



EUROPEAN COMMISSION  
DIRECTORATE-GENERAL  
MARITIME AFFAIRS AND FISHERIES

## **Guidance on a common methodology for the assessment of management and control systems in the Member States (2007-2013 programming period)**

### **1. INTRODUCTION**

The objective of this note is to provide practical guidance on the assessment of management and control systems for the European Fisheries Fund in the Member States. It draws upon the conclusions of a working group which was set up for Structural Funds and the Cohesion Fund in May 2007 involving staff drawn from the audit services of DG Regional Policy and DG Employment in the European Commission and the European Court of Auditors (the "ECA"), in order to establish a reference framework in terms of:

- defining key requirements of the applicable regulations;
- defining assessment criteria for each key requirement to evaluate the effective functioning of systems;
- providing guidelines for drawing conclusions on the effective functioning of systems for each key requirement and by each authority;
- providing guidelines for reaching an overall conclusion by system on compliance with the regulatory key requirements taking into account any existing mitigating factors or compensatory controls.

This working group sought to promote objectivity, consistency and transparency in the methods of assessment of management and control systems applied by the European audit bodies, i.e. the ECA and Commission audit services.

The guidance note established by the working group for the Structural Funds and the Cohesion Fund (COCOF 08/0019/01, final version of 6/6/2008) has been then adapted to the European Fisheries Fund requirements.

This guidance note intends to raise awareness of the key requirements and the European audit bodies' assessment methods to staff in all authorities involved (audit authorities, managing authorities / intermediate bodies, certifying authorities/intermediate bodies and beneficiaries).

The national audit authorities are strongly recommended to apply the same approach when evaluating managing authorities/intermediate bodies and certifying authorities/intermediate bodies to ensure harmonisation of audit results and so that auditors in different parts of the control chain can rely on each other's work. The section of the guidance note on evaluation of audit authorities is addressed only to the services of the European Commission.

It is important to underline that the "steps for assessment" methodology described in this guidance note covers the systems audits (i.e. the testing of the key controls) and will allow the auditors to draw conclusions regarding the compliance of the system with the key regulatory requirements.

In order to enable the auditors to express an audit opinion and formulate subsequent actions on the effective functioning of the systems, audits on operations, involving detailed testing of operations at the level of beneficiaries, also need to be carried out. Guidance on audits of operations is outside the scope of this note.

It is not possible in these guidelines to cover all situations which may be identified. The quality review of each audit must ensure that the overall conclusion on the system is substantiated and that the audit opinion proposed is both consistent with the audit findings and properly justified and documented.

The guidance note is accompanied by two annexes: *Annex I* presents the key requirements and the relevant assessment criteria for each key requirement; *Annex II* presents 3 summary tables which should be used by the auditors and which provide the framework for reaching an overall opinion, by system, on the compliance with the regulatory key requirements for the programming period 2007-2013.

## **2. LEGAL FRAMEWORK**

- Council Regulation (EC) No 1198/2006 of 27 July 2006 on the European Fisheries Fund, Title VII Management, monitoring and control ,
- Commission Regulation (EC) No 498/2007 of 26 March 2007 laying down detailed rules for the implementation of Council Regulation (EC) No 1198/2006 on the European Fisheries Fund.

## **3. KEY REQUIREMENTS AND ASSESSMENT CRITERIA**

The key requirements of the management and control systems and the criteria for the assessment of their functioning are included in Annex I. The 15 key requirements and 49 assessment criteria are based on the legal requirements for the 2007-2013 programming period and have been divided by authority.

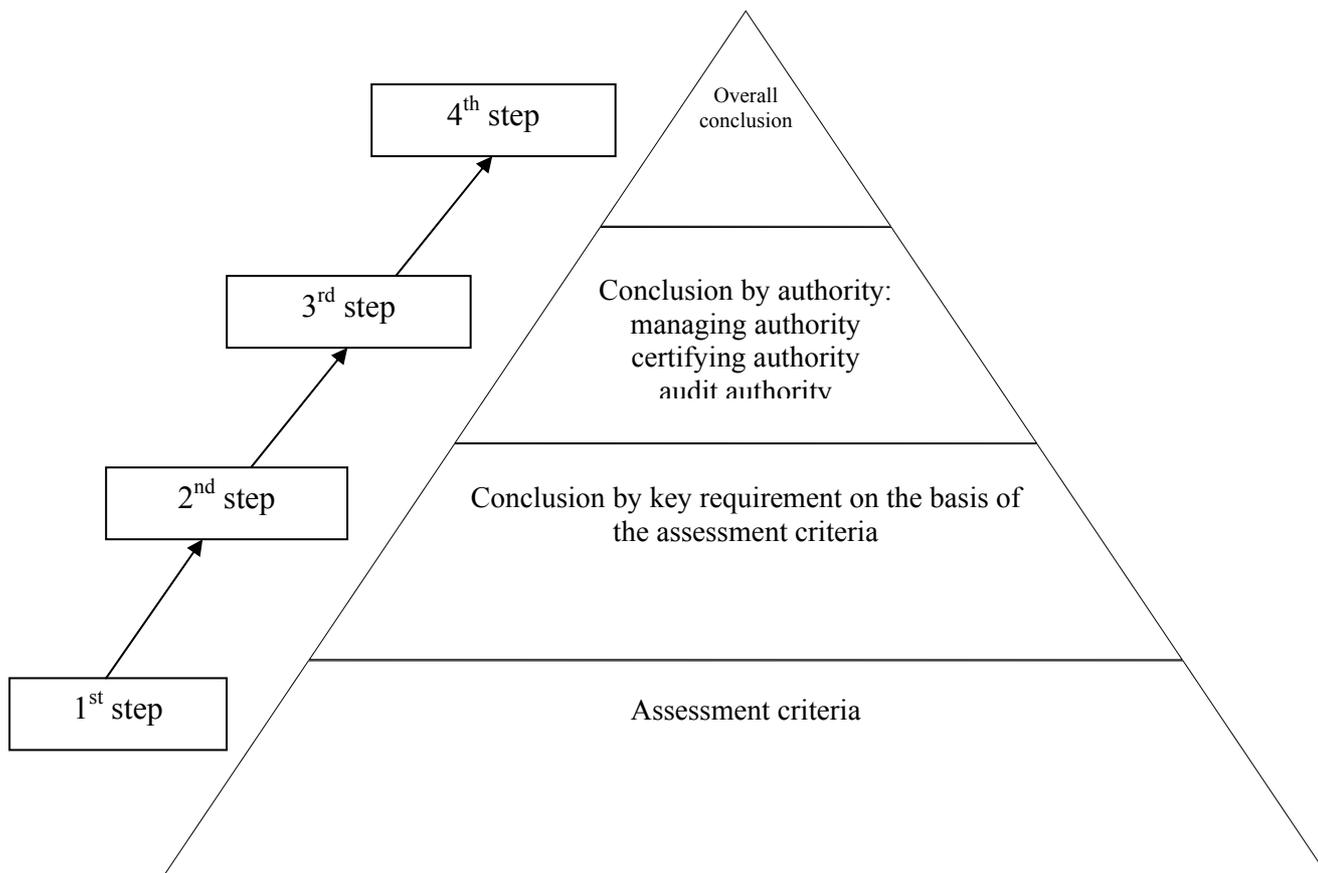
The key requirements concern:

1. The managing authority and any intermediate bodies to which functions have been delegated (7 key requirements);
2. The certifying authority and any intermediate bodies to which functions have been delegated (4 key requirements);
3. The audit authority and any audit bodies that carry out audit work on its behalf (4 key requirements).

The assessment criteria are shown for each key requirement. Non-compliance with these criteria implies a risk of irregular expenditure being certified to the Commission and of over-reimbursement made to Member States.

## **4. STEPS FOR THE ASSESSMENT**

The assessment of the management and control systems follows the schema presented below:



It must be stressed that in all steps of the assessment process, the auditor's professional judgement and effective quality control are essential to ensure consistency of audit results.

Any audit methodology which allows auditors to obtain a high level of assurance and to express an opinion on the functioning of the management and control systems, will comprise systems audits; i.e. compliance testing of key controls at key bodies, complemented by audits of operations on a sample basis. Compliance testing of key controls should be carried out for a number of projects at the level of the managing authority, intermediate bodies, the certifying authority and the audit authority.

The methodology used for the sample selection for key controls testing (such as attribute sampling or judgemental selection) should be decided upon by the audit authority (in the case of Member States), the Commission or the European Court of Auditors respectively. Where a large number of intermediate bodies operate under the same operational programme, an appropriate sample of these can be selected for control testing.

The methodology used for determining the sample size for control testing should be in line with internationally accepted audit standards (eg. INTOSAI, IFAC, IIA). The results of these tests combined with other qualitative elements will form the basis for the assessment.

The working group has defined 4 categories for the assessment of the effectiveness of the key requirements, the authorities and the overall system: “Works well”, “Works but some improvement needed”, “Works partially” and “Essentially does not work”.

- Category 1. **Works well; only minor improvements needed.** There are no deficiencies or only minor deficiencies found. These deficiencies do not have any significant impact on the functioning of the key requirements / authorities / system.
- Category 2. **Works, but some improvements are needed.** Some deficiencies were found. These deficiencies have a moderate impact on the functioning of the key requirements / authorities / system. Recommendations have been formulated for implementation by the audited body.
- Category 3. **Works partially; substantial improvements are needed.** Deficiencies were found that have led or may lead to irregularities. The impact on the effective functioning of the key requirements / authorities / system is significant. Recommendations and/or an action plan have been put in place. The Member State / The European Commission may decide to take corrective action (e.g. interruption or suspension of payments) in order to mitigate the risk of improper use of EU funds.
- Category 4. **Essentially does not work.** Numerous deficiencies were found which have lead or may lead to irregularities. The impact on the effective functioning of the key requirements / authorities / system is significant – it functions poorly or does not function at all. The deficiencies are systemic and wide-ranging. As a consequence, no assurance can be obtained from the assessment of the key requirements / authorities / system. A formal action plan should be prepared and followed up. The Member State / European Commission take corrective action (e.g. suspension of payments) in order to mitigate the risk of improper use of EU funds.

These 4 categories are systematically used throughout all steps of the assessment process and the 3 tables at Annex II have been designed to facilitate this assessment process.

#### **4.1 Step 1: Assessment Criteria**

The first step consists of evaluating the assessment criteria for each key requirement by determining which of the 4 abovementioned categories best corresponds to each criterion for the operational programme being audited. To ensure a transparent and objective assessment of each criterion, *table 1 of Annex II* should be used.

It is important to emphasise that when categorising each assessment criterion, auditors should apply their professional judgement taking into account any other audit evidence available which should also be analysed. This audit evidence may include:

- All cumulative audit knowledge and experience including information gained from the review of the system descriptions, compliance assessment reports and procedures manuals.
- Information gained from enquiry, observation and from carrying out interviews at bodies involved in the management and implementation of the Fund.

#### **4.2 Step 2: Conclusion by key requirement**

The second step consists of drawing a conclusion by key requirement on the basis of the assessment criteria previously evaluated under step 1. As a matter of principle, when evaluating the key requirements, the overall impact on the assurance level is a decisive factor. In this context, questions to be asked are: What is the impact of the non respect or partial respect of a particular criterion or key requirement on the identification of errors/irregularities? Does its absence increase the likelihood of irregular or illegal expenditure not being detected?

The following guidance is provided as examples of possible outcomes for this step (after the combination of control testing with other qualitative elements):

- Where one or more assessment criteria are in category 3 (works partially) or category 4 (essentially does not work), the auditor may reasonably conclude that this would not allow for the assessment of the key requirement to be categorised as 'Works well' (i.e. category 1);
- Where a majority of the assessment criteria are in the same category, the auditor may reasonably conclude that this provides a sound basis for also classifying the key requirement in this same category;
- Each key requirement can not be classified more favourably than the worst of the assessment criteria with the possible exception of the following assessment criteria:

#### *Managing authority*

Nr 2 Clear definition and allocation of functions

Nr 5 All applications received should be recorded

Nr 6 Decisions should be communicated to the applicants

Nr 15 Where on-the-spot verifications are not exhaustive, the sampling of operations should be based on an adequate risk assessment.

Nr 16 The existence of procedures to ensure that the certifying authority receives all necessary information

Nr 20 Procedures are in place to ensure the availability of documents in accordance with Article 87 of Regulation 1198/2006

#### *Certifying authority*

Nr 26 Clear definition and allocation of functions

Nr 33 The certifying authority reconciles and does an arithmetical check of the payment requests.

Nr 35 By 31 March each year as from 2008, the certifying authority shall send to the Commission a statement, in the format in Annex X of Commission Regulation (EC) No 4988/2007.

#### *Audit authority*

Nr 48 Where the projected error rate is above the materiality level for an operational programme, the audit authority should analyse its significance and take the necessary action.

### **4.3 Step 3: Conclusion by authority**

The third step involves reaching a conclusion by authority, based upon the results of the categorisation of each key requirement under step 2. Tables 2 and 3 of Annex II should be used. Table 2 combines the assessment by key requirement in order to reach a conclusion by authority, while Table 3 which is the 'connection table', links the conclusion by authority to the overall conclusion for the system (link with step 4).

It is impossible to foresee all combinations of assessments of key requirements by authority that might arise. Nevertheless, the following guidance can be given:

1. Each of the key requirements has to be assessed independently from the other key requirements within the same authority. This means that a weakness in one of the key requirements in one authority cannot be compensated by another key requirement that is functioning well in the same authority. Compensating controls are considered only at the level of the overall assessment of the system (point 4.4).

2. Some key requirements are essential with regard to the regularity of expenditure and the proper functioning of the relevant authority.
  - managing authority: key requirement 4 – management verifications.
  - certifying authority: key requirement 3 – soundly based certification.
  - audit authority: key requirements 2 and 3 – systems audits and audits on operations.
3. A category 1 or 2 classification of the four essential key requirements referred to in point 2 above would have a positive influence on the overall conclusion, while deficiencies in other key requirements may downgrade the assessment for the relevant authority.
4. If the essential key requirements at point 2 above (or the relevant key requirement for each authority) are classified in categories 3 or 4, the relevant authority cannot be assessed overall in a higher category. In other words, a higher classification of the other less essential key requirements for the authority in question cannot compensate for this deficiency.
5. If some of the functions have been delegated to intermediate bodies, a further breakdown of tables 1 and 2 may be required, in order to reach a conclusion by intermediate body and on that basis, an overall conclusion for the managing or certifying authority.

Auditors should use their professional judgement in order to reach the appropriate conclusion by authority, evaluating the overall picture given in table 2.

#### **4.4 Step 4: Overall conclusion**

In this final step, the auditors make the link between the conclusion by authority and the overall conclusion on the system by identifying any mitigating factors/compensating controls that may exist in one authority which effectively reduce the risk in the overall management and control system. For instance, if the auditor concludes that management verifications in the managing authority (or if delegated, in the intermediate bodies) are incomplete or not effective enough, then verifications carried out by the certifying authority may reduce the risk that irregular expenditure is certified by removing such items before the expenditure declaration is sent to the Commission. It is important to underline that before being taken into account as a mitigating factor or compensating control, evidence of the proper functioning of these controls should be obtained. Another example of a mitigating factor could be an action plan having been implemented which corrects the main irregularities not previously detected by sample checks or management verification checks.

The auditor sets the level of residual risk to the regularity of transactions and finally formulates an overall conclusion, by system, on the compliance of the system with the key regulatory requirements. Table 3 of Annex II should be used.

1. The same categories are used for the overall evaluation of the systems as for the individual key requirements and authorities, to ensure consistency of results at all steps of the procedure.
2. Before setting the level of residual risk to the regularity the auditor must take into account the existence of mitigating factors, as described above.

The overall conclusion by system then provides a basis for determining assurance levels, for formulating audit opinions and subsequent action, taking account of the results of audits of operations.

## ANNEX I

**This working paper aims at identifying the key elements of the management and control systems and the assessment criteria taking into account the minimum requirements of the applicable legal framework for the 2007-2013 programming period.**

The key elements, structured by key authority, are those which have been designed for and which are essential in ensuring the legality and regularity of expenditure and the reality of operations supported by the European Fisheries Fund.

### Key requirements in relation to the **MANAGING AUTHORITY/INTERMEDIATE BODIES**

**Key requirement 1: Clear definition, allocation and separation of functions between and within the managing authority / intermediate body/ies** (art. 57 a), b), e), 58.2, 58.3, 59 of R 1198 and art. 38, 39.5 and 48 b) of R 498)

#### Assessment criteria:

##### There should be:

1. adequate procedures in place at the managing authority to monitor the effective implementation of the tasks delegated to the intermediate body/ies.
2. a clear definition and allocation of functions (organisation chart, indicative number of posts, documented procedures and manuals), including the existence of a formal documented agreement clearly setting out any tasks that are delegated by the managing authority to the intermediate body/ies.

**Key requirement 2: Adequate procedures for the selection of operations** (art. 59 a) and art. 65 a) of R 1198 and art. 29 and art. 39.1 of R 498)

The objective is to ensure that there is transparency, equal treatment and completeness of the selection process.

#### Assessment criteria:

3. Calls for applications should be published<sup>1</sup>

(calls for applications in accordance with the conditions and objectives of the OP, should contain a clear description of the selection procedure used and of the rights and obligations of the beneficiaries; calls for applications should be advertised in order to reach all potential beneficiaries...)

4. All applications received should be recorded<sup>1</sup>.

(applications should be registered on receipt, evidence of receipt delivered to each applicant and records kept of the approval status of each application)

5. All applications/projects should be evaluated in accordance with the applicable criteria.

(the evaluation should be applied consistently, the criteria/scoring used should be in accordance with those approved by the Monitoring Committee and mentioned in the calls, results should be documented, the substance of the applications evaluated, the financial, administrative and operational capacities of the beneficiaries to fulfil the responsibilities regarding the provision of funding should also be adequately evaluated)

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<sup>1</sup> Not applicable in cases of direct allocation of EU funds to certain national, regional or local projects.

6. Decisions taken on the acceptance or rejection of applications/projects should be communicated to the applicants.

(decisions should be taken by an appropriate designated person/body, results notified in writing and the reasons for acceptance or rejection of applications clearly set out; the appeals procedure and related decisions should be published)

**Key requirement 3: Adequate information and strategy to provide guidance to beneficiaries**

(art. 55, art. 59 c), d), f) of R 1198 and art. 39.1 of R 498):

The objective is to ensure that beneficiaries are informed of their entitlements and responsibilities regarding the provision of funding and that an appropriate level of guidance is provided concerning these entitlements and responsibilities.

Assessment criteria:

7. Effective communication to beneficiaries of their rights and obligations in particular the national eligibility rules laid down for the programme, the applicable Community rules on eligibility, the specific conditions concerning the products or services to be delivered under the operation, the financing plan, the time-limit for execution, the requirements concerning separate accounting or adequate accounting codes, the information to be kept and communicated. The information and publicity obligations should also be clearly expressed and communicated to them (in grant approval letters, decisions...).
8. The existence of clear and unambiguous national eligibility rules laid down for the programme.
9. The existence of a strategy to ensure that beneficiaries have access to the necessary information and receive an appropriate level of guidance (leaflets, booklets, seminars, workshops, web sites...).

**Key requirement 4: Adequate management verifications** (art. 59 b), g) of R 1198 and art. 39.2-39.4 of R 498)

The objective is to ensure that there are adequate procedures for verifying the delivery of the products and services in order to ensure the reality of the expenditure claimed and compliance with the relevant Commission decision, the grant conditions, and the applicable national and Community rules, in particular on eligibility of expenditure, public procurement, State aid, protection of the environment, equality of opportunities and information and publicity.

It is essential that sufficient staff are allocated for management verifications taking into account their qualifications and experience.

Assessment criteria

10. The existence of written procedures and comprehensive checklists in order to detect any material misstatements. This means that the checklists should address verifications on:
  - √ the correctness of the application for reimbursement,
  - √ the eligible period,
  - √ compliance with the approved project,
  - √ compliance with the approved financing rate (where applicable),
  - √ compliance with the relevant eligibility rules and Community rules on public procurement, State aid, environment, publicity and equal opportunity requirements,

- √ the reality of the project, including physical progress of the product/service and compliance with the terms and the conditions of the grant agreement,
  - √ the expenditure declared and of the existence of audit trail.
11. The administrative verifications regarding the expenditure in a particular statement should be completed before certification.
  12. All applications for reimbursement submitted by beneficiaries should be subject to administrative verifications and should include an examination of both the claim itself and the relevant supporting documentation attached.
  13. The on-the-spot verifications should be undertaken when the project is well under way, both in terms of physical and financial progress (e.g. , for training measures).
  14. Evidence should be kept of:
    - √ the administrative verifications and the on-the-spot verifications, including the work done and the results obtained,
    - √ the follow-up of the findings detected.
  15. Where on-the-spot verifications are not exhaustive, the sampling of operations should be based on an adequate risk assessment and the records should identify the operations selected, describe the sampling method used and provide an overview of the conclusions of the verifications and the detected irregularities.
  16. The existence of procedures approved by the managing authority to ensure that the certifying authority receives all necessary information on the verifications carried out for the purpose of certification.

**Key requirement 5: Adequate audit trail** (art. 59 c), d), f), art. 87 of R 1198 and art. 41 of R 498)

The audit trail at the level of managing authority is considered sufficient when it permits reconciliation of the summary amounts certified to the Commission with the individual expenditure records and supporting documentation held at all of the administrative levels down to beneficiary level.

**Assessment criteria:**

17. The accounting records for operations should be kept at the appropriate management level and should provide detailed information on expenditure actually incurred in each co-financed operation by beneficiary. The accounting system enables both the beneficiaries and the other bodies involved to be identified together with the justification for the payment.
18. The technical specifications and financial plan of the operation, progress and monitoring reports, documents concerning application, evaluation, selection, grant approval and tendering and contracting procedures and reports on inspections of the products and services co-financed should also be kept at an appropriate management level.
19. The managing authority should verify whether the beneficiaries maintain either a separate accounting system or an adequate accounting code for all transactions relating to the assistance which allows for verification of (1) the correct allocation of expenditure only partly relating to the co-financed operation and (2) certain types of

expenditure which are only considered eligible within certain limits or in proportion to other costs.

20. Procedures should be in place to ensure that all documents required to ensure an adequate audit trail are held in accordance with the requirements of Article 87 of Regulation 1198/2006; i.e. regarding availability of documents.

**Key requirement 6: Reliable accounting, monitoring and financial reporting systems in computerised form** (art. 57 d) and art. 59 c), of R 1198, art. 40.1 and annex III of R 498)

Assessment criteria:

21. The existence of computerised systems capable of providing reliable and relevant information.

(procedures to ensure maintenance of the system, data protection and data integrity are in place, the system provides all the information required by Annex III of Reg 498/2007)

**Key requirement 7: Necessary preventive and corrective action where systemic errors are detected by the audit** (art. 96 of R 1198 and art. 42.3 of R 498)

If the errors detected by the audit authority are systemic in nature and therefore entail a risk for other operations under the operational programme, the relevant authorities shall take the necessary preventive and corrective action.

Assessment criteria:

22. Procedures should be in place to ensure adequate review and follow-up of the results of all audits carried out by the relevant audit bodies pursuant to Article 61 of R 1198 and that this review is adequately documented.
23. Procedures should be in place to ensure implementation of preventive and corrective action in case of systemic errors.

Key requirements in relation to the <b>CERTIFYING AUTHORITY / INTERMEDIATE BODY/IES</b>
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**Key requirement 1: Clear definition, allocation and separation of functions between and within the certifying authority / intermediate body/ies** (art. 57 a), b), 58.2, 60 of R 1198 and art. 38 of R 498)

Assessment criteria:

24. Compliance with the principle of separation of functions between the certifying authority and the managing authority and within these bodies (certifying authority and its intermediate bodies).
25. Procedures are in place in the certifying authority to monitor the effective implementation of any delegated tasks.
26. A clear definition and allocation of functions (organisation chart, indicative number of posts, documented procedures and manuals), including the existence of a formal documented agreement setting out any tasks that are delegated by the certifying authority to the intermediate body/ies.

**Key requirement 2: Adequate audit trail and computerised system** (art. 60 b), e) of R 1198, art. 41 of R 498)

Assessment criteria:

27. Adequate accounting records should be maintained in computerised form of expenditure declared to the Commission
28. The audit trail within the certifying authority should allow reconciliation of the expenditure declared to the Commission with the expenditure statements received from the managing authority/intermediate bodies MA/IBs.

**Key requirement 3: Adequate arrangements for the certification of expenditure to be reliable and soundly based** (art. 60 b,) c), d) of R 1198)

Ensuring, for the purpose of certification, that the certifying authority has received adequate information concerning the procedures operated by the managing authority and by intermediate bodies to verify the delivery of the co-financed products and services, the reality of the expenditure claimed, compliance with the applicable Community and national rules, that the expenditure declared has been incurred in respect of operations properly selected for funding and that an adequate audit trail has been maintained.

Assessment criteria:

The certifying authority should:

29. specify the information it requires on the procedures operated by the managing authority and by the intermediate bodies for the verification of expenditure and has put in place agreed procedures with the managing authority to ensure that it receives it on a regular and timely basis.
30. review the reports drawn up by the managing authority or the intermediate bodies on the progress of implementation, including a review of the verifications carried out pursuant to Article 59 b) of R 1198 (all reviews should be documented).
31. review the results of all audits pursuant to Article 61 of R 1198 (all reviews should be documented).
32. ensure that the results of these examinations are properly taken into account in reaching a conclusion as to whether there is a sufficient basis for certifying that the expenditure being certified is legal and regular.
33. The certifying authority reconciles and does an arithmetical check of the payment requests.

**Key requirement 4: Satisfactory arrangements for keeping an account of amounts recoverable and for recovery of undue payments** (art. 60 f) of R 1198 and art. 46.2 of R 498)

Assessment criteria:

34. The certifying authority should keep an account of amounts recoverable and of amounts withdrawn following cancellation of all or part of the contribution for an operation. Amounts recovered shall be repaid prior to closure of the operational programme by deducting them from the next statement of expenditure.
35. By 31 March each year as from 2008, the certifying authority shall send to the Commission a statement, in the format in Annex X of R 498.

Key requirements in relation to the <b>AUDIT AUTHORITY</b>
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**Key requirement 1: Clear definition, allocation and separation of functions** (art. 57 a), b) and 61.3 of R 1198, art. 49 a), b), d) of R 498).

Assessment criteria:

36. A clear definition and allocation of functions (organisation chart, indicative number of posts, qualifications and/or experience required, written procedures and manuals).
37. Compliance with the principle of separation of functions between the audit authority and the managing authority, the certifying authority and intermediate bodies together with the principle of independence of the audit authority and other audit bodies.
38. Existence of procedures, including, where appropriate, procedures for the supervision by the audit authority of the work any audit bodies carrying out audit work delegated by the audit authorities.

**Key requirement 2: Adequate systems audits** (art. 61.1 a) of R 1198, art. 49 c) of R 498)

The systems audits are carried out to verify the effective functioning of the management and control system of the operational programme.

They are to be performed in accordance with the audit strategy, approved by the Commission and updated annually based on a clearly described methodology including proper risk analysis, taking account of internationally accepted audit standards. The audit scope includes, inter alia, verification that the relevant authorities properly ensure compliance with Community and national rules on public procurement, state aid, protection of the environment, equality of opportunity and information and publicity rules.

Assessment criteria:

39. The audit scope should be in accordance with the audit strategy and be focused on the key requirements of the management and control systems in the relevant bodies (managing authority, certifying authority and intermediate bodies).
40. All phases of the systems audits should be properly documented. Adequate and complete checklists should exist that address verifications on all key requirements of the management and control systems.
41. There should be effective procedures for monitoring the implementation of recommendations and corrective measures resulting from audit reports which can be demonstrated to the Commission.
42. There should be qualitative and/or quantitative evidence present to allow for verification of the establishment of the assurance level which has been obtained from the systems.

**Key requirement 3: Adequate audits of operations** (art. 61.1 b) and 96.4 of R 1198, art. 42-43, 49 c) and Annex IV of R 498)

Audits on operations should be performed in accordance with the audit strategy approved by the Commission and updated annually and be based on a clearly described methodology, taking into account internationally accepted auditing standards. The parameters for sampling should be set in accordance with the provisions of Annex IV of Regulation (EC) No 498/2007 and the results of the systems audits.

The operations should be selected on the basis of a method approved by the audit authority and be based on random statistical sampling in the first instance. The audit authority should regularly review the coverage provided by the random sample and decide whether a complementary sample is necessary, taking account of identified risk factors.

Assessment criteria:

43. A description of the approved methodology should exist, including the parameters for sampling set in accordance with Annex IV of R 498, the statistical sampling method, the results and the degree of confidence obtained from the systems audits, including the planned materiality level.
44. The audits of operations should be carried out in accordance with the audit strategy approved by the Commission and should be updated annually.
45. Verification should be done, based on adequate and complete checklists, of the legality and regularity of expenditure subject of audit, including ensuring that:
  - ✓ The operations meet the selection criteria for the operational programme and have been implemented in accordance with the grant approval decision (notably as regards the co-financing rate and the reality of the project) and fulfil any applicable conditions concerning their functionality and the objectives to be attained.
  - ✓ The expenditure declared corresponds to the accounting records and supporting documents held by the beneficiary.
  - ✓ The expenditure declared by the beneficiary complies with national and Community rules (in particular as regards eligibility, public procurement, state aid, environment, publicity and equal opportunities...).
  - ✓ The public contribution has been paid to the beneficiary in accordance with Article 80 of Regulation (EC) No 1198/2006, i.e. as quickly as possible and in full, without any deductions or charges
46. In cases where problems detected appear to be systemic in nature, the audit authority should ensure that further examination is carried out to establish the scale of such problems.
47. The existence of effective procedures for monitoring the implementation of recommendations and corrective measures arising from audit reports should be demonstrated to the Commission.
48. Where the projected error rate is above the materiality level for an operational programme, the audit authority should analyse its significance and take the necessary action.

**Key requirement 4: Adequate annual control report and audit opinion** (art. 61.1 e), (i) & (ii) of R 1198, art. 44.2 and Annex VI of R 498)

Assessment criteria:

49. The annual control report and audit opinion should be in accordance with the audit strategy, based on the results of the system audits and audits of operations and drawn up in accordance with the model set out in Annex VI of R 498.

## ANNEX II

**Table 1: Evaluation of key requirement by the assessment criteria**

		1	2	3	4
Legal references	KEY REQUIREMENTS	Works well. Only minor improvements are needed	Works but some improvements are needed	Works partially. Substantial improvements are needed	Essentially does not work
	<b>managing authority / intermediate body</b>				
art. 57 a), b), e), 58.2, 58.3, 59 of R 1198 and art. 38, 39.5 and 48 b) of R 498	<b>1) Clear definition, allocation and separation of functions between and within the managing authority / intermediate bodies</b>				
	procedures for monitoring delegated tasks				
	clear definition and allocation of functions				
art. 59 a) and art. 65 a) of R 1198 and art. 29 and art. 39.1 of R 498	<b>2) Adequate procedures for selection of operations</b>				
	calls for applications are published				
	all received applications are recorded				
	all applications are evaluated				
	decisions are communicated				
art.55, art. 59c), d), f), of R 1198 and art. 39.1 of R 498	<b>3) Adequate information and strategy to provide guidance to beneficiaries</b>				
	rights and obligations are clearly expressed				
	national eligibility rules are clearly expressed				
	beneficiaries have access to the necessary information				
art. 59 b), g) of R 1198 and art. 39.2-39.4 of R 498	<b>4) Adequate management verifications</b>				
	existence of written procedure				
	administrative verifications completed before certification				
	all applications for reimbursement are subject to administrative verifications				
	on-the-spot verifications undertaken when the project is well under way				
	evidence is kept				
	on-the-spot verifications based on adequate risk assessment				
	procedures to ensure that the CA receives all information				
art. 59 c), d), f), art. 87 of R 1198 and art. 41 of R 498	<b>5) Adequate audit trail</b>				
	accounting records are kept				
	other information is kept				
	the MA verifies existence of the audit trail at beneficiaries level				

	procedures for the adequate audit trail are set up				
art. 57 d) and art. 59 c) of R 1198, art. 40.1 and annex III of R 498	<b>6) Reliable accounting, monitoring and financial reporting systems in computerised form</b>				
	computerised system is set up				
art. 96 of R 1198 and art. 42.3 of R 498	<b>7) Necessary preventive and corrective actions in case of systemic errors detected by the audit authority</b>				
	procedures for the review of the results				
	procedures for preventive and corrective actions				
	<b>certifying authority / intermediate body</b>				
art. 57 a), b), 58.2, 60 of R 1198 and art. 38 of R 498	<b>1) Clear definition, allocation and separation of functions between and within the CA/intermediate bodies</b>				
	compliance with the principle of separation of functions				
	procedures for monitoring delegated tasks				
	clear definition and allocation of functions				
art. 60 b), e) of R 1198, art. 41 of R 498	<b>2) Adequate audit trail &amp; computerised system</b>				
	accounting records in computerised form				
	audit trail within CA permits reconciliation of amounts declared to the EC and received from the MA				
art. 60 b), c), d) of R 1198	<b>3) Adequate arrangements for the certification to be reliable and soundly based</b>				
	CA has defined the adequate information it requires				
	review of reports drawn up by the MA				
	review of results of all audits				
	results of examinations are taken into account				
	CA reconciles and recalculates payment request				
art. 60 f) of R 1198 and art. 46.2 of R 498	<b>4) Satisfactory arrangements for keeping an account of amounts recoverable and for recovery of undue payments</b>				
	keeping an account of amounts recoverable and withdrawn				
	yearly statement to the Commission				
	<b>audit authority</b>				
art. 57 a), b) and 61.3 of R 1198, art. 49 a), b), d) of R 498	<b>1) Clear definition, allocation and separation of functions</b>				

	clear definition and allocation of functions				
	compliance with the principle of separation of functions				
	procedures for supervision of the work of audit bodies				
art. 61.1 a) of R 1198, art. 49 c) of R 498	<b>2) Adequate systems audits</b>				
	audit scope in accordance with strategy				
	all phases of the audits are documented				
	effective procedures for monitoring the recommendations				
	evidence to allow the verification of the assurance level				
art. 61.1 b) and 96.4 of R 1198, art. 42-43, 49 c) and Annex IV of R 498)	<b>3) Adequate audits on operations</b>				
	description of the approved methodology				
	audits are carried out in accordance with the strategy				
	verifications based on adequate and complete checklists				
	further examination in case of systemic problems				
	effective procedures for monitoring the recommendations				
	actions taken if error rate above materiality				
art. 61.1 e), (i) & (ii) of R 1198, art. 44.2 and Annex VI of R 498	<b>4) Adequate annual control report and audit opinion</b>				
	annual report and opinion in accordance with audit strategy and models				

**Table 2: Assessment of systems by authorities**

	1	2	3	4
KEY REQUIREMENTS	Works well. Only minor improvements are needed	Works but some improvements are needed	Works partially. Substantial improvements are needed	Essentially does not work
<b>managing authority / intermediate body</b>				
<b>Conclusion</b>				
1) Clear definition, allocation and separation of functions between and within the managing authority / intermediate bodies				
2) Adequate procedures for selection of operations:				
3) Adequate information and strategy to provide guidance to beneficiaries				
4) Adequate management verifications				
5) Adequate audit trail				
6) Reliable accounting, monitoring and financial reporting systems in computerised form				
7) Necessary preventive and corrective actions in case of systemic errors detected by the audit authority				
<b>certifying authority / intermediate body</b>				
<b>Conclusion</b>				
1) Clear definition, allocation and separation of functions between and within the CA/intermediate bodies				
2) Adequate audit trail & computerised system				
3) Adequate arrangements for the certification to be reliable and soundly based				
4) Satisfactory arrangements for keeping an account of amounts recoverable and for recovery of undue payments				
<b>audit authority</b>				
<b>Conclusion</b>				
1) Clear definition, allocation and separation of functions				
2) Adequate systems audits				
3) Adequate audits on operations				
4) Adequate annual control report and audit opinion				

Prepared by:  
Reviewed by :

Date:  
Date:

**Table 3: SYSTEM EVALUATION - CONNECTION TABLE**

<u>Authorities</u>	<u>Assessment by authorities</u>	<u>Existing mitigating factors / Compensating controls which directly influence assessment made at system level</u>	<u>Residual risk to regularity</u>	<u>Overall conclusion by system</u>
<b>managing authority</b>	<input type="checkbox"/> <i>Works well. Only minor improvements are needed</i> <input type="checkbox"/> <i>Works, but some improvements are needed</i> <input type="checkbox"/> <i>Works partially. Substantial improvements are needed</i> <input type="checkbox"/> <i>Essentially does not work</i>			
<b>certifying authority</b>	<input type="checkbox"/> <i>Works well. Only minor improvements are needed</i> <input type="checkbox"/> <i>Works, but some improvements are needed</i> <input type="checkbox"/> <i>Works partially. Substantial improvements are needed</i> <input type="checkbox"/> <i>Essentially does not work</i>		<input type="checkbox"/> <i>Very low</i> <input type="checkbox"/> <i>Low</i> <input type="checkbox"/> <i>Medium</i> <input type="checkbox"/> <i>High</i>	<input type="checkbox"/> <i>Works well. Only minor improvements are needed</i> <input type="checkbox"/> <i>Works, but some improvements are needed</i> <input type="checkbox"/> <i>Works partially. Substantial improvements are needed</i> <input type="checkbox"/> <i>Essentially does not work</i>
<b>audit authority</b>	<input type="checkbox"/> <i>Works well. Only minor improvements are needed</i> <input type="checkbox"/> <i>Works, but some improvements are needed</i> <input type="checkbox"/> <i>Works partially. Substantial improvements are needed</i> <input type="checkbox"/> <i>Essentially does not work</i>			

Date:

Signature: