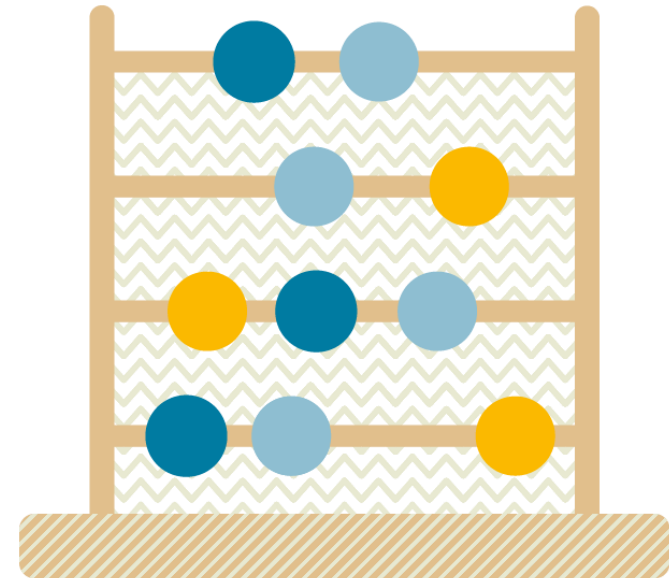


# Audits and the accounting function 2021-2027

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A focus on audit requirements in the new period



# Audits and the accounting function 2021-27

- AAs still perform the three main types of audits
  - Audits of operations
  - System audits
  - Audit of the accounts
- For the accounting function, mainly the last two are relevant
- System audits will look at the key requirements relevant to the accounting function
- Prior to the submission of the accounts, the AAs will still perform an audit to ensure completeness, accuracy and veracity of the accounts



# The key requirements for the MCS

**2014-2020**

**2021-2027**

Key requirements provided for in the CDR (Regulation (EU) 480/2014) - Annex IV

Key requirements provided for in the CPR (Regulation (EU) 2021/1060) - Annex XI

**Assessment criteria** within the key requirements provided in **EGESIF\_14-0010-final Guidance** for the Commission and Member States on a common methodology for the assessment of management and control systems in the Member States)

**Assessment criteria** within the key requirements provided in **methodological note** for the assessment of management and control systems is the Member States (last draft provided in June 2022; not finalized yet)

KR1-8 key requirements in relation to the MA

KR1-10 key requirements in relation to the MA

KR9-13 key requirements in relation to the CA

KR11-15 key requirements in relation to the AA

KR 14-18 key requirements in relation to the AA



# The key requirements for the MCS

2014-2020

2021-2027

Key requirement 1: Adequate separation of functions and adequate systems for reporting and monitoring where the responsible authority entrusts execution of tasks to another body

Key requirement 1: Appropriate separation of functions and arrangements for reporting, supervising and monitoring of delegated tasks to an intermediate body

Key requirement 2: Appropriate selection of operations

Key requirement 2: Appropriate criteria and procedures for the selection of operations

Key requirement 3: Adequate information to beneficiaries

Key requirement 3: Appropriate information to beneficiaries on applicable conditions for support for the selected operations

Key requirement 4: Adequate management verifications

Key requirement 4: Appropriate management verifications, including appropriate procedures for checking fulfilment of conditions for financing not linked to costs and for simplified cost options



# The key requirements for the MCS

## 2014-2020

Key requirement 5: Effective system in place to ensure that all documents regarding expenditure and audits are held to ensure an adequate audit trail

Key requirement 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

Key requirement 7: Effective implementation of proportionate anti-fraud measures

Key requirement 8: Appropriate procedures for drawing up the management declaration and annual summary of the final audit reports and of controls carried out

## 2021-2027

Key requirement 5: Effective system to ensure that all documents necessary for the audit trail are held

Key requirement 6: Reliable electronic system (including links with electronic data exchange systems with beneficiaries) for recording and storing data for monitoring, evaluation, financial management, verifications and audits, including appropriate processes to ensure the security, integrity and confidentiality of the data and the authentication of users

Key requirement 7: Effective implementation of proportionate anti-fraud measures

Key requirement 8: Appropriate procedures for drawing up the management declaration



# The key requirements for the MCS

**2014-2020**

Key requirement 9: Adequate separation of functions and adequate system for reporting and monitoring where the responsible authority entrust execution of tasks to another authority

Key requirement 10: Adequate procedures for drawing-up and submitting payment applications

Key requirement 11: Appropriate computerised records of expenditure declared and of the corresponding public contribution are maintained

Key requirement 12: Appropriate and complete account of amounts recoverable, recovered and withdrawn

Key requirement 13: Appropriate procedures for drawing up and certifying the completeness, accuracy and veracity of the accounts

**2021-2027**

Key requirement 9: Appropriate procedures for confirming that the expenditure entered into the accounts is legal and regular

Key requirement 10: Appropriate procedures for drawing up and submission of payment applications and of accounts and confirming completeness, accuracy and veracity of the accounts



# The accounting function 2021-27 (Article 47 IR)

CA is transformed into the accounting function (Article 76 CPR).

## Accounting function in the programme



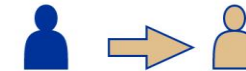
MA assumes the accounting function

The same person can carry out the MA tasks and the accounting function tasks (the accounting function is not a programme body, but **a function**)



MA assumes the function, but externalises certain tasks of it

The MA bears the overall responsibility for the accounting function. Some tasks of it can be externalised to an external body (e.g., drawing up accounts)



MA entrusts the accounting function to other body

The body should be identified as a **programme authority** and is fully responsible for the accounting function. Separation of functions between programme authorities must be ensured.

It can be carried out as part of other duties of the MA staff (no need to ensure separation of functions in this case).

Separation of functions must be ensured (Article 71 CPR); programme body should be included in Interreg programme document.

# The accounting function 2021-27

## Performs the following tasks:

- drawing up and submitting payment applications to the Commission (EC);
- drawing up and submitting the accounts;
- confirming the completeness, accuracy and veracity of the accounts;
- keeping records of all elements of the accounts, including payment applications;
  - => In Interreg, as per Article 38 IR, only points (a) and (b) of Article 76(1) CPR apply
  - => For conversion of amounts into euro, different rules apply to Interreg
  - =>As per Article 38(5) IR expenditure paid in another currency shall be converted into euro by each beneficiary coming from countries which have not adopted the euro as their currency using the monthly accounting exchange rate of the Commission in the month during which that expenditure was submitted for verification.





# The accounting function 2021-27

## Performs the following tasks - continued:

- registering payments made by the EC;
- registering payments made to the lead partner.

=> Article 47 IR expressly states that the accounting function is responsible for these processes too



# The accounting function 2021-27

## Key requirement 9:

Appropriate procedures for confirming that the expenditure entered into the accounts is legal and regular

- Accounting function does no checks on beneficiary level, no "certification" as such!
- Legality and regularity is ensured by the body responsible for programme management

=> i.e. KR9 concerns the MA



# The accounting function 2021-27 – declarations in the accounts

## DECLARATIONS

**The managing authority / the body carrying out the accounting function responsible for the programme hereby confirms** that:

- (1) the accounts are complete, accurate and true;
- (2) the provisions in points (b) and (c)\* of Article 76(1) are respected.

**The managing authority responsible for the programme hereby confirms** that:

- (1) the expenditure entered into the accounts complies with applicable law and is legal and regular;
- (2) the provisions in the Fund-specific Regulations, Article 63(5) of the Financial Regulation and in points (a) to (e) of Article 74(1) of this Regulation are respected;
- (3) the provisions in Article 82 with regard to the availability of documents are respected.



\* Point (c) not applicable for Interreg

# The accounting function 2021-27

## Key requirement 10:

Appropriate procedures for drawing up and submission of payment applications and of accounts and confirming completeness, accuracy and veracity of the accounts

This last KR is about completeness, accuracy and veracity of the accounts, and drawing up correct PAs

=> i.e. KR10 concerns the body responsible for the accounting function (MA or separate authority)



# The accounting function 2021-27 and KR10\*

Articles 69(10), 76(1), 91, 92, Annexes VIII, XXIII CPR, Article 47 IR	<b>10.1</b>	Payment applications are drawn up in accordance with the template set out in Annex XXIII CPR and include the total amount of eligible expenditure incurred by beneficiaries and paid in implementing operations which fulfil, or contribute to the fulfilment of, enabling conditions, the amount of technical assistance where applicable, and the total amount of public contribution made or to be made, in line with Articles 91 and 92 CPR.
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AC10.1 is related to payment applications and requires:

- Use of the proper template (Annex XXIII CPR)
- Correct amounts of total eligible expenditure, TA, public expenditure

=> in Interreg TA does not need to be calculated (always a flat rate as per Article 27 IR)

=> enabling conditions do not apply (as per Article 1(5) CPR)



# The accounting function 2021-27 and KR10

Article 98(1)(a), Annex XXIV CPR, Article 47 IR	<b>10.2</b>	Appropriate procedures are in place for ensuring the completeness, accuracy, and veracity of the accounts in accordance with Article 98 CPR and with the template set out in Annex XXIV CPR. Electronic records are kept of all the elements of the accounts, including payment applications.
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AC10.2 is related to the accounts and requires:

- Use of the proper template (Annex XXIV CPR)
- Appropriate procedures to draw up the accounts, which includes cross-checking and review  
 => in Interreg only 4 of the 7 appendices of the accounts can be relevant
- Electronic records of all elements of the accounts, including PA-s



# The structure of the accounts

2014-2020	2021-2027
Appendix 1 - Amounts entered into the accounting systems of the certifying authority	Appendix 1 - Amounts entered into the accounting systems of the accounting function
Appendix 2 - Amounts withdrawn and recovered during the accounting year	Appendix 2 - Amounts withdrawn during the accounting year
Appendix 3 - Amounts to be recovered as at the end of the accounting year	Appendix 3 - Amounts of programme contributions paid to financial instruments
Appendix 4 - Recoveries effected pursuant to Article 71 of Regulation (EU) No 1303/2013	Appendix 4 - Reconciliation of expenditure
Appendix 5 - Irrecoverable amounts as at the end of the accounting year	Appendix 5 - Information on expenditure linked to specific objectives for which enabling conditions are not fulfilled
Appendix 6 - Amounts of programme contributions paid to financial instruments	Appendix 6 - Information on expenditure linked to specific objectives for which enabling conditions are not fulfilled for AMIF, ISF and BMVI
Appendix 7 - Advances paid in the context of State aid	Appendix 7 - Advances paid in the context of State aid
Appendix 8 - Reconciliation of expenditure	

# The accounting function 2021-27 and KR10

<p>Articles 98,103 CPR, Article 52 IR</p>	<p><b>10.3</b></p>	<p>Appropriate procedures are in place which ensure that expenditure entered in the accounts corresponds to interim payments declared in the accounting year after deduction of all irregular amounts detected through management verifications and audits, in accordance with Article 103 CPR and</p> <p>a. irregular expenditure which has been subject to financial corrections in accordance with Article 98(6)(a), including expenditure withdrawn during the given accounting year as set out in Article 98(3)(b) CPR and temporarily withdrawn and undergoing an assessment of their legality and regularity at the time of drawing the accounts in accordance with Article 98(6)(b),</p> <p>b. other amounts as necessary to reduce the residual error rate of the expenditure to 2% in accordance with Article 98(6)(c), and</p> <p>c. corrections of clerical errors, if applicable.</p>
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AC10.3 is related to reconciliation of the amount in the accounts with the interim payment applications and the correct amount of the deductions from the accounts :

- Compliance with Articles 98 and 103 CPR
- Much simpler in 2021-27 as procedures recoveries, to be recovered amounts, irrecoverable amounts do not need to be monitored (for reporting purposes), and are not checked by the AA





# The accounting function 2021-27 and KR10

Article 98(1)(a) CPR	<b>10.4</b>	The accounts are made available in due time to the AA for the purpose of their audit. Appropriate procedures and internal deadlines are adopted for this purpose and to ensure the timely submission of the accounts to the Commission as part of ‘the assurance package’ in line with Article 98(1)(a) CPR, by 15 February of the following accounting year.
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AC10.4 is related to the timing of activities related to the preparation and audit of accounts and requires:

- Appropriate procedures and internal deadlines
- As in 2014-2020 it is important for the relevant authorities to have agreement / agreed procedures for ensuring the timely implementation of all reconciliation and audit tasks



# The accounting function 2021-27 and KR1

## BUT watch out for KR1!

<p>Articles 69(1), 69(11), 71(1), Annexes XI and XVI/§1 and 2 CPR, Articles 45 and 46 IR, Article 63(3) FR</p>	<p>1.1</p>	<p>A clear description of the structure of the management and control system and allocation of functions (organisation chart of the managing authority, flowchart showing the organisational relationship between the authorities/bodies involved in the MCS, indicative number of posts, qualifications and experience required, job descriptions) is put 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 June 2023...</p>
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- A clear description of the MCS is needed at the latest by the time of submission of the final payment application for the first accounting year and no later that 30 June 2023
- No designation audit, but:
- According to Article 78 CPR the audit strategy shall include system audits of newly identified managing authorities and authorities in charge of the accounting function. Such audits shall be carried out within 21 months of the decision approving the programme or the amendment of the programme identifying such an authority.



# The accounting function 2021-27 and KR1

**BUT watch out for KR1!\***

<p>Articles 71(1), 72(2), 72(3), Annex XVI/§3 CPR, Article 47 IR, Article 63(3) FR</p>	<p>1.2</p>	<p>Where a Member State entrusts the accounting function to a body other than the MA in accordance with Article 72 (2) CPR, the body concerned is identified as a programme authority. Its status (national, regional or local, public or private body), a description of its tasks, functions, organisation, and the procedures related to its functions are included in the description of the management and control system. The description also indicate the resources to be allocated to the accounting tasks, a description of how the work is organised (workflows, processes, internal divisions), what procedures apply and when and how <u>internal quality review is performed</u> <del>these are supervised</del>.</p>
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- The accounting function will also be audited under AC1.2 – if it is a separate authority!
- Analogy with previous KR9
- According to the AC wording, the body should be:
  - identified as a programme authority
  - its status (national, regional or local, public or private body), a description of its tasks, functions, organisation, procedures have to be included in the DMCS.
  - the description also should indicate the resources allocated
  - when and how internal quality review is performed



\*The AC is shown with changes tracked from first version to current second draft of the methodological note

# The accounting function 2021-27 and KR1

## BUT watch out for KR1!\*

<p>Articles 29(5), 33(4), 71(3-5), 74(3), Annex XVI/§1.3.4, 2.1.7 CPR, Articles 46-47 and Article 54 IR, Article 61 FR</p>	<p>1.4</p>	<p>Compliance with the principle of separation of functions within the organisation of the MA, where appropriate, as well as between the MA and other programme authorities. Where a MA (or the IB) is responsible for (i) selection and approval of operations, (ii) management verifications and (iii) payments <del>and accounting</del>, appropriate segregation of duties is in principle ensured between these three functions (<u>the accounting function may be carried out as part of other duties of the managing authority's staff</u>). Where the managing authority is also a beneficiary under the programme, arrangements <u>are taken to ensure an appropriate separation of functions for between the management verifications and the activities of the MA as beneficiary</u> <del>ensure an appropriate separation of functions</del>.</p> <p><u>In all cases, the four eye principle should be respected for each task performed.</u></p>
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- The accounting function will also be audited under AC1.4 – separation of functions!
- Separation of functions has to be ensured between (i) selection and approval of operations (ii) management verifications (iii) payments
  - ⇒ In Interreg selection and approval of operations is the responsibility of the Monitoring Committee/Steering Committee
  - ⇒ In most cases management verifications are under the responsibility of the participating states, and carried out through identified "controllers".
  - ⇒ Payments may or may not be entrusted to another authority



\*The AC is shown with changes tracked from first version to current second draft of the methodological note

# The accounting function 2021-27 and KR1

**BUT watch out for KR1!\***

<p>Articles 29(5), 33(4), 71(3-5), 74(3), Annex XVI/§1.3.4, 2.1.7 CPR, Articles 46-47 and Article 54 IR, Article 61 FR</p>	<p>1.4</p>	<p>Compliance with the principle of separation of functions within the organisation of the MA, where appropriate, as well as between the MA and other programme authorities. Where a MA (or the IB) is responsible for (i) selection and approval of operations, (ii) management verifications and (iii) payments <del>and accounting</del>, appropriate segregation of duties is in principle ensured between these three functions (<u>the accounting function may carried out as part of other duties of the managing authority's staff</u>). Where the managing authority is also a beneficiary under the programme, arrangements <u>are taken to ensure an appropriate separation of functions for between</u> the management verifications <u>and the activities of the MA as beneficiary</u> <del>ensure an appropriate separation of functions</del>.</p> <p><u>In all cases, the four eye principle should be respected for each task performed.</u></p>
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- According to the AC wording separation of functions does not apply to the accounting function (if within the MA, it may be carried out as part of other duties of the MAs staff), but it does to payments
- Four-eyes principle needs to be observed for the three functions mentioned



\*The AC is shown with changes tracked from first version to current second draft of the methodological note

# The accounting function 2021-27 and KR4

## KR4 also mentions payments

<p>Article 74(1)(b) CPR, Article 46(6), 47 IR</p>	<p><b>4.6</b></p>	<p>Payments to beneficiaries are done in full and no later than 80 days<sup>9</sup> from the date of submission of the payment claim by the beneficiary.</p> <p><sup>9</sup> This deadline may be interrupted if information submitted by the beneficiary does not allow the managing authority to establish whether the amount is due.</p>
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- According to Article 47 IR on the accounting function, the deadline (of 80 days) provided in Article 74(1)(b) pertains to payment to the lead beneficiary in Interreg.
- In Interreg another rule also applies. According to Article 46(6) IR: "Each Member State, third country, partner country or OCT shall ensure that the expenditure of a beneficiary can be verified within a period of three months of the submission of the documents by the beneficiary concerned."
- These two deadlines are cumulative



# The accounting function 2021-27 and KR5

## KR5 requires an adequate audit trail

Articles 69(6), 82, 95(1)(i), Annexes XIII and XVII CPR	5.1	Appropriate systems and procedures are in place to ensure that all documents required for the audit trail as set out in Annex XIII CPR) are kept at the appropriate level and in accordance with the requirements of Article 82 CPR on availability of documents. All data requested in Annex XVII CPR and all documents and records requested in Annex XIII CPR are available.
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- Under AC5.1 (and/or AC4.6) testing might also be done in the framework of the system audit to ensure timely payments to the lead beneficiary
- KR4 and 5 are mainly relevant for programme management and control functions. Any finding in these KRs would probably be addressed to them. The accounting function would only be addressed if it is found that they are the cause of the problem (delay or other).
- The scope of audits of operations also includes checks on payments



# The accounting function 2021-27 and KR6

KR6 also mentions the PAs and the accounts

<p>Article 69(4) CPR, <a href="#">Article 32 Interreg Regulation</a></p>	<p><b>6.2</b></p>	<p>Appropriate procedures are in place to ensure the quality, accuracy, and reliability of the monitoring system and of data on indicators. Such procedures allow for the aggregation of the data where this is necessary for the purposes of evaluation, audits, as well as for payment applications and accounts, annual implementation and final reports, including reports on financial data, submitted to the Commission.</p>
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- This KR is for the MA (as body responsible for programme management), which should ensure that the programme has a monitoring system that contains accurate and reliable data





# The audit of accounts

- The audit of accounts continues to be relevant in the 2021-27 programming period
- Before the submission of the assurance package by 15 February each year
- AA checks on the accounting function will focus on the
  - Completeness, accuracy and veracity of the accounts
  - Electronic records, proper audit trail



# Cooperation works

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All materials will be available on:

[www.interact-eu.net](http://www.interact-eu.net)

