved. The AA should follow up if these actions have actually been implemented and report the following year on the implementation in points 4.5 and 5.12 of the ACR.

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

<u>Scope limitation</u>

A scope limitation should be issued when, based on external factors[33], the AA is not able to perform all the necessary audit work that was planned and which would have allowed it to draw a valid and substantiated audit opinion for any of its three components.

Where a **scope limitation** is deemed necessary, the AA should estimate the impact (if any) on the expenditure certified in the accounts[34]. In case the impact is estimated as material, an unqualified opinion cannot be given. The AA should in such cases issue a qualified opinion or, in exceptional cases, consider a disclaimer of opinion.

<u>Disclaimer of opinion</u>

In exceptional cases, the AA can present a disclaimer of opinion. This is the case only when the AA is not able to audit the accounts (see below for zero accounts), the expenditure declared or the functioning of the management and control system due to external factors outside the responsibilities of the AA. In such cases, the AA should explain why it could not reach an audit opinion.

The disclaimer could be drafted as follows:

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

– *the accounts;*

[33] For example, refusal of an auditee to provide access to documents.

[34] The estimation can be based on the amounts in the accounts for which the necessary audit work could not be performed.

and/or [delete as appropriate]

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

and/or [delete as appropriate]

– *the functioning of the management and control system.*

Disclaimer of opinion in case no expenditure is declared to the Commission during the accounting year:

In case no expenditure has been declared to the Commission in regard to the accounting year and the CA reports no amount of programme contributions paid to financial instruments under Article 41(1) CPR or advances of State aid under Article 131(4) CPR in the accounts, a **disclaimer of opinion** (covering all 3 elements of the opinion) is deemed appropriate.

This applies even though the AA may have already carried out some system audits. Results of these audits are to be reported under section 4 of the ACR. However, as no amounts have been certified in the accounts, a disclaimer of opinion (due to the accounts and L/R) is deemed appropriate.

This approach is not applicable for cases of limited expenditure declared to the Commission in regard to the accounting year. In such cases an audit opinion should be issued by the AA based on its audit work carried out.

3. Multi-fund programmes, common systems and different audit opinions by programme

In the case of a multi-fund programme, the audit opinion applies to all Funds under that programme.

In the case of several programmes grouped and covered by a common MCS, the CPR allows the AA to report one TER based on a single sample covering these grouped programmes and one ACR for the grouped programmes. However, individual audit opinions have to be issued for each programme in line with Article 127 (5) CPR[35]. The type of audit opinion may then differ from one programme to another, despite the grouping of programmes. Indeed, if system audits or the analysis of the errors detected in the random sample under a common MCS show particular deficiencies for one single programme (or some programmes) included

[35] Article 127(5) of Regulation (EU) No 13032013 refers that " *The audit authority shall draw up: (a) an audit opinion … (b) a control report … Where a common management and control system applies to more than one operational programme, the information required under point (b) of the first subparagraph may be grouped in a single report* ".

in that common system, the AA may consider differentiating its audit opinion for this (these) particular programme(s)[36]. For this purpose SFC2014 allows the AA to insert different audit opinions for each programme under a common MCS. The AA is expected to explain in the ACR the audit evidence and findings that support the differentiated audit opinions within the common MCS.

4. Inadequate audit opinion

Among others, the Commission considers the following cases as inadequate audit opinion:

- Unqualified opinion although no expenditure was declared to the Commission for the reference accounting year (see also disclaimer of opinion above);
- Unqualified opinion although no audits of operations on the expenditure of the reference accounting year were carried out;
- Unqualified opinion even though the AA has not audited significant part of the operations in the sample (material impact on the TER);
- Unqualified opinion although the total error rate was above the materiality level, and/or significant weaknesses had been detected in the system audits, without the appropriate corrective measures (cf. section II.5 of this guidance) being taken by the national authorities in time before the disclosure of the audit opinion;
- Scope limitation when the AA considers that the sample of audits of operations is not representative and the AA has not extended its sample / drawn complementary sample;
- Disclaimer of opinion because the contradictory procedures for audits of operations / other audits were not finalised.

TREATMENT OF ERRORS DETECTED BY AUDIT AUTHORITIES IN VIEW OF ESTABLISHING AND REPORTING RELIABLE TOTAL RESIDUAL ERROR RATES IN THE ANNUAL CONTROL REPORTS

This section aims to provide guidance to Member State's authorities, namely audit authorities (AAs), in relation to the treatment and evaluation of the errors detected in the context of the audits carried out by AAs, in particular audits of operations. This section also provides clarifications on the calculation of the total error rate, residual total error rate, the related

[36] Provided that the AA has sufficient audit evidence to draw differentiated audit opinions for the programmes in the single sample for a common MSC, see also section 5.3 with regard to the sample.

corrective measures and their impact on AA's audit opinion submitted under Article 127(5)(a) CPR.

In addition, this section also provides complementary information to the following Commission's guidance notes:

– *Guidance on sampling methods for Audit Authorities* (EGESIF_16-0014-01 of 20/1/2017 and its later amendments), hereafter "Guidance on sampling";
– *Guidance note on audit of accounts* (EGESIF 15_0016) , as updated
– *Guidance note on amounts withdrawn, recovered, to be recovered and irrecoverable amounts* (EGESIF 15_0017), as updated.

1. Evaluation of errors

1.1 Overview of types of errors

As required by the international audit standards, namely ISA 530, the ACR should present the evaluation of errors detected in the context of the AA's audits of operations, in addition to the remedial and corrective measures (see section IV.3 below). The errors detected in those audits may be random, systemic, known or, in exceptional circumstances, anomalous. These concepts are explained in sections below.

Following the evaluation of errors, the AA should calculate the TER (the total error rate) and RTER (the residual error rate taking into account implemented corrections), as explained in sections IV.2 and IV.4 below. The AA should strive to plan its work so that the evaluation is properly done and the corrective measures may be taken by the Member State in time before submission of the assurance package and appropriately reflected in the programme accounts. The professional judgment used by the AA for the evaluation of errors should be explained in the ACR.

1.2 Random errors

The errors which the AA does not consider as systemic or anomalous are classified as random errors. This concept presumes the probability that such random errors found in the audited sample are also present in the non-audited population, since the sample is representative. Hence, these errors are to be included in the projection of errors – see section IV.2 below.

The calculation of the projection of random errors differs according to the sampling method selected, as described in the Guidance on sampling methods for AAs.

1.3 Systemic errors

Systemic errors are errors found in the sample audited that have an impact in the non-audited population and occur in well-defined and similar circumstances. They are in general associated with ineffective control procedures within (part of) the MCS. Indeed, the identification of a potential systemic error implies carrying out the complementary work necessary for the identification of its total extent and subsequent quantification. This means that <u>all the situations in the population</u> susceptible of containing an error of the same type as the one detected in the sample should be identified, thus allowing the delimitation of the total effect of the systemic error in the population[37]. According to Article 143 (1) of Regulation (EU) N° 1303/2013, *"In the case of a systemic irregularity, the Member State shall extend its enquiries to cover all operations potentially affected"*.

The Guidance on sampling methods for AAs provides for clarifications on projection when both random and systemic errors are identified.

There are two possible scenarios for the calculation of the TER with regard to systemic errors:

> a) The Member State delimited the systemic error in all potentially affected operations, allowing it to determine the exact impact on the population. The systemic error detected in the sample is not extrapolated but added as an absolute amount to the amount of error for the TER calculation.
>
> b) At the stage of reporting to the Commission the Member State could only partially delimit the scope of the systemic error in the whole population (there is no available information on the exact impact of the systemic error). The systemic error detected in the sample is treated as random (and therefore contributes to the extrapolation) for the purpose of the calculation of the TER.

In relation to the expenditure declared in the reference accounting year, all implemented financial corrections corresponding to the (completely or partially) corrected systemic errors and any related amounts removed from the accounts due to ongoing assessment (i.e. expenditure potentially affected by the systemic error removed for further verification in order to delimit the systemic error) have to be taken into account for the calculation of the RTER (see section IV.4 below)[38].

1.4 Anomalous errors

An error that is demonstrably not representative of the population is called anomalous error. A statistical sample is representative for the population and therefore anomalous errors should

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[37] For example, it can be that a certain error has been detected in an operation co-financed under a priority axis relating to financial engineering. It may be that this error occurs in other operations in the same priority axis. The AA needs to determine if this is the case, in cooperation with the Managing Authority.

[38] In exceptional cases of systemic errors which have not yet been fully delimited, such errors can be excluded from the calculation of the RTER (under value D) under the conditions that (1) the systemic error occurred only in a limited part of the expenditure and (2) the entire expenditure potentially affected by this error is removed from the accounts for assessment in order to fully delimit the systemic error.

only be reported in extremely rare, well-motivated circumstances. The frequent recourse to this concept without a due justification may undermine the reliability of the calculation of the TER and the AA's audit opinion.

The AA is required to provide in the ACR a high degree of certainty that such an anomalous error is indeed not representative of the population and to explain the additional audit procedures it carried out to conclude on the existence of an anomalous error, as required by the ISA n° 530, that further specifies:

> *"A.19. When a misstatement has been established as an anomaly, it may be excluded when projecting misstatements to the population. However, the effect of any such misstatement, if uncorrected, still needs to be considered in addition to the projection of the non-anomalous misstatements".*
>
> *A.22. In the case of tests of details, the projected misstatement plus anomalous misstatement, if any, is the auditor's best estimate of misstatement in the population. When the projected misstatement plus anomalous misstatement, if any, exceeds tolerable misstatement, the sample does not provide a reasonable basis for conclusions about the population that has been tested. (…)"*

This means that the amount of the anomalous error is to be added in the calculation of the TER if it has not been corrected, as stated in section IV.2 below.

If the anomalous error has been corrected before the ACR concerned is submitted to the Commission (in a payment claim or in the (draft) accounts), then it does not count for the TER and the corresponding correction should not be taken into account for calculation of the RTER. This approach is only applicable to anomalous errors given their exceptional nature, as foreseen in the quoted audit standard.

A particular case may occur when the AA finds different irregularities in the same operation, one of them being considered to be an anomalous error. In this case, the random part error should be projected to the population. The anomalous error in that same operation is added to the TER, unless corrected before the ACR is submitted. As the random error is representing other possible errors in the population, it should be extrapolated to the remaining expenditure of the population in order to properly estimate the TER.

1.5 Known errors

A particular type of error that should not be confused with systemic errors exists when an error found in one operation/payment claim in the sample leads the auditor to detect one or more errors outside that sample in the same operation. Such error can be classified as a "known error"[39]. The recommended approach to deal with known errors is as follows:

The random error in the sample (i.e. the error that led to the detection of the known error outside the sample) is to be extrapolated like any other random error. The amount of the known error outside the sample is not added to the TER. This recommendation results from the fact that, contrary to delimited systemic errors, the delimitation of the known error is usually done at the level of the operation where the error was detected. This process does not provide confirmation whether other operations affected by this type of error remain in the population. Nevertheless, the known error should be also corrected.

The known errors concerning previous accounting years should also be corrected. However they are not included in the calculation of the TER and RTER of the accounting year under reporting.

2. Total Error Rate (TER)

2.1 Calculation of the TER

In general, all errors found in the context of the random sample used for the audits of operations are to be taken into account for the calculation of the TER[40]. The calculation of the TER should thus reflect the analysis done by the AA in regard to the different types of errors[41] detected in the context of the audits of operations carried out under Article 127 (1) CPR.

The total error therefore corresponds to the sum of the relevant components of the error, i.e.: projected random errors, random errors established in the exhaustive stratum/a, if any, well delimited systemic errors and any uncorrected anomalous errors.

The amount of the total error thus obtained is then divided by the amount of expenditure in the sampling population of the reference accounting year to obtain the TER– see also flowchart in Annex 3.

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[39] For example, if a contract is found to be illegal under the public procurement rules it is likely that part of the related irregular expenditure has been declared for that operation in a payment claim or invoice included in the sample audited. The remaining expenditure for that operation may have been declared in payment claims or invoices not included in that sample, within the audited population or in previous year's population.

[40] The overstatement of expenditure not related to irregularities (such as clerical mistakes made for example when copying or writing information manually) is not considered an error for the calculation of the TER.

[41] As described in section IV.1 above.

The TER represents the best estimate of error in the population[42] for that accounting year. The TER, which is presented in the ACR, should be the error rate before any corrective measures have been applied by the Member State as a result of the AA audits.[43]

2.2 Particular cases

2.2.1 Errors already detected by MA, IB or CA in expenditure subject to audits of operations

2.2.1.1 Irregularities already detected and acted upon by the MA, IB or CA, but not yet corrected before the sample was drawn by the AA

As stated above, in general all irregularities found are to be taken into account for the calculation of the total error rate and reported in the ACR. This includes the irregularities detected by the AA (during its audits on operations) which have already been detected (in particular by the MA, the IB or the CA), before the sample was drawn by the AA, but have not been corrected by the Member State.

Such irregularities may be excluded from the projection and calculation of the TER if there is documentary evidence that:

- the national authorities have detected the irregularity and were already taking the necessary measures (e.g. launch of the recovery procedure) before the AA's sample was drawn, and

- the irregular amount has been corrected either in a payment claim during the accounting year or in the (draft) accounts to be submitted to the Commission.

In any case, the treatment of the irregularity concerned should be specifically and clearly reported and explained in the ACR, in section 5 concerning audits on operations.

2.2.1.2 Irregularities detected but insufficiently corrected before the sample was drawn by the AA

During its audits the AA can identify that an irregularity was detected during a previous control (in particular by the MA / IB or CA) or audit, but the correction rate applied was lower than the correction rate the AA considers should have been applied. In this situation, the difference in the amount resulting from correction at the AA determined rate and the amount actually corrected (at the level of payment application to the Commission before the sample was drawn by the AA) is to be taken into account for calculation of the TER.

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[42] In the exceptional cases when the sum of the individual errors in the sample and the known errors resulting from the AA's audit work (and related to the expenditure of the accounting year) is higher than the projection of the sample errors, the AA should consider the sum of these errors as a better estimate of the error in the population than the projected error. Both errors should be disclosed in the ACR in such cases.

[43] Except some cases of errors detected by the MA or other body before sample selection by the AA, as clarified in section IV.2.2 below.

2.2.1.3 Irregularities relating to expenditure corrected after the sample was drawn by the AA

When carrying out its audits of operations the AA may identify irregular expenditure that has been corrected (withdrawn or recovered) by the Member State after the sample of operations has been selected. In terms of the practical arrangements to be adopted by the AA for the on-the-spot audits, two different cases are envisaged:

(1) In case the irregular expenditure corrected concerns all the expenditure of a given operation included in the sample selected by the AA, the AA is not required to audit on-the-spot such operation. The sample should not be modified, i.e. the operation at stake should not be replaced by another operation.

(2) In case the irregular expenditure corrected concerns only part of the expenditure of a given operation (thus partly "de-certified") included in the sample selected by the AA, the AA should audit the operation in order to detect if the part which remained in the payment application to the Commission is free from errors.

In both cases, the irregular expenditure should be taken into account in the TER with exception to cases mentioned in section IV.2.2.1.1.

2.2.2 Irregular amounts below 250 EUR

Irregular amounts below EUR 250[44] do not need to be reimbursed to the budget of the Union (thus they do not need to be deducted from the certified amounts). However, they need to be included in the TER calculation, estimating the error in the entire population and the functioning of the management and control system.

2.2.3 An expenditure "buffer" at project level

For the purpose of the audits of operations according to Article 127(1) CPR, as further specified in Article 28(3) of Regulation (EU) 480/2014, only the expenditure declared in the payment applications to the Commission constitutes the population for these audits. Therefore, the audit authorities are expected to estimate the error only in relation to such expenditure.

Consequently, the net off with the expenditure buffer at project level described in the guidance for 2007 - 2013 period45 is no longer applicable. AAs that would have made use of

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[44] Further details regarding the calculation of the threshold of 250 EUR is provided in section 10 of the Commission's *Guidance on amounts withdrawn, recovered, to be recovered and irrecoverable amounts* (EGESIF 15_0017), as updated

[45] See Commission's Guidance on treatment of errors disclosed in the annual control reports (COCOF_11-0041-01-EN), section 5.5

the practice under section 5.5 of the 2007-2013 guidance are advised to adjust their practice accordingly, at the latest in the assurance packages to be submitted in February 2020 in relation to the audits of operations for the 2018/2019 accounting year. The AA should consult with the Commission the treatment of any specific cases in this regard.

2.2.4 Net off of overstatement errors against understatement errors

Considering that the concept of error relates to undue overstatements in the expenditure declared, understatement errors should not be deducted from overstatements in the calculation of the TER.

2.2.5 How should fraud and suspected fraud be reflected in the error rate?

2.2.5.1 Fraud

Expenditure in the audited sample, for which a fraud is established in a decision / formal act by a competent national judicial body or identified in a formal document/report containing conclusions by a competent EU or national authority[46] following investigation, considered an error to be included in the TER.

2.2.5.2 Suspected fraud

When the AA has evidence related to a suspicion of fraud concerning the sampled expenditure, the expenditure at stake may be counted as an error (random, systemic or anomalous) and included in the TER, based on the evidence available and the AA's professional judgement.

In any case, the AA should carry out its audit work on the expenditure at stake in order to conclude whether there are any irregularities in this expenditure, without prejudice to the outcome of any fraud investigations. The errors related to the detected irregularities are included in the TER (unless already covered by an error due to suspected fraud).

In case there is expenditure that have been included in the random sample but which the AA cannot audit due to lack of audit trail caused by retention of supporting documents by the relevant competent authorities due to a suspicion of fraud, the AA may replace the sampled operation/payment claim by another one by applying a random selection to the remaining population, using the same sampling method, if this can be made on time for the submission of the ACR.

If the AA has not replaced the sampled operation/payment claim at stake and if the quantification of the irregularity is not possible based on the available information, the AA

[46] Fraud may be established by specialised anti-corruption/anti-fraud EU or national administrative and criminal investigation bodies (i.e. the European Anti-Fraud Office (OLAF) or the Anti-Fraud Coordination Service (AFCOS) established in each Member State.

should disclose in the ACR the cases identified by this exceptional situation and its potential impact on the TER calculation[47] and the AA's opinion.

2.2.6 Should bankruptcies or insolvencies be included in the error rate?

When the AA has included in its sample an operation that is subject to a bankruptcy or insolvency process, with the effect that the operation's objectives or other grant conditions cannot be met (e.g. State aid linked to job creation in the beneficiary company), but there are no particular indications of negligence on the side of the MA when selecting the operation for co-financing, should the expenditure declared for that operation be included in the TER?

To reply to this question, it is important to note the provision of Article 71(4) CPR: "*Paragraphs 1, 2 and 3 shall not apply to contributions to or by financial instruments or to any operation which undergoes cessation of the productive activity due to a non-fraudulent bankruptcy*".

In view of this provision, the Commission considers that, in case of cessation of the productive activity due to a non-fraudulent bankruptcy, the Member State will be exempted to investigate the irregularity concerned and to make adequate financial corrections. The Member State and the Commission will thus not have to take measures in order to recover the amounts unduly paid.

The corollary of this reasoning is that when Article 71(4) CPR is applicable there is no error to be considered in the TER in relation to a bankruptcy case.

Of course, the existence of insolvency/bankruptcy does not prejudice the need for the AA to seek assurance that the expenditure for the operation at stake is legal and regular in relation to the remaining applicable provisions.

An insolvency or bankruptcy case would only constitute an error to be considered in the TER in two situations:

1) When it relates to fraud established by a competent national judicial body or identified by a competent EU or national authority, in which case the correction should be the totality of the expenditure affected.

2) When it relates to lack of adequate selection procedure by the MA (i.e. breach of Article 125(3) CPR), in which case the error can be quantified at 5%, 10%, 25% or 100% of the expenditure declared for the operation at stake, based on the AA's

[47] The impact may be expressed by an increase of the TER if 100% error would be considered for the affected expenditure and included in the TER calculation.

professional judgement taking into account the provisions of Article 31 of Regulation (EU) N° 480/2014[48].

If one of the two cases above-mentioned is applicable, then the AA should also consider the timing in which the bankruptcy occurred, in the following sense[49]:

1) If the insolvency occurred before the sample was drawn by the AA, and the MA has responded without delay by revoking the grant agreement and starting a recovery procedure[50], this is a situation similar to the one covered by section IV.2.2.1.1 above. In this case, the irregularity may be excluded when projecting the random errors to the population.

2) If the insolvency occurred after the sample was drawn by the AA (therefore, the necessary measures are taken by the MA only after the sample is drawn), the irregularity is to be considered random error to be included in the projection of random errors (unless an anomalous error can be justified).

2.2.7 What approach should the AA adopt in case supporting documentation of the sampled operations is lost or damaged due to "force majeure" (e.g. natural disasters)?

In case the supporting documentation held at the level of beneficiaries is lost or damaged due to "force majeure" (loss of sufficient audit trail, for instance due to natural disasters), the AA should request the concerned national authorities to reconstruct the audit trail using documentation kept in electronic format and other sources (e.g. contractors, suppliers, banks). However, this reconstitution of the audit trail has to be done within reasonable limits (including time and administrative efforts), as it may be that such reconstitution causes undue or unjustifiable hardship for the audited entity based on facts and circumstances. Professional judgment will be required in reaching this conclusion.

It may also be that, even if the audit trail is incomplete, the missing documentation is not crucial to determine whether the expenditure is eligible allowing the AA to conclude on the operation. In this case, the AA should disclose this information in the ACR.

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[48] A quantification at 100% would be justified if the MA has not checked whether the beneficiary's financial situation was satisfactory (i.e. it would not lead to bankruptcy) and this was a condition to be checked before selecting the operation.

[49] As follows from section IV.2.2.1 above.

[50] The action from the MA may also depend from national rules and procedures related to the insolvency and bankruptcy processes. The AA should use professional judgment when analysing the timing of the MA reaction to the concrete situation of bankruptcy or insolvency in hand.

For the operations where indeed the audit trail cannot be reconstituted (at least partially) due to "force majeure" (caused for example by natural disasters) or the costs of that reconstitution are greater than the benefit of ensuring the audit trail, the MA should obtain confirmation (e.g. a letter from the beneficiary or the IB) that this was the case and all the attempts to recover the documentation were unsuccessful. This information should be acceptable to national audit authorities. With this confirmation, the MA could then conclude that Article 140 CPR (availability of documents) cannot be complied with for the operations at stake, due to a "force majeure" event.

The MA should have a list of all the operations affected, which should then be excluded from the population from which the AA sample is drawn, if the "force majeure" event occurred beforehand. If the AA has already selected such operations for audit on the spot and no alternative procedures are feasible to verify the eligibility of the expenditure, then the replacement by other operations is envisaged.

For calculation of the projected error rate in such cases the AA can use by analogy the formulas proposed by the Commission for proportional control arrangement. These formulas, presented in the Guidance on sampling methods for AAs, have been designed to calculate the error rate for the whole population of expenditure declared to the Commission, whereas part of this population was excluded due to Article 148 arrangements (or replacement of sampling units took place)[51].

3. Corrective measures

3.1 Concept of corrected error for determining the RTER and audit opinion

For the Commission, correction of each type of error is the preferred option. Indeed, the analysis and correction of each type of error is the one that adheres more to the evaluation of errors required by the international audit standards, namely ISA 530. Consequently, the AA should strive to plan its work so that this option can be applied by the Member State in time before submission of the ACR.

All detected errors should be corrected, including the random, systemic, known and anomalous errors.

If after taking into account all relevant corrections already implemented the RTER remains above the materiality level of 2%, this indicates a remaining material level of error in the programme's expenditure. In such cases the Member State authorities[52] are expected to apply

[51] These formulas could be used also for the calculation of the error rate, where exclusion or replacement of sampling units took place for another reason.

[52] The MA or the CA in accordance with the MCS.

additional financial corrections (by extrapolation) to ensure a RTER of less than or equal to 2%[53] and to allow the AA to issue an unqualified audit opinion on the legality and regularity of expenditure to be certified in the programme accounts. In addition, any identified system weakness should be appropriately mitigated to ensure preventing the repetition of similar errors in future declarations of expenditure.

Should the Member State decide not to apply the extrapolated correction in the accounts, the AA has to reflect this in its audit opinion (a qualified opinion on legality and regularity would be deemed appropriate).[54]

For the purposes of the RTER and audit opinion, an error is considered corrected in the following cases:

1) when the irregular amount has been withdrawn from an application for interim payment submitted to the Commission within the reference accounting year (related corrections to be reported in appendix 2 of the programme accounts);

or

2) when the irregular amount has been deducted from the (draft) programme accounts before the ACR is finalised (related corrections to be reported in appendix 8 of the programme accounts).

The amounts deducted from the accounts under Article 137(2) CPR (i.e. amounts under ongoing assessment) are not considered financial corrections for the purpose of the RTER calculation (as explained in section IV.5 below). However, such amounts can be taken into account by the AA for its audit opinion when assessing the corrective measures taken by the MA/CA to address identified errors[55].

Further guidance on the consideration of corrections for the audit opinion is provided in section II.9, III.1 and this section, as well as section 6 of the Guidance on audit of accounts.

The AA verifies the effective corrections made by the MA/CA and reported in the programme accounts through the final assessment of draft accounts.

[53] Annex 4 contains examples of calculation of extrapolated financial correction to reduce the residual risk to materiality level (examples B and C.2)

[54] As a follow-up of the qualified opinion, the Commission will carefully assess such cases, and, if needed, take the necessary corrective measures including the launching of a financial correction procedure, with a possibility of a net financial correction provided that the conditions stipulated in Article 145 (7) CPR are fulfilled.

[55] E.g. cases where the AA identified a systemic issue and the MA/CA decided to deduct potentially affected expenditure from the account for further assessment in order to quantify.

3.2 Correction of systemic errors

Where the AA has detected systemic errors and for the purpose of the ACR, the AA should report whether:

1) The total amount of expenditure declared to the Commission affected by those systemic errors is determined and the responsible authorities applied the necessary financial correction. The delimitation of the systemic error in the non-audited expenditure can be performed by the MA, under the supervision of the AA. In practice, this supervision implies that the AA has to review the quality of the MA's work and provide explicit confirmation in the ACR that the work has been carried out to the appropriate standard and that the conclusions are appropriate.

2) In case, when the systemic error has not yet been fully delimited before the submission of the assurance package, the Member State corrected at least the related irregular expenditure already established. The remaining expenditure in the non-audited part of the population, potentially affected by this systemic error can be then deducted from the accounts under Article 137(2) CPR due to the need for further verifications.

3) The responsible national authorities adequately addressed any system deficiencies in order to mitigate the risk of material errors in future payment applications.

3.3 Correction of errors when sub-sampling is applied

For cases where sub-sampling was applied by the AA during its audits of operations and irregularities were detected in sub-sampled expenditure, Member State authorities should correct at least the individual irregularities detected by the AA based on the audited sub-sample. In addition, the Member State authorities (MA/CA) may apply further corrections in order to reduce the risk of ineligible expenditure in the accounts (as expressed by the RTER). Following options are in particular foreseen in this regard:

1) Member State authorities apply financial correction corresponding to the extrapolated error of the sub-sample to the level of the sampling unit

2) Member State authorities establish and correct the exact amount of error in the sampling unit, based on additional verifications of the remaining expenditure in the sampling unit. In case the verification has not been finalized by the time of submission of accounts, the expenditure concerned can be deducted from the accounts due to ongoing assessment of its legality and regularity (Article 137.2 CPR refers) to further reduce the risk of ineligible expenditure in the accounts.

Consequently, the amount of correction applied at the sampling unit level (operation, project or payment claim) following the audit of the AA can differ from the amount of extrapolated error at the sampling unit level, which is used for extrapolation to the whole population.

4. Residual Total Error Rate (RTER)

The AA should also calculate and disclose in the ACR the RTER, i.e. the remaining error in the population after the relevant financial corrections were applied. The RTER should then be compared with the materiality threshold in order to reach a conclusion on whether the expenditure certified in the accounts is materially misstated or not.

The RTER corresponds to the TER (applied to the population without amounts under ongoing assessment and other negative amounts) less financial corrections that have been applied before submission of the accounts by the Member State in relation to the errors detected by the AA (or other corrections applied by the Member State if such corrections intend to reduce the risks identified by AA's audits). An example of RTER calculation is presented in the table below.

Table 2: Example of RTER calculation model with all the amounts under ongoing assessment outside the sample and with material error and individual corrections bringing it down to the materiality level[56]

A	Audit Population (i.e. positive sampling population[57])	1000
B	Expenditure audited	100
C	Errors found in the sample	2
D	Total Error Rate (TER) after extrapolation	2.20%
E_1	Amounts under Art 137(2) (ongoing assessments)	50
E_2	Other negative amounts deducting expenditure originally declared in the reference accounting year	0
F=A-E	Population without ongoing assessments (1000 – 50) and without other negative amounts deducting expenditure originally declared in the reference accounting year[58]	950
G=D*F	Amount at risk (2.2% * 950)	20.9

[56] Annex 4 includes further examples illustrating the calculation of the residual risk and the impact of different negative sampling units on its calculation.

[57] See the Guidance on sampling

[58] For the purpose of simplification, it is assumed in this example that there are no such amounts. Corrections included in value H and the ones already deducted from the positive population when establishing audit population under value A (see GN on sampling, section 4.6) should not be part of these amounts.

H	Financial corrections relating to errors detected by AA or applied by the MA/CA if such corrections intend to reduce the risks identified by AA's audits[59]	2
I=F-H	Amount certifiable in the accounts (950 - 2)	948
J=G-H	Residual amount at risk (20.9 – 2)	18.9
K=J/I	Residual Total Error Rate (RTER)	1,99% (≤2,0%)

The example in Table 2 above is based on a simplest scenario where neither systemic errors nor known errors outside the sample have been detected and delimited by the AA in the context of its audits of operations (i.e. where the TER is only constituted by projected random errors and the correction of individual errors is sufficient to bring the RTER below materiality)[60].

The values in the table above should be established as follows:

Value A: Positive sampling population from which the AA draws its sample for audits of operations.

Value B: Expenditure audited within the sample (in case of sub-sampling, only expenditure effectively audited should be considered).

Value C: All errors detected by the AA in the sample.

Value D: Total error rate (total error extrapolated to the whole audit population).

Value E: The sum of values E_1 and E_2.

Value E_1: Amounts deducted from the accounts due to ongoing assessment of the legality and regularity of underlying expenditure.

Value E_2: Other negative amounts deducting expenditure originally declared in the reference accounting year (unless already deducted from the population of positive values when establishing the audit population A). Such negative amounts may include:

- Financial corrections related to irregularities other than those included under value H, for example:
    - corrections from management verifications carried out on expenditure previously declared in the payment application for the reference accounting year, or

[59] Extrapolated corrections or corrections related to systemic errors.

[60] For cases of TER including systemic error, the relevant information is provided in section IV.3.2.

  - o financial corrections related to particular cases of irregularities already detected and acted upon before the sample was drawn by AA if deducted from the amount declared to the EC.

- Deductions unrelated to irregularities, for example corrections of clerical mistakes, (such as reversal entries in the accounts not corresponding to financial corrections), transfer of operations from one programme to another (or within a programme) or management decisions to cancel a project.

In this respect, please note that negative amounts withdrawing expenditure of previous accounting years cannot be included in the calculation of the residual risk.

Value F: Audit population (value A) without amounts under ongoing assessment (value E_1) and other negative amounts deducting expenditure originally declared in the reference accounting year (value E_2).

Value G: Amount at risk not taking account of any financial corrections resulting from AA's audits.

Value H: The financial corrections applied because of AA's audits, reducing the amount at risk in the population. Such corrections may include.

- Financial corrections implemented because of AA's audits of operations.

  Such corrections are usually applied after the TER is determined (e.g. the correction related to individual random errors and systemic errors). However, financial corrections applied by the Member State after the AA drew its sample may be also included under value H, if such corrections intend to reduce the risks identified by the AA's audits of operations. A typical example would be corrections made on the basis of the MA's work carried out to determine the extent of systemic irregularities detected by the AA in its audits of operations.

  All corrections included in the calculation of the RTER under value H as a result of audits of operations should be reported in column F of the table in section 10.2. of ACR (Results of audits of operations):

Table 3

Results of audit operations

	Programme title	A	B		C		D	E	F	G	H
		Amount in Euros corresponding to the population from which the sample was drawn (1)	Expenditure in reference to the accounting year audited for the random sample		**Coverage of non-statistical random sample (2)**		Amount of irregular expenditure in random sample	Total error rate (3)	**Corrections implemented as a result of the total error rate**	Residual total error rate	Oth expend audited
			Amount (2)	% (6)	**% of operations covered**	**% of expenditure covered**					

The relevant corrections considered in column F should correspond to the amounts disclosed in the last row of the Appendixes 2 and 8 of the accounts.

- The implemented financial corrections in relation to known errors outside the audited sample;
- Financial corrections implemented for errors detected by the AA during system audits (including thematic audits);

The errors found during system audits (control testing) are not added to the total error (TER), but should be corrected and disclosed in section 4 of the ACR and may be taken into account for the calculation of the RTER under value H.

In any case, besides the professional judgement applied when considering the financial corrections to be included in the calculation under value H, the AA should have reasonable assurance that the financial corrections are indeed final corrections resulting from AA's audits and not the expenditure under ongoing assessment and other deductions mentioned under value E.

Negative amounts related to withdrawals of expenditure from previous accounting years cannot be included under values E and H.

Value I: The amount to be certified in the accounts, subject to eventual additional corrections in order to reduce the RTER to 2% or below, if needed.

Values J and K: These values provide information about the residual risk in the expenditure certified in the accounts (in absolute amount and in percentage, i.e. RTER).

5. TER/ RTER calculation and Amounts under ongoing assessment of the legality and regularity of underlying expenditure (Article 137.2 CPR)

The notion of amounts, the legality and regularity of which is under ongoing assessment is introduced by Article 137(2) of Regulation 1303/2013. Article 137(2) states:

"2. Where expenditure previously included in an application for interim payment for the accounting year is excluded by a Member State from its accounts due to an ongoing assessment of that expenditure's legality and regularity, any or all of that expenditure subsequently found to be legal and regular may be included in an application for interim payment relating to subsequent accounting years".

The following general principles should be followed when dealing with amounts, the legality and regularity of which is under ongoing assessment, in view of the TER/RTER calculation:

- All audits of operations have to be carried out and results taken into consideration for the calculation of the TER, which should be projected as explained in the guidance on sampling.
- The extrapolation of errors from the AA's sample is not dependent on classifying some amounts as under ongoing assessment, even in cases when a contradictory procedure on the audits of operations carried out by the AA is not yet finalised, as explained further below.
- The RTER reflects only the residual risk within the expenditure certified in the accounts. Therefore, for the calculation of RTER, the amounts under ongoing assessment (in application of Article 137(2)) are to be removed from the population.
- If the Member State decides to exclude from the programme accounts part of the population expenditure due to an ongoing assessment of that expenditure's legality and regularity, the amount thus excluded and under the ongoing assessment should not include any amount of financial correction implemented following the detection of an error by the AA[61].

Examples of RTER calculation models with amounts under ongoing assessment are provided in Annex 4.

In addition, with regard to establishing the amounts under ongoing assessment (E_1) and the treatment of errors from the audits of operations carried out by the AAs and to calculating the TER and RTER, the following approach should be applied by the AA in relation to results of audits of operations:

[61] Example: In an operation of EUR 5,000, the AA detected an error of EUR 1,000, following which the CA took a decision to withdraw the amount of EUR 1.000 from the accounts. At the same time the MA decided to exclude from the accounts all operations from one priority axis for a total amount of expenditure declared of EUR 200,000 (including the operation in question of EUR 5.000) to assess the risk related to State aid conditions. In this case, the amount to be temporarily withdrawn due to an ongoing assessment should be EUR 199,000 (EUR 200,000 – EUR 1,000 of correction on the individual operation with a detected error).

<u>**a) Amounts of errors disclosed in the AA's final audit report** (finalised audits of operation)**:**</u>

- All irregular amounts detected during audits of operations should be included in the calculation of the TER with exception of known errors and corrected anomalous errors (value C in Table 2, section IV.4)

- Any corresponding financial corrections applied, i.e. both individual as well as any extrapolated corrections, deducted from the accounts, contribute to the calculation of the RTER (and are taken into account under value H in Table 2). Such corrections are considered definitive, and therefore cannot be treated as ongoing assessment and should not be included under value E in Table 2.

- If the corresponding financial corrections are not applied, i.e. not deducted from the accounts (e.g. due to the fact that MA/CA disagrees with the audit finding or recommendation for correction), they are not considered by the AA into the calculation of the RTER. This should be reported in the ACR by the AA and taken into account for the AA's audit opinion.

<u>**b) Preliminary amounts of errors** (unfinished audits of operations)**:**</u>

Such cases should occur only exceptionally[62], as a diligent AA should plan its audits of operations in a way allowing them to finalise the audit work in time for the finalisation of the ACR and for issuing a soundly based audit opinion within the assurance package.

- All amounts of error corresponding to the maximum preliminary error detected in the operation and disclosed in the AA's draft audit reports [63] should be included in the calculation of the TER (value C in Table 2).

- With regard to the RTER calculation, such amounts of potential errors should be treated as amounts under ongoing assessment (i.e. deducted from the accounts based on Article 137(2) CPR and included in value E_1 in Table 2) unless Member State authorities decide to deduct these amounts as definitive financial corrections (then included in value H in Table 2)

- As already mentioned in section II.5 above, any extrapolated financial corrections applied in order to bring the RTER to 2% or below are considered final. This applies also for

[62] Exceptional situation which may put in question the correct functioning of KR 16 of the AA, an essential key requirement for the effective functioning of the MCS (see Article 30 of Regulation (EU) N° 480/2014).

[63] In cases where the draft audit report has not yet been issued, an amount of the maximum level of potential error estimated based on the work already carried out by the AA should be considered. In case no audit work on the given expenditure has yet been carried out by the AA, a 100% preliminary error should be considered.

cases where the TER/RTER was calculated including preliminary amounts of errors due to unfinished audits/contradictory procedure on the operation. The resulting extrapolated financial corrections therefore cannot be later revised even if the audited expenditure of the corresponding operation is subsequently found to be eligible in the AA's final audit report[64].

[64] Given the annual calculation of the residual risk, it is therefore important to ensure that audits of operations are planned and organised in a way allowing the AA to have a definitive TER in due time for the accounts.

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

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

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

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

Fund	Programme CCI number	Programme title	A	B		C		D	E	F	G	H	I
			Amount in Euros corresponding to the population from which the sample was drawn[65]	Expenditure in reference to the accounting year audited for the random sample		Coverage of non-statistical random sample[66]		Amount of irregular expenditure in random sample	Total error rate (TER)[67]	Corrections implemented as a result of the total error rate	Residual total error rate (RTER)[68]	Other expenditure audited[69]	Amount of irregular expenditure in other expenditure audited
				Amount[70]	%[71]	% of operations covered							

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

[66] This refers to the minimum coverage thresholds set out in the last subparagraph of Article 127(1) of Regulation (EU) No 1303/2013, when a non-statistical sample method is used. The requirement of 10% of expenditure declared for a non-statistical sample method (Article 127(1) CPR) refers to the expenditure in the sample, independently of the use of sub-sampling. This means that the sample shall correspond to a minimum of 10% of the expenditure declared, but when sub-sampling is used, the expenditure effectively audited could in fact be less.

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

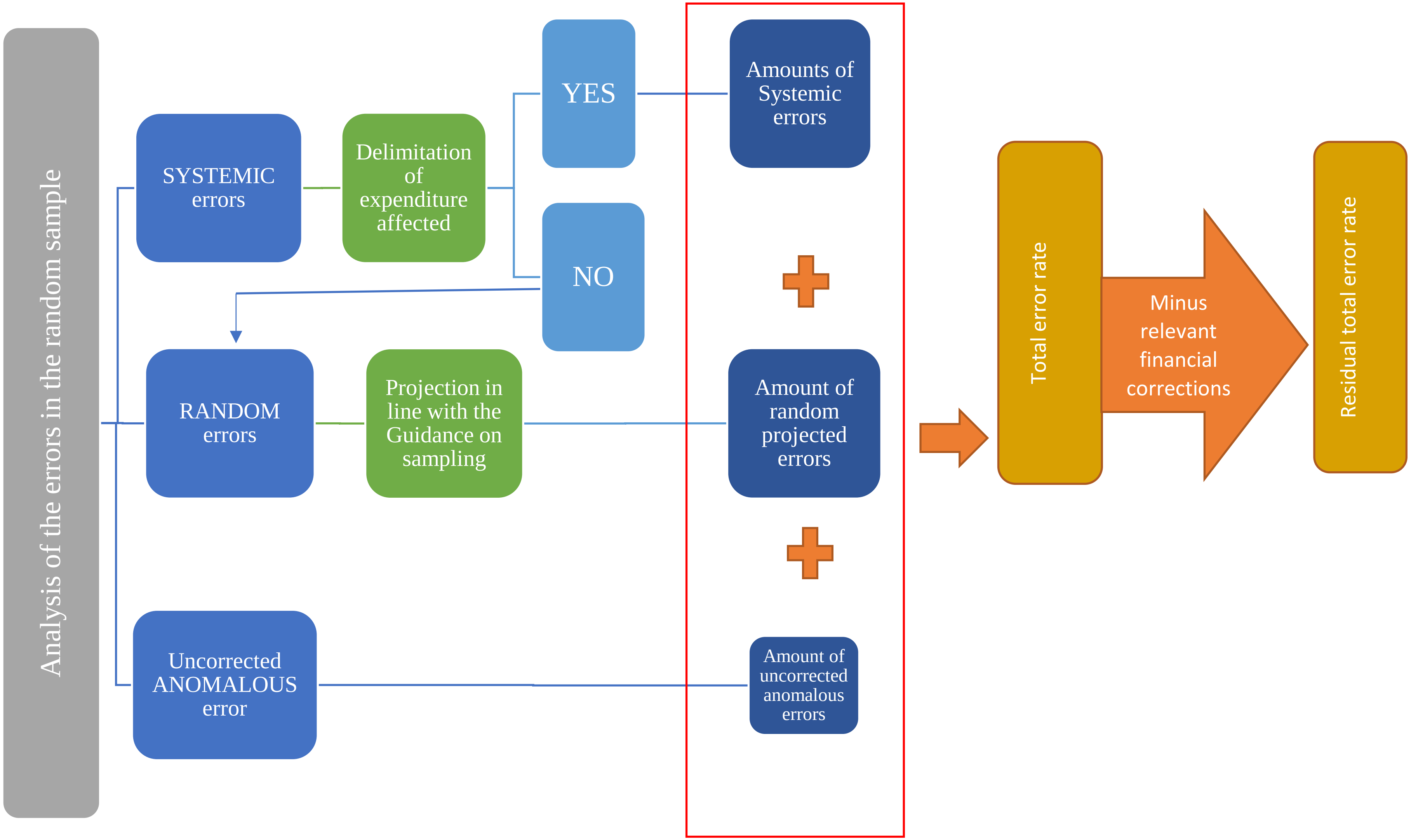
[68] See further explanations on the RTER in section 5 of this guidance.

[69]Where applicable, column "H" shall refer to expenditure audited in the context of a complementary sample.

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

[71]Percentage of expenditure audited in relation to the population.

ANNEX 3 – TOTAL ERROR RATE AND RESIDUAL TOTAL ERROR RATE FLOWCHART



ANNEX 4 – EXAMPLES OF RTER CALCULATION

ANNEX 5 – TYPOLOGY OF PROJECT FINDINGS