



Residual Risk Rate: Concept and implications for the AA and the Commission at closure

Carmine Mollica

DG Regional and Urban Policy – Unit C1

Outline

- **Definition** of Residual Risk Rate (RRR) - Annex VI Commission guidelines on closure 2007-2013 (C(2015)2771 final)
- Cumulative Residual Risk (CRR) estimated annually by DG REGIO in the context of its AAR (**comparison**)
- **RRR and audit opinion** in the closure declaration
- Technical issues to be considered at closure and proposed solutions
- Conclusion & Discussion

Residual Risk Rate: calculation

Declared expenditure

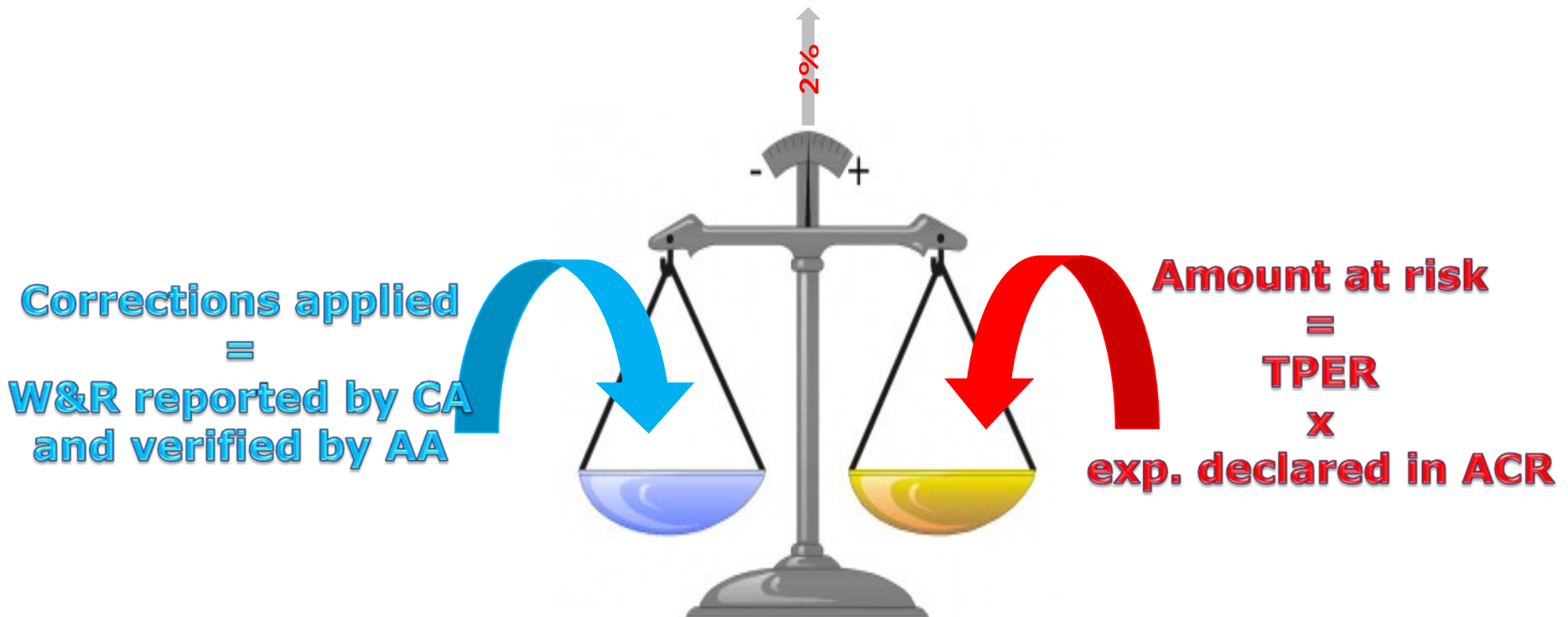
Quantified risk

Residual Risk



Residual Risk Rate = Total Residual Risk(C) ÷ Total expenditure declared(A)

Residual Risk Amount



| Year | Exp. declared (ACR) (A) | TPER (D) | Risk (E) | Financial Corrections (F) | Residual Risk (annual) (G=E-F) | Residual Risk (cumulative) |
|-------------------------------------------------------------|-------------------------------------|----------|----------|---------------------------|--------------------------------|----------------------------|
| 2010 | 150 | 3% | 4,5 | 3 | 1,5 | 1,5 |
| 2011 | 200 | 2,5% | 5 | 7 | -2 | (1,5 - 2) = min 0 |
| 2012 | 180 | 2% | 3,6 | 2 | 1,6 | 1,6 |
| 2016 | 300 | 1,5% | 4,5 | 2 | 2,5 | (1,6 + 2,5) = 4,1 |
| Expenditure in final claim | 730 ≠ (150 + 200 + 180 + ... + 300) | | | | | 4,1 |
| RRR = (Residual Risk)/(expenditure declared in final claim) | | | | | | 0,56 % |



***The Cumulative Residual Risk (CRR)
estimated annually by the Commission
(comparison with the Residual Risk Rate to be calculated at closure)***

Main concepts

- The CRR is an ***estimation*** (likely subject to adjustments); although based on (for a large part) statistically calculated error rates, the CRR itself is not calculated with statistical parameters
- It is an ***indicator*** of the corrective capacity of the management and control system as a whole throughout the lifetime of the programme (cumulative state of play while progressing towards closure)
- It is used as a ***criterion*** for additional reservations in the context of the DGs' Annual Activity Reports

Differences with the RRR to be calculated by AA at closure

- **Yearly estimation**, based on latest information available
- **Timeframe** AAR / reporting on withdrawals and recoveries
- Increased risk of **misstatement** for last year by using the last available error rate (error rate of year N-1 to estimate the risk in year N)
- Risk estimated on the **payments** executed by EC, instead of expenditure declared
- **Statistical limitations** more pronounced in some cases
- Less possibilities to verify and adjust data, in case of inconsistencies and/or unreliable information

AA opinion in the closure declaration

*The Residual Risk Rate is a **key element** of the audit opinion to be provided by AA at closure*

*According to the closure guidelines (sections 5.3 and Annex VI), in order to obtain a **unqualified opinion** corrective measures will have to ensure that the residual risk rate is below material level (2%)*

*What if the residual risk rate at closure is **above 2%**?*

*If the RRR at closure is above 2%, the AA can conclude that the management and control system **failed to provide adequate assurance** that the expenditure declared to the Commission is legal and regular.*

*Therefore, in this situation, the Commission will apply a **financial correction** based on this residual error rate in accordance with the Commission decision C(2011) 7321*

Proposed solutions for the main issues encountered

- ✓ Only compute corrections **from control activity**, no temporary withdrawals, corrections not related to irregularities, clerical mistakes
- ✓ **No ex-ante corrections**. Only corrections of previous certified expenditure; corrections applied at MS level before certification are not to be considered
- ✓ No carry-over of **negative risks**. A financial correction implemented one year can only offset risks accumulated previously but not for the future
- ✓ **Flat rates corrections** implemented during the programming period, impact to the calculation (in case these corrections are taken into account for the RRR, ensure consistency with the error rates reported in the ACR)
- ✓ **Common samples** (common residual error rates), no use of individual error rates by OP in such cases. Issue related with the change of group during the period
- ✓ **Pending recoveries**. Treatment at closure (they can be deducted from the RRR as a general line)

Error rates reported by AAs / validated by DG REGIO (on basis of payments made in the year)

| | AAR 2011 | AAR 2012 | AAR 2013 | AAR 2014 |
|--------------------------|----------|----------|----------|-----------------|
| Audit Authorities | 1.1% | 1.7% | 1.6% | 1.8% |
| DG REGIO | 2.9% | 2.2% | 2.8% | 2.6% |
| Difference | 1.8% | 0.5% | 1.2% | 0.8% |

Financial corrections reported by CAs / used by DG REGIO for the CRR (on basis of information declared in the Art. 20 reports)

| Art. 20 reports from CAs (cumulative amounts reported up to 2014) | EC Share (EUR billion) | % |
|----------------------------------------------------------------------|---------------------------|------------|
| Withdrawn amounts | 3,0 | 83% |
| Amounts Recovered from beneficiaries | 0,6 | 17% |
| Total corrections implemented | 3,6 | |
| Out of which taken into account for the CRR | 2,8 | 77% |

Conclusions

The RRR is only an **estimation**, to be used as an **indicator** of the corrective capacity of the management and control system

Additional work should be envisaged by AA at closure on the two elements of the RRR:

- **Amount at risk:** need to confirm representativeness of error rates reported + cleaning up of information on expenditure declared in the ACRs
- **Corrections:** need to ensure quality and reliability of data reported by CA

Conclusions

The AA is strongly recommended to ***consult the Commission*** in due time before the closure, in order to address all potential issues related to the error rates and the corrections to be taken into account

As a practical illustration, we have provided the AA with an excel file containing:

- ***Error rates*** communicated in the ACRs, as ***validated*** by REGIO (flat rates in some cases)
- ***Expenditure declared***, as from ACRs 2009-2014
- ***Withdrawals and recoveries*** reported by CA (raw data)
- ***Proposed formulas***



Thank you for your attention