



Guidance Note on the Compliance Assessment exercise

(under Article 71 of Regulation (EC) No 1083/2006)

1. PREAMBLE

The purpose of this note is to give practical guidance to the Member States (mainly their audit authorities and/or independent audit bodies) on their responsibilities with regard to the compliance assessment and the preparation of the report and opinion required under Article 71 of Regulation (EC) No 1083/2006. The guidance note is accompanied by a model report and a checklist, which is recommended to be used as a tool by the audit authority or body drawing up the report (hereinafter "the compliance assessment body") in order to carry out the assessment. The model for the opinion on the compliance of the systems is provided for under Annex XIII of Regulation (EC) No 1828/2006. The guidance is also applicable for European Territorial Cooperation (ETC) programmes. However, some specificities related to these programmes have also been included. It should be mentioned that the compliance assessments for ETC programmes should be submitted separately from those covering programmes for the other two Objectives.

All correspondence related to the Compliance Assessment exercise between the Member State and the Commission will be carried out via SFC 2007.

2. LEGAL BASIS

Article 71 of Regulation (EC) No 1083/2006 states:

1. Before the submission of the first interim application for payment or at the latest within twelve months of the approval of each operational programme, the Member States shall submit to the Commission a description of the systems, covering in particular the organisation and procedures of: (a) the managing and certifying authorities and intermediate bodies; (b) the audit authority and any other bodies carrying out audits under its responsibility.

2. The description referred to in paragraph 1 shall be accompanied by a report setting out the results of an assessment of the systems set up and giving an opinion on their compliance with Articles 58 to 62. [...]

3. The report and the opinion referred to in paragraph 2 shall be drawn up by the audit authority or by a public or private body functionally independent of the managing and certifying authorities, which shall carry out its work taking account of internationally accepted audit standards.

Article 25 of Regulation (EC) No 1828/2006 states:

The report referred to in Article 71(2) of Regulation (EC) No 1083/2006 shall be based on an examination of the systems description, of relevant documents concerning the systems and of the system for keeping accounting records and data on implementation of operations, and on

interviews with the staff in the main bodies considered important by the audit authority or other body responsible for the report in order to complete, clarify or verify the information.

The opinion referred to in Article 71(2) of Regulation (EC) No 1083/2006 shall be drawn up in accordance with the model set out in Annex XIII to this Regulation.

Where the management and control systems concerned are essentially the same as those in place for assistance approved pursuant to Regulation (EC) No 1260/1999, account may be taken of the results of audits carried out by national and Community auditors in relation to those systems for the purpose of establishing the report and opinion pursuant to Article 71(2) of Regulation (EC) No 1083/2006.

3. TIME LIMITS

The description of the systems and the accompanying report and opinion on compliance should be submitted to the Commission after the adoption of the operational programme and, according to Article 71 (1) of Regulation (EC) No 1083/2006, before the first interim application for payment or at the latest within twelve months of the approval of each operational programme.

In the case of a common system (see section 4), the twelve months will only start as from the date of approval of the last operational programme to be covered by the common description. However, when substantial delays are expected in the approval of one of the operational programmes, the Member State could consider submitting a separate description of the systems, report and opinion on the compliance for the delayed operational programme in order to avoid blocking interim payments for the other operational programmes.

The compliance assessment body should allow for an adequate period in order to complete the whole process of compliance assessment which includes the following phases:

1. The receipt of the management and control system descriptions and the gathering of other relevant documents. The compliance assessment body will be in a position to start its work from the date when a definitive description of the management and control systems has been submitted to it and confirmed (see section 4).

In case of ETC programmes, sufficient time should be foreseen for the translation of documents into one agreed working language.

2. The analysis of data gathered and examination of the documents and the performance of the audit work required (see further section 6).

3. The preparation of the report and opinion and the contradictory procedure including validation of the findings and conclusions.

4. The sending of the final version of systems description, report and opinion to the Commission via SFC 2007 by the Member State. It is noted that only the final version of the description accompanied by the report and opinion can be sent officially to the Commission via SFC 2007.

The Commission will have two months from the date of receipt of the report to provide any observations. The Commission will initially verify the admissibility of the documents and then will proceed to their analysis. The admissibility check will include verifying that the three requested documents are complete and have been transmitted in their final form. The two month period may be interrupted by the Commission where additional information is requested. It will continue upon reception of the additional information requested from the Member State. Where the Commission informs the Member State, within the two month period, that the report and opinion are deemed unacceptable a new two month period will start upon reception from the Member State of the revised description, report and opinion. Where the opinion on compliance is without reservations, after the two months and in the absence of

any observations from the Commission, the report will be deemed to be accepted. In practice the Commission will respond formally in each case within the time period.

Where the opinion contains reservations, the Commission will expect to receive an action plan, i.e. the corrective measures and the timetable for their implementation. It is in the Member States interest to provide this information as soon as possible, since the first interim payment for the operational programme (or the priority axis) concerned will not be made until the reservations concerning key elements have been withdrawn as stated in Article 71(2)(b).

Article 71(2)(b) of Regulation (EC) No 1083/2006 mentions that the Member State will subsequently provide confirmation that the corrective measures have been implemented and reservations have been withdrawn. The Commission expects that it will be the compliance assessment body which will provide this confirmation. The Commission will then have two months to make any observations after the date of confirmation from the Member State that corrective measures have been implemented concerning key elements of the systems and any reservations have been withdrawn. Again, in the absence of any observations from the Commission within these two months, the report will be deemed to be accepted.

4. THE DESCRIPTION OF MANAGEMENT AND CONTROL SYSTEMS

The description of the management and control systems should follow the model under Annex XII of Regulation (EC) No 1828/2006 and should contain information on the general principles of the management and control systems as referred to in Article 58 to 62 of Regulation (EC) No 1083/2006, as well as the information set out in Articles 21 to 24 of Regulation (EC) No 1828/2006.

Depending on the set up of the management and control systems, different authorities or bodies may be responsible for the preparation of different parts of the description. It is suggested that the checklist be given to the managing and certifying authorities as a guide in the preparation of their systems descriptions. The managing authority should take the responsibility for the description of the intermediate bodies under its supervision, and, for ETC programmes, of the Joint Technical Secretariat (JTS) (under Article 14(1) of Regulation (EC) No 1080/2006) and of the controller or controllers (under Article 16(1) of Regulation (EC) N° 1080/2006) . The certifying authority should take the responsibility for the intermediate bodies under its supervision and the audit authority for the other audit bodies, and for the group of auditors under Article 14(2) of Regulation No 1080/2006). The submission of a definitive description to the compliance assessment body is the key date for the initiation of the compliance assessment exercise. The Commission recommends that the Member States appoint a specific body, generally the managing authority, which will take the responsibility to submit formally the **definitive complete description**, including all authorities/bodies and all aspects of the systems. The compliance assessment body will then confirm the completeness of the description and this will be the starting point of its work.

Where a common system applies for more than one operational programme, a single description can be submitted, which will be accompanied by a single report and opinion on compliance, as set out in Article 71(4) of Regulation (EC) 1083/2006. A common system can be considered to exist where the same management and control system supports the activities of several operational programmes. The criterion to take into account is the presence of the same key control elements.

In the system description the responsibilities assumed by the common authorities, the common key elements, the separation of functions, the aspects of the systems that apply horizontally and the ones which are separate for each operational programme should be clearly defined.

The relevant parts of the description should be repeated for each body/authority concerned, in order to cover their respective functions. Thus, part 2 of the systems description under Annex XII of Regulation (EC) No 1828/2006 should be multiplied for each managing authority, part

3 for each intermediate body, part 4 for each certifying authority and part 5 for each audit authority and audit body. Where the same responsibilities are exercised by different bodies, cross references can be used to avoid duplication of the same information.

5. PLANNING OF WORK

The compliance assessment body should make a first review to identify and prioritise the work to be performed, taking into account the existence of common systems for different programmes, the time and resources available for carrying out the assessment and eventual risks identified for certain programmes, authorities, or other bodies, which should include the following elements (see Article 25 of Regulation (EC) No 1828/2006):

1. The examination of the systems description, which means that this description should be in final form when the assessment starts. As the procedure of setting up the systems and preparing the description may be complex and lengthy, the compliance assessment work may start in practice before the finalisation of the description. Nevertheless, an official starting point should exist (see section 3, point 1). In case of ETC programmes, any necessary translation should be planned in advance.
2. The examination of relevant documents concerning the systems. These documents can include laws, circulars, ministerial decrees, acts establishing intermediate bodies' responsibilities etc. In case of ETC programmes, this list may also include necessary formal agreements between participating Member States and/ or regions designed to ensure the sound financial management of the programme. Therefore, the implementing and regulatory framework of the operational programmes should already be in place when the assessment takes place.
3. Use of results of audits of systems carried out under Regulation (EC) No 1260/1999, for the programming period 2000-2006 where the management and control systems concerned are essentially the same. The compliance assessment body should indicate in the report the extent to which they have taken account of this audit work, describing which body performed the audit work (including EU audits), when the audits were carried out (more reliance should be put on recent audits), the methodology applied for the audits, the scope of the work carried out, etc.
4. The examination of the systems for keeping accounting records and data on implementation of operations, which means that these systems should be in place as well.
5. Interviews with the staff in the main bodies considered important. Where the operational programme is multi-regional or where the description concerns more than one operational programme, the interviews should be extended where necessary to include all relevant bodies. The compliance assessment body should indicate in the report the extent to which they performed interviews and specify the criteria for the selection of the interviewees.
6. A contradictory procedure before the validation of the report and opinion. Adequate time should be allocated to this procedure to allow the authorities assessed to respond to observations and provide additional information.

The compliance assessment body will generally cover all authorities and bodies involved in the management and control system. However, in the planning phase it should be taken into account that this may not be feasible in exceptional cases, as the administrative set up of some Member States may lead to complex structures, where numerous intermediate bodies are involved. In these cases, the compliance assessment body may examine the possibility of assessing the intermediate bodies on a sample basis, selected through a risk analysis. This method is applicable only in cases where the intermediate bodies operate under the same administrative framework and will carry out similar functions under the operational

programme(s). In such cases, special focus should be put on the supervisory responsibilities of the managing and/or certifying authorities, as well as measures to provide adequate guidance for the intermediate bodies.

The compliance assessment body should describe in the report the extent and scope of the work performed and the methodology applied in order to reach its conclusions for the totality of the intermediate bodies.

6. WORK TO BE PERFORMED BY THE COMPLIANCE ASSESSMENT BODY DRAWING UP THE REPORT AND OPINION ON COMPLIANCE

The compliance assessment body should plan and execute the work necessary in order to be in a position to provide an opinion on the compliance of the systems with Articles 58 to 62 of Regulation (EC) No 1083/2006 and Articles 12 to 26 of Regulation (EC) No 1828/2006.

The work must be carried out taking account of internationally accepted audit standards (for example INTOSAI, IFAC and IIA).

It should be noted that this exercise refers to the **adequacy of the design** of the management and control systems, which means that the Commission expects an opinion on the **set up** of the systems and not on their **practical effectiveness** at this stage. It is therefore not expected from the compliance assessment body to perform tests on the functioning of the systems even if implementation has started. The compliance assessment body shall base its report and opinion on the work referred to in Article 25 of Regulation (EC) No 1828/2006, as described in section 5 of this guidance note. The Commission, based on the provisions of the relevant articles of Regulations (EC) No 1083/2006 and 1828/2006, as well as on Annex XII of the latter, has developed a checklist (annexed to this note), which is recommended to be used as a tool by the compliance assessment body in order to carry out the assessment. The checklist follows the structure of the model description and covers all authorities and bodies as well as the general principles of the management and control systems as set out in Article 58 of Regulation (EC) No 1083/2006. It represents the recommended level of analysis of the description. The compliance assessment bodies are invited to expand and enrich the checklist according to their specific needs.

A verification of the consistency between the description and the explanations obtained in the course of the work carried out should be made and any inconsistencies should be clarified.

The compliance assessment body should maintain a full audit trail of the work performed and should keep records including information on planning, documents obtained, working papers, checklists used, initial contradictory procedures, etc.

On the basis of the detailed queries included in the checklist, the compliance assessment body should reach overall conclusions for each authority (managing authority, certifying authority, intermediate bodies and audit authority/audit body, and for ETC programmes, the JTS, the controllers and the group of auditors). These conclusions should be then transferred to the relevant part of the report in order to establish an overall conclusion. This overall conclusion will serve as the basis on which the compliance assessment body will sign its opinion on compliance.

6.1 COMPLIANCE ASSESSMENT PERFORMED BY THE AUDIT AUTHORITY

Where the compliance assessment body is the audit authority, Annex XIII of Regulation (EC) No 1828/2006 requires that a "Declaration of Competence and Operational Independence" should be separately provided, issued and signed by the highest ranking official of the audit authority. In this case, all relevant parts of the checklist must still be completed.

Where the compliance assessment body wishes to make other specific arrangements in order to perform an assessment of the compliance with Article 62 of Regulation (EC) No 1083/2006, the Commission recommends the following options:

- The assessment of the set up of the audit authority may be done by different departments within the same organisation. For example, where the audit authority is a directorate of a ministry, it may request the internal audit unit of the same ministry to make the assessment of the audit authority.
- The assessment of the audit authority may be done by an audit body in a separate public body, for example a different ministry or regional administration, or by external private auditors.

6.2 OUTSOURCING OF THE COMPLIANCE ASSESSMENT

Where the Member State outsources the entire compliance assessment exercise to the private sector, so that the report and opinion are provided by this designated private body, the principle of independence of the compliance assessment body should be ensured. The procedure of awarding the contract must be carried out in a way that guarantees this principle. For this reason, the Commission recommends that the awarding authority is the audit authority or any other national or regional public body independent of the procedures for setting up the management and control systems.

In cases where a qualified or adverse opinion was issued, and therefore an action plan is required, the follow up of the corrective measures and the subsequent confirmation that these measures have been implemented and reservations are withdrawn can be done either by the outsourced private firm (i.e. to form part of the contract) or by the audit authority, within the compliance assessment procedure.

Clear reporting lines towards the awarding authority should be set out in the terms of reference. Furthermore, it is essential that the methodology applied, the work performed and the services delivered by the outsourced private firm are adequately supervised.

Where the Member States opt for outsourcing, a realistic and detailed planning of the procedure is of crucial importance. Sufficient time should be allocated to the preparation of the call for tenders, the period of submission of offers, the evaluation of offers and the selection of the contractor taking into account the possibility of objections, as the work of the selected compliance assessment body will be subject to the time limits and planning requirements described in sections 3 and 5.

7. COMPLIANCE ASSESSMENT WHEN ARTICLE 74 OF REGULATION (EC) NO 1083/2006 APPLIES

According to Article 74(2) of Regulation (EC) No 1083/2006, a compliance assessment report and opinion is necessary also for the operational programmes which fall under the provisions of this article and for which the Member State exercises the option to apply the proportional control arrangements. According to Article 74 (2), the functions of the managing authority in relation to verifications of co-financed products and services and declared expenditure, the functions of the certifying authority and the functions of the audit authority can be established according to national rules. Furthermore, certifying and audit authorities need not be designated under Article 59(1)(b) and (c).

Article 26 of Regulation (EC) No 1828/2006 provides more detailed information on the procedures to be applied when proportional control arrangements are chosen. Thus, arrangements for carrying out the verifications of Article 13(2) of Regulation (EC) No 1828/2006 still need to be in place. Also, even though the audits can be carried out in accordance with national rules, the documents under Article 18(2) to (5) of Regulation (EC) No 1828/2006 still need to be submitted by the national body (*mutatis mutandis*). Finally, even though the certification function may be established under national rules, the statement of expenditure still needs to be submitted according to Annexes X and XIV of Regulation (EC) No 1828/2006.

Where Article 74(2) applies, the compliance assessment body should assess to which extent the national procedures and rules provide the national bodies referred to in Article 74(2) of Regulation (EC) No 1083/2006 with the requisite authority to produce the documents required by Articles 18 and 20 of Regulation (EC) No 1828/2006.

The recommended checklist for the compliance assessment may not be applicable in all its points. The compliance assessment bodies are invited to adapt the checklist or to develop their own tools in order to carry out the assessment and verify the description against the national rules. In all cases, the methodology applied and the work performed should be clearly described in the report.

8. THE REPORT ON THE ASSESSMENT OF THE SYSTEMS AND THE OPINION ON COMPLIANCE WITH ARTICLES 58 TO 62 OF REGULATION (EC) NO 1083/2006

The report on the assessment of the systems should accompany the systems description and should be drawn up by the compliance assessment body. Regulations (EC) No 1083/2006 and No 1828/2006 do not provide a model report. The Commission has developed a model report in order to establish a common approach, which it recommends for use by the compliance assessment body. This model is annexed to this note and contains briefly:

- I. An introduction;
- II. The methodology applied by the audit authority or body drawing up the report and the scope of the work performed;
- III. The result of the assessment for each authority/body/system;
- IV. An overall conclusion, where reference is made to possible reservations and the axis/axes concerned.

Where recourse is made to Article 71(4) of Regulation (EC) No 1083/2006, the compliance assessment body should confirm in the report that it accepts that there is a common system applying to multiple operational programmes.

The compliance assessment body should base the results stated in the report on the relevant conclusions of each part of the checklist for the assessment. The overall conclusion mentioned above will serve as the basis for the opinion.

The compliance assessment body should seek to obtain the resolution of outstanding issues with the authorities concerned prior to finalisation of the report so that it can provide an unqualified opinion. The compliance assessment body should exercise the appropriate professional judgement in order to assess the results and the seriousness of shortcomings identified and provide the appropriate opinion. The following guidance may be taken into account:

- An absolute non compliance with regard to one or more key elements of the systems, as set out in Regulations (EC) No 1083/2006 and No 1828/2006, should lead to a qualified opinion or an adverse opinion. A qualified or adverse opinion will signify reservations on key elements. Key elements include :
 1. Definition of the functions of the bodies concerned in the management and control and allocation of functions within each body (Article 58(a) of Regulation (EC) No 1083/2006);
 2. Compliance with the principle of separation of functions between and within such bodies (Article 58(b) of Regulation (EC) No 1083/2006);
 3. A system for reporting and monitoring where the responsible body entrusts the execution of tasks to another body (Article 58(e) of Regulation (EC) No 1083/2006);

4. Procedures for grant applications, appraisal of applications, selection for funding and instructions, guidance and measures foreseen to ensure that applicable public procurement rules and procedures are complied with (Article 60(a) of Regulation (EC) No 1083/2006 and Article 13 of Regulation (EC) No 1828/2006);
 5. Procedures for ensuring the correctness and regularity of expenditure declared under the operational programme (Article 58(c) of Regulation (EC) No 1083/2006);
 6. Verifications of the delivery of products and services and eligibility of expenditure (Article 60(b) of Regulation (EC) No 1083/2006 and Article 13 (2) of Regulation (EC) No 1828/2006), and in the case of ETC programmes, the adequacy of the set up of the system required under Article 16(1) of Regulation (EC) No 1080/2006 and its coordination with other functions in the system;
 7. Reliable accounting, monitoring and financial reporting systems in computerised form (Article 58(d), 60(c), (d) and Article 61(e) of Regulation (EC) No 1083/2006);
 8. Systems and procedures to ensure an adequate audit trail (Articles 58(g) and 60(f) of Regulation (EC) No 1083/2006 and Article 15 of Regulation (EC) No 1828/2006);
 9. Appropriate accounting of amounts recoverable (Article 61(f) of Regulation (EC) No 1083/2006 and Article 13 of Regulation (EC) No 1828/2006);
 10. The certification of expenditure under Article 60(g) and 61(a) to (d) of Regulation (EC) No 1083/2006;
 11. Arrangements for auditing the functioning of the systems (Article 58(f) of Regulation (EC) No 1083/2006), including carrying out systems audits and audits on operations under Article 62(1)(a) to (b) of Regulation (EC) No 1083/2006. The failure to submit an audit strategy within the period fixed should be taken into account.
 12. Reporting and monitoring procedures for irregularities and for the recovery of amounts unduly paid (Article 58(h) of Regulation (EC) No 1083/2006 and Articles 27 to 36 of Regulation (EC) No 1828/2006);
 13. Eligibility rules laid down at national level according to Article 56(4) of Regulation (EC) No 1083/2006 and the Regulations for each Fund. The national eligibility rules should be defined in the management and control systems description and the compliance assessment body should verify whether they are in conformity with EU rules, as set out in Regulations (EC) No 1080/2006, No 1081/2006, No 1083/2006 and No 1084/2006.
- In case of partial compliance, the seriousness and extent of the shortcomings with regard to these key elements of the systems should be assessed by the compliance assessment body, which will decide whether a qualified opinion or an adverse opinion has to be formulated. The compliance assessment body may decide to issue an unqualified opinion with recommendations, assessing the shortcomings as not serious enough to justify qualifying the opinion. This should be explained in the report.
 - Shortcomings with regard to ancillary elements of the systems may be identified. Such ancillary elements may be for example non finalised manuals, lack of standard checklists or model documents, non finalised guidance notes, unsatisfactory procedures to ensure proper dissemination of information on EU

rules, etc. In this case as well, the compliance assessment body should exercise the appropriate professional judgement in order to decide whether the seriousness of these findings should lead to a qualified opinion or simply making recommendations in the report. This should be explained in the report as well. The follow up of shortcomings in ancillary elements may be done by the audit authority during the annual reporting cycle.

An adverse opinion should be issued where the compliance assessment body considers that the number and seriousness of shortcomings with regard to the key elements of the management and control systems and ancillary elements result in wide-ranging non compliance with the requirements of Articles 58 to 62 of Regulation (EC) No 1083/2006.

Annexes:

- I. Model Report on the compliance assessment
- II. Checklist for the compliance assessment