

MEMO

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To Raphael Scerri, Director General, Funds & Programmes Division

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Subject Guidance for Member States on Audit of Accounts

Introduction

The purpose of this Memo is to summarize the salient points of *EGESIF_15_0016-02 Guidance for Member States on Audit of Accounts* which gives guidance to Member States, particularly Audit Authorities on their responsibilities with regard to the audit of accounts. The Memo describes the audit work to be carried out by AAs to support their audit opinion on the completeness, accuracy and veracity of the accounts.

Audit of the Accounts by the Audit Authority

In line with Article 137(1) of Regulation 1303/2013 the audit of the accounts are to be carried out by the AA for each accounting year and in accordance with the audit strategy. The AA should implement an appropriate audit approach and methodology to obtain assurance on the truth, completeness, accuracy and veracity of the amounts declared in the accounts. In order to provide an audit opinion on the accounts, the AA should carry out final additional verifications on the certified accounts provided by the CA confirming that all elements required by Article 137 are correctly included in the accounts and supported by accounting records maintained by the relevant authorities and beneficiaries. Based on the draft accounts provided to it by the CA, the AA is to verify that:

- a. The total amount of eligible expenditure declared reconciles with the expenditure included in the final payment application submitted to the Commission for the relevant accounting year.
- b. The amounts withdrawn and recovered, the amounts to be recovered, the recoveries pursuant to Article 71 of the CPR (in case of non-durability) and the irrecoverable amounts presented in the accounts all correspond to the amounts entered in the CA's accounting systems and are based on reasoned decisions taken by the MA / CA.
- c. Expenditure has been excluded from the accounts due to an ongoing assessment of its legality and regularity (in the case where expenditure previously included in an application for interim payment for the accounting year is excluded by a Member State from its accounts due to an ongoing assessment of that expenditure's legality and regularity).
- d. The amounts of programme contributions paid to financial instruments and advances of State Aid paid to beneficiaries are supported by the information available, in particular from the MA.

The AA is to check that the draft accounts have been prepared in accordance with the templates set out in Implementing Regulation 1011/1024 and it will also check that all disclosures are in place in the relevant appendices of the financial corrections.

At the date of the signature of the audit opinion the following audits and controls should be considered – system audits, audits of operations, audits performed by the Commission, audits carried out by the European Court of Auditors, checks performed by other programme authorities (administrative verifications, on-the-spot verifications, checks carried out by certifying authorities) and other audit and control results to which the AAs have access. The AA should put in place effective procedures to monitor the implementation of the recommendations and corrective measures resulting from the audit of accounts.

The Commission shall accept the accounts where it is able to conclude that the accounts are complete, accurate and true. The Commission shall reach such a conclusion where the audit authority has provided an unqualified audit opinion regarding the completeness, accuracy and veracity of the accounts unless the Commission has specific evidence that the audit opinion on the accounts is unreliable.

Use of results of system audits for the audit of accounts

The systems audit shall include verification of the reliability of the accounting system of the certifying authority and, on a sample basis, of the accuracy of expenditure, of amounts withdrawn and amounts recovered recorded in the CA's accounting system.

A comprehensive system audit of the CA is expected to be carried out as from the first year of implementation of the programme, after the designation of the MA and CA in order to prepare the annual opinion on the accounts. In the following years, the AA should carry out follow-up audit work focusing on the implementation of the recommendations issued in previous system audit reports and on the key requirements of the CA.

A system audit concerning the CA's accounting system should include at least the verification of whether the CA's procedures effectively ensure that the total amount of expenditure entered in the accounting system reconciled with the expenditure included in the interim payment applications submitted to the Commission for the relevant accounting year, less the relevant financial corrections and/or adjustments made by the CA for the expenditure at stake.

Additionally, the AA should verify the existence and correct implementation of procedures ensuring that the draft accounts are submitted by the CA in due time to the AA for the purpose of issuing the audit opinion and that expenditure, where applicable, is excluded and that all corrections are reflected in the accounts.

Use of results of audit of operations for the audit of accounts

For the sample of operations selected and for the purpose of obtaining assurance for its audit opinion on the accounts, the AA should check that the total amount of expenditure declared reconciles with the amount in the payment applications to the Commission and that all irregular amounts detected in the sampled operations have been excluded from the accounts.

Final additional verifications on the draft certified accounts

Given the AA is required to provide an opinion on whether the accounts give a true and fair view and whether the audit work puts in doubt the assertions made in the management declaration on the presentation of the accounts, their completeness and accuracy, it is expected to analyse the results from system audits carried out on the CA, examine the audit trail and accuracy of expenditure when auditing the sample of operations and once the draft accounts are received, carry out a final validation of the underlying registered data and on individual records.

Although there is no formal deadline for the CA to provide the draft accounts to the AA, internal deadlines are recommended to be set given that the AA should have sufficient time to enable a sound audit opinion by 15 February.

Audit opinion on the accounts

The results of the audit work performed by the AA on the draft accounts, once communicated to the CA, will allow the CA to further adjust its accounts if necessary, before certification to the Commission. It is recommended that this includes all adjustments including the non material ones identified by the AA during its audits, in order to subsequently ensure a swift process for the acceptance of the accounts by the Commission.

For the purposes of its audit opinion on the accounts, the AA will analyse the material impact of the adjustments to be made in the accounts taken into account as materiality level the 2% of the amounts entered in the draft accounts presented to the AA. If the AA agrees with the adjustments made by the CA, the audit opinion will be unqualified and the AA will have sufficient assurance that the accounts are complete, accurate and true. Where incorrect or incomplete elements have been detected in the accounts but are considered immaterial by the AA, the information on such elements will be disclosed in the annual control report and in the audit opinion as an emphasis of matter.

It is recommended that the AA properly documents all phases of the audit in order to ensure a proper audit trail.
