

## 5.3.1 Closure Declaration: General Principle

- Prepared by the **independent audit authority** and submitted to the Commission at the latest **by 31 March 2018**
- AA expresses its **opinion** on the final statement of expenditure
- Addresses the **validity of the final payment application**, the **accuracy of the financial information** and the **legality and regularity of the underlying transactions** covered by the final statement of expenditure, and shall be supported by a **final control report**

### 5.3.1 Closure Declaration: General Principle

- Based on **all the audit work** carried out by, or under the responsibility of the audit authority until 31/3/2018 (the AA should report on the work carried out between 1 July 2017 and 31 March 2018)
- Declaration that the **final statement of expenditure** issued by the CA is **free of misstatements**
- If **limitation of scope**: state the reasons and estimate the scale of the problem and its financial impact

## 5.3.2 Admissibility, acceptance and deadlines

- **EC shall inform** the beneficiary country of its **opinion** on the content of the closure declaration within **five months** of the date of its receipt
- The beneficiary country will be given **two months to respond** and provide the necessary information (possibility to extend for two more months, or even longer if further audit work is requested)
- It is recommended that the documents are provided to the audit authority at least **six months** before the deadline of 31 March 2018
- **Failure to submit**, disclose of **irregularities** or systems deficiencies not corrected : possibility of launching a **financial correction** procedure

### 5.3.3 Preparation of the closure declaration and final control report

- Verify the work done by the Managing Authority and the Certifying Authority
- **Sufficient and reliable information** to provide an opinion
- Verify that all **errors/irregularities** have been **corrected** and **followed-up**
- Ensure that all the **errors** detected by the AA are properly **analysed and disclosed** in annual control reports
- Compliance of the CA , regarding **withdrawn and recovered amounts, pending recoveries and irrecoverable amounts**

### 5.3.3 Preparation of the closure declaration and final control report

- **Annual total projected error rates** disclosed each year in the annual control reports (including expenditure declared in 2017 and 2018)
- **Quantification of the risk** per year
- Other expenditure audited during each year (**complementary sample**)
- Sum of all **financial corrections** applied
- **Residual risk amount** for each reference year and at closure

# The Residual Risk Rate (RRR)

# Main concepts

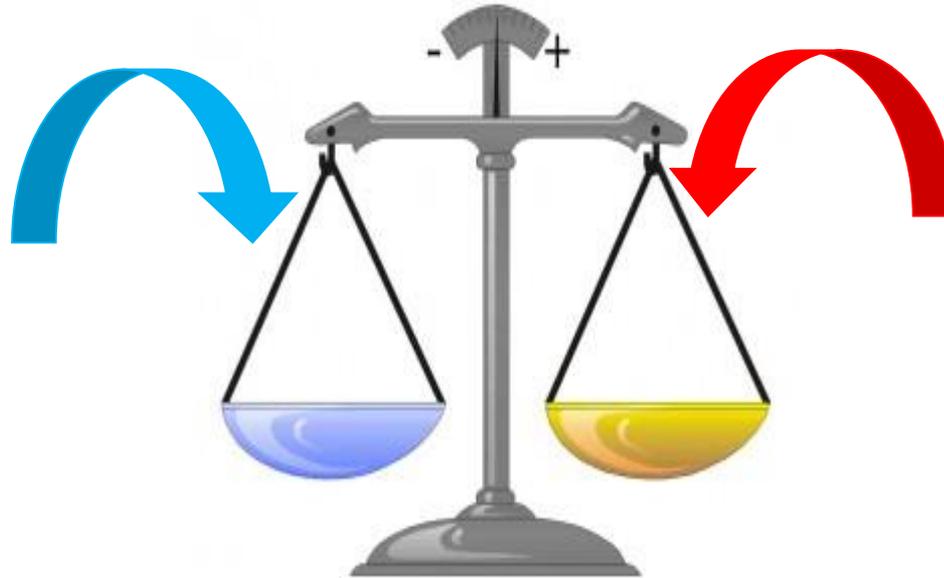
- The RRR is an *estimation* (likely subject to adjustments); although based on (for a large part) statistically calculated error rates, the RRR itself is not calculated with statistical parameters
- It is an *indicator* of the corrective capacity of the management and control system as a whole throughout the lifetime of the programme.

## Definition of Residual Risk Rate (RRR)

$$\textit{Residual Risk Rate} = \frac{\text{Residual Risk Amount}}{\text{Expenditure declared at closure}}$$

# Residual Risk Amount

**Corrections  
applied  
=  
W&R reported by  
CA  
and verified by AA**



**Amount at risk  
=  
TPER  
x  
exp. declared in ACR**

Year	Exp. in the ACR (A)	TPER (%) (D)	Risk (E)	Financial corrections (F)	Residual risk amount (year) (G=E-F)	Residual Risk (cumulative)
2010	150	3	4,5	3	1,5	1,5
2011	200	2,5	5	7	-2	0
2012	180	2	3,6	2	1,6	1,6
..... 2017	300	1,5	4,5	2	2,5	4,1
Exp. in final claim	<b>730</b>	<b>≠ (150 + 200 + 180 + ... + 300)</b>				<b>4,1</b>
<b>Residual Risk Rate = (residual risk)/(expenditure in final claim)</b>						<b>0,56 %</b>

# 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 EC guidelines of treatment of errors disclosed in the annual control report (sections 5.3 and 5.4), 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%?**

# AA opinion in the closure declaration

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