



EUROPEAN COMMISSION
DIRECTORATE GENERAL
ECONOMIC AND FINANCIAL AFFAIRS
Resources and performance management
Control, planning and evaluation

**GUIDANCE ON THE ASSESSMENT OF THE INTERNAL CONTROL SYSTEMS
SET IN PLACE BY THE MEMBER STATES UNDER THE RECOVERY AND
RESILIENCE FACILITY**

DISCLAIMER

This is a document prepared by the Commission services. On the basis of the applicable EU law it provides technical guidance to colleagues involved in the implementation of the Recovery and Resilience Facility on the assessment of the internal control systems set in place by the Member States under the Recovery and Resilience Facility. The aim of this document is to provide Commission's services involved in the monitoring, control and/or implementation of the Recovery and Resilience Plans explanations and clarifications of the applicable rules in order to facilitate the implementation of the Recovery and Resilience Facility and encourage good practice(s). This guidance is without prejudice to decisions of the Commission or the interpretation of the Court of Justice and the General Court.

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List of Acronyms and Abbreviations

CB	Coordinating Body
ICS	Internal Control System
DG ECFIN	Directorate-General for Economic and Financial Affairs of the European Commission
ECA	European Court of Auditors
EPPO	European Public Prosecutor's Office
IB	Implementing Body – body implementing reforms or investments
KR	Key Requirement
OLAF	European Anti-Fraud Office
RRF	Recovery and Resilience Facility
RRF Regulation	Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility
RRP	Recovery and Resilience Plan

PART 1: INTRODUCTION

1. BACKGROUND OF THE GUIDANCE

1.1. Legal reference

This guidance note is based on *Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility* (hereinafter ‘RRF Regulation’) as well as the framework of annex I of the Financing and the Loan agreement. The need for this guidance note arose in particular from the requirement of Article 22(1) of the RRF Regulation, according to which the Member States shall provide an effective and efficient internal control system (ICS).

1.2. Scope and purpose of the Guidance

The purpose of this document is to provide technical guidance to the auditors of DG ECFIN carrying out system audits on the protection of the financial interests of the Union (PFIU) and/or other types of system audits and substantive testing in the context of the Recovery and Resilience Facility (RRF). This guidance note also serves as a practical tool, aiming to facilitate the work of DG ECFIN auditors when assessing whether the internal control systems (ICSs) set in place by the Member States per auditee (e.g. Coordinating Body and Implementing bodies) under the RRF are sufficiently robust to protect the financial interests of the Union and, in particular, to prevent, detect, report and correct fraud, corruption, conflict of interests and double funding. It is however important to note that ensuring the PFIU by Member States is not limited to establishing properly functioning ICSs. The Member States shall also fulfil their responsibility to ensure that the RRF is implemented in compliance with EU and national rules/laws, going beyond what is included in this document. The Member States can use this guidance note as a self-assessment tool when implementing adequate control systems. It may also be used by the national audit bodies in order to strive for harmonised results of the audits¹ and the reliability of the audit work in different parts of the control chain. The guidance note moreover allows that the four (4) elements² stipulated in the Management declaration (Annex III of the Financing Agreement) are complied with as follows:

- the funds were used for their intended purpose as defined in Article 1(1) of the Financing Agreement³;
- information submitted is complete, accurate and reliable; duly justifying that the milestones and/or targets concerned have been satisfactorily fulfilled;
- control systems in place give the necessary assurances that the funds were managed in accordance with all applicable rules; and
- the activities implemented to achieve the milestones and targets under the RRF, as declared in the request for payment, are not financed by any other Union programme.

In order to ensure objectivity, consistency and transparency in assessing compliance of the ICSs with Annex I of the Financing Agreement signed between the Commission and the Member State and listing the key requirements (KRs) of the Member State’s control systems,

¹ Across the Member States as well as the Commission and the European Court of Auditors.

² See the Management declaration for exact wording.

³ Recovery and Resilience Facility Financing Agreement between the Commission and the Member State.

this document also provides examples of good practices relevant for each KR that may be used by auditors in the framework of their audit work when assessing the fulfilment of the KRs. To this effect, the guidance note provides a set of recommended rules for drawing a conclusion for each KR and an overall conclusion on the functioning of the ICSs per auditee.

It is worth mentioning that this guidance note does not aim to be all-encompassing or as a ‘one-size-fits-all’. There may be situations identified that have not been covered by this guidance note and it is envisaged to add new good practices at a later stage when the guidance note will be updated. Sufficient and conclusive audit evidence, as required by the internationally accepted auditing standards (INTOSAI, IFAC or IIA), revealing the existence or non-existence of an effective and efficient ICS as well as the fulfilment or non-fulfilment of the KRs of Annex I of the Financing Agreement needs to be provided and recorded in the audit file to support the observations and conclusions made by the auditors (see further below under section 2.2 and 2.2.1).

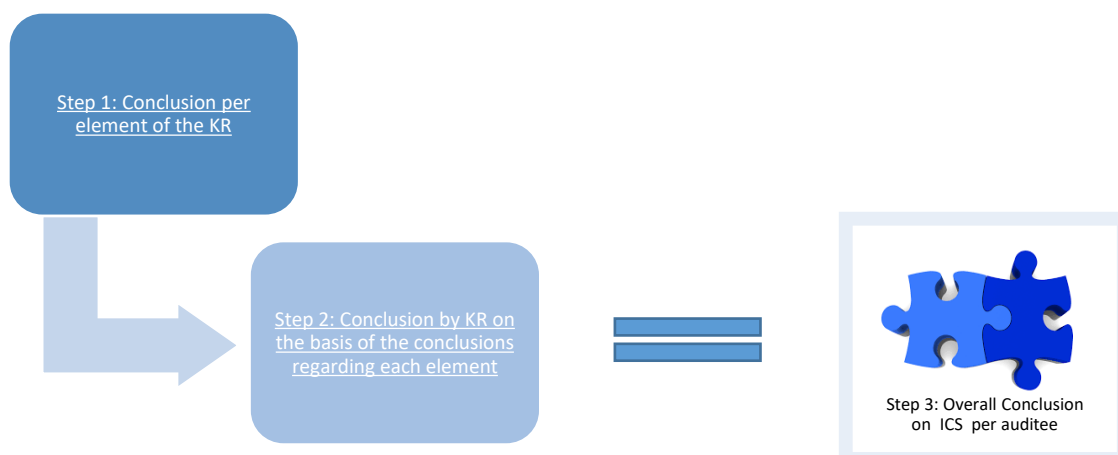
2. APPLICATION OF THE GUIDANCE

2.1 Key requirements and their elements

Part 2 of this guidance note outlines the six (6) KRs of the ICSs divided in different elements and provides examples of good practices corresponding to each KR. In order to reach an overall conclusion of the functioning of the auditees ICS, an assessment need to be made of, first, each element of the KR concerned and then the KR in its entirety. For the sake of transparency, and in order to have an unambiguous view of the functioning of the ICS, recommendations on the assessment of each step are given as described below. Where the auditors deviate from these recommendations, it is expected that the auditors explains the reasoning behind the conclusions drawn in the audit report. This in order to demonstrate that sufficient audit work has been allocated for measuring the effectiveness and efficiency of the ICS audited as well as the fulfilment of the KRs stipulated in Annex I of the Financing Agreement.

2.2 Different stages of the assessment

The assessment of the functioning of the ICSs can follow the steps as presented below:



Worth mentioning is that in all steps of the assessment process, the auditors professional judgement and effective quality control are essential to ensure consistency of audit results. In order to obtain a high level of assurance and to express an overall opinion on the functioning of the ICS, it is recommended that system audits are carried out, including control testing of key controls at national level. The system audits are hence an essential basis for forming the audit opinion. Auditors can through system audits determine, among other things:

- the quality and reliability of the data on the sample of milestones and targets audited;
- the adequacy, security and integrity of the underlying system and the procedures in place for data collection, storing and recording;
- the reliability of the aggregated data on milestones and targets reported in the payment request (through the system audits and their reconciliation with the data reported linking it to the sample of milestones and targets audited);
- the assurance that the ICSs are able to prevent, detect and correct cases of conflict of interest, fraud, corruption and double funding.

As per the *‘Guidance on sampling methods for audit bodies under the Recovery and Resilience Facility for audits to ensure the effective functioning of Member State systems in terms of collecting, storing, verifying and certifying reliable and accurate data on the achievement of milestones and targets’* (hereinafter “Guidance on sampling methods”), the Commission recommends that the methodology used for the sample selection for tests of controls to be decided by the audit body of the Member State. In accordance with the auditing standards, the auditors can in the audit report define the audit scope and whether the conclusions cover the system in its entirety or only a part of it. The methodology used for determining the sample size for control testing, i.e. the sample drawn from the population of reforms and investments, should be in line with the internationally accepted auditing standards (INTOSAI, IFAC or IIA). The auditors of DG ECFIN should check whether the audit body of the Member State has documented in the audit report how the sample selected is in accordance with these internationally accepted auditing standards.

The results of the tests combined with the other qualitative elements and audit procedures can form the basis for the assessment. The auditors can then, for step 1 and step 2 (i.e. first for each elements of the KR, then for each KR audited) draw their conclusions, using the following assurance levels:

- ❖ High assurance – No deficiencies or only minor deficiencies were found. These deficiencies have no, or minor impact on the functioning of the assessed KRs / authorities;
- ❖ Medium assurance – Some deficiencies were found. These deficiencies have a moderate impact on the functioning of the assessed KRs / authorities. Recommendations have been formulated for implementation by the audited body;
- ❖ Low assurance – Serious deficiencies were found that expose the implementation to irregularities that could/do affect the achievement of the milestones and targets and/or the protection of the financial interest of the Union. The impact on the effective functioning of the KRs / authorities is significant.

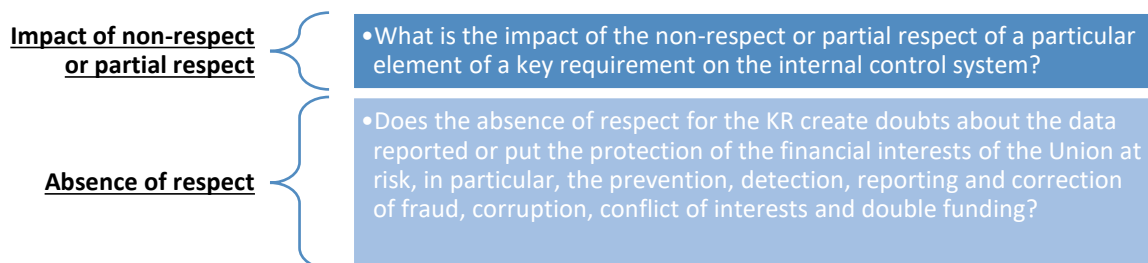
2.2.1. Step 1: Conclusion per element of each KR

When assessing the functioning of the ICS, it is recommended that the first step involves evaluating the elements outlined in each KR. This can be done by checking whether the

elements of the KR are fulfilled to then define which of the three (3) classifications of assurance level – high, medium, low – is corresponding best with the outcome of the conclusions drawn per element. When assessing the elements, it is expected that the professional judgement of the auditors is applied and duly documented. Moreover, any other audit evidence available can be considered and analysed. Such audit evidence may include all cumulative audit knowledge including information gained from the review of the system descriptions, designated audit opinion and reports, procedures, manuals, functioning of the ICS, enquiries, or interviews at bodies involved in the ICS.

2.2.2. Step 2: Conclusion per KR on the basis of the conclusions regarding each element

Step 2 involves drawing a conclusion per KR based on the elements evaluated under Step 1. It is important to note that the assessment of the KR is expected to have an impact on the overall assessment of the functioning of the ICS audited. In this regard, when drawing conclusions per KR, it is recommended that the auditors consider the following:



The following guidance is provided as examples of possible outcomes for Step 2 of the assessment:

General rule As a general rule, and in cases where a KR only has two elements, the key requirement cannot be classified more favourably than the least favourable of the element of a KR. This applies in particular for KR 2, 3, 4 and 6.

Majority of the elements of the KR with the same assessment In these cases, the auditors may reasonably conclude that this provides a sound basis for also classifying the key requirement in this same classification. The auditors professional judgement is recommended to be applied here .

It would be expected that the auditors duly documents and justifies the selected approach in the audit report.

2.2.3. Step 3: Overall conclusion on ICS per auditee

The third step of the assessment involves drawing a conclusion of the functioning of the ICS per auditee. This can be based on the conclusions of the assessment of the KRAs assessed under Step 2. During this step, it would be expected that auditors use their professional judgement in order to reach an appropriate conclusion by auditee. For this step of the assessment, the following guidance can be given:

<p><u>1. Independent assessment of each Key Requirement</u></p>	<p>It is recommended that each KR is assessed independently from the other KRAs within the same auditee. This is in order to refrain from compensating a weakness in one of the KRAs in one auditee with another KRA that is functioning well in the same auditee.</p>
<p><u>2. Essential Key Requirements</u></p>	<p>Some KRAs are essential with regard to the proper functioning of the ICS of the relevant authority. These concerns:</p> <ul style="list-style-type: none">• KR 2 - Effective implementation of proportionate anti-fraud, anti-corruption measures and measures to effectively avoid conflict of interests and double funding (Article 19(2) Financing Agreement);• KR 4 - Appropriate measure, including procedures for checking the fulfilment of milestones and targets and compliance with horizontal principles of sound financial management (Article 11(1)(a) of the Financing Agreement);• KR 6 - Effective system to ensure that all information and documents necessary for audit trail purposes are held (Article 11 (c)(d) of the Financing Agreement).
<p><u>3. High assurance level of essential KRAs</u></p>	<p>A high assurance level of the three (3) essential KRAs referred to in point 2 above is a prerequisite for a positive conclusion.</p>
<p><u>4. Low assurance level</u></p>	<p>In the event one of the essential key requirements, as referred to in point 2 above, or two, or more of the other key requirements for an auditee are given a low assurance level, it is recommended that the auditee in question does not receive an overall better assurance level. This is in order to avoid counterbalancing an identified deficiency in an essential KRA via the better assessment of the other KRAs for the auditee in question.</p>

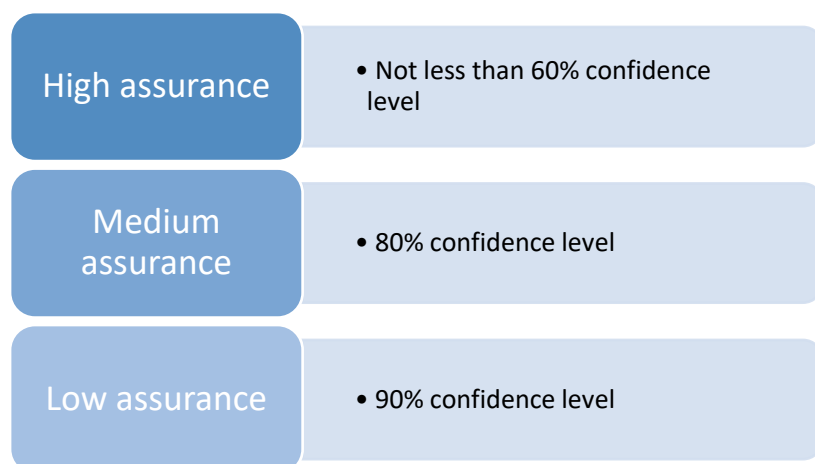
The auditors can define the level of assurance obtained from the ICS as regards the legality and regularity of the M/T as well as the PFIU and then formulate an overall conclusion, on the compliance of the system with the KRAs. Once the assessment of the KRAs has been carried out, but before setting the overall level of assurance in respect of the PFIU or the legality and regularity of the systems in place for the M/T declared, it is recommended that the auditors take into account the existence of mitigating factors⁴. In this context, it is recommended that

⁴ An example of a mitigating factor, before issuing the audit opinion, could be an already implemented action plan which has effectively improved the ICS (for avoidance of future similar irregularities) and corrected

the KR 2, 4 and 6 are understood as the essential KR and the first line of defence of ICSs against irregularities. Before taking into account mitigating factors and/or compensating controls, it is essential to obtain evidence of the functioning of such controls. The same logic as for the assessment of individual KR can be applied for the assessment of the systems per auditee to ensure the consistency of results at all steps of the procedure. For the overall assessment, the following qualifications can be applied:

- ❖ **Unqualified** (high assurance) – reasonable assurance is obtained on the effective functioning of the auditees systems in terms of protection of the financial interests of the Union; and/or collecting, storing, verifying and certifying reliable and accurate data on the achievement of milestones and targets;
- ❖ **Qualified** (medium assurance) – except for some aspects, reasonable assurance is obtained on the effective functioning of the auditees systems in terms of protection of the financial interests of the Union; and/or collecting, storing, verifying and certifying reliable and accurate data on the achievement of milestones and targets;
- ❖ **Adverse** (low assurance) – assurance has not been obtained on the effective functioning of the auditees systems in terms of protection of the financial interests of the Union; and/or collecting, storing, verifying and certifying reliable and accurate data on the achievement of milestones and targets.

By supporting the sample selection with statistical methods and parameters, such as the confidence level⁵ for sampling and the expected error rate based on the results of the system audits, the auditors can ensure a sufficient precision of the results obtained from substantive testing. Moreover, the methodology used for determining the sample size for control testing, i.e. the sample drawn from the population of reforms and investments, should be in line with the internationally accepted auditing standards (INTOSAI, IFAC or IIA). However, should sampling be determined based on auditor judgement, attention should be drawn to the fact that the results needs to have an adequate precision. Guidance can also be taken from the Guidance on sampling methods (see full reference above). In accordance with the abovementioned guidelines, and depending on the assurance of the system, the following confidence levels for audits can be set:



the main irregularities which were not previously detected by sample checks or management verification checks (financial corrections for previously declared expenditure).

⁵ The higher the confidence level for substantive testing is, the larger the sample size will be.

Finally, when drawing up the summary of audits⁶ the auditors may combine any findings and conclusions on the ICS with the results of other audits, in order to formulate an audit opinion and recommend subsequent action(s), if necessary. For reasons of transparency, it is also recommended that the final national audit report is shared with the Commission.

⁶ Article 22(2) (c) (ii) of the RRF Regulation

PART 2: KEY REQUIREMENTS AND THEIR ELEMENTS OF MEMBER STATES INTERNAL CONTROL SYSTEMS

This section recalls the KRs included in the Financing Agreement, and provides examples of good practices to illuminate and clarify the expectations related to the KRs. The compliance with the KRs is obligatory and audits on the ICS can provide an assurance to this effect. Compliance with the KRs provides also additional assurance to the Commission on the achievement of the milestones and targets, and hence the legality and regularity of the payments under the RRF made by the Commission.

In respect of this Guidance note, the following terms have the following meaning:

- **“Effective”** means a measure that appropriately draws on guidance and best practice and is successful in producing its desired or intended results.
- **“Appropriate”** means a measure that is proportionate in degree or extent when considered against a well-informed assessment of risk.
- **“Adequate”** means a measure that is satisfactory in degree or extent in order to fulfil its desired or intended results.

Key Requirement 1: Effective and efficient internal control system, including adequate separation of functions and reporting and monitoring arrangements

Legal reference: Article 22(1) RRF Regulation, Annex I of the Financing Agreement

Potential auditee: Coordinating Body and Implementing Bodies

Elements of the KR under assessment:	Examples of good practices:
In compliance with Article 22(1) of the RRF Regulation, the Member State shall provide an effective and efficient ICS, including separation of functions and reporting and monitoring arrangements. Member States may rely on their regular national budget management systems. <u>This includes:</u>	
1.1 the nomination of an authority as “coordinator” having the overall responsibility for monitoring the implementation of the RRP on behalf of the Member State and being the single point of contact for the Commission	<ul style="list-style-type: none"> • Nomination of the CB by the appropriate Member State body, which is tasked with the monitoring of the implementation of the RRP. • There is an effective coordination and reporting mechanism between the CB and IBs.
1.2 that the coordinator has the (i) administrative capacity in terms of human resources (staff numbers and profiles), institutional experience and expertise, and (ii) the mandate and authority to exercise all relevant tasks, including reporting and monitoring responsibilities	<ul style="list-style-type: none"> • There is qualified staff who has either been trained or has relevant experience and expertise and receives retraining where appropriate; • There are precise descriptions of the tasks and responsibilities of the staff; • There are systems and tools, including but not limited to checklists, IT tools, risk management tools, QA tools for the effective coordination and monitoring of the RRP.

	<ul style="list-style-type: none"> • There is a clear mandate through a legal act or other administrative decision.
1.3 the identification of the authorities entrusted with the implementation of the RRP measures	<ul style="list-style-type: none"> • The authorities responsible for the implementation of the RRP measures have been clearly identified through a legal or administrative act and have: <ul style="list-style-type: none"> (i) administrative capacity⁷ in terms of human resources (staff numbers and profiles), institutional experience and expertise, <i>and</i> (ii) the mandate and authority to exercise all relevant tasks, including reporting and monitoring responsibilities.
1.4 the identification of the authority responsible for signing the management declaration accompanying the payment requests with procedures ensuring that this authority will get assurance about the satisfactory fulfilment of the milestones and targets set in the RRP, that the funds were managed in accordance with all applicable rules, in particular rules on avoidance of conflicts of interests, fraud prevention, corruption and double funding	<ul style="list-style-type: none"> • The authority responsible for signing the management declaration accompanying the payment requests has been clearly identified. • There are procedures in place to ensure: <ul style="list-style-type: none"> (i) administrative capacity⁷ in terms of human resources (staff numbers and profiles), institutional experience and expertise, <i>and</i> (ii) the mandate and authority⁷ to exercise all relevant tasks, including reporting and monitoring responsibilities with procedures in place duly justifying/ensuring that: <ul style="list-style-type: none"> ○ the funds were used for their intended purpose as defined; ○ the information submitted is complete, accurate and reliable; ○ the milestones and/or targets concerned have been satisfactorily fulfilled; ○ the ICSs in place give the necessary assurances that the funds were managed in accordance with all applicable rules; ○ the financing received from the Facility for reforms and investment projects does not cover the same cost as funding received from other Union programmes and instruments
1.5 an appropriate separation between implementation and audit functions	<ul style="list-style-type: none"> • A clear separation of functions between the different authorities exists and is established in writing, including a clear description of the

⁷ Same as the good practice example under KR 1.2.

	<p>role and interaction of the different authorities vis-à-vis the CB;</p> <ul style="list-style-type: none"> • Complete and adequate procedures and manuals exist in the different authorities identified and are updated as necessary. The procedures and manuals cover all key activities performed by these authorities, including reporting and monitoring procedures for identified deficiencies, to verify that underlying transactions are absent of serious irregularities; • In cases where tasks are delegated to other bodies, procedures and arrangements are in place to effectively monitor and supervise the tasks delegated to the other bodies on the basis of an adequate reporting mechanism. Effective monitoring and adequate reporting mechanism may include among other things a review of these other bodies' methodologies, a regular review of results reported by these bodies, including, where possible, re-performance on a sample basis of the work carried out by these bodies.
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Key Requirement 2: Effective implementation of proportionate anti-fraud, anti-corruption measures and measures to effectively avoid conflict of interests and double funding

Legal reference: Article 22(2)(a) RRF Regulation, Annex I of the Financing Agreement

Potential auditee: Coordinating Body and Implementing Bodies

Elements of the KR under assessment:	Examples of good practices:
<p>In compliance with Article 22(2)(a) of the RRF Regulation, the Member State shall conduct an effective implementation of proportionate anti-fraud and anti-corruption measures, as well as any necessary measure to effectively avoid conflict of interests. <u>This includes:</u></p>	
<p>2.1 appropriate measures related to the prevention, detection and correction of fraud, corruption and conflict of interest, as well as avoidance of double funding and to take legal actions to recover funds that have been misappropriated; <i>and</i></p>	<ul style="list-style-type: none"> • Examples of good practices related to the prevention of fraud, corruption and conflict of interests include, but are not limited to, measures where the auditee('s): <ul style="list-style-type: none"> (i) has up-to-date anti-fraud policies (clearly and fully covering all the elements required by Annex 3⁸ of the

⁸ Annex 3 - Fraud Policy Template to the Commission Guidance Note on Fraud Risk Assessment and Effective and Proportionate Anti-Fraud Measures for ESIF 2014-2020; [guidance_fraud_risk_assessment_annex3.pdf \(europa.eu\)](https://ec.europa.eu/easf/sites/default/files/2020-06/guidance_fraud_risk_assessment_annex3.pdf)

	<p>Commission fraud policy template), measures to prevent and detect conflict of interests, implementation plans and manuals in place;</p> <p>(ii) In case not specified in the anti-fraud policies: has defined arrangements for tackling fraud, corruption and conflict of interests with the support of senior management and allocation of appropriate resources;</p> <p>(iii) has policies and processes to work with other national and international stakeholders, such as the Anti-fraud Coordination Services in the MS, OLAF, EUROPOL etc., to tackle fraud, corruption and conflict of interests;</p> <p>(iv) has set targets and indicators to support stabilisation or reduction of levels of fraud⁹, corruption and conflict of interests over time, including a breakdown of e.g. detected and prevented fraud¹⁰;</p> <p>(v) staff understand the standards of conduct required and their personal responsibility in preventing fraud, corruption and conflict of interests;</p> <p>(vi) staff participate in training and awareness raising activities on tackling fraud, corruption and conflict of interests;</p> <p>(vii) staff has signed a declaration of independence, non-disclosure of confidential information and elimination of conflicts of interest.</p> <ul style="list-style-type: none"> • Examples of good practices related to the <u>detection</u> of fraud, corruption, conflict of interests include, but are not limited to, measures where the auditee('s):
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⁹ Indicators are essential elements in an anti-fraud strategy, to help measure progress towards its objectives. They can be used to report on the strategy and help assess the effects of its implementation. The indicators may be quantitative or qualitative. A quantitative indicator may be: a number, e.g. a percentage reflecting the situation at a particular point in time, e.g. the number of training sessions / the number of participants, in a particular year; or a percentage showing the progress made, e.g. $((FC \text{ (Year N)} - FC \text{ (Year N-1)}) / FC \text{ (Year N-1)}) * 100$ (where FC = the number of suspected fraud cases referred to the judicial authorities by the auditee or audit body). A qualitative indicator may be: a statement with a yes or no answer, e.g. is there a code of ethics in place? — yes; or an assessment of the level of compliance in a particular area based on a scale (high, medium, low).

¹⁰ Detected fraud, corruption or conflict of interests could cover all such situations that have been identified (through whatever means). A 'prevented fraud' indicator could be an estimate of what fraud has been prevented by preventative action, such as early detection or the introduction of new controls.

	<ul style="list-style-type: none"> (i) has established and promoted a clear reporting mechanism by providing suitable channels where staff and/or other stakeholders/individuals can report suspected fraud, corruption and conflict of interests cases. The reporting mechanism includes as a minimum: <ul style="list-style-type: none"> ○ internal and external whistle-blowing procedures; ○ a telephone number, email and free post address for contacting the auditee; ○ detail of the type of information that is useful in a referral, including the types of fraud that the auditee is particularly interested in hearing of, and how it will deal with the information provided; ○ description of the methods available for reporting; ○ explicit undertakings of confidentiality and/or anonymity. (ii) has established and promoted a clear external communication strategy to raise awareness on the importance to avoid fraud, corruption and conflict of interest and communicate clear messages on the penalties envisaged for such cases. The regular update of these messages can serve as a deterrent; (iii) has policies and processes to work with other national and international stakeholders, such as the Anti-fraud Coordination Services in the MS, OLAF, EUROPOL etc., to tackle fraud, corruption and conflict of interests; (iv) staff understand the importance of controls, where and how they should report suspicions of fraudulent behaviour, corruption, conflict of interests or control weaknesses; (v) undertakes in-depth verification work through special exercises, targeted verifications, monitoring activities and uses data analytics and/or data mining techniques (such as ARACHNE¹¹) for the detection of risks by: <ul style="list-style-type: none"> ○ carrying out ex-ante checks before
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¹¹ See [ARACHNE guidance](#), p. 16.

	<ul style="list-style-type: none"> ○ grant agreements are signed; ○ checking projects against the main risk categories of: public procurement, contract management, eligibility, performance, concentration, other (reasonability) risks and reputational and fraud alerts; ○ checking for potential conflicts of interest; ○ desk-based reviews of underlying documents or other patterns; ○ on-the-spot verifications; ○ applying the Commission risk indicators to verify the absence of forgery in underlying documents during the year. <ul style="list-style-type: none"> • Examples of good practices related to the <u>avoidance of double funding</u> include, but are not limited to, measures where the auditee: <ul style="list-style-type: none"> (i) has established the different funding streams and their demarcation as well as coordination between the various funding authorities, where relevant, which is reviewed on a regular basis following the changes in the other sources of funding; (ii) has a list of measures (maps of intersections) with possible high risk of double funding; (iii) has established policies and processes to coordinate with other national granting authorities or bodies. In the context of this good practice it would be expected that such policies and processes are covering as a minimum: <ul style="list-style-type: none"> ○ the launch of calls for tendering procedures; ○ assessment of tenderers' offers ○ signature of grant agreements; ○ management verifications. (iv) has access to the systems, databases and registers of the national grant providers to avoid double funding and that the inter-institutional coordination and communication between national granting authorities is established in order to have enough means and information to avoid double funding; (v) has methods and approaches on data mining or matching exercises.
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	<ul style="list-style-type: none"> • Examples of good practices related to the <u>correction</u> and <u>legal actions to recover funds that have been misappropriated</u> include, but are not limited to, measures where the auditee: <ul style="list-style-type: none"> (i) has arrangements and policies to support potential recovery of EU funds spent in a fraudulent manner, conflict of interests, corruption or double funding situation. These policies include, but are not limited to, recovery orders/compensation with other payments/seizure of assets etc.; (ii) has policies and processes for co-operation with the Commission and OLAF in case of fraud, corruption and conflict of interests; (iii) has policies and processes to work with other national and international stakeholders, such as the Anti-fraud Coordination Services in the MS, OLAF, EUROPOL etc., to tackle fraud, corruption and conflict of interests; (iv) has arrangements for progressing investigations of fraud, corruption and conflict of interests; (v) has arrangements for transmitting cases of fraud, corruption and conflict of interests to the competent authority in the Member State for investigation and sanctions; (vi) conducts thorough and critical reviews of any ICSs that may have exposed it to potential or proven fraud, corruption or conflict of interests. This can be done for instance by having in place procedures for learning lessons from cases of suspected or confirmed fraud, corruption or conflict of interests, including a process for addressing any control weaknesses identified.
<p>2.2 a fraud risk assessment and the definition of appropriate anti-fraud mitigating measures</p>	<ul style="list-style-type: none"> • An example of good practice is the establishment of a dedicated working group with the responsibility to manage the overall risk management of fraud, corruption, conflict of interest. It would also be a good practice to clearly designate and specify the group in procedures manuals. • Another example is that the fraud risk assessment is carried out by an adequately qualified team that includes all relevant actors. In order to be considered as adequately qualified team, due consideration should be given to:

	<ul style="list-style-type: none"> (i) representation by all key actors which may include, e.g.: <ul style="list-style-type: none"> a. those holding any anti-fraud responsibility either general or specific for the RRF; b. IBs – including staff with knowledge and experience of: selection of M/T, desk and on-the-spot verification, and authorisation of payments; c. audit body; d. Anti-fraud Coordination Services (AFCOS)¹²; e. police or other investigative bodies; f. prosecutors; (ii) experience with other EU funds such as Cohesion Policy Funds in previous programming periods; (iii) experience with anti-fraud policies and practices. <ul style="list-style-type: none"> • An example of good practice consists in the set-up of a system to collect reliable and comprehensive evidence in order to assess risks of fraud, corruption and conflict of interests, i.e. the level of detail ensures that there is sufficient evidence as to the rationale for the risks identified - as well as the source of any relevant judgements and scores. • Appropriate anti-fraud mitigating measures are another example. Such measures can include, but are not limited to, measures where the auditee: <ul style="list-style-type: none"> (i) carries out regular risk assessments and keeps these up to date with the most recent risks identified; (ii) takes account of the volume of funding, type of activities, type of beneficiaries, amongst others; (iii) can demonstrate that it has analysed risks using fraud risk indicators; (iv) can demonstrate that it has used data analytics and data mining¹³ to support its risk assessment. Data analytics
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¹² Member States are required to designate an AFCOS in accordance with Article 3(4) of [Regulation 883/2013](#) to facilitate effective cooperation and exchange of information, including information of an operational nature, with OLAF. See https://ec.europa.eu/anti-fraud/investigations/afcoss_en

¹³ Data analytics and data mining can be used to enrich the risk assessment process by cross-checking data with other public or private sector organisations (e.g. tax authorities, government departments, credit checking authorities) and detect potentially high-risk situations even prior to the award of funding.

	<p>and/or data mining techniques (such as ARACHNE¹⁴) are used to support the auditees assessment of fraud and conflict of interests risk - for example, by:</p> <ul style="list-style-type: none"> a. carrying out ex-ante checks before grant agreements are signed; b. checking projects against the main risk categories of: public procurement, contract management, eligibility, performance, concentration, other (reasonability) risks and reputational and fraud alerts¹⁵; c. checking for potential conflicts of interest. <p>(v) follows-up on the “signals” generated by the data mining tool. The risky projects and beneficiaries highlighted by the data mining exercise are duly checked (e.g. with on-the-spot visits for the riskiest) throughout the project implementation.</p> <p>(vi) has clearly identified the gross and net risks of all appropriate potential specific fraud risk areas;</p> <p>(vii) has implemented an action plan addressing areas identified by its fraud risk assessment as being subject to significant residual risk. The action plan prescribes additional controls and anti-fraud measures to mitigate the associated risks and be fully implemented.</p>
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Key Requirement 3: Appropriate procedures for drawing up the Management Declaration and the Summary of audits

Legal reference: Article 22(2)(c) RRF Regulation, Annex I of the Financing Agreement

Potential auditee: Coordinating Body and the Audit Body

Elements of the KR under assessment:	Examples of good practices:
In compliance with Article 22(2)(c) of the RRF Regulation, the Member State shall maintain appropriate procedures for drawing	

¹⁴ An overview of the role of ARACHNE can be found here: [http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7883&type=2&furtherPubs=yes;ARACHNE FAQs](http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7883&type=2&furtherPubs=yes;ARACHNE%20FAQs)

¹⁵ See [ARACHNE guidance](#), p. 16

<p>up the management declaration and summary of the audits carried out at national level. <u>This includes:</u></p>	
<p>3.1 An effective procedure for drawing up the Management Declaration, documenting the summary of audits and keeping the underlying information for audit trail</p>	<ul style="list-style-type: none"> • Effective procedures for the preparation of the Management Declaration and the Summary of audits which include, but are not limited to, the procedures where the auditee has in place: <ul style="list-style-type: none"> (i) a description of the procedures and data sources used to verify the statements in the Management Declaration, in particular that the related targets and milestones reported were in fact met and the underlying actions are absent of any significant irregularities; (ii) a description of the procedures to draw up the Summary of audits required for each payment request including information on the scope and extent of the audit work, audit results, and the overall level of assurance; (iii) complete and adequate review and follow-up of the results of management verifications and the audit work carried out, providing reasonable assurance on the effectiveness of the systems used; (iv) the analysis of the related weaknesses identified and the corrective actions taken or planned; (v) information about the state of play of implementation of the adequate actions/recommendations issued by the audit body to address the findings and to mitigate the risks identified; (vi) adequate documentation of the work carried out in preparation of the Management Declaration and the Summary of audits.
<p>3.2 Effective procedures to ensure that all cases of fraud, corruption and conflict of interests are properly reported and corrected through recoveries</p>	<ul style="list-style-type: none"> • Effective procedures which include, but are not limited to, measures to ensure a clear reporting mechanism and a follow-up of all cases of fraud, corruption and conflict of interest, including the related recoveries of EU funds spent in a fraudulent manner¹⁶. • Proper reporting of all cases of fraud, corruption and conflict of interests: <ul style="list-style-type: none"> (i) to the responsible control bodies, the national authorities, and OLAF;

¹⁶ For further reference, please see the element 2.1.

	(ii) in the Management Declaration and the Summary of audits.
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Key Requirement 4: Appropriate measures, including procedures for checking the fulfilment of milestones and targets and compliance with horizontal principles of sound financial management

Legal reference: Article 22(2)(c)(i) RRF Regulation, Annex I of the Financing Agreement

Potential auditee: Implementing Bodies

Elements of the KR under assessment:	Examples of good practices:
To provide the information necessary for Article 22(2)(c)(i) of the RRF Regulation, the Member State shall ensure appropriate measures, including procedures for checking the fulfilment of milestones and targets and compliance with horizontal principles of sound financial management. <u>This includes:</u>	
4.1 appropriate measures through which authorities entrusted with the implementation of the RRP measures will check the fulfilment of milestones and targets (e.g. desk reviews, on-the-spot checks)	<ul style="list-style-type: none"> • Examples of good practices include measures to verify that: <ul style="list-style-type: none"> (i) descriptions of milestones and targets, as well as their corresponding verification mechanisms, are consistently used and followed by all actors involved in the implementation of the RRP, as well as a clear definition on what is reported to whom, and how and when collecting, storing, recording and reporting is required; (ii) implementation of procedures to ensure compliance with EU and national rules and laws, through which verification can be demonstrated with documentary evidence; (iii) written procedures and comprehensive checklists exist and are used for the verification mechanisms in order to detect potential deficiencies. The checklists can verify: <ul style="list-style-type: none"> a. the absence of fraud, corruption and conflict of interest where the auditee has thoroughly respected and put in place procedures and measures stipulated above under the KR 2; b. the absence of double funding, for instance through separate accounting systems or adequate accounting code for all transactions relating to the measure in question; c. the eligible period for the
4.2 appropriate measures through which the authorities entrusted with the implementation of the RRP measures will check the absence of serious irregularities (fraud, corruption and conflict of interest) and double funding (e.g. desk reviews, on-the-spot checks)	

	<p>implementation of a project or a target as stipulated under Article 17(2) of the RRF Regulation;</p> <p>d. compliance with CID;</p> <p>e. compliance with Operational Arrangements;</p> <p>f. compliance with approved projects;</p> <p>g. compliance with applicable EU and national rules, in particular to prevent, detect and correct fraud, corruption, conflict of interest and double funding;</p> <p>h. compliance with the do no significant harm guidance to the extent that it is relevant;</p> <p>i. compliance with the publicity requirements set in the RRF Regulation;</p> <p>j. the existence and compliance of the audit trail with the reality;</p> <p>(iv) procedures of the recovery of funds exist in cases where irregularities have been identified.</p>
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Key Requirement 5: Adequate and independent audits of systems and cases of support to investments and reforms (substantive testing)

Legal reference: Articles 22(1) and 22(2)(c)(ii) RRF Regulation, Annex I of the Financing Agreement

Potential auditee: The Audit Body

Elements of the KR under assessment:	Examples of good practices:
<p>In compliance with Article 22(1) of the RRF Regulation and to provide the information necessary for Article 22(2)(c)(ii) of the RRF Regulation, the Member State shall conduct adequate and independent audits of systems and cases of support to investments and reforms. <u>This includes:</u></p>	<ul style="list-style-type: none"> • The audits are performed in accordance with the last updated audit strategy, are based on a clearly described audit methodology including a proper risk analysis and take into account the internationally accepted auditing standards. • All phases of the system audits and substantive testing are properly documented (including adequate and complete checklists), declaring the audit work performed, audit reports produced and the conclusions drawn. • For the system audits on: a) the functioning of the control systems in order to ensure protection of the financial interest of the Union; and where relevant b) the effective functioning of control systems in place to collect, store, verify and declare reliable and accurate data on the achievement of milestones and targets exist, as

	<p>well as adequate procedures that ensure that:</p> <ul style="list-style-type: none"> (i) the audit scope focuses on the KRrs of the internal control systems, including verification that the relevant authorities properly ensure compliance with EU and national rules and laws; (ii) sufficient evidence is presented allowing to verify the assurance level obtained from the system audits. <ul style="list-style-type: none"> • For the audits of cases of support to investments and reforms (substantive testing), an example of good practice is the existence of procedures in place that ensure that: <ul style="list-style-type: none"> (i) adequate methodology for sampling of cases is applied, covering the scope of the audits, sampling method and sampling parameters applied to the audits, the results and the reliability of data on milestones and targets; (ii) substantive testing is carried out on the basis of supporting documents constituting the audit trail, verifying the fulfilment of milestones and targets and compliance with principles of sound financial management through desk reviews and on-the-spot checks; (iii) audit body/ies covers, through their audits of cases of support to investments and reforms, the verification of the requirement to ensure compliance with EU and national rules and laws. Audit procedures and work programmes have an adequate coverage of these elements, implying that respect for public procurement- and for State aid rules are guaranteed.
<p>5.1 The identification of the body/ies which will carry out the audits of systems and cases of support to investments and reforms and how its/their functional independence is ensured</p>	<ul style="list-style-type: none"> • There is a clear separation of functions between the audit body and other bodies managing and controlling the RRP, ensuring freedom from conditions that would threaten the ability of the audit body to carry out audits in an unbiased manner¹⁷.
<p>5.2 The allocation of the sufficient resources to this body/ies for the purpose of the RRF</p>	<ul style="list-style-type: none"> • A clear description and allocation of functions in accordance with the audit strategy exists, including (but not limited to) the organisational chart, planned resources, qualifications and experience required, and training requirements. • Staff have the necessary expertise to fulfil all the

¹⁷ For further reference, please see the element 1.5 as well as the IPPF Standards 1100 and 1110.

	requirements of the job description, taking into consideration the size and complexity of the national RRP.
5.3 The effective tackling by the audit body/ies of the risk of fraud, corruption, conflict of interest and double funding both through system audits and audits of cases of support to investments and reforms	<ul style="list-style-type: none"> • Audit body/ies can draw a conclusion from system audits and substantive testing and describe the main findings, including details of whether any findings identified are of systemic nature, with the assessment of their impact. • Effective procedures are in place to ensure monitoring and follow-up of the audit recommendations and corrective measures resulting from system audits and substantive testing.

Key Requirement 6: Effective system to ensure that all information and documents necessary for audit trail purposes are held

Legal reference: Article 22(2)(d) and (e) RRF Regulation, Annex I of the Financing Agreement

Potential auditee: Coordinating Body, Implementing Bodies and the Audit Body

Elements of the KR under assessment:	Examples of good practices:
In compliance with Article 22(2)(d) and (e) of the RRF Regulation, the Member State shall maintain an effective system to ensure that all information and documents necessary for audit trail purposes are held. <u>This includes:</u>	
6.1 Effective collection and storage of data on the final recipients of funds	<ul style="list-style-type: none"> • An example of good practice is the existence of procedures in place in the different bodies involved in the collection and storage of data on the final recipients of funds, which ensures as a minimum: <ul style="list-style-type: none"> (i) active data management and reporting systems capable of producing data that are accurate¹⁸, reliable¹⁹, and complete²⁰ as well as key functional components, processes and adequate systems in place at all levels²¹;

¹⁸ Valid data reflecting requested information.

¹⁹ Based on a process that does not change according to whom is using them and when or how often they are used. The data are reliable because they are measured and collected consistently.

²⁰ An information system from which the data are derived is appropriately inclusive: it represents the complete list of pre-defined milestones/targets.

²¹ Body/ies implementing reforms/investments, coordination body/highest level to which all these data are reported and from which data are transferred to the Commission.

	<ul style="list-style-type: none"> (ii) the availability of supporting documents disclosing the required data identification of the final recipient of the funds as stipulated under Article 22(2)(d)(i); (iii) that the data related to final recipients can be easily matched/linked to a particular contract, project or measure and, where applicable, a full description of the nature and extent of interests²² held. Such a description is also expected to include information on the ownership and control chain (such as beneficial owner) as well as on all companies through which control is indirectly held (such as contractors and subcontractors); (iv) that all supporting documents are kept either in the form of the originals, copies of the originals, in electronic versions of original documents or documents existing in electronic version only; (v) that a record is kept by the CB of the identity and location of bodies holding the supporting documents relating to implementation of the milestones and targets and audits; (vi) that the source documents are kept and made available in accordance with a written policy and that data are maintained in accordance with the European data protection rules²³; (vii) that the data collection and reporting system of the RRP link to the National Reporting System(s) for RRF.
<p>6.2 Access for the Commission, OLAF, ECA and EPPO (where applicable) to the data on final recipients, contractors, subcontractors and beneficial owners for the purpose of audit and control</p>	<ul style="list-style-type: none"> • The examples of good practices listed under 6.1 are also relevant here. • The data related to final recipients, contractors and sub-contractors and their beneficial owners collected and stored are accessible to the Commission, OLAF, ECA, and where applicable EPPO allowing them, and other relevant national authorities, to identify red flags and potential wrongdoings.

²² E.g. exact percentage of shares and/or other interests held.

²³ Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data. <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1532348683434&uri=CELEX%3A02016R0679-20160504>