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MIGRATION AND HOME AFFAIRS

METHODOLOGICAL NOTE

ON THE ANNUAL CONTROL REPORT, AUDIT OPINION AND TREATMENT OF ERRORS PROGRAMMING PERIOD 2021-2027

Contents

List of acronyms and abbreviations	3
Glossary.....	3
I. Introduction	5
I.1. Regulatory references.....	5
I.2. Purpose of the note	5
I.3. Timing of the audit work.....	6
II. Annual Control Report (ACR)	7
II.1. Introduction	7
II.2. Significant changes in management and control system(s)	8
II.3. Changes to the audit strategy.....	10
II.4. System audits (where applicable)	10
II.5. Audits of operations.....	14
II.6. Audits of accounts.....	23
II.7. Other information	24
II.8. Overall level of assurance	26
III. Audit Opinion to be provided by the AA.....	28
III.1. Audit opinion.....	28

III.2. Types of audit opinion	31
III.3. Multi-fund programmes and different audit opinions by programme.....	34
III.4. Inadequate audit opinion.....	35
IV. Treatment of errors detected by audit authorities and calculation of the error rates	35
IV.1. Evaluation of errors.....	35
IV.2. Total Error Rate (TER)	38
IV.3. Corrective measures	42
IV.4. Residual Error Rate (RER).....	44
IV.5. TER/ RER calculation and Amounts under ongoing assessment of the legality and regularity of underlying expenditure (Article 98(6)(b) CPR).....	47
IV.6. TER/ RER calculation and Technical Assistance declared via a flat rate	47
Annexes to the ACR.....	49
Annex 1 – Results of system audit	49
Annex 2 – Results of audits of operations	50
Annex 3 – Calculations underlying the random sample selection, total error rate and total residual error rate.....	51
Annex 4 – Audit findings	51
Annex 5 – Overview of the application of enhanced proportionate arrangements (Articles 83 – 85 CPR)	52

DISCLAIMER. This methodological note expresses the views of the Commission services and does not commit the European Commission. Only the Court of Justice of the European Union is competent to authoritatively interpret Union law.

LIST OF ACRONYMS AND ABBREVIATIONS

AA	Audit Authority
ACR	Annual Control Report
AMIF	Asylum, Migration and Integration Fund
Audit Body	Body carrying out audits under AA's remit
BAF	Body carrying out the accounting function
BMVI	Instrument for Financial Support for Border Management and Visa Policy
CCI	Code Commun d'Identification (reference number of each programme, attributed by the Commission)
CF	Cohesion Fund
ECA	European Court of Auditors
EIB	European Investment Bank
EMFAF	European Maritime, Fisheries and Aquaculture Fund
EPA	Enhanced Proportionate Arrangements
ERDF	European Regional Development Fund
ESF+	European Social Fund Plus
FI	Financial Instrument
IB	Intermediate Body
ISF	Internal Security Fund
JTF	Just Transition Fund
KR	Key Requirement
L/R	Legality and regularity
MA	Managing Authority
MCS	Management and control system
OLAF	European Anti-Fraud Office
TA	Technical Assistance
TER	Total Error Rate
RER	Residual Error Rate

GLOSSARY

Term	Definition
Anomalous error	An error that is demonstrably not representative of the population.
Accounting year N - N+1	The period from 01/07/N to 30/06/N+1. For accounting year 2021-2022: the period from the start date for eligibility of expenditure to 30/06/2022. For the accounting year 2029-2030: the period from 01/07/2029 to 30/06/2030. (Article 2(29) CPR).
Assurance package	The 'assurance package' for accounting year N - N+1 for which payment applications have been submitted, to be submitted by the Member States' authorities by 15/02/N+2 (or 01/03/N+2 in exceptional cases agreed by the Commission), includes: the accounts drawn up by the body carrying out the accounting function, the management declaration drawn up by the managing

Term	Definition
	authority, the annual audit opinion and annual control report issued by the audit authority (Article 98(1) CPR).
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 clarifying/ agreeing on these facts.
Error	A quantifiable overstatement of the expenditure declared to the Commission due to an irregularity or a serious deficiency in the effective functioning of the MCS.
Expenditure of accounting year N - N+1	Expenditure declared to the Commission for the accounting year N - N+1.
The Funds	ERDF, ESF+, CF, JTF, EMFAF, AMIF, ISF, BMVI (recital 2 CPR).
Irregularity	Any breach of applicable law, resulting from an act or omission by an economic operator, which has, or would have, the effect of prejudicing the budget of the Union by charging unjustified expenditure to that budget (Article 2(31) CPR).
Known error	Error found outside the sample audited.
Population	The set of positive data in the population of expenditure declared to the Commission within the accounting year (through payment applications) from which the sample is selected and on which the AA draws its conclusions (audit opinion).
Random error	An error which is not considered systemic, known or anomalous. The projection of random errors presumes the probability that the random errors found in the audited sample are also present in the non-audited population.
Residual error rate (RER)	The sum of the following errors: projected random errors, delimited systemic errors and uncorrected anomalous errors, less the financial corrections that have been applied by the Member State to reduce the risks identified by the AA, divided by the expenditure to be declared in the accounts (Article 2(36) CPR).
Serious deficiency	A deficiency in the effective functioning of the MCS of a programme for which significant improvements in the MCSs are required and where any of the KR 2, 4, 5, 9, 12, 13 and 15, or two or more of the other KR are assessed into categories 3 and 4. (Article 2(32) CPR).
Systemic irregularity	Any irregularity, which may be of a recurring nature, with a high probability of occurrence in similar types of operations, which results from a serious deficiency, including a failure to establish appropriate procedures in accordance with CPR and the Fund-specific rules (Article 2(33) CPR).
Total error rate (TER)	The sum of the following errors: projected random errors, delimited systemic errors and uncorrected anomalous errors, divided by the audit population (Article 2(35) CPR).

I. INTRODUCTION

I.1. Regulatory references

Regulation	Articles
Regulation (EU) 2021/1060 Common Provisions Regulation (hereafter CPR) EUR-Lex – 32021R1060 – EN – EUR-Lex (europa.eu)	Article 77(3) – Functions of the audit authority Annex XIX – template for the annual audit opinion Annex XX – template for the annual control report
Regulation (EU) 2021/1059 (hereafter Interreg Regulation) EUR-Lex – 32021R1059 – EN – EUR-Lex (europa.eu)	Article 48 – Functions of the audit authority
Regulation (EU) 2023/67 (hereafter Sampling Regulation) EUR-Lex – 32023R0067 – EN – EUR-Lex (europa.eu)	All
Regulation (EU, Euratom) 2018/1046 Financial Regulation EUR-Lex – 32018R1046 – EN – EUR-Lex (europa.eu)	Article 63 – Shared management with Member States

I.2. Purpose of the note

The objective of this methodological note is to serve as a practical tool for auditors in relation to the annual control reports and audit opinions in the 2021 – 2027 programming period, in line with the Regulation (EU) No 2021/1060 (CPR). This note is in first instance intended for the audit services of the Directorates General of the Commission in charge of the Funds for the purpose of their assessment of the assurance packages submitted by the Member States. This note can be shared with Member States authorities, in particular those that are part of the management and control system, to inform them on the approach applied by the Commission services.

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

The assurance process under shared management with the Member States relies on the single

audit arrangements (Article 80 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 examination of the ACR and of the audit opinion submitted by the AA is one of the building blocks for the Commission to reach its own opinion on the MCS for each programme.

I.3. Timing of the audit work

Article 98(1) CPR states that the assurance package documents (the accounts, management declaration, annual audit opinion and annual control report) covering the preceding accounting year need to be provided to the Commission by 15 February of the following year. The deadline of 15 February may exceptionally be extended by the Commission to 1 March, upon communication by the Member State concerned in line with Article 98(2) CPR.

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 to 30/06/N+1 (for which the deadline for the submission of the final payment application related to the accounting year is 31/07/N+1).

On the basis of its audit strategy¹, the AA should implement all the audit work necessary to draw a valid audit opinion for each accounting year.

As no audit period is explicitly provided in the CPR, the MA and AA need to agree in advance, preferably in writing, on the timeframe for the preparation of the accounts in connection with the audit process. Moreover, the MA should make available to the AA a draft of the management declaration. Similarly, the AA should make available to the MA in time the results of its audit work necessary for the MA to prepare the accounts (final reports of the audit of operations and system audits). The MA and AA are strongly encouraged to agree in writing and observe the internal deadlines for the transmission of documents between them for the purpose of their respective responsibilities.

¹ In order to facilitate the drafting of the AA's audit strategy, the MA should provide an up-to-date description of the MCS to the AA (as set out in Article 69(11) CPR, each Member State shall have in place, at the latest by the time of submission of the final payment application for the first accounting year and no later than 30/06/2023, a description of the MCS, and shall keep that description updated to reflect any subsequent modifications.

II. ANNUAL CONTROL REPORT (ACR)

Each section 1 to 9 below contains the entire text (in *italics*) of the relevant section of the ACR template set out in Annex XX CPR².

II.1. Introduction

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

1.2. Reference period (i.e. the accounting year).

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

The period during which the audit work took place should be mentioned. In particular, the system audits carried out between the end of the reference period (i.e. 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.

1.4. Identification of the programme(s) covered by the report and of its/their managing authority/ies. Where the 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.

In line with Article 77(4) CPR, where programmes are grouped for the purpose of audits of operations, it is recommended to AAs to submit a single ACR covering these programmes³.

1.5. A description of the steps taken to prepare the report and to draw up the corresponding audit opinion.

Section 1.5 is to be adapted for Interreg programmes in order to describe the steps taken to prepare the report based on the specific rules on audits on operations applicable to Interreg programmes as set out in Article 49 of Regulation (EU) 2021/1059 of the European Parliament and of the Council (the 'Interreg Regulation').

This section should cover the preparatory phase, documentation analysed, coordination with other bodies (if applicable), audit work conducted 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.

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 the management declaration is consistent with the conclusions of all audits and controls).

² There is no specific ACR template relating to programmes under the enhanced proportionate arrangements and Interreg programmes covered by the common sample. Any specific adjustments related to these specific situations are clarified under the relevant sections of this note.

³ The possibility of grouping programmes and Funds under one ACR is applicable to ERDF, CF, ESF+ and JTF, and is not applicable to EMFAF, AMIF, ISF and BMVI.

In case of Interreg programmes, this section should also contain the description of the steps taken to prepare the ACR in relation to the audits of operations carried out for the common sample selected by the Commission, in particular: the information provided to the Commission for the purpose of the common sample selection and the steps taken to carry out the requested audit work with regard to the common sample. The AA does not need to calculate the TER/RER for the Interreg programmes falling under the common sample (Article 48(7) of the Interreg Regulation) nor does it need to provide an opinion on the L/R of expenditures under such programmes (second subparagraph of Article 48(5) of the Interreg Regulation)⁴. If a separate sampling exercise for the Interreg programme(s) has been exceptionally carried out by the AA (Article 49(10) of the Interreg Regulation), the steps taken should be described in line with the above explanation regarding this section.

II.2. Significant changes in management and control system(s)

2.1. Details of any major changes in the management and control systems related to the managing authority's responsibilities, in particular with respect to the delegation of functions to intermediate bodies, to the body to which the accounting function has been entrusted and confirmation of their compliance with Articles 72 to 76 and 81 based on the audit work carried out by the audit authority.

This section refers to changes since the previous ACR which could have an impact on the effective functioning of the MCS and the level of assurance they provide as to management of the Funds. It is expected that the AA confirms the compliance of the changes to the MCS with Articles 72 to 76 and 81 CPR, on the basis of the audit work performed. Minor changes which do not impact the functioning of the MCS should not be listed.

2.2. Information on the application of enhanced proportionate arrangements pursuant to Articles 83, 84 and 85.

This section⁵ should provide, where applicable, an overview on the application of the enhanced proportionate arrangements (Articles 83 to 85 CPR) regarding the programme(s) covered by the ACR.

At the beginning of the programming period, changes to the MCS should be reflected as compared with the previous programming period, as in line with Article 84(2) CPR: the Member States may apply the enhanced proportionate arrangements referred to in Article 83, provided that the conditions set out in Article 84(1) are met with respect to a similar programme implemented in 2014-2020 and where the management and control arrangements established for the 2021-2027 programme build largely on those from the previous programme. In such a case, the enhanced proportionate arrangements shall apply from the start of the programme. A newly identified MA and/or BAF at the beginning of the period would constitute a significant change to the MCS resulting in the impossibility to apply enhanced proportionate arrangements from the beginning of the period. Nevertheless, in case the accounting function is newly entrusted to the

⁴ The relevant further sections of the present document shall be read with this consideration.

⁵ Section 2.2 will not be filled in by Interreg Programmes as Articles 83 to 85 CPR do not apply to Interreg Programmes.

MA (in charge of a similar programme in the 2014-2020 programming period), the enhanced proportionate arrangements may apply, provided that it can be ascertained that the MCS for the 2021-2027 programme builds largely on that from the previous programme.

If such changes are encountered during the implementation period (not at the beginning) for programmes where enhanced proportionate arrangements already are in place, the provisions of Article 85 CPR apply.

Annex 5 to the ACR should be filled in by the AA directly in SFC2021 with the relevant structured data.

The following information should be disclosed in Annex 5 of the ACR and completed by any additional details in section 2.2 of the ACR, as relevant:

(1) Programme(s) newly included under the enhanced proportionate arrangements⁶ as notified to the Commission under Article 84 CPR in the preceding accounting year, and indication of the arrangements applied⁷, i.e. implementation or not of:

(i) national procedures for risk based management verifications (including information whether the MA relies on verifications carried out by competent external bodies and if yes, identification of these bodies) and/or

(ii) system audits and/or

(iii) audits of operations on a fixed size sample based on a statistical selection of 30 sampling units selected via statistical method for the programme or group of programmes concerned.

(2) Programme(s) that remained under enhanced proportionate arrangements since the previous accounting year(s), where the applied arrangements have not changed.

(3) Programme(s) under enhanced proportionate arrangements since the previous accounting year(s), where the applied arrangements changed during the reference accounting year, including details of these changes, referring to categories (i) – (iii) mentioned in point (1) above.

(4) Programme(s) under the enhanced proportionate arrangements for which the AA concludes that the conditions set out in Article 84 are no longer fulfilled.

(5) Programme(s) for which additional audit work or system audits were carried out as requested by the Commission pursuant to Article 85(1) and (2) CPR, including information on the scope and results of such audit work and the AA's assessment of remedial actions taken, if already available (or reference to other sections of the ACR where this information is provided).

(6) Programme(s) for which the enhanced proportionate arrangements (Article 85(3) CPR) no longer apply as from the accounting year [202N-202N+1].

(7) Where the Member State has not applied enhanced proportionate arrangements with regard to

⁶ At the start of the programming period, the Member State may apply the enhanced proportionate arrangements referred to in Article 83 CPR, provided that the conditions set out in Article 84(1) CPR are met with respect to a similar programme implemented in 2014-2020 and where the management and control arrangements established for the 2021-2027 programme build largely on those from the previous programme. In such a case, the arrangements shall apply from the start of the programme, however the notification needs to be submitted to the Commission in the preceding accounting year.

⁷ Various combinations of the arrangements can be applied by the Member State.

(some of) the programme(s) covered by the ACR, this should be also indicated in Annex 5 of the ACR for completeness purposes.

II.3. Changes to the audit strategy

3.1. Details of any changes made to the audit strategy and related explanations. In particular, indicate any change to the sampling method used for the audit of operations (see Section 5) and whether the strategy was subject to changes due to the application of enhanced proportionate arrangements pursuant to Articles 83, 84 and 85.

This section should indicate changes made to the audit strategy⁸ and related explanations, in particular changes due to the:

- major changes in the MCS related to the MA's responsibilities, especially with respect to the delegation of functions,
- application of the enhanced proportionate arrangements. Such changes may relate for instance to (i) programmes newly included under the enhanced proportionate arrangements, (ii) additional audit work requested by the Commission for cases where the conditions for the enhanced proportionate arrangements are no longer fulfilled, as specified in Article 85 CPR or (iii) programmes previously under the enhanced proportionate arrangements, for which these arrangements are no longer to be applied.

The information provided should be consistent with and can cross-refer to the information disclosed in section 2 of the ACR.

3.2. Section 1 is to be adapted for Interreg programmes in order to describe changes to the audit strategy based on the specific rules on audits of operations applicable to Interreg programmes as set out in Article 49 of the Interreg Regulation.

In case of Interreg programmes, section 3.1 of the ACR should also refer to any changes of the audit strategy due to additional audit work requested by the Commission pursuant to Article 49(8) of the Interreg Regulation (i.e. cases where the global RER for the common Interreg sample exceeds the materiality level of 2%) and in case of the need to carry out a separate sampling exercise in accordance with Article 79 CPR (if data required for the selection of the common sample by the Commission are missing or incomplete or have not been submitted by the deadline, as set out in Article 49(10) of the Interreg Regulation).

II.4. System audits (where applicable⁹)

Sections 4 and 9.1 of the ACR are not applicable to programmes for which the Member State applies enhanced proportionate arrangements and for which no system audits have been carried

⁸ The MA should make available an up-to-date description of the MCS (according to the template set out in Annex XVI CPR) to the AA in time for the AA to make any necessary modifications to its audit strategy.

⁹ This section is voluntary for programmes that fall under the 'enhanced proportionate arrangements' for the accounting year in question.

out. This information should be indicated in the ACR.

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 ('system audits').

The bodies mentioned are either the AA or any audit body that carries out systems audits. If part of the system audits has been outsourced, the contract details¹⁰ 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. A description of the basis for the audits carried out, including a reference to the audit strategy applicable and more particularly to the risk assessment methodology and the results that led to establishing the audit plan for system audits. If the risk assessment has been updated, this should be described in Section 3 covering the changes in 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). 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.

The AA is also invited to describe under this section the results of its risk assessment (e.g. with regard to risks of fraud, conflict of interest, double funding), as well as 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 or a relevant methodology or document where this information is provided.

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.

In line with point 3.2 of Annex XXII CPR, bodies appointed as part of the MCS in the last 12 months should be included for system audits.

In case of newly identified MAs and/or BAFs, system audits on such authorities are required under Article 78 CPR within 21 months of the decision approving the programme or the amendment of the programme identifying such an authority.

In case the accounting function is newly entrusted to the existing MA, the AA is recommended to carry out a system audit on the accounting function (i.e. KR 10)¹¹.

¹⁰ Such as the name of the contractor, scope and objectives, definition of tasks, etc.

¹¹ This audit work can be also carried out in the context of the audit of accounts.

In case of new IB(s), the AA is expected to reflect this in its risk assessment for its system audits and to consider possible audits of these bodies if needed.

Where relevant, the information on audits on the newly identified bodies and/or bodies with newly entrusted accounting function should be consistent with and can cross-refer to the information disclosed in section 3 of the ACR.

4.3. In relation to the table in Section 9.1, a description of the main findings and conclusions drawn from system audits, including the audits targeted at specific thematic areas.

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 9.1 of the ACR indicates for each body audited by the AA the assessment related to each KR, resulting also from audits conducted during the reference accounting year. Further information on the assessment of the KRs is presented in the Methodological note on the Assessment of Management and Control Systems in the Member States.

The above-mentioned table is generated in SFC2021 as Annex 1 with information from all reports¹² submitted via SFC2021 and should be filled in directly.

Horizontal audits¹³ targeting specific thematic areas or bodies (as set out in the audit strategy and carried out in relation to the accounting year) should also be reported.

Irregularities with financial impact and serious deficiencies in the effective functioning of the MCS identified during system audits by the AA should also be indicated.

Where no system audits have been carried out in relation to the accounting year, an adequate justification (or a reference to the audit strategy, if applicable) should be provided.

In addition, the AA is invited to summarise the audit work carried out and the results in relation to performance data reliability, based on:

- system audits of KR 6 (in particular the aspect of performance data reliability),
- any specific thematic audits on performance data reliability, and
- audits of operations.

Given the importance of avoidance of double funding and ensuring an appropriate demarcation between different funding instruments, the AA is invited to summarise the audit work carried out and the results in this regard, based on:

- audits of KR 4 (the existence of adequate control and monitoring systems and procedures to ensure the expenditure included in the payment claim has not received support from another Fund or Union instrument, or support from the same Fund under another programme, as set in Article 63(9) CPR),

¹² In line with Article 77(5) CPR, the AA shall transmit system audit reports to the Commission as soon as the contradictory procedure with the relevant auditees is concluded.

¹³ Horizontal audits can cover more than one Fund or programme.

- any specific thematic audits on avoidance of double funding, and
- audits of operations.

4.4. Indications as to whether any irregularities identified were considered to be of a systemic character, details of the measures taken, including a quantification of the irregular expenditure and any related financial corrections made, in accordance with point (b) of Article 77(3) and Article 103.

This section should include information about systemic irregularities detected during system audits carried out by the AA in relation to the reference accounting year and the follow up given by the MA/ IB to remedy these irregularities. The financial impact should be indicated, as well as the state of play of the implementation of the related financial corrections and other applicable measures (see also section 6.3 of this document).

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.

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

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

This section should include information about the follow up given by the MA/ IB to the recommendations from the AA's system audits from previous accounting years, in particular with regard to systemic irregularities.

4.6. A description of irregularities or deficiencies specific to financial instruments or other types of expenditure or costs covered by particular rules (e.g. State aid, public procurement, simplified cost options, financing not linked to costs), detected during system audits and of the follow up given by the managing authority to remedy these irregularities or deficiencies.

This section should describe the work carried out specifically concerning FIs or other types of expenditure or costs covered by particular rules 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 reports as set out in Article 81(2) and (5) CPR, as well as by the AA's own audit work carried out in accordance with Article 81(3) and (5) CPR.

This section should also present the results of the verification of compliance with the conditions of Article 92(2) CPR. The Fund supporting the FI should be mentioned for multi-fund programmes.

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

This refers to the degree of assurance that can be attributed to the effective functioning of the

MCS as to its ability to ensure the L/R of expenditure¹⁴. 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.

Regarding the effective functioning of the MCS, systems assessed in category 1 ‘work well’, systems assessed in category 2 ‘work’, systems assessed in category 3 ‘work partially’, and systems assessed in category 4 ‘essentially do not work’¹⁵.

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

II.5. Audits of operations

Sections 5.1 to 5.10 are to be adapted for Interreg programmes in order to describe the steps taken to prepare the report based on the specific rules on audits on operations applicable to Interreg programmes as set out in Article 49 of the Interreg Regulation.

Sections 5.2, 5.6 and 5.9 of the ACR are not applicable to Interreg programmes falling under the common sample selected by the Commission¹⁶. However, if the AA applied sub-sampling for auditing operations of the common sample, section 5.2 of the ACR should include the related information on sub-sampling. The information in the other sections of the ACR should refer to the audits of operations carried out by the AA for the common sample¹⁷. With regard to sections 5.3 and 5.4 of the ACR, the AA may refer to the information already provided to the Commission for the selection of the common sample, as also mentioned in section 1.5 of the ACR.

5.1. Identification of the bodies (including the audit authority) that carried out the audits of operations (as envisaged in Article 79).

If part of the audits of operations has been outsourced, the contract details¹⁸ and the tasks outsourced to the contractor(s) should be specified. The AA is expected to explain 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 standards¹⁹. The AA should confirm that the work done by those

¹⁴ Article 77(1) CPR.

¹⁵ Table 2 of Annex XI CPR.

¹⁶ Unless Article 49(10) of the Interreg Regulation applies (i.e. when exceptionally a separate sampling exercise for the respective Interreg programme is carried out in accordance with Article 79 CPR).

¹⁷ As specified in Article 49(1) of the Interreg Regulation, this concerns the Interreg programmes receiving support from the ERDF or an external financing instrument of the Union in respect of each accounting year.

¹⁸ Such as the name of the contractor, address, scope and objectives, definition of tasks, etc.

¹⁹ The main principle in all the standards (e.g. Guideline No 25 of the European Implementing Guidelines for the INTOSAI Auditing Standards; ISA (IFAC) 600, 610) 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

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.

In the case of Interreg programmes in which the AA is assisted by a group of auditors, as envisaged in Article 48(1) of the Interreg Regulation, the AA should describe the way it has ensured that the rules of procedure drawn up by the group of auditors have been adhered to.

5.2. A description of the sampling methodology applied and information as to whether the methodology is in accordance with the audit strategy.

This section should describe the sampling method used, in line with Article 79(1) and (2) CPR and recital 15 as well as Articles 5 and 6 of the Sampling Regulation.

In case the AA has used the sampling method other than those offered as off-the-shelf methods described in Articles 5 and 6 of the Sampling Regulation, it should describe in detail the method used.

With regard to the grouping of programmes for the purpose of audits of operations, as set out in the second subparagraph of Article 79(2) CPR, the statistical sample may cover one or more programmes receiving support from the ERDF, ESF+, CF and JTF and (subject to stratification where appropriate) one or more programming periods, according to the professional judgement of the AA²⁰. In such cases, the AA is recommended to prepare a single ACR covering the grouped programmes²¹.

In line with Article 83 CPR, the fixed sample size of 30 could be applied either to a programme or a group of several programmes covered by the enhanced proportionate arrangements. If the AA would like to reduce the audit workload by grouping several programmes including those which are not subject to the enhanced proportionate arrangements, the AA could decide to use a capped sample size of 50 units, based on Article 5(7) of the Sampling Regulation. Such sample could be based on the population covering all programmes in category 1 and 2, regardless of whether they are subject to the enhanced proportionate arrangements.

This section should therefore indicate programmes for which (1) the Member State applies enhanced proportionate arrangements and for which the audits of operations are carried out on a fixed sample size based on a statistical selection of 30 sampling units or (2) the AA decided to use a capped sample size of 50 set out in Article 5(7) of the Sampling Regulation²², together with the justification (i.e. system assessed in category 1 or 2 by the AA in the case of a capped sample

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 the AA's professional judgement and scepticism.

[Document \(europa.eu\)](https://www.eca.europa.eu/Lists/ECADocuments/GUIDELINES/GUIDELINES_EN.PDF) (https://www.eca.europa.eu/Lists/ECADocuments/GUIDELINES/GUIDELINES_EN.PDF)

²⁰ There is no requirement of a common MCS in order to apply such grouping of the programmes.

²¹ In case of grouping of the programming periods, the AA has to upload the ACR in both SFC2014 and SFC2021 to comply with the submission requirements. Furthermore, such ACR should cover the legal requirements of both templates (i.e. for the 2014 -2020 and 2021 -2027 programming periods).

²² In case of programme(s) under enhanced proportionate arrangements, the AA can refer to the information provided in section 2.2 and/or Annex 5 to the ACR.

size of 50 units). In such cases, the AA should also indicate the method used for selection of a sample (i.e. equal probability selection/ simple random sampling or probability proportional to size selection/ monetary unit sampling (MUS) standard approach).

When the AA has used the approach allowed under Article 7 of the Sampling Regulation, this section should indicate the methodology applied for sub-sampling and provide the related details (including a confirmation that sub-sampling methodology was based on random selection). The AA should also 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, column B "Expenditure in reference to the accounting year audited for the random sample" of Annex 2 to the ACR should include only 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.

For Interreg programmes participating in the common sample selected by the Commission (Article 49 of the Interreg Regulation), the sampling is carried out by the Commission, therefore additional details are not necessary. However, in the cases where the AA used sub-sampling, the related details should be provided, as well as a confirmation that the errors detected in the audited sub-sample, if any, were extrapolated to the sampling unit level.

Deviations from the sampling methodology set out in the audit strategy should be indicated and explained.

5.3. An indication of the sampling parameters and other information for statistical or non-statistical sampling procedures, as well as an explanation of the underlying calculations and professional judgement applied. The information should include: materiality level, confidence level, sampling unit, expected error rate, sampling interval, standard deviation, population value, population size, sample size and information on stratification. The underlying calculations for sample selection, total error rate and residual error rate in Section 9.3, in a format permitting an understanding of the basic steps taken, in accordance with the specific sampling method used.

This section 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 applied²³ 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 reference accounting year, where appropriate. In case of multiple sampling periods, the data should be indicated for each sampling period.

When establishing the audit population (i.e. a population from which the sample for audits of

²³ Point 2 of Annex I of the Sampling Regulation 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%.

operations is drawn), the following considerations apply:

- Any expenditure declared with regard to FIs should be included in the audit population²⁴. This comprises (1) the first advance payments to FIs and (2) the amounts disbursed by FIs to final recipients, except those clearing the first advance payments²⁵.
- The amount of technical assistance expenditure declared to the Commission via a flat rate in accordance with point (b) of Article 91(3) CPR, should be excluded from the audit population for the purpose of sample selection, as also clarified in point (a) of Article 3(6) of the Sampling Regulation.
- Sampling units which cannot be audited in accordance with Article 80(3) CPR in the framework of single audit arrangements in case the AA adopts an approach based on exclusion for such sampling units, should be removed from the audit population for the purpose of sample selection, as also clarified in point (b) of Article 3(6) of the Sampling Regulation.
- The expenditure linked to specific objectives for which enabling conditions are not fulfilled, with the exception of operations that contribute to the fulfilment of enabling conditions, should not be included in the audit population, in line with Article 3(3) of the Sampling Regulation. This applies to all expenditure reported in the final payment application as linked to unfulfilled enabling conditions. Also in case these conditions are subsequently fulfilled, these amounts are to be first declared in a payment application of a subsequent accounting year as expenditure linked to the fulfilled enabling condition and then included in the audit population for that accounting year (as clarified in recital 4 of the Sampling Regulation).

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 currency²⁶. This approach aims at ensuring that exchange rate fluctuations do not impact the error rate calculation.

The AA is also expected to describe its approach to stratification, if applicable (see Article 4(2) of the Sampling Regulation).

With regard to programmes included by the AA in a grouped single sample, the Commission recommends in particular when different results (i.e. error rate above 2% and/or system deficiencies) 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).

Similarly, with regard to multi-fund programmes, in case of error rate above 2% or system

²⁴ This concerns also FIs implemented by EIB or other international financial institutions in which a Member State is a shareholder. In such cases, the AA shall base its work on an annual audit report drawn up by the external auditor of the concerned financial institution (Article 81(5) CPR).

²⁵ See also the Methodological note on the Preparation, Submission, Examination and Audit of Accounts, clarifying the data to be reported on FIs in Appendix 3 of the accounts.

²⁶ In case of any conversions, provisions of point (c) of Article 76(1) CPR apply.

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 provided in Article 4(2) of the Sampling Regulation, ensuring that each stratum is of sufficient size to draw a conclusion per stratum. This is particularly important when different results are expected for the Funds under a multi-fund programme.

The AA should also explain how it has implemented in practice the requirements of single audit arrangements as set out under Article 80(3) CPR and Annex III of the Sampling Regulation, when applicable. In particular, the AA should indicate which approach to sample selection was used:

- 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.

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

- expenditure declared in the sampling period,
- detected error,
- related stratum, if applicable.

No particular additional information on the FIs sampling units is required.

In case of programmes for which the audits of operations are carried out based on a fixed sample size of 30 under the enhanced proportionate arrangements or based on a capped sample size of 50 in the framework of an off-the-shelf sampling method, it is not required to indicate sampling parameters related to the calculation of the sample size.

The AA should provide in Annex 3 to the ACR the calculation tables, preferably in Excel format²⁷, relevant to understand the sampling method applied. The audit trail for the selection of the sample (and sub-sample, if relevant) should be ensured, so that the Commission can verify that the sampling procedures have been independent, objective and without bias (e.g. minutes of meetings, log records of the sessions executed in the software used, screens-shots).

5.4. A reconciliation between the amounts included in the accounts, as well as the amounts declared in payment applications during the accounting year and the population from which the random sample was drawn (column 'A' of table in Section 9.2). Reconciling items include negative sampling units where financial corrections have been made.

In this section, the AA should disclose information on the reconciliation of the audit population with:

²⁷ Where applicable and upon request of the Commission, also the log records from ACL, IDEA or similar software.

- the amount of expenditure declared to the Commission in the reference accounting year (i.e. expenditure in the final payment application), as well as
- the expenditure included in the accounts (i.e. expenditure in column A of Appendix 1 of the accounts).

The information provided should include explanation of the differences (reconciling items) between these amounts. Regarding the reconciliation with the amount of expenditure included in the accounts, such information can be provided in section 6 of the ACR. The AA may then refer in section 5.4 of the ACR to the information disclosed in section 6 of the ACR, Appendix 4 of the accounts and the audit work carried out on that Appendix under its audit of accounts²⁸.

5.5. Where there are negative sampling units, confirmation that they have been treated as a separate population. 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.

In this section, the AA should confirm that the negative sampling units have been treated as a separate negative population, in line with Articles 2(15) and 3(4) of the Sampling Regulation.

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.

5.6. Where a non-statistical sampling method is used, specify the reasons for using the method, the percentage of sampling units covered by audits, the steps taken to ensure randomness of the sample bearing in mind that the sample has to be representative.

In addition, define the steps taken to ensure a sufficient size of the sample, enabling the audit authority to draw up a valid audit opinion. A total (projected) error rate is also calculated where non-statistical sampling method has been used.

The AA may use a non-statistical sampling method in case the population consists of less than 300 sampling units. In such cases, the sample size should cover at least 10 % of the sampling units in the population and should be sufficient to enable the AA to draw up a valid audit opinion (Article 79(2) CPR). This applies also for the programmes under enhanced proportional arrangements.

In particular, the AA should explain and document 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 main findings of the audits of operations, describing:

(a) the number of sampling units audited, the respective amount;

²⁸ See the Methodological note on the Preparation, Submission, Examination and Audit of Accounts.

(b) *the type of error by sampling unit*²⁹;

(c) *the nature of errors found*³⁰;

(d) *the stratum*³¹ *error rate (if stratification applied) and corresponding serious deficiencies or irregularities, the upper limit of the error rate, root causes, corrective measures proposed (including those intending to improve the management and control systems) and the impact on the audit opinion.*

Further explanations on the data presented in Sections 9.2 and 9.3 shall be provided, in particular concerning the total error rate.

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.

In this section, the AA should include the qualitative analysis performed on the findings. 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 findings, the information should be presented in the form of a structured data in SFC2021 in Annex 4 to the ACR.

5.8. Details of any financial corrections relating to the accounting year and implemented by the managing authority before submitting the accounts to the Commission, and as a consequence of the audits of operations, including flat rate or extrapolated corrections leading to a reduction to 2 % of the residual error rate of the expenditure included in the accounts pursuant to Article 98.

If a single sample for a multi-fund programme or for a group of programmes leads to the calculation of a material error rate, the resulting TER and (extrapolated) 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 constitute the audit sample and how to apply the appropriate financial corrections so that the overall RER for the group of all concerned programmes and/or Funds is reduced to 2% or below. Once the RER for the group of programmes and/or Funds is reduced to 2% or below, any subsequent additional error found by EU audits could lead to a rise in the RER to above 2% and consequently to a need for additional financial corrections. The Commission therefore recommends that the AA adopts a prudent approach and seeks to reduce the RER for the group of programmes and/or Funds to below 2%, to allow for a ‘safety margin’.

²⁹ *Random, systemic, anomalous.*

³⁰ *For instance: eligibility, public procurement, State aid.*

³¹ *The stratum error rate is to be disclosed where stratification was applied, covering sub-populations with similar characteristics such as operations consisting of financial contributions from a programme to financial instruments, high-value items, Funds (in the case of multi-Fund programmes).* However, the TER and RER to be reported in the ACR and in structured data in SFC2021 and considered in the assessment of the programme(s) refer to the whole population (including where relevant several programmes grouped). As clarified in the Sampling Regulation (Article 4) stratification of the population is optional. The AA may stratify the population using its professional judgement.

5.9. Comparison of the total error rate and the residual error rate (as shown in Section 9.2) with the materiality level of 2 %, in order to ascertain if the population is materially misstated and the impact on the audit opinion.

In this section, the AA should disclose the TER, calculated as established by Article 2(34) and (35) of CPR and Article 8(1) of the Sampling Regulation:

“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 77(3) of Regulation (EU) 2021/1060, the audit authority shall calculate the total error rate, which shall be the sum of the extrapolated random errors, including errors established in the exhaustive strata, and, where applicable, delimited systemic errors and uncorrected anomalous errors, divided by the expenditure of the audit population”³².

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 of this document.

The AA should also calculate and disclose the RER (i.e. the residual error rate in the population of expenditure included in the accounts) after the relevant financial corrections resulting from the AA’s audits were applied. The RER should then be compared with the materiality level of 2%.

In case of a RER above 2%, the Member State is expected to apply, before submission of the assurance package, additional financial corrections to bring the material residual risk (i.e. RER) to 2% or below; this is the condition for the accounts to be admissible in line with Article 98(5) CPR.

In addition to the information on the TER and RER presented in this section, the table under section 9.2 of the ACR should also disclose the TER and RER. The module in SFC2021 includes the above-mentioned table as Annex 2 which should be filled in directly.

In case of Interreg programmes in the common sample, the AA will not calculate the TER/ RER per programme.

The underlying calculations for TER and RER should be provided as Annex 3 to the ACR. Further explanations on the treatment of errors and the TER and RER calculations are provided in section IV below.

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

This section should include information about systemic irregularities detected during audits of operations carried out by the AA in relation to the reference accounting year and the follow up given by the MA/ IB to remedy these irregularities. The financial impact should be indicated, as well as the state of play of the implementation of the related financial corrections (see also section 6.3 of this document).

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.

³² 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 no systemic irregularities were identified, the AA is expected to confirm this in the ACR.

5.11. Information on the follow-up of audits of operations carried out in respect of the common sample for Interreg programmes based on the specific rules on audits on operations applicable to Interreg programmes as set out in Article 49 of the Interreg Regulation.

In case of Interreg programmes taking part in the common sample, the AA(s) of the programme(s) most affected by the detected irregularities should summarize the scope and results of any additional audit work carried out by the end of the previous year, as requested by the Commission pursuant to Article 49(8) of the Interreg Regulation for cases where the global RER for the common Interreg sample exceeds 2%. If any of this information is provided under section 5.12 of the ACR, a reference to that section should be made.

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

This section should include information about the follow up given by the MA/ IB to the findings from the AA's audits of operations from previous accounting years, in particular with regard to systemic irregularities.

The error rates for previous accounting years do not need to be revised, except in case of recalculation of the error rates following re-performance of the AA's audits of operations by the Commission/ ECA. The AA should then indicate the revised error rates.

5.13. A table categorising errors identified by type.

The table concerns the typology of errors, agreed between the Commission and the AAs. This table should be provided as structured data in SFC2021 in Annex 4 to the ACR.

5.14. Conclusions drawn from the main findings of the audits of operations with regard to the proper functioning of the management and control system.

Section 5.14 is to be adapted for Interreg programmes in order to describe the steps taken to draw the conclusions based on the specific rules on audits on operations applicable to Interreg programmes as set out in Article 49 of the Interreg Regulation.

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.

In case of Interreg programmes covered by the common sample, the AA should disclose any conclusions drawn based on the individual operations audited for the proper functioning of the MCS of a specific programme, where appropriate (see also section 8.1 of the ACR).

II.6. Audits of accounts

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

6.2. Description of audit approach used to verify that the accounts are complete, accurate and true. This shall include a reference to the audit work carried out in the context of system audits, audits of operations with relevance for the assurance on the accounts and additional verifications to be carried out on the draft accounts before these are sent to the Commission.

In this section, the AA should describe the approach taken for the audits of accounts, as set out in the Methodological note on the Preparation, Submission, Examination and Audit of Accounts.

The AA should also explain the timetable and working arrangements agreed between the AA and the MA/ BAF necessary for the AA to be able to perform its audit work on the accounts in due time³³.

6.3. Conclusions drawn from the audits in relation to the completeness, accuracy and veracity of the accounts, including an indication on the corresponding financial corrections made and reflected in the accounts as a follow-up to these conclusions.

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 MA/BAF);
- its audits of operations³⁴;
- final audit reports sent by the Commission and the Court of Auditors;
- its assessment of the management declaration;
- the nature and extent of the testing done on the draft accounts submitted by the MA/BAF 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 accounts, before the regulatory deadline of 15/02/N+2, as set out in the Methodological note on the Preparation, Submission, Examination and Audit of Accounts. In particular, the AA should:

- confirm explicitly in the ACR that it has checked:

³³ Taking account of ISA 700 paragraph A39, the AA provides opinion on the accounts that are under the responsibility of the MA/BAF. 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 MA/BAF 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 MA/BAF and prior to the MA's management declaration, in order to ensure sufficient time to draw its opinion by 15/02/N+2. A timetable and working arrangements should be agreed between the MA/ BAF and AA to ensure a smooth process.

³⁴ 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 accounting system of the MA/BAF down to the level of the beneficiary and /operation, via any IBs, an issue already covered in current audits.

- the reconciliation made by the MA/BAF concerning information presented in Appendixes 2 and 4 of the accounts, and
- the accuracy of the information regarding financial corrections, in particular financial corrections to reduce the RER to 2 % or below and financial corrections following the Commission/ ECA audits, and amounts under ongoing assessment, provided in column G of Appendix 4 of the accounts in SFC2021³⁵; and
- disclose and explain the discrepancies found, if any.

The AA should describe the work done in this respect, including the AA's assessment of the adequacy of the explanations given by the MA/BAF for the adjustments disclosed in those Appendixes and the verification of the consistency with the information disclosed in the ACR. 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 payment application to the Commission and before submission of the accounts.

Regarding the amounts under ongoing assessment as referred to in point (b) of Article 98(6) CPR, the following information should be provided:

- amounts removed from the submitted accounts: As the amounts are indicated in Appendix 4 of the accounts, the AA may refer to this Appendix, providing further details if needed;
- follow-up of amounts removed from previous accounts: Information on how much of those amounts were considered finally eligible, including if those amounts are treated differently from other positive expenditure during the sampling for audits of operations (e.g. a specific stratum). The amounts removed under ongoing assessment due to audit work should be indicated.

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

This section should include information about systemic irregularities detected during audits of accounts carried out by the AA in relation to the reference accounting year and the follow up given by the MA/ BAF to remedy these irregularities. The financial impact should be indicated, as well as the state of play of the implementation of the related financial corrections.

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.

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

II.7. Other information

7.1. Audit authority's assessment of the cases of suspicions of fraud detected in the context of

³⁵ See also the Methodological note on the Preparation, Submission, Examination and Audit of Accounts

their audits (and of the cases reported by other national or Union bodies and related to operations audited by the audit authority), together with the measures taken. Information on number of cases, gravity, and the amounts affected, if known.

The AA should indicate the steps taken in regard to cases of suspected fraud concerning the accounting year identified up to the submission of the ACR.

For multi-fund programmes, the Fund concerned should also be indicated in this section.

The ACR should disclose whether the cases of suspected fraud detected by the AA³⁶ 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 69(2) and (12) CPR.

Information regarding any relevant communication with investigative bodies, national prosecutor office and/or European Public Prosecutor's Office, should also be included.

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 payment application to the Commission in which the corrections were included should be reported in the ACR, if applicable.

In case no suspicions of fraud were identified, this information also needs to be expressly disclosed in this section.

The ACR should contain information on how the AA covered the risk of fraud in its audits and if the AA used the Commission's substantive testing checklist in its controls.

7.2. Subsequent events occurred after the end of the accounting year and before the transmission of the annual control report 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 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 BAF and under its responsibility. The "date of the financial statements" corresponds to the date when the BAF submits the accounts to the AA for its final verifications.

³⁶ 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.

Therefore, subsequent events refer to events that occurred after the end of the accounting year (i.e. 30/06/N+1) and before transmission of the ACR and audit opinion to the Commission (i.e. by 15/02/N+2).

The AA should receive the accounts from the BAF 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 legality and/or regularity of the amounts disclosed in the accounts.

For this purpose, under ISA 560, 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*". 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 and before their submission to the Commission) or have a negative impact (e.g. deficiencies in the system or errors detected in that period).

As these events may have already been described in other sections of the ACR (e.g. system audits carried out in second half of year N+1, implementation of financial corrections following audits of operations, etc.), the information in this section should focus on any additional subsequent events not disclosed in the other sections and cross-refer to information provided in other sections, as applicable.

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.

II.8. Overall level of assurance

8.1. Indication of the overall level of assurance on the proper functioning of the management and control system, and an explanation of how the level was obtained from the combination of the results of the system audits and audits of operations. Where relevant, the audit authority shall take also account of the results of other national or Union audit work carried out.

For the purposes of the overall assurance to be indicated by the AA:

- The assurance on the accounts is based on the results of the audits on the accounts (and other relevant sources of information – see section 6.3 of the ACR) and conclusions on this matter should be disclosed in section 6.3 of the ACR³⁷.

³⁷ With regard to the element of the audit opinion related to the accounts, the Methodological note on the

- The assurance on the legality and regularity of expenditure is based on the RER (i.e. TER resulting from audits of operations taking into account the implementation of the required corrections before submitting the accounts, see section 5 of the ACR).
- 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 of the ACR) and the audits of operations (TER – see section 5 of the ACR).

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 came 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.

In case of programmes for which the Member State applies enhanced proportionate arrangements and for which no system audits were carried out, the AA obtains the assurance on the proper functioning of the MCS mainly from the results of the audits of operations.

In case of Interreg programmes, where the audits of operations are carried out based on a common sample selected by the Commission, the AA obtains the assurance on the proper functioning of the MCS mainly from the results of system audits, considering also results of the individual audits of operations, where relevant³⁸.

8.2. Assessment of any mitigating actions not linked to financial corrections that were implemented, financial corrections implemented and an assessment of the need for any additional corrective measures, both from the perspective of improvements of the management and control systems and of the impact on the Union budget.

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 MCS (mostly at the level of KR 4 (management verifications) but possibly also for other key requirements³⁹). In this case, and in particular where the TER is above 5% and/or 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,

Preparation, Submission, Examination and Audit of Accounts applies.

³⁸ As the audits of operations are carried out by the AA for the common Interreg sample and cover only part of this sample, the results of these individual audits are not representative for the population of the given Interreg programme and therefore may not provide adequate basis for conclusion on the functioning of the MCS of this Interreg programme. This is to be assessed by the AA based on the detected errors, using its professional judgement.

³⁹ For example, a lack of audit trail related to management verifications should be reflected in both KR 4 and 5.

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).

III. AUDIT OPINION

III.1. Audit opinion

The audit opinion to be provided annually by the AA for each programme, in compliance with point (a) of Article 77(3) CPR, is based on the conclusions drawn from the audit evidence obtained. The template in Annex XIX CPR is to be used, covering the three elements of the assurance (accounts, legality and regularity of expenditure entered in the annual programme accounts and functioning of MCS). Three types of opinions are provided in the CPR:

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

The AA reports a single audit opinion per programme in the ACR and as structured data in SFC2021, indicating the possible different levels of assurance for each of the three elements quoted above (accounts, L/R, MCS).

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

If a qualification applies to one or more of the three elements quoted above, a qualified opinion for the programme is adequate.

If material⁴⁰ matters were identified for one or more of the three elements quoted above, leading to an adverse opinion on the affected element(s), an adverse opinion for the programme is adequate.

In case of qualified or adverse opinion, the AA should indicate in the audit opinion which of the three elements or combination of them is/are affected.

Based on experience, Table 1 below indicates, for the most commonly reported situations, the link between the level of assurance on the three elements of the audit opinion and the conclusions obtained from the audit work. This table is indicative only and requires the AA to use its professional judgment, in particular for situations not set out 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 or system/ procedural improvements to overcome deficiencies in the MCS and to avoid future repetition of the same irregularities, or a combination of both.

⁴⁰ According to paragraph A3 of ISA 320, determining materiality involves the exercise of professional judgment.

Table 1: Types of audit opinion on the elements of assurance relating to the MCS, L/R and accounts⁴¹ 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				Corrective measures needed (either financial corrections or system/procedural improvements or both)
	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 in the accounts ⁴²	Accounts ⁴³	
	Results of system audits	TER ⁴⁴ (results of audits of operations)	RER (TER mitigated by implemented financial corrections before submission of the accounts to the Commission)		
1- Unqualified	System in category 1 or 2	and $TER \leq 2\%$	and $RER \leq 2\%$	and adjustments to be made in the accounts $\leq 2\%$	Corrections of the individual errors in the sample
2 – Qualified (qualification with limited impact)	System in category 2	and/or $2\% < TER < 5\%$	NA ⁴⁵	NA	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 $5\% \leq TER \leq 10\%$	and/or $RER > 2\%$ ⁴⁶	and/or adjustments to be made in the accounts $> 2\%$	Extrapolated financial corrections to bring the RER to $\leq 2\%$, taking account of corrections already applied as a result of the AA's audits (including corrections of individual errors in the sample as accounts are inadmissible if RER is $> 2\%$) + improvements to overcome any deficiencies in the MCS + implementation of the adjustments to be made in the accounts
4 - Adverse	System in category 4	and/or $TER > 10\%$	and/or $RER > 2\%$ ⁴⁷	and/or adjustments to be made in the accounts $> 2\%$	

⁴¹ As for the assurance on the accounts, the Methodological note on the Preparation, Submission, Examination and Audit of Accounts applies.

⁴² Not required in case of Interreg programmes taking part in the common sample.

⁴³ In case of Interreg programmes, the AA's opinion on accounts will be formulated based on its professional judgement, considering the completeness, veracity and accuracy of the accounts (e.g. in case the Programme corrected all individual errors, then the AA would issue an unqualified opinion on the accounts).

⁴⁴ Individual TERs will not be available in case of Interreg programmes in the common sample. The AA obtains the assurance on the proper functioning of the MCS mainly from the results of system audits, considering also results of the individual audits of operations, where relevant.

⁴⁵ When it comes to the elements of assurance on L/R and the accounts, the audit opinion is either unqualified or qualified with significant impact or adverse.

⁴⁶ Accounts are inadmissible if $RER > 2\%$, however the Commission may recalculate the RER and take into account the results for its own opinion.

⁴⁷ See footnote above.

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 corrective measures at MCS / L/R level implemented at the time of elaborating its audit opinion, the AA may possibly review its initial assessment based on available audit results and evidence obtained. For example:

- If the AA considers that the MCS is in category 1 or 2 and both the TER and RER are below or equal the materiality level of 2%, the audit opinion may be unqualified (unless the AA considers that the required improvements and remedial actions for a MCS assessed in category 2 deserve a qualification).
- 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 (possibly with only limited impact if the reported TER is between 2% and 5% and the RER is below or equal to 2%).
- Similarly, in the case above, once appropriate corrective measures (i.e. financial corrections, individual or extrapolated, to bring the RER 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 (RER brought down to or below 2%).
- Alternatively, if in addition to the required financial corrections, remedial actions resulting in improvements to overcome deficiencies in the 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 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 once the RER 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 the case above, the AA has sufficient evidence on 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 an unqualified opinion.
- Alternatively, if the corrective measures relating to the system deficiencies were not implemented, the audit opinion is expected to remain qualified even if the RER 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 RER are below or equal to 2%. The qualification in this case refers only to the completeness, accuracy, and/or veracity of the accounts.

III.2. Types of audit opinion

Unqualified opinion:

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

(1) Accounts

- the accounts give a true and fair view;

(2) Legality and regularity of the expenditure included in the accounts

- expenditure included in the accounts is legal and regular⁴⁸;

(3) The management and control system in place as at the date of this audit opinion

the management and control system functions properly.

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

Qualified opinion:

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

(1) Accounts

- the accounts give a true and fair view [where the qualification applies to the accounts, the following text is added:] except in the following material aspects:

(2) Legality and regularity of the expenditure included in the accounts

- the expenditure included in the accounts is legal and regular [where the qualification applies to the accounts, the following text is added:] except for the following aspects: ...

The impact of the qualification is limited [or significant] and corresponds to ... (amount in EUR of the total amount of expenditure included in the accounts).

(3) The management and control system in place as at the date of this audit opinion

the management and control system put in place functions properly [where the qualification applies to the management and control system, the following text is added:] except for the following aspects⁴⁹: ...

The impact of the qualification is limited [or significant] and corresponds to ... (amount in EUR of the total amount of expenditure included in the accounts).

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

⁴⁸ Except for the Interreg programmes that fall under the annual sample for audits of operation to be drawn by the Commission as envisaged in Article 48 of the Interreg Regulation. Applicable also for the sections below.

⁴⁹ In case the management and control system is affected, the body or bodies and the aspect(s) of their systems that did not comply with requirements and/or did not function properly shall be identified in the opinion, except where this information is already clearly disclosed in the annual control report and the opinion paragraph refers to the specific section(s) of this report where such information is disclosed.

[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 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 RER (as %) multiplied by the expenditure 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 (this part of) the MCS and estimate the amounts affected by the qualification⁵⁰.

As indicated in the table 1 under section III.1, 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% (TER) of the total expenditure in the accounts. If those irregularities equal to or exceed 5% (TER) of the total expenditure 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, the RER above 2% would render the accounts inadmissible in line with Article 98(5) CPR.

The AA should clearly report, respectively under point 1, 2 and/or 3 of the opinion, whether the qualifications relate to the accounts, the L/R of expenditure, or the MCS.

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:

- (i) the accounts give / do not give [delete as appropriate] a true and fair view; and/or
- (ii) the expenditure in the accounts for which reimbursement has been requested from the Commission is / is not [delete as appropriate] legal and regular; and/or
- (iii) the management and control system put in place function / does not function [delete as

⁵⁰ This can be done based for example on the TER, flat rate, etc.

appropriate] properly.

This adverse opinion is based on the following aspects:

- in relation to material matters related to the accounts:

- - and/or [delete as appropriate]

- in relation to material matters related to the legality and regularity of the expenditure included 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 system⁵¹:

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 provided in exceptional cases⁵².]

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

Scope limitation

A scope limitation should be issued when, based on external factors⁵³, 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 in the accounts⁵⁴. 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.

Disclaimer of opinion

In exceptional cases, the AA can present a disclaimer of opinion. This is the case only when the AA is not able to audit the accounts, the expenditure declared or the functioning of the MCS due

⁵¹ In case the management and control system is affected, the body or bodies and the aspect(s) of their systems that did not comply with requirements and/or did not function properly shall be identified in the opinion, except where this information is already clearly disclosed in the annual control report and the opinion paragraph refers to the specific section(s) of this report where such information is disclosed.

⁵² These exceptional cases should be related to unforeseeable, external factors outside the remit of the audit authority.

⁵³ For example, refusal of an auditee to provide access to documents.

⁵⁴ The estimation can be based on the amounts in the accounts for which the necessary audit work could not be performed.

to unforeseeable, 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;

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”.

Case of “no accounts”

In case no payment application has been submitted to the Commission during the reference accounting year and therefore no accounts are submitted, there is no obligation to submit the documents of the assurance package (as per Article 98(1) CPR). However, the AA may still decide to submit an ACR, in particular to report on important changes related to the MCS, including changes in the enhanced proportionate arrangements (section 2) or audit strategy (section 3), or to provide information on the follow up of previous issues or requested measures (e.g. sections 4.5, 5.12, 7).

If the AA carried out some system audits, the AA’s conclusions on the functioning of the MCS are communicated via the assessment category (1 – 4) indicated in the submitted individual audit reports (also reported under section 4 of the ACR, if submitted). The AA is therefore not expected to issue an audit opinion covering only this element.

Audit opinion for Interreg programmes

In case of Interreg programmes where the audits of operations are carried out based on a common sample selected by the Commission, the AA is not required to issue an audit opinion with regard to the L/R of expenditure in the accounts, in line with the provisions of the second subparagraph of Article 48(5) of the Interreg Regulation.

III.3. Multi-fund programmes 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, the CPR allows the AA to report one TER based on a single sample covering these grouped programmes and to submit one ACR for the grouped programmes. However, individual audit opinions have to be issued for each programme, in line

with Article 77(4) CPR⁵⁵. 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 show particular deficiencies for one single programme (or some programmes), the AA may consider differentiating its audit opinion for this (these) particular programme(s)⁵⁶. For this purpose SFC2021 allows the AA to insert different audit opinions for each programme. The AA is expected to explain in the ACR the audit evidence and findings that support the differentiated audit opinions.

III.4. Inadequate audit opinion

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

- Unqualified opinion related to the accounts and L/R of expenditure, although no audits of operations on the expenditure of the reference accounting year were carried out;
- Unqualified opinion related to the L/R of expenditure, even though the AA has not audited significant part of the operations in the sample;
- Unqualified opinion related to the L/R of expenditure and to the functioning of the MCS, although the TER was above the materiality level, and/or significant weaknesses had been detected in the system audits, without the appropriate corrective measures (see section II.5 of this document) being taken by the Member State 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.

IV. TREATMENT OF ERRORS AND CALCULATION OF THE ERROR RATES

This section explains 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 error rate, the related corrective measures and their impact on AA's audit opinion submitted under point (a) of Article 77(3) CPR.

IV.1. Evaluation of errors

IV.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

⁵⁵ Article 77(3) and (4) CPR stipulates that "The audit authority shall draw up ...: (a) an annual audit opinion ... (b) an annual control report ... Where programmes are grouped for the purpose of audits of operations pursuant to the second subparagraph of Article 79(2), the information required under point (b) ... may be grouped in a single report".

⁵⁶ Provided that the AA has sufficient audit evidence to draw differentiated audit opinions for the programmes in the single sample, see also section 5.3 with regard to the sample.

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 RER (the residual error rate taking into account implemented corrections), as explained in sections IV.2 and IV.4 below. The AA should 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.

IV.1.2. Random errors

The errors which the AA does not consider systemic or anomalous are classified as random errors. This concept presumes the probability that such random errors found in the audited sample may be 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 Annex II of the Sampling Regulation.

IV.1.3. Systemic errors

Systemic errors are errors found in the sample audited that have an impact on 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 all the situations in the population 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 population⁵⁷.

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

- 1) The Member State delimited the systemic error in all potentially affected operations⁵⁸, 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.
- 2) At the stage of reporting to the Commission, the Member State could not or 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.

⁵⁷ 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.

⁵⁸ Operation or project or payment claim, depending on the sampling unit used. The same applies to other relevant parts of section IV of this document.

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 RER (see section IV.4 below)⁵⁹.

IV.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 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 530.

In line with Article 2(34) CPR, the amount of the uncorrected anomalous error is to be added in the calculation of the TER.

If the anomalous error has been corrected before the ACR concerned is submitted to the Commission (in a payment application 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 RER.

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 (with exception of the overlapping part with a random error to avoid double counting of errors), unless corrected before the ACR is submitted.

IV.1.5. Known errors

A particular type of error that should not be confused with systemic errors exists when an error found in an operation 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"⁶⁰. 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. Nevertheless, the known error should be also corrected.

⁵⁹ In exceptional cases of systemic errors which have not yet been fully delimited, such errors can be excluded from the calculation of the RER (under value D in table 2 in section IV.4 of this document) 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.

⁶⁰ 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.

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

IV.2. Total Error Rate (TER)⁶¹

IV.2.1. Calculation of the TER

In general, all errors found in the random sample used for the audits of operations are to be taken into account for the calculation of the TER⁶². The calculation of the TER should thus reflect the analysis done by the AA in regard to the different types of errors⁶³ detected in the context of the audits of operations carried out under Article 77(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, 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.

The TER represents the best estimate of error in the population⁶⁴ 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 audits⁶⁵ (corrections and other relevant deductions are taken into consideration at the stage of RER calculation, as clarified in section IV.3 below).

IV.2.2. Particular cases

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

IV.2.2.1.1. TER calculation in case of errors already detected by other bodies

The AA could become aware at the stage of the audit of operations (during preparation of its audit or in the course of the audit) that some errors have been detected by the MA or other body in the expenditure selected in the sample.

Such errors may be excluded from the projection and calculation of the TER if there is documentary evidence that these 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.

⁶¹ For Interreg Programmes taking part in the common sample, the global TER and RER are calculated by the Commission.

⁶² 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.

⁶³ As described in section IV.1 above.

⁶⁴ 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 random 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.

⁶⁵ 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.

The same approach is applied if during its audits the AA identifies that an irregularity was detected during a previous control (in particular by the MA/ IB) 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 determined by the MA/ other relevant body is to be taken into account for calculation of the TER.

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

IV.2.2.1.2. Practical arrangements to be adopted for audits in case of errors already detected by other bodies

In terms of the practical arrangements to be adopted by the AA for audits in cases when errors have already been detected/ corrected by the MA/ other body in expenditure subject to audits of operations, 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 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 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.

If at the stage of the AA audit, the irregularities have already been detected by MA, IB or other body but have not yet been corrected, the AA should monitor the correction procedure and, if needed, carry out the audit on the expenditure in question, in particular to ensure that it can obtain a reliable error for the operation in question in the situation when the MA/ other body would re-qualify the expenditure as eligible as a result of the contradictory procedure with the beneficiary.

IV.2.2.2. 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.

IV.2.2.3. How should fraud and suspected fraud be reflected in the error rate?

IV.2.2.3.1. 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 authority⁶⁶ following investigation, is considered an error to be included in the TER.

⁶⁶ Fraud may be established by specialised anti-corruption/anti-fraud EU or national administrative and criminal investigation bodies (i.e. the European Public Prosecutor's Office (EPPO), European Anti-Fraud Office (OLAF) or Anti-Fraud Coordination Service (AFCOS) established in each Member State.

IV.2.2.3.2. 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 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 at stake and if the quantification of the irregularity is not possible based on the available information, the AA should disclose in the ACR the cases identified by this exceptional situation and its potential impact on the TER calculation⁶⁷ and the AA's opinion.

IV.2.2.4. 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 65(3) CPR on repayments of the EU contributions: "*Paragraphs 1 and 2 shall not apply to programme 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 breach of the durability requirements due to a non-fraudulent bankruptcy in the circumstances described in Article 65(3), the Member State will be exempted to investigate the irregularity concerned and to make adequate financial corrections.

The corollary of this reasoning is that when Article 65(3) 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.

A breach of the durability requirements due to 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

⁶⁷ 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.

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 73 CPR), in which case the error can be quantified, based on the AA's professional judgement taking into account the provisions of Annex XXV CPR⁶⁸.

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 sense⁶⁹:

- 1) If the insolvency occurred before the sample was drawn by the AA, and the MA has responded without delay by revoking the grant agreement⁷⁰, 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).

IV.2.2.5. 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 regional/ 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 concerned regional/ national authorities or other entities mentioned above, 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.

For the operations where indeed the audit trail cannot be reconstituted (at least partially) due to "force majeure" or the reconstitution would require a disproportionate effort (i.e. costs of that reconstitution are greater than the expenditure concerned), the MA should obtain confirmation (e.g. a letter from the beneficiary or the IB) that this was the case and/or all the attempts to recover the documentation were unsuccessful. This information should be acceptable to the AA. With this confirmation, the MA could then conclude that Article 82 CPR (availability of

⁶⁸ 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.

⁶⁹ As follows from section IV.2.2.1 above.

⁷⁰ 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's reaction to the concrete situation of bankruptcy or insolvency in hand.

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. As clarified in Article 3(6) of the Sampling Regulation, in exceptional cases where the supporting documentation for some sampling units is not available, the AA may decide to either replace or exclude such units.

For calculation of the projected error rate in such cases, the AA can use the formulas from Annex III of the Sampling Regulation.

IV.3. Corrective measures

IV.3.1. Concept of corrected error for determining the RER and audit opinion

The Member State shall correct all errors detected, as set out in Article 103(1) CPR. Indeed, the analysis and correction of each type of error have the greatest relevance to the evaluation of errors as required by the international audit standards, namely ISA 530. Consequently, the AA should plan its work so that financial corrections can be applied by the Member State in time before submission of the ACR.

If after taking into account all relevant corrections already implemented, the RER 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 authorities⁷¹ are expected to apply additional financial corrections, to ensure a RER of less than or equal to 2%⁷², to render the accounts admissible in line with Article 98(5) CPR. In addition, any identified system weakness should be appropriately mitigated to ensure preventing the repetition of similar errors in future declarations of expenditure.

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

- 1) when the irregular amount has been withdrawn from a payment application submitted to the Commission within the reference accounting year (related corrections to be reported in Appendix 2 of the 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 4 of the accounts).

The amounts deducted from the accounts under point (b) of Article 98(6) CPR (i.e. amounts under ongoing assessment) are not considered financial corrections for the purpose of the RER 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/ BAF to address identified errors⁷³.

Further explanations on the consideration of financial corrections for the audit opinion is provided in sections II.8, III.1 and this section, as well as in the Methodological note on the Preparation, Submission, Examination and Audit of Accounts.

⁷¹ The MA/ BAF in accordance with the MCS.

⁷² Annex 3 to the ACR contains examples of calculation of extrapolated financial correction to reduce the residual risk to materiality level (examples B and C.2).

⁷³ E.g. cases where the AA identified a systemic issue and the MA/ BAF decided to deduct potentially affected expenditure from the account for further assessment in order to quantify.

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

IV.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 point (b) of Article 98(6) 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.

IV.3.3. Correction of errors when sub-sampling is applied

For cases where sub-sampling was applied by the AA during its audit 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/ BAF) may apply further corrections in order to reduce the risk of ineligible expenditure in the accounts (as expressed by the RER). Following options are in particular foreseen in this regard:

- 1) Member State authorities apply financial correction based on 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 the accounts, the expenditure concerned can be deducted from the accounts due to ongoing assessment of its legality and regularity (point (b) of Article 98(6) CPR) 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.

IV.4. Residual Error Rate (RER)⁷⁴

The AA should also calculate and disclose in the ACR the RER, i.e. the remaining error in the population after the relevant financial corrections were applied. The RER shall not exceed the materiality level of 2% to render the accounts admissible in line with Article 98(5) CPR.

The RER 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 RER calculation is presented in the table below.

Table 2: Example of RER 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 level⁷⁵

A	Audit Population (i.e. positive sampling population ⁷⁶)	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. 98(6)(b) CPR (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 ⁷⁷	950
G=D*F	Amount at risk (2.2% * 950)	20.9
H	Financial corrections relating to errors detected by AA or applied by the MA/ BAF if such corrections intend to reduce the risks identified by AA's audits ⁷⁸	2

⁷⁴ For Interreg Programmes taking part in the common sample, the global TER and RER are calculated by the Commission.

⁷⁵ Annex 3 to the ACR includes further examples illustrating the calculation of the residual risk and the impact of different negative sampling units on its calculation.

⁷⁶ Article 3(4) of the Sampling Regulation.

⁷⁷ 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 should not be part of these amounts.

⁷⁸ Extrapolated corrections or corrections related to systemic errors.

I=F-H	Amount to enter in the accounts (950 - 2)	948
J=G-H	Residual amount at risk (20.9 – 2)	18.9
K=J/I	Residual Error Rate (RER)	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 RER below materiality)⁷⁹.

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 B⁸⁰: 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 E₁ and E₂.

Value E₁: Amounts deducted from the accounts due to ongoing assessment of the legality and regularity of underlying expenditure.

Value E₂: 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 the risk based management verifications carried out on expenditure previously declared in the payment application for the reference accounting year, or
 - 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 Commission (related to errors not included in TER calculation).
- 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, negative amounts withdrawing expenditure of previous accounting years cannot

⁷⁹ For cases of TER including systemic error, the relevant information is provided in section IV.3.2.

⁸⁰ The values in B and C are for information/ completeness purposes.

be included in the calculation of the residual risk.

Value F: Audit population (value A) without amounts under ongoing assessment (value E₁) and other negative amounts deducting expenditure originally declared in the reference accounting year (value E₂).

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 RER under value H as a result of audits of operations should be reported in column E 'Corrections implemented as a result of the total error rate' of the table in section 9.2 of the ACR (Results of audits of operations). The relevant corrections considered in column E should correspond to the amounts disclosed in the last row of the Appendixes 2 and 4 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 TER, but should be corrected and disclosed in section 4 of the ACR and may be taken into account for the calculation of the RER 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 included in the accounts, subject to eventual additional corrections in order to reduce the RER to 2% or below, if needed.

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

IV.5. TER/ RER calculation and Amounts under ongoing assessment of the legality and regularity of underlying expenditure (Article 98(6)(b) CPR)⁸¹

Point (b) of Article 98(6) CPR states that the Member States shall in particular deduct from the accounts the expenditure which is subject to an ongoing assessment of its legality and regularity.

With regard to establishing the amounts under ongoing assessment (value E₁ in table 2 in section IV.4), the treatment of errors from the audits of operations and the TER and RER calculations, the following approach should be applied by the AA:

- All irregular amounts detected during audits of operations with exception of known errors and corrected anomalous errors (value C) should be included in the calculation of the TER.
- Any corresponding financial corrections applied, i.e. both individual as well as any extrapolated corrections (value H), deducted from the accounts, contribute to the calculation of the RER. Such corrections are considered definitive, and therefore cannot be treated as ongoing assessment (and should not be included under value E).
- Consequently, if part of the expenditure has been excluded from the accounts due to an ongoing assessment of its 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 AA⁸².
- If any corresponding financial corrections are not applied, i.e. not deducted from the accounts (e.g. due to the fact that MA/BAF disagrees with the audit finding or recommendation for correction), they are not considered by the AA in the calculation of the RER. This should be reported in the ACR by the AA and taken into account for the AA's audit opinion.
- The RER reflects the residual risk within the expenditure in the accounts. Therefore, for the calculation of RER, the amounts under ongoing assessment are to be removed from the population (value F).

Examples of RER calculation models with amounts under ongoing assessment are provided in Annex 3 to this document.

IV.6. TER/ RER calculation and Technical Assistance declared via a flat rate⁸³

In case the technical assistance expenditure is declared to the Commission via a flat rate in accordance with point (b) of Article 91(3) CPR, this should be reflected in the calculation of the error rates in a following way:

⁸¹ For Interreg Programmes taking part in the common sample, the global TER and RER are calculated by the Commission.

⁸² Example: In an operation of EUR 5,000, the AA detected an error of EUR 1,000, following which the MA/BAF 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).

⁸³ For Interreg Programmes taking part in the common sample, no calculation related to the TA flat rate is necessary.

- TER calculation: Extrapolation of the errors should be carried out on the basis of the expenditure of the population excluding the TA. The TER obtained for such a population should be then considered also as the TER for the population including the amount of a flat-rate for the TA, as clarified in Article 8(5) of the Sampling Regulation.
- RER calculation: Similarly to the TER, also the RER should be calculated based on the values (i.e. audit population under A as well as corrections and other negative amounts under E1, E2 and H) without the percentage of the flat rate for TA. Consequently, if the RER is above 2%, the extrapolated financial correction will not include the corresponding proportion of the TA expenditure. This proportion of the TA expenditure will be reflected automatically by SFC2021 in the accounts in which the financial correction was implemented⁸⁴.

⁸⁴ However, in a specific situation of a common sample with RER above 2% where only a part of the population is the base of TA flat-rate or where different rates of the TA flat rates are applicable for parts of the population, the AA is expected to calculate the amount of the extrapolated correction with TA as follows: First the AA calculates TER and RER and respective extrapolated error amount (1) without TA to reduce residual risk to materiality level (i.e. value L in RER template). This amount of extrapolated financial correction under value L of RER should be multiplied by the ratio of population with TA to population without TA to get the final amount of extrapolated correction (2) with TA (the population values to establish this ratio are based on values A in RER). The financial corrections to be encoded in SFC2021 without TA should ensure that the final amounts corrected, as adjusted automatically by SFC to take into account TA flat-rate, are equal to the final amount of extrapolated correction (2).

ANNEXES TO THE ACR

Annex 1 – Results of system audit

Audited Entity	Fund (Multi-funds programme)	Title of the audit	Date of the final audit report	Programme: [CCI and name of Programme]										Overall assessment (category 1, 2, 3, 4) [as defined in Table 2 of Annex XI to the Regulation]	Comments
				Key requirements (as applicable) [as defined in Table 1 of Annex XI]											
				KR 1	KR 2	KR 3	KR 4	KR 5	KR 6	KR 7	KR 8	KR 9	KR 10		
MA															
IB(s)															
Accounting function (if not performed by the MA)															
Note: The blank parts in the table above refer to key requirements that are not applicable to the audited entity.															

Annex 2 – Results of audits of operations^{85 86}

Fund	Programme CCI number	Programme title	A	B		C	D	E	F	G	H
			Amount in Euros corresponding to the population from which the sample was drawn (*)	Expenditure in reference to the accounting year audited for the random sample		Amount of irregular expenditure in random sample	Total error rate (**)	Corrections implemented as a result of the total error rate	Residual total error rate	Other expenditure audited (***)	Amount of irregular expenditure in other expenditure audited
				Amount (****)	% (****)						

(*) Column 'A' shall refer to the positive population from which the random sample was drawn, i.e. total amount of eligible expenditure entered into the accounting system of the managing authority/body carrying out the accounting function which has been included in payment applications submitted to the Commission less negative sampling units if any. Where applicable, explanations shall be provided in Section 5.4.

(**) The total error rate is calculated before any financial corrections are applied in relation to the audited sample or the population from which the random sample was drawn. Where the random sample covers more than one Fund or programme, the total error rate (calculated) presented in column 'D' concerns the whole population. Where stratification is used, further information by stratum shall be provided in Section 5.7.

(***) Column 'G' shall refer to expenditure audited in the context of a complementary sample.

(****) Amount of expenditure audited (in case sub-sampling is applied) only the amount of the expenditure items effectively audited, shall be included in this column).

(*****) Percentage of expenditure audited in relation to the population.

⁸⁵ In the case of a statistical sample covering a group of programmes, the data included in the table refer to the whole population of grouped programmes.

⁸⁶ Columns D and F will not be filled in case of Interreg Programmes taking part in the common sample, as the global TER and RER are calculated by the Commission.

Annex 3 – Calculations underlying the random sample selection, total error rate and total residual error rate

The AA is expected to submit the calculations in excel format.

The template for RER calculation, along with examples, is annexed to this document in excel format.

Annex 4 – Audit findings

The template is annexed to this document in excel format.

Annex 5 – Overview of the application of the enhanced proportionate arrangements (EPA) (Articles 83 to 85 CPR)

CCI	Current EPA status	Current EPA status – details	Current EPA status – further details
	1. Programme newly included under the enhanced proportionate arrangements in the reference accounting year	Arrangements applied	
		1.1. National procedures for management verifications	Does Managing Authority rely on verifications carried out by competent external body/ies? (If yes, identify the body/ies)
			1.1.1. No
			1.1.2. YES
			1.1.2.1 Name(s) of the body/bodies
		1.2. No system audits	
		1.3. Audits of operations on a fixed size sample of 30 sampling units selected via statistical method n ⁸⁷)	
	2. Programme under the enhanced proportionate arrangements since previous accounting year(s) – no changes in the applied arrangements	Arrangements currently applied <i>(same structure as 1.1 – 1.3 above)</i>	

⁸⁷ For the programme or group of programmes concerned (including cases where the AA applied a higher sample size than 30 based on professional judgement) without sample size calculation. In the case of the use of the capped sample size of 50 (or a higher one without application of a statistical sample method to calculate the sample size), such a methodology is based on Article 5(7) of the Sampling Regulation, outside the EPA arrangements.

	3. Programme under the enhanced proportionate arrangements since previous accounting year(s) - applied arrangements changed in the reference accounting year	Arrangements currently applied <i>(same structure as 1.1 – 1.3 above)</i>	
	4. Programme under the enhanced proportionate arrangements for which the audit authority concludes that the conditions set out in Article 84 are no longer fulfilled.	Information on the conditions not fulfilled:	
	5. Programme for which additional audit work or system audits were carried out as requested by the Commission pursuant to Article 85(1) and (2) CPR	Information on the scope and results of such audit work and audit authority's assessment of remedial actions taken, if already available:	
	6. Programme removed from the enhanced proportionate arrangements in the reference accounting year (Article 85(3) CPR) ⁸⁸		
	7. Enhanced proportionate arrangements not applied for the programme		

⁸⁸ Therefore, the Commission informed in the preceding accounting year that the enhanced proportionate arrangements set out in Article 83 CPR no longer apply from the start of the reference accounting year.