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## COVER NOTE

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From: Secretary-General of the European Commission,  
signed by Mr Jordi AYET PUIGARNAU, Director

date of receipt: 16 May 2018

To: Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of  
the European Union

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Subject: ANNEX to the COMMISSION DELEGATED REGULATION amending  
Commission Delegated Regulation (EU) No 1042/2014 of 25 July 2014  
supplementing Regulation (EU) No 514/2014 of the European Parliament  
and of the Council with regard to the designation and management and  
control responsibilities of Responsible Authorities and with regard to status  
and obligations of Audit Authorities

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Delegations will find attached document C(2018) 2857 final ANNEX.

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Encl.: C(2018) 2857 final ANNEX



Brussels, 16.5.2018  
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ANNEX

ANNEX

to the

**COMMISSION DELEGATED REGULATION**

**amending Commission Delegated Regulation (EU) No 1042/2014 of 25 July 2014  
supplementing Regulation (EU) No 514/2014 of the European Parliament and of the  
Council with regard to the designation and management and control responsibilities of  
Responsible Authorities and with regard to status and obligations of Audit Authorities**

## **ANNEX 2**

### Model for the annual control report

#### **Annual control report [FUND]**

##### (1) INTRODUCTION

This section shall include the following information:

1.1 Identification of the Audit Authority and other bodies that have been involved in preparing the report.

1.2 Reference period (i.e. the financial year<sup>1</sup>).

##### (2) COMPLIANCE WITH DESIGNATION CRITERIA AND SIGNIFICANT CHANGES IN MANAGEMENT AND CONTROL SYSTEM(S) (if applicable)

This section shall include the following information:

2.1 Details of any significant changes in the management and control systems related to the competent authorities' responsibilities (including, where applicable, any delegation of functions), the effective date of such changes as well as the impact of these changes on the audit work.

2.2 Based on the audit work carried out by the Audit Authority, confirmation of whether the management and control system still complies with the designation criteria defined in Article 2 and Annex I of Commission Delegated Regulation (EU) No 1042/2014.

2.3 Information on reporting to the Designating Authority on the Responsible Authority's compliance with the designation criteria set out in Article 2.2 and Annex I of Commission Delegated Regulation (EU) No 1042/2014.

##### (3) CHANGES TO THE AUDIT STRATEGY

This section shall include the following information:

3.1 Details of changes that have been made to the audit strategy and an explanation of the reasons for those changes, in particular details of any modifications to the sampling method used for audits of expenditure (see section 5 below).

##### (4) SYSTEM AUDITS

This section shall include the following information:

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<sup>1</sup> As defined in Article 38 of Regulation (EU) 514/2014.

4.1 Details of the bodies that have carried out system audits to verify whether the management and control system of the fund have functioned effectively (as provided for in Article 14(2) of Commission Delegated Regulation (EU) No 1042/2014).

4.2 In relation to Table 10.1 ‘Results of system audits’ annexed to the annual control report, a description of the main findings and conclusions drawn from system audits on key requirements.

4.3 Indication of whether any problems detected are considered to be systemic in nature, quantification of irregular financial data and applicable corrective measures to address such systemic errors, including any related financial corrections made in accordance with Article 46 of Regulation (EU) No 514/2014 and Implementing Regulation (EU) 378/2015.

4.4 Information on the follow-up of audit recommendations from system audits carried out in previous years.

## (5) AUDITS OF EXPENDITURE

This section shall include the following information:

5.1 Details of the bodies that carried out the audits of expenditure (as provided for in Articles 14.3 and 14.4 of Commission Delegated Regulation (EU) No 1042/2014).

5.2 Description of the sampling methodology applied, specifying the sampling parameters<sup>2</sup> used and the underlying calculations and professional judgement applied to the sample selection<sup>3</sup>, the calculation of the total error rate (including stratification where applicable) and information on whether the methodology is in line with the audit strategy. If stratification is applied, the strata parameters need to be described.

5.3 Analysis of the principal results of the audits of expenditure, describing the number of sample items audited, the respective amounts and type of financial data audited, the nature<sup>4</sup> and type<sup>5</sup> of errors detected and the applicable corrective measures proposed by the Audit Authority (including measures to avoid similar errors in the future, financial corrections for the individual irregularities detected as well as any applicable extrapolated or flat-rate financial corrections<sup>6</sup>). If stratification is applied, further information by strata is to be provided in this section and summarised in Table 10.2 ‘Results of audits of expenditure’ annexed to the annual control report.

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<sup>2</sup> The sampling parameters include the sampling unit, population value and size, sample value and size, audit coverage (in € and the percentage of items and amounts covered) and the sampling criteria. For statistical sampling, the materiality level, confidence level, expected error rate and sampling interval should also be indicated.

<sup>3</sup> If non-statistical sampling is applied, the Audit Authority should indicate the steps taken to ensure randomness of the sample (and its representativity) and provide a sufficient sample size to enable the Audit Authority to estimate the total error of the population and draw up a valid audit opinion.

<sup>4</sup> For example: eligibility, public procurement, state aid.

<sup>5</sup> Random, systemic or anomalous errors.

<sup>6</sup> Flat-rate and/or extrapolated financial corrections may be applicable for example if there are systemic errors and/or if the total error rate on the draft accounts is material.

5.4 If the audit sample includes interim payments and/or final payment clearing advance payments declared in the accounts of previous financial years, the amount of the advance payments falling within the scope of audits of expenditure, the errors detected and applicable financial corrections relating to these advance payments shall be presented in Table 10.3 'Results of audits on additional expenditure' annexed to the annual control report.

5.5 Explanations on how the error rates presented in Table 10.2 are calculated and, if applicable, information on the audits of additional expenditure presented in Table 10.3.

5.6 Information on whether any irregularities detected by the audits of expenditure are considered to be systemic in nature and therefore entail a risk to other payments, including the quantification of their impact on the population and any related financial corrections<sup>6</sup>.

5.7 Information on the status of implementation by the Responsible Authority of the corrective measures including financial corrections proposed by the Audit Authority as a result of the audits of expenditure before submitting the 'final accounts' to the Commission. Any possible deviations between the corrections proposed by the Audit Authority and the corrections implemented by the Responsible Authority should be disclosed.

5.8 Information on the follow-up of audits of expenditure carried out in previous years, in particular on deficiencies of a systemic nature.

#### (6) AUDITS OF ACCOUNTS

This section shall include the following information:

6.1 Details of the bodies that have carried out audits of accounts (as provided for in Article 14.5 of Commission Delegated Regulation (EU) No 1042/2014).

6.2 Description of the audit approach used to verify the financial data in the accounts accompanying the request for payment of the annual balance submitted by the Responsible Authority defined in Article 14.5 of Commission Delegated Regulation (EU) No 1042/2014. This should include a reference to the audit work carried out as part of the system audits (detailed in section 4) and the audits of expenditure (detailed in section 5) with relevance to the assurance required on the accounts.

6.3 Conclusions drawn from the audit of accounts regarding the true and fair view of the financial data in the accounts accompanying the request for payment of the annual balance submitted by the Responsible Authority, as well as the financial corrections made and reflected in the accounts as a result of such audits.

6.4 Indication of whether any irregularities detected are considered to be systemic in nature and the applicable corrective measures taken.

#### (7) COORDINATION BETWEEN AUDIT BODIES AND SUPERVISORY WORK BY THE AUDIT AUTHORITY (where applicable)

This section shall include the following information:

7.1 Description of the procedure for coordination between the Audit Authority and any audit bodies that carried out audits as provided for in Article 13 of Commission Delegated Regulation (EU) No 1042/2014, where appropriate.

7.2 Description of the procedure for supervision and quality review applied by the Audit Authority on the audit work carried out by such audit bodies.

#### (8) OTHER INFORMATION

This section shall include the following information:

8.1 Where applicable, information on reported fraud and suspicions of fraud detected as part of the audits performed by the Audit Authority (including the cases reported by other national or EU bodies and related to the operations audited by the Audit Authority), together with the measures taken.

8.2 Where applicable, subsequent events that occurred after the ‘draft accounts’ for the financial year were transmitted to the Audit Authority and before the associated annual control report was transmitted to the Commission, which may be relevant for the opinion issued by the Audit Authority. In particular, any variances between the financial data presented by the Responsible Authority in the ‘draft accounts’ (i.e. the population from which the audit sample was drawn<sup>7</sup>) and the final accounts submitted to the Commission should be disclosed and explained.

#### (9) OVERALL LEVEL OF ASSURANCE

9.1 Indication of the overall level of assurance on the proper functioning of the management and control system<sup>8</sup>, and explanation of how such a level was obtained from the combination of the results of the system audits, audits of expenditure and accounts. Where relevant, the Audit Authority shall also take into account the results of the audit work carried out by other national or EU audit bodies which may have an impact on the financial data reported for the financial year.

9.2 Assessment of any mitigating and corrective measures implemented by the Responsible Authority such as financial corrections, and an indication of whether additional corrective measures are needed from both a system and financial perspective.

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<sup>7</sup> Column B of Table 10.2 .

<sup>8</sup> The overall level of assurance shall correspond to one of the four categories defined in Commission Implementing Regulation (EU) 2017/646: Category 1 (Works well. No or only minor improvement(s) needed), Category 2 (Works. Some improvement(s) needed), Category 3 (Works partially. Substantial improvements needed) and Category 4 (Essentially does not work).

(10) ANNEXES TO THE ANNUAL CONTROL REPORT

10.1 Results of system audits (template defined below)

10.2 Results of audits of expenditure (template defined below)

10.3 Results of audits on additional expenditure (if applicable)

10.1 Results of system audits

Audited Entity (e.g. Responsible Authority, Delegated Authority, etc.)	Title of the audit	Date of the final audit report	Key requirements (where applicable) [as defined in Table 1- Annex I to Commission Implementing Regulation (EU) 378/2015]									Overall assessment (category 1, 2, 3, 4) (as defined in Table 2 — Annex I to Commission Implementing Regulation (EU) 378/2015)	Comments		
			KR 1	KR 2	KR 3	KR 4	KR 5	KR 6	KR 7	KR 8	KR 9				
			(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)		
			(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)		

(1) Category 1, 2, 3, 4 as defined in Table 2 — Annex I to Commission Implementing Regulation (EU) 378/2015



10.2 Results of audits of expenditure

A	B	C	D	E	F	G	H	I	J	
Fund/type of payment (1)	Amount in € corresponding to the population or sub-population in the 'draft accounts' from which the sample was drawn (2)	Audit sample (€amount) (3)	Audit sample % of population [D = C / B]	Amount of errors detected by the Audit Authority in the sample € (4)	Error rate % in the sample [F = E / C] (4)	Total error rate in the population (5)	Total errors in the population (€amount) [H = G*B]	Financial corrections (€amount) implemented by the Responsible Authority as a result of the total error rate (6)	Residual total error rate (7) [J = (H — I) / B]	Comments
Strata (if applicable) (1)										
Total (A)	Total (B)	Amount €	%							

10.3 Results of audits on additional expenditure (8)

K	L	M	N	O	
Description	Fund/project/payment reference n°.	Additional expenditure audited (3)	Amount of errors in the additional expenditure audited (4)	Financial corrections implemented by the Responsible Authority on the additional expenditure audited (6)	Comments
Expenditure linked to interim payments or final payments included in the random/statistical sample					
Other (to be described)...					

(1) If the financial data — i.e. the audit population — is divided into different strata (e.g. advance payments, interim payments or final payments, other), the information is to be provided by strata where applicable. One line for each stratum and the strata parameters must be described in section 5 of the annual control report.

(2) Column B shall refer to the auditable population, i.e. the ‘draft accounts’ representing all payments made by the Responsible Authority in the current financial year from which the sample was drawn.

(3) If the audit sample drawn from the current financial year includes interim payments and/or final payments clearing advance payments declared in the accounts of previous financial years, these advance payments shall fall within the scope of the audit of expenditure for the sampled interim payments and/or final payment.

However, for reporting purposes **only the interim payments or final payments sampled from the draft accounts of the current financial year** shall be reported in Table 10.2 (Column C) and taken into consideration for calculating the audit coverage for the current financial year (Column D).

**The ‘amount of the advance payments’ cleared by interim payments and/or final payments and verified within the scope of audits of expenditure shall be reported in Table 10.3, Column M. See also footnote 8.**

(4) The Audit Authority shall report the errors detected in the sample (as amounts and as percentage of the sample) **before** any financial corrections are applied by the Responsible Authority as a result of the audit work carried out by the Audit Authority.

Only the amount of errors relating to the **audited interim payments or final payments drawn from the draft accounts of the current financial year** shall be taken into consideration for the calculating and reporting of the amount of errors and the error rate in Table 10.2, columns E and F.

**The amount of detected errors that have an impact on the ‘amount of advance payments’ cleared should be reported in Table 10.3, Column N.**

(5) The **total error rate in the population** is the Audit Authority’s estimation of the total error rate in the ‘draft accounts’ for the current financial year. The total error rate shall be calculated **before** any financial corrections are applied by the Responsible Authority.

The Audit Authority shall describe the methodology used to estimate the total error rate as well as the underlying calculations (including information on stratification, where applicable) in section 5 of the annual control report. In principle, the total error rate shall be the sum of the projected random errors and, if applicable, the total amount of systemic errors in the population and any uncorrected anomalous errors, divided by the population.

(6) Column I shall disclose the financial corrections implemented by the Responsible Authority **solely** on the auditable population, i.e. the ‘draft accounts’ for the current financial year from which the sample was drawn.

**Any financial corrections relating to the ‘amount of advance payments’ cleared should be reported in Table 10.3, Column O.**

(7) Column J should disclose the residual error rate in the accounts after the Responsible Authority has implemented the financial corrections **for the current financial year only.**

**Any non-corrected errors in the ‘amount of advance payments’ cleared should not be included in the calculation of the residual error rate for the accounts for the current financial year.**

(8) In Table 10.3, the Audit Authority must report the results of any audits carried out on items **other** than the sampled amounts reported in Table 10.2. If the Audit Authority considers it necessary to carry out additional audits (e.g. risk-based audits, audits on negative or zero payments), the results of these additional audits should also be presented in Table 10.3.