



Audit authority – Audits of Systems, Operations and Accounts

**Trainer: Dermot Byrne
Head of Authority
ERDF Audit Authority, Ireland**

Brussels – September 2014

This training has been organised by EIPA-Ecorys-PwC under the Framework Contract
Nr 2013.CE.16 B.AT 044. The opinions expressed are those of the contractor only
and do not represent the EC's official position

Table of contents

- Functions of Audit Authority
- Model Audit Strategy
- Systems audits and key requirements of systems for MA, CA & AA
- Sample selection for audit of operations
- Audits of operations (expenditure)
- Audit of the Accounts / Audit Opinion / Annual Control Report (ACR)
- Thematic audits



European
Commission

Assurance model 2014-2020



Functions of Audit authority

1. Prepare an audit strategy
2. Carry out audits on systems
3. Select sample in reference to the accounting year (July n-1 to June n)
4. Carry out audits on operations
5. Carry out audits of the accounts certified by CA

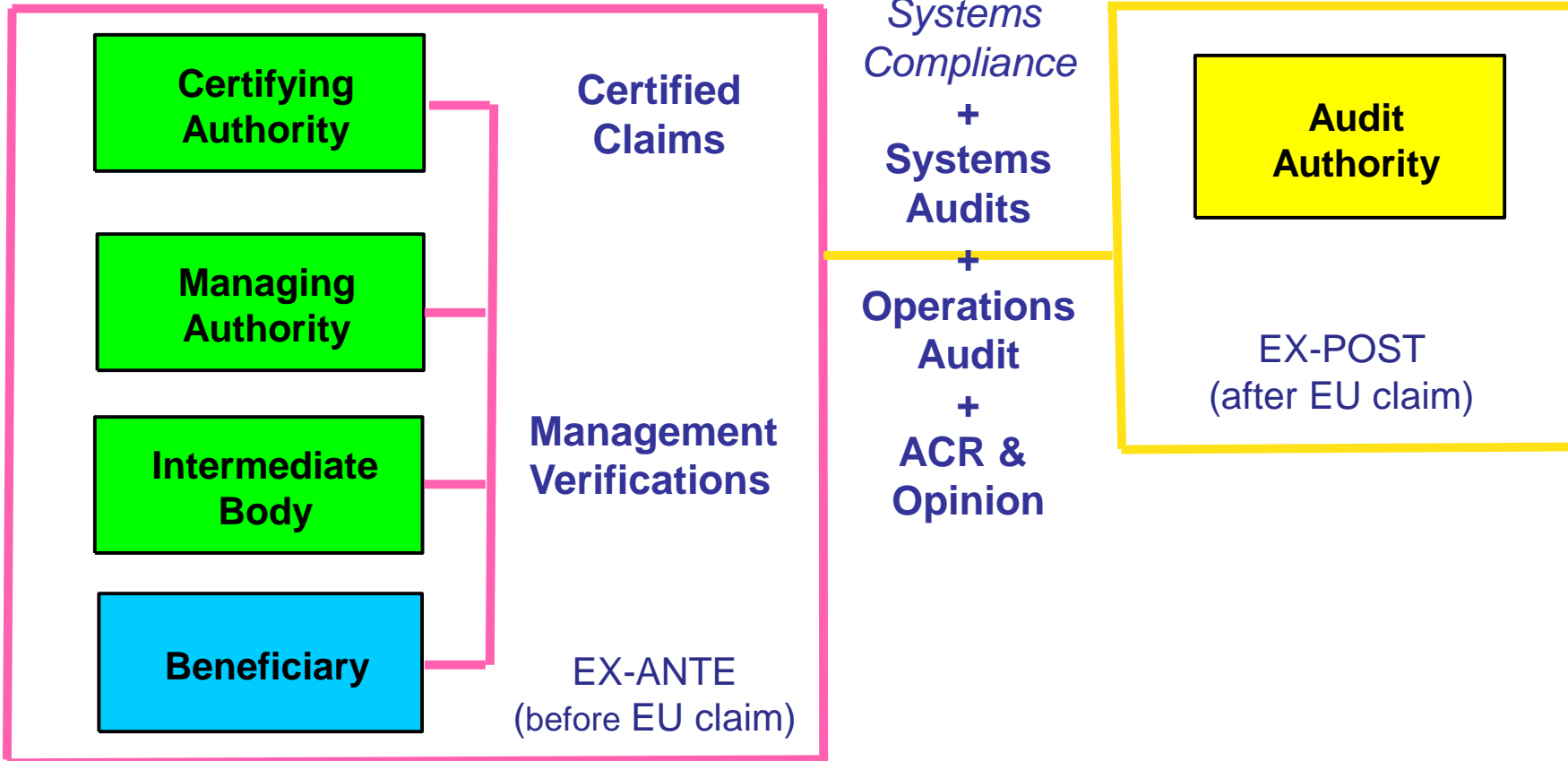
- Report to EC by 15th February each year, providing
 - annual control report and an audit opinion on accounts
 - legality and regularity of expenditure /
 - effective functioning of systems, and,
 - Statement:

“does audit work put in doubt the assertions in management declaration?”

Management & Control / Audit 2007-13

MANAGEMENT & CONTROL SYSTEMS

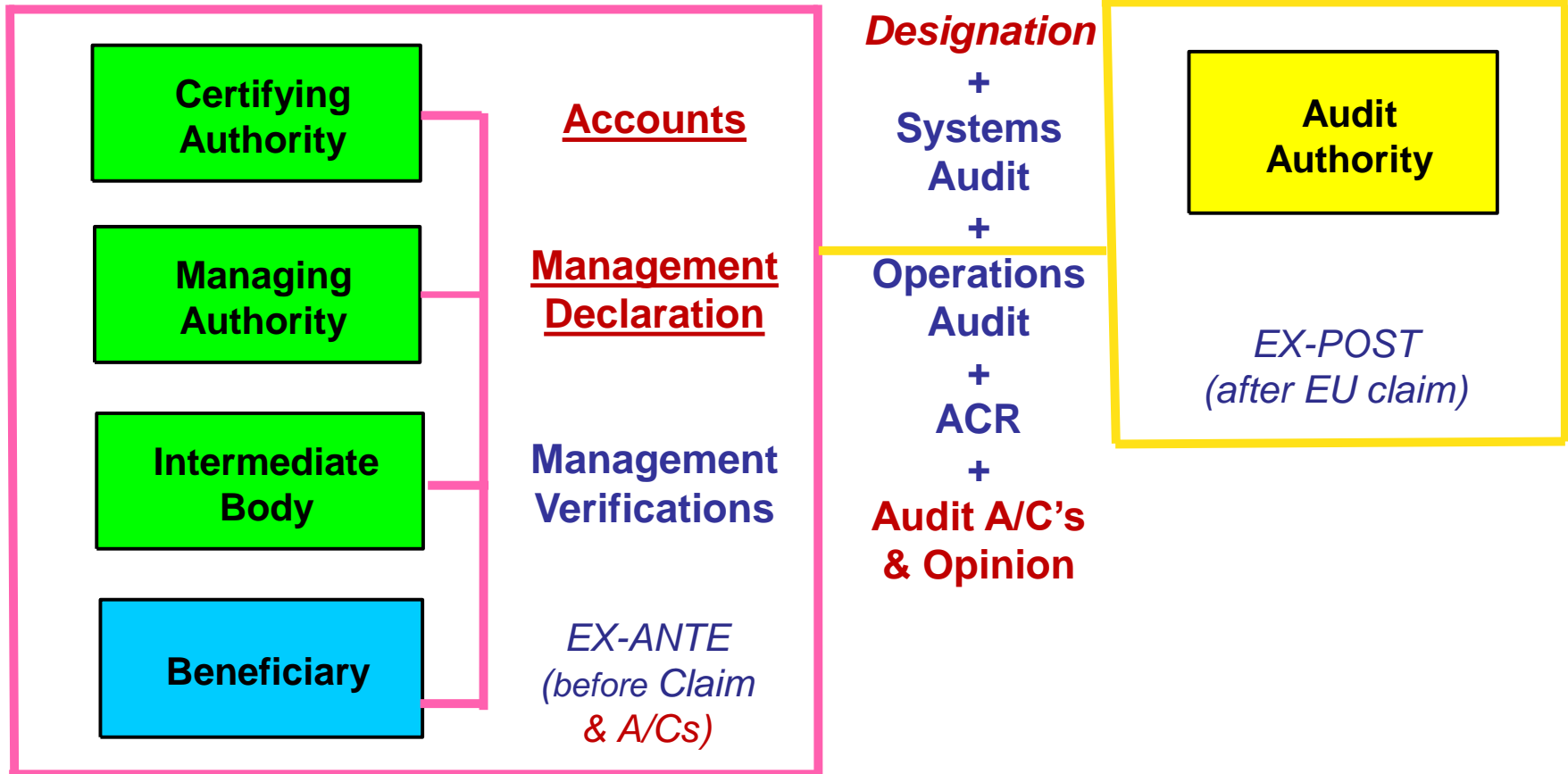
AUDIT



Management & Control / Audit 2014-20

MANAGEMENT & CONTROL SYSTEMS

AUDIT



Model Audit Strategy (1)

(Annex 1 – Commission Implementing Regulation)

1. Introduction
2. Legal basis and scope
3. Risk assessment
4. Methodology
5. Audit work planned
6. Resources

Model Audit Strategy (2)

(Annex 1 – Commission Implementing Regulation)

1. Introduction

Name of OP / Fund(s) / description of AA / procedure for drawing up strategy / objectives / functions & responsibilities / independence / delegation (if any)

2. Legal basis and scope

National regulation / covers 3 accounting years / common system for > 1 OP?

3. Risk assessment

Explain risk assessment method / thematic / previous audit results / updates

Model Audit Strategy (3)

(Annex 1 – Commission Implementing Regulation)

4. Methodology

Audit Cycle

Describe audit cycle / main steps of audit work - plan, perform, conclusion, report, follow-up / QA / manuals / audit standards / ACR / Opinion / ETC?

Systems Audits (SA)

Bodies responsible for audit / bodies to be audited / thematic (mv's) / IT system / reliability of indicator/milestone data / anti-fraud measures

Audits of Operations

Bodies responsible for audit / sampling methodology / treatment of errors / particulars of audit of FI's or simplified costs

Audits of Accounts

Audit approach / results of SA's +AO/ verify MD

Model Audit Strategy (4)

(Annex 1 – Commission Implementing Regulation)

5. Audit work planned

Priorities:

current accounting year / 2 subsequent years / link to risk assessment

Schedule of audits:

audits for current year / systems and thematic for next 2 years

6. Resources

- Organisation chart of AA & other audit bodies
- Indicate planned resources current and 2 subsequent years
- Qualifications and experience required of staff

Systems Audits Key Requirements 2014-2020 (New EGESIF Commission Guidance Note)

	2007-2013	2014-2020
Managing Authority / IB	7	8
Certifying Authority	4	5
Audit Authority (DG Regio)	<u>4</u>	<u>5</u>
Total	15	18

Systems Audits KRs – Managing Authority (2007-13)

AUTHORITY	KR NO.	KEY REQUIREMENT
MA/IB	1	Clear definition, allocation and separation of functions
MA/IB	2	Adequate procedures for selection of operations
MA/IB	3	Adequate information and strategy to provide guidance to beneficiaries
MA/IB	4	Adequate Management Verifications
MA/IB	5	Adequate Audit Trail
MA/IB	6	Reliable accounting, monitoring & financial reporting systems (computerised).
MA/IB	7	Preventative & corrective action for systemic errors found by the audit.

Systems Audits KRs - Managing Authority (2014-2020)

AUTHORITY	KR NO.	KEY REQUIREMENT
MA/IB	1	<u>Adequate separation of functions</u> and adequate systems for reporting & monitoring where the responsible authority entrusts execution of tasks to another body.
MA/IB	2	<u>Appropriate selection of operations.</u>
MA/IB	3	<u>Adequate information to beneficiaries.</u>
MA/IB	4	<u>Adequate management verifications.</u>
MA/IB	5	Effective system in place to ensure that all documents regarding expenditure and audits are held to ensure an <u>adequate audit trail</u> .
MA/IB	6	Reliable system for collecting, recording and storing data for monitoring, evaluation, financial management, verification and audit purposes, including links with electronic data exchange systems with beneficiaries
MA/IB	7	Effective implementation of anti-fraud measures (New)
MA/IB	8	Appropriate procedures for drawing up the management declaration and annual summary of the final audit reports and of controls carried out

Systems Audits KRs – Certifying Authority (2007-13)

AUTHORITY	KR NO.	KEY REQUIREMENT
CA	1	Clear definition, allocation and separation of functions - CA.
CA	2	Adequate audit trail and computerised system.
CA	3	Arrangements for the certification of expenditure are reliable and sound.
CA	4	Satisfactory arrangements for keeping an account of amounts recoverable and for recovery of undue payments.

Systems Audits KRs – Certifying Authority (2014-2020)

AUTHORITY	KR	KEY REQUIREMENT
CA	1	<u>Adequate separation of functions</u> and adequate system for reporting and monitoring.
CA	2	Adequate procedures for <u>drawing up and submitting payment application</u> .
CA	3	Appropriate <u>computerised records of expenditure declared</u> and of the corresponding public contribution
CA	4	Appropriate and complete account of <u>amounts recoverable, recovered and withdrawn</u>
CA	5	Appropriate procedures for drawing up and certifying the completeness, accuracy and veracity of the accounts.

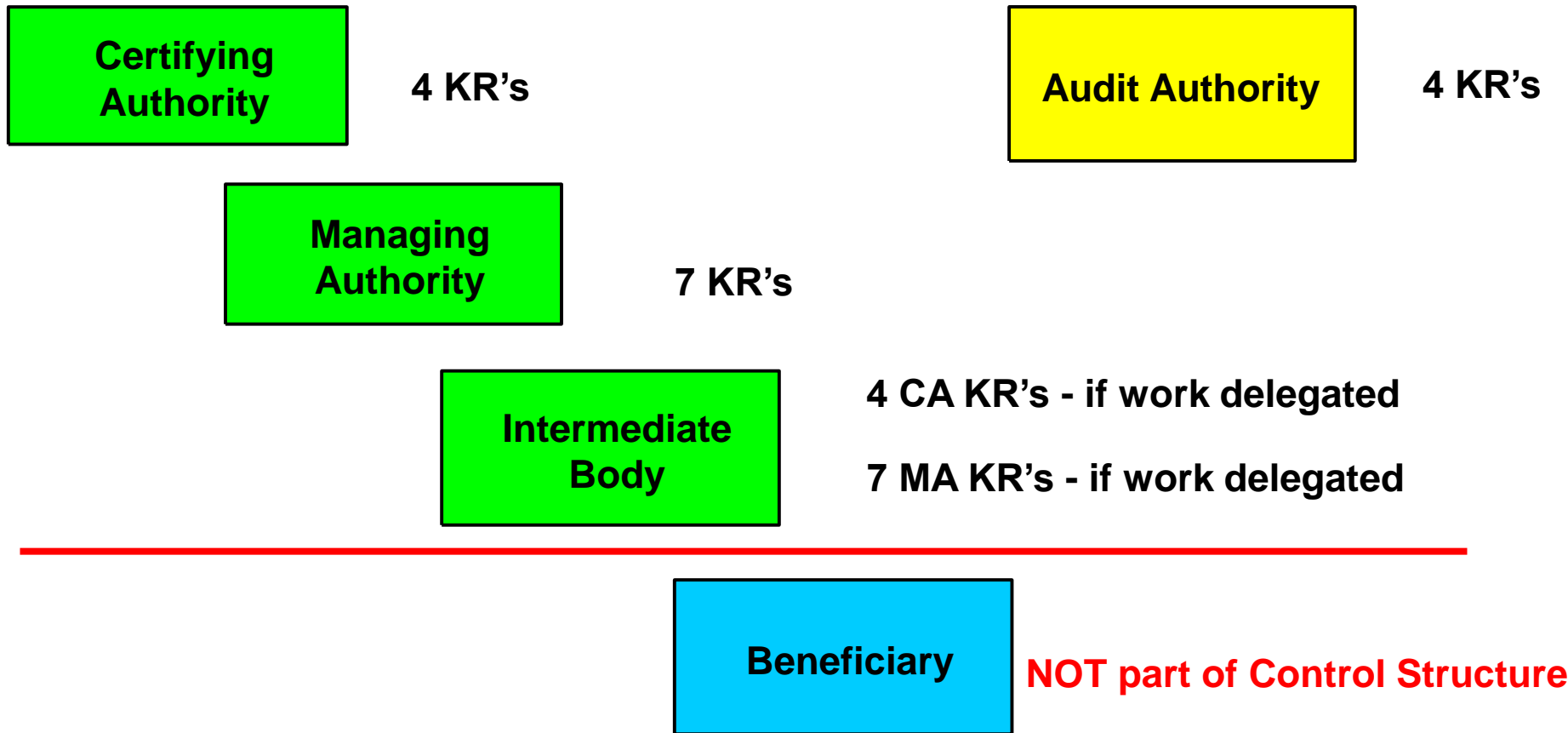
Systems KRs – Audit Authority (2007-2013)

AUTHORITY	KR	KEY REQUIREMENT
AA	1	<u>Clear definition, allocation and separation of functions.</u>
AA	2	<u>Adequate procedures for systems audits</u>
AA	3	<u>Adequate procedures for audits of operations</u>
AA	4	<u>Adequate procedures for Annual Control Report (ACR) and Opinion</u>

Systems KRs – Audit Authority (2014-2020)

AUTHORITY	KR	KEY REQUIREMENT
AA	1	<u>Clear definition, allocation and separation of functions.</u>
AA	2	<u>Adequate procedures for systems audits</u>
AA	3	<u>Adequate procedures for audits of operations</u>
AA	4	<u>Adequate procedures for providing a reliable Audit Opinion and for providing the Annual Control Report (ACR)</u>
AA	5	Adequate procedures for providing a reliable audit opinion on the Annual Accounts.

Summary - Key Requirements 2007-13



Summary - Key Requirements 2014-20

**Certifying
Authority**

4 KR's + 1

Audit Authority

4 KR's + 1

**Managing
Authority**

7 KR's + 1

**Intermediate
Body**

4 + 1 CA KR's - if work delegated

7 + 1 MA KR's - if work delegated

Beneficiary

Systems Audits – categories of opinion

Category	Assessment
Category 1	Works <u>well</u> , only minor, or no , improvements needed
Category 2	Works, but some improvements are needed
Category 3	Works partially, substantial improvements are needed
Category 4	Essentially does not work

Evaluation of Key Requirements - Example

KEY REQUIREMENTS	Category 1 Works well. Only minor improvements are needed	Category 2 Works. But some improvements are needed	Category 3 Works partially. Substantial improvements are needed	Category 4 Essentially does not work
Managing Authority / Intermediate Body				
KR1 - Clear definition, allocation and separation of functions between and within the MA and IB		✓		
procedures for monitoring delegated tasks		✓		
clear definition and allocation of functions		✓		
KR2 - Adequate procedures for selection of operations	✓			
calls for applications are published	✓			
all received applications are recorded		✓		
all applications are evaluated	✓			
decisions are communicated	✓			

Audit Authority Sample selection 2014-20

(Article 127(1) of CPR)

- AA must audit appropriate sample of operations on the basis of declared expenditure
- Should be representative sample – generally based on statistical sampling
- Non-statistical sampling may be used:
 - on professional judgement of AA
 - in duly justified cases
 - in accordance with internationally accepted audit standards, and,
 - where number of operations in accounting year too small for statistical sample
 - non-statistical sample shall be sufficient to enable a valid audit opinion
 - Non-statistical sample must cover;
 - min. 5% of operations for which expenditure declared in accounting year, and,
 - min. 10% of expenditure declared during accounting year.

Audits of operations (1)

(Art. 127(7) CPR; Article 27 DA)

- Audits of operations for each accounting year (1 July N-1 to 30 June N),
- the first one ending on 30 June 2015.

Audits of operations shall

- be carried out on the basis of supporting documents constituting the audit trail and
- verify the legality and regularity of expenditure declared to the Commission;

Audits of operations (2)

(Art. 127(7) CPR; Article 27 (2.a,b) DA)

- meets the OP selection criteria;
- *has not been physically completed /fully implemented before the beneficiary's application for funding;*
- has been implemented in accordance with approval decision;
- *fulfils any conditions applicable at the time of the audit concerning its functionality, use, and objectives to be attained;*
- the expenditure declared to the EC corresponds to:
 - accounting records;
 - supporting documentation required to demonstrate an adequate audit trail;

Audits of operations (3)

(Art. 127(7) CPR; Article 27(2.c) DA)

- for expenditure declared based on standard scales of unit costs or lump sums
[determined in accordance with Article 67(1)(b) and (c) [SCOs] and Article 109 [joint action plan] of CPR and Article 14(1) of ESF Regulation];
- outputs & results underpinning payments to the beneficiary have been delivered;
- participant data or other records related to outputs and results are consistent with the information submitted to the EC;
- the required supporting documentation demonstrates an adequate audit trail.

Audits of operations (4)

(Art. 127(7) CPR; Article 27 (2,3) DA)

- Audits shall also verify that the public contribution has been paid to the beneficiary < 90 days after Beneficiary claim (in accordance with Article 132(1) of CPR).
- Audits of operations shall, where applicable, include on-the-spot verification of the
- physical implementation of the operation.
- Audits of operations shall verify the accuracy and completeness of the
- corresponding expenditure recorded by the CA in its accounting system
- the reconciliation of the audit trail at all levels.

Audits of operations (5)

(Art. 127(7) CPR; Article 27 (5, 6) DA)

- Where problems detected appear to be systemic - a risk for other operations in OP,
- the AA shall ensure
 - further examination, including, where necessary, additional audits
 - to establish the scale of such problems, and,
 - shall recommend the necessary corrective actions.
- Only expenditure examined in audits of operations = *amount of expenditure audited*, for the purposes of reporting annual coverage to the Commission.

2014-20: New function of Audit Authority

Audit of Accounts

- To provide reasonable assurance on amounts declared in Accounts:
 - Completeness
 - Accuracy
 - Veracity (true)
- Based largely on audits of operations, and, systems audits in CA
- “True and Fair” view:
 - Expenditure in a/cs reconciles with actual expenditure and payment applications
 - Amounts withdrawn and recovered, to be recovered, recoverable in a/cs = amounts in CA accounting system and corresponding financial corrections
 - Expenditure excluded from a/cs due to on-going assessment (legal and regular)

Audit Opinion – options for F/S (general)

Unqualified Opinion (“true and fair view”)

- Reasonable assurance that Statement of Expenditure is true & fair
- ... and underlying transactions are legal and regular

Qualified Opinion (“true and fair view ... except for”)

- Reasonable assurance that Statement of expenditure is true & fair ...
- ...and underlying transactions are legal and regular
- **EXCEPT FOR ... the following ! (e.g. Limit of scope - financial impact calculated)**

Adverse Opinion (“do not give T&F view ... i.e. incorrect, unreliable”)

- **DID NOT** provide reasonable assurance re Statement of Expenditure
- ...no assurance i.e. the FS contain a material misstatement

Disclaimer (“I cannot give an opinion”)

- **Cannot form an opinion and refuse to present opinion**
- **Due to uncertainties/going concern/serious limitation of scope (e.g. imposed by client)**

Audit Opinion – Options for SF Accounts

Unqualified Opinion (“true and fair view”)

- Reasonable assurance that Accounts are true & fair
- ... and underlying transactions are legal and regular
- ... no doubts about assertions in Management Declaration

Qualified Opinion (“true and fair view ... except for”)

- Reasonable assurance that Accounts are true & fair ...
- ...and underlying transactions are legal and regular
- **EXCEPT FOR the following ! (financial impact calculated)**
- ... no doubts about assertions in Management Declaration

Adverse Opinion (“do not give true and fair view”)

- **Accounts do not give a true and fair view**
- **No assurance** that underlying transactions are legal and regular (**MCS not function properly**)
- **Audit work puts** in doubt the assertions in the Management Declaration

Disclaimer of opinion

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

Audits of accounts

(Art. 137 CPR)

- For the purpose of the audit opinion (true and fair view), the AA shall verify all elements required by Article 137 of CPR are correctly included in the Accounts;
 - a) Total amount of eligible expenditure in accounting system of CA (by Priority)
 - i. in payment application submitted by 31 July and
 - ii. total corresponding public contribution incurred
 - iii. Total corresponding payments to Beneficiaries
 - b) Amounts withdrawn, recovered in A/C year, to be recovered at end of year, Article 71 recoveries (durability of operation), irrecoverable amounts
 - c) Amount of Programme contributions to FEI's, and advances of State Aid.
 - d) For each Priority, reconciliation of expenditure at (a) above and expenditure in payment applications (a)(i) above. Any differences should be explained.
- Should correspond to the supporting accounting records (CA, MA, IB, Ben).

Model Annual Control Report

(Annex IX of the draft Implementing Regulation)

1. Introduction
2. Significant changes in MCS
3. Changes to the Audit Strategy
4. Details of systems audits
5. Details of audit of (sample of) operations
6. Audit of Accounts
7. Coordination between audit bodies – supervisory work of AA (if applicable)
8. Other information (reported fraud or suspicion of fraud, measures taken, or, events after submission of accounts)
9. Overall level of assurance – explanation / error rate / other national/EU audits
10. Annexes to ACR (Results of (i) systems audits, (ii) operations audits, (iii) calculation of random sample & projected error rate)

Thematic Audit – Public Procurement

- Contracts awarded without complying with advertising requirements
- Failure to state all the selection and contract award criteria
- Direct award of contracts (no evidence of competition)
- Inadequate documentation of tender assessment and award
- Application of unlawful selection or contract award criteria
- Supplementary Contracts awarded without adequate competition in the absence of extreme urgency brought about by unforeseeable events

Thematic Audit

– Management Verifications

- Inadequate records of verifications
- Missing transaction listings to support work carried out
- Frequency of testing no sufficient (100% of payments claims)
- Quality, scope and format of the verification reports / checklists

Thematic Audit

– Selection of operations

- Calls for proposals not advertised adequately
- Second or supplementary grant awarded to previous grant recipient
- Lack of transparency in evaluation of applications
 - Scoring criteria not specified
 - No record or report of grant award
 - insufficient record or reasons for rejection of application

Thank you... QUESTIONS ?

