

How to support audit work in Interreg programmes

September 2021



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Publisher Interact Programme **Date** September 2021

www.interact-eu.net

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Introduction and objective

Audits in Interreg programmes represent a small but crucial part in the programme implementation. Audits are carried out to ensure that the programme and project implementation comply with the applicable regulatory frame (EU, programme and national rules). In case problems are detected, the consequence can be severe (e.g., payment interruptions, programme budget cuts, corrections, action plan implementations to correct mistakes). To ensure that this part of the control cycle happens as smoothly as possible, Interreg managing authorities/joint secretariats (MA, MAs/JS, JSs) should consider sufficient resources to support the audit work, as part of a preventive approach – in case of problems the resources needed to solve them will be significant.

The objective of this document is to provide a brief overview on the groundwork of audit in Interreg, examples of approaches to audit used by programmes and highlight some specificities for the 2021-2027 programming period. The document targets newcomers to Interreg as an introduction to audit work, but also interested experienced Interreg staff. The information here is focused on the relation and work for MAs/JSs and audit authorities (AA, AAs), as regular part of the annual accounts. Nevertheless, the principles also apply for “non-regular” audits carried out by e.g., the Commission, the European Court of auditors or national audits.

Before introducing the main elements, programmes will face some significant changes from the 2014-2020 to the 2021-2027 period. The following changes in the financial programme management are the most relevant for the purpose of this document:

1. The certifying authority will become the accounting function.
2. Interreg will have a common sample for audit of operations, which means that AAs will no longer individually sample for the audits of operations for their programme but based on the programme data submitted to the Commission, the Commission will draw a common sample for the audit of operations for all Interreg programmes.
3. Technical assistance will be reimbursed as a flat rate of certified project expenditure.

1. Legal basis and background

Main¹ legal references for the 2014-2020 and the 2021-2027 periods:

2014-2020	2021-2027
Article 127, 1303/2013 (CPR) – Functions of the audit authority	Article 77, 2021/1060 (CPR) – Functions of the audit authority
Article 25, 1299/2013 (ETC) – Functions of the audit authority	Article 48, 2021/1059 (Interreg) – Functions of the audit authority
	Article 49, 2021/1059 (Interreg) – Audit of operations

Each programme has an audit authority (AA), which is “[...] responsible for carrying out system audits, audits on operations and audits of accounts in order to provide independent assurance to the Commission regarding the effective functioning of the management and control systems and the legality and regularity of the expenditure included in the accounts submitted to the Commission.” (Article 77, CPR 2021-2027)

In practice, this means that the AA has to do three different types of audits:

1. System audit (along established key requirements²) to confirm the well-functioning of the management and control system. System audits are partially carried out at MA/JS and certifying authority (2014-2020) or accounting function (2021-2027) level and partially at project level.
2. Audit of operations to confirm the eligibility and regularity of the expenditure reported to the Commission, but also that the management verifications function well. Here projects and their reported expenditure are audited. For this a sample is taken from all expenditure reported³. In the 2014-2020 period the AA could decide on the sample unit. The most common ones were: project (report), project partner (report) or expenditure item. In the 2021-2027 period the sampling unit in the frame of the common sample for audit of operations (see section “2021-2027 period”) will be the project partner.
3. Audit of accounts to verify that the certifying authority/accounting function is correctly registering, paying and correcting (if applicable) programme expenditure.

¹ The references are limited to key articles from the relevant Regulations. Please note that there are many more references and annexes, and, in particular, for the 2014-2020 period, additional Implementing Acts and EGSIF guidance notes – a more extensive overview is provided in the section “Additional material”.

² The key requirements can be found in Annex XI of the CPR ((EU) 2021/1060).

³ In the 2014-2020 period this was the responsibility of the AA; in the 2021-2027 period all programmes will submit their data to the Commission which will draw the sample for all Interreg programmes. For more information see the section “2021-2027 period”.

Based on this the AA forms their audit opinion, which is submitted to the Commission as part of the “assurance package⁴” every 15 February following the end of each accounting year (for example: for the accounting year 01/07/2020 - 30/06/2021, the submission deadline is 15 February 2022).

While the steps above are well defined and structured, the key element is timing. All audit work has to be carried out for each accounting year in which expenditure was reported to the Commission. To do this, all programme bodies have 8 months (July to mid-February) and while this seems a long time for getting everything ready, there is a lot of work to be done for both the AA and the involved programme bodies and even more, if problems or errors are detected. To not face any serious consequences, like payment interruptions or flat rate corrections, all problems have to be solved and possible corrections implemented by 15 February. In fact, experience has shown that it is only possible to submit the assurance package on time if the AA and the MA/JS work hand in hand along very clearly defined processes and responsibilities with sufficient resources which allow timely actions. More on this in the following sections.

2. Audit work in Interreg

2.1. Principal organisation and responsibilities

Before looking at the possible set-ups for the audit work, it is important to keep in mind that each Interreg programme has ONE audit authority which holds the responsibility for the overall programme. The AA can (but does not have to) be supported by a group of auditors (GoA). A GoA come into play if the AA does not have the authority to carry out audits in the whole territory of the programme. In this case, the respective country auditor (member of the GoA) takes the responsibility. The role and level of involvement of the members of the GoA is closely linked to the set-up of audits of operations in an Interreg programme.

There are three principal approaches for the organisation of audits:

	Main characteristics
Internal audit	<ul style="list-style-type: none">- The AA and members of the GoA (if applicable) carry out the audit work themselves: audits, reporting, follow-up etc. are all done by staff members of the public organisation(s) identified.- Responsible authorities have to provide sufficient resources for the work.- The costs are either covered through the programme’s technical assistance or by national budgets.

⁴ The assurance package is comprised of the annual accounts, the management declaration, the annual audit opinion and the annual control report (Article 98 CPR 2021-2027).

External audit	<ul style="list-style-type: none"> - The actual audit work is externalised and carried out by an independent audit company. - The overall responsibility remains with the AA (and GoA members). - The external provider is chosen via public procurement carried out by the MA/JS (usually). - The external provider is (usually) paid by the programme's technical assistance.
Mixed audit	<ul style="list-style-type: none"> - Parts of the work is carried out directly by the AA or GoA, other parts are carried out by an external independent audit company (chosen via public procurement). - Such a system comes usually into play either because the AA does not have the resources or competences (e.g., language barrier) to cover the whole territory of a programme or as an ad-hoc support if the AA or the GoA member(s) do not have the resources to do the work at a certain point during the programme implementation.

All systems have their advantages and disadvantages (a short overview below), but in any case, the work and tasks of the MA/JS remains in large parts the same independent from the system.

	Advantages	Disadvantages
Internal audit	<ul style="list-style-type: none"> - Strengthened competence over time - High knowledge of programme structures and functioning (due to less staff changes) - Usually less costly technical assistance 	<ul style="list-style-type: none"> - Less flexibility in resources and administration - Less resources available - Often competition for resources with mainstream programmes
External audit	<ul style="list-style-type: none"> - High flexibility - Resources contractually guaranteed - Country specific knowledge proven via procurement - No language issues 	<ul style="list-style-type: none"> - Loss of competences (more staff changes) - Higher costs (usually)
Mixed audit	<ul style="list-style-type: none"> - As above 	<ul style="list-style-type: none"> - As above

2.2. The role of the MA/JS in audits⁵

The role of the MA/JS is two-fold:

- a) They have a formal responsibility in submitting the management declaration (confirming the legality, and regularity of the accounts and the effective and compliant functioning of the management and control system).
- b) They support the AA (and GoA) in the practical aspects of the annual audits carried out, namely *preparation, implementation and finalisation of audits* (which are applicable to all 3 types of audits: system, accounts, and operations).

Both aspects require good and timely cooperation and communication with the different bodies involved in the audit work, with point b) being the less regulated one. Therefore, the following points will focus mainly on practises from that area.

Moreover, and as already mentioned above there are three areas in which audits take place: system, accounts, and operations. And while the MA/JS is directly involved for the system audit and to a large part for the accounts (in 2021-2027 even more than before without there being a certifying authority), the preparations for the audits of operations are a bit trickier as it involves (in most cases) project partners which are external to the MA/JS. Consequently, this will be second focus in the following paragraphs.

Also, please keep in mind that the examples and different practices described require pre-agreements between the AA and the MA/JS. It is important that there are no misunderstandings or assumptions about the roles and activities taken.

Preparation of audits

The preparation of audits includes to make sure that all necessary documents are available and accessible; that necessary staff is aware of the audit and is available to answer questions; and (a point not to be underestimated) that auditors have a place to work, if audits are carried out on-the-spot. But even before that, auditees have to be informed that they are subject of an audit, hence, most programmes (in some case the AA does that) send notification letter/emails to auditees. As project partners are not necessarily aware of audit requirements or what that means, it is considered a good practice to include in the audit notification information on the background, like:

- legal basis of the audit,
- what will be audited, by whom, when and for how long,

⁵ As the certifying authority will no longer be part of the “system” for the 2021-2027 period, their role is not further elaborated.

- contact details of persons being in charge (for both, the auditor and the MA/JS) in case of questions,
- a proposal for a preparatory meeting between project partner and MA/JS

The notification should be sent well in advance, at least 6-8 weeks before the actual audit is scheduled to ensure enough time for preparations. Many programmes propose a dedicated preparatory meeting (via video or phone) for project partners. The intention is two-fold. For one, it gives the project partner a chance to ask questions (which is important and reassuring for less experience project partners) and secondly it gives the MA/JS an early impression of the readiness of the project partner so they could anticipate potential problems.

Experience has also shown that (check-)lists for the project partner with details on what documents to have ready (original or copy) or what questions to expect are a good tool to prepare and close potential knowledge gaps.

All the above (notification, preparation meeting, preparatory lists) help to have a smooth and efficient audit. It is important to keep in mind that audits require a lot of documents and there is very little time for extensive search or back-and-forth exchanges if something is missing!

Implementation of audits

During the actual audits the support from MA/JS side is rather limited. A good practice is nevertheless, to be available by phone in case the project partner or the auditor has questions. Indeed, during the whole process the MA/JS can often serve as a translator, as project partners are often not familiar with the technicalities or the specific vocabulary of auditors.

Finalisation of audits

Once the actual audits have been carried out, the role of the MA/JS might be crucial in the next steps.

If the audits do not result in any findings which require a follow-up, no additional steps are needed. However, if there are findings, the MA/JS might face a lot of work. And it is in their interest to finalise the audits as smoothly and fastly, so that the annual accounts can be submitted on time by 15 February. Hence, being prepared for that and having sufficient resources in place is important. Below a few practical aspects which might help with that.

Description of findings & follow-up actions	
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	It is crucial for the beneficiary to understand what the mistake is, why it is a mistake (legal basis) and what needs to be done to close the finding (e.g., additional documentation/explanations, re-calculation of
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	<p>expenditure or reimbursement of funds). This information should be provided as detailed as possible, with a language which is comprehensible to people not being regularly involved in audit matters.</p> <p>A typical involvement of the MA/JS could be to review the finding & follow-up descriptions and propose amendments to the AA, if needed, before it is submitted to the auditee. This saves time and helps to avoid misunderstandings.</p>
Moderating the contradictory procedure	<p>For each finding, the auditee has the opportunity to accept or not accept the finding and its consequences (i.e., contradictory procedure). In cases when the finding is not accepted, additional documents and/or explanations can be provided by an auditee.</p> <p>During this phase, the MA/JS can support the process by providing expertise and can help as a translator, based on their experience.</p> <ul style="list-style-type: none">- Collecting and reviewing additional supporting documents- Keeping the timeline
Ensuring that audits are sufficiently finalised	<p>Audits, including findings, have to be formally closed, not only to be able to submit complete annual accounts, but also auditees need to know. Here the MA/JS can support all involved bodies, with e.g., notifications or submission of final reports.</p> <p>As an example, this can be recovery notices to project partners in case errors with financial impact have to be corrected. This will then also lead to evidencing to the AA that the amounts have been recovered (paid to the accounts or deducted from open payments).</p>

Good practices from programme experience

- A clear understanding of roles and responsibilities, fixed in writing!
A detailed manual and/or rules of procedure document (as required by the Regulation for group of auditors), regularly reviewed and updated when needed.
It should provide details like:
 - o what are the steps/work/deliverables, what does that entail and who is responsible,
 - o who is taking which decision and when,
 - o provisions for written procedures,
 - o who are the contact person/organisations for different aspects,
 - o how long do auditees and auditors have time to react and/or submit documents,
 - o what are possible exceptions, who can grant extensions.

It is very important to have all points in writing and as detailed as needed. It should also be approved by all relevant bodies (e.g., monitoring committee, group of auditors) as this will help to create ownership, awareness, and reliability.

- Timing is everything!
 - o Prepare a detailed calendar, with the different steps, the time needed for the work.
 - o Include deadlines and what happens if deadlines are not kept; do not wait for deadlines to pass, be proactive with reminders and necessary follow-up,
 - o Audits of operations often have to take place during summer (July and August); make sure that notifications are sent well in advance so that the right people have time to prepare and are available during the audit.
- Dedicated resources at MA/JS level for audits.
Having staff at the MA/JS focusing (partially) on audit matters has proven to be a good practice. To name a few advantages:
 - o building and bundling competences and know-how,
 - o having structured and organisational support for the preparation, implementation, and finalisation of audits,
 - o having a fixed contact person on the MA/JS side to deal, for all relevant stakeholders (e.g., AA, auditees, national authorities, monitoring committee members),
 - o for complicated cases or complex follow-up measures resources are immediately available and do not need to be freed or found.

- Use standardised templates
 - o Having standardised templates for exchanges and reports (in particular, during the contradictory procedure) helps to keep an overview and to have complete documentation easily accessible. In general, a standardised and structured archiving system for audit purposes should be planned with the programme’s management and control system.

- Make use of your electronic monitoring system
 - o It has proven useful to have in the monitoring system a section dedicated to audit, which allows to extract information and document processes.

3. Novelties for 2021-2027 period

As already mentioned above, the 2021-2027 period will bring a few new elements in the audit work. A brief overview and their implications are summarised in the table below.

New elements	Audit implications
Certifying authority becoming the accounting function	<ul style="list-style-type: none"> - Background: part of the simplification agenda to reduce the control burden for programme bodies and beneficiaries. Therefore, the certification of expenditure to the Commission and drawing and submission of accounts is now carried out via a “function” and no longer via an authority, which can be performed by the MA/JS, fully or partially (NB: in case the accounting function is fully externalised to another authority – the principles of separation of function apply and such an authority is identified as a programme body). - No more controls carried out by the accounting function at the level of the beneficiary. - Audits will be limited to the function and the compliance with the requirements of the accounting function. - Should lead to less audit work.
Common sample for audit of operations	<ul style="list-style-type: none"> - Background: part of the simplification agenda to reduce the number of audits of operations in Interreg, which was disproportionately high, due to sampling obligations. (NB: nothing will change for system audits and audits of accounts.) - All Interreg programmes will be “pooled” (joint in a single population) and the Commission will

	<p>draw a joint sample for audit of operations from all Interreg programmes. Depending on the number of project partners in the programmes, each programme will have to carry out a minimum of 3 or 5 audit of operations.</p> <ul style="list-style-type: none">- Should lead to significantly less audit work (currently programmes audit up to 30 units as part of audit of operations).
Technical assistance flat rate	<ul style="list-style-type: none">- Background: part of the simplification agenda to reduce the control work- Technical assistance will be reimbursed as a flat rate on certified project expenditure and, thus, no longer be part of the audit of operations (technical assistance will no longer be its own project); only the underlying expenditure (projects) can be audited.- Any errors found in the underlying expenditure will have an impact on the amount of the flat rate and, therefore, the error-rate.- Technical assistance requires careful planning as it will depend entirely on the projects spending and, thus, influence how the programme organises its processes (e.g., if audit is externalised/ mixed, the programme should account for sufficient resources available on its TA balance to be able to pay for it).- Should lead to less audit work.

Further information

For more information, please check our [website](#) & [library](#). And in case you are interested to join one of our [networks](#) in the area of audit (Network for audit authorities, Network for MA/JA for audit matters), please get in touch.