

**Homologues' Group Meeting – Prague, Czech Republic
25-26 September 2023**

Workshop 1 – “Auditing in a new environment for first level controls (eg. risk based management verifications, enhanced proportionate arrangements)”

Monday 25 September 2023 (repeated workshop, 11:00-13:00 or 14:45-16:45)

Room: FORUM

Facilitators:

Ms Ilse Van den Abeele, Head of Unit DAC.2

Ms Jana Frostova, Team Leader DAC.2

Presentations:

Ms Miriam Fernandez Jutz, Deputy Head of Unit DAC.7

Ms Ioana Mantog, Team Leader DAC.7

Mr Goran Zakanji, Head of Service, Audit Authority, Croatia

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Rapporteur:

Mr Avinash Nandram, Head of the Audit Authority, Netherlands

Context

The 2021-2027 legal framework introduced two new simplifications in first level controls:

- Risk based management verifications;
- National procedures to carry out management verifications (enhanced proportionate arrangements).

1. Risk based management verifications

The new approach of risk based management verifications is key to strike a balance between the protection of the EU budget and the most required simplification in the 2021-2027 programming period, alleviating the control burden for beneficiaries.

In accordance with Article 74(2) CPR, the new elements (in comparison to the 2014-2020 legal framework) are:

- Both administrative and on-the spot management verifications are risk-based and proportionate to the identified risks,
- The Managing Authority (MA) prepares ex-ante and in writing a risk assessment, which should also address how proportionality will be put into practice (e.g., criteria for having verifications that are proportionate to the types and levels of risks),
- Management verifications (administrative and on the spot) are to be carried out before submission of the accounts.

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The ex-ante risk assessment prepared by the MA/its IBs should define the risk factors/criteria (e.g., number, type, size and content of the operation, type of beneficiary, experience, complexity of the operation, results of past audits/verifications, value of items, etc.) for the selection of operations and payment claims that may be subject to verifications.

The approach will:

- significantly reduce the administrative burden for beneficiaries (as the number of controls will be reduced) as well as for MAs and their IBs;
- improve the effectiveness of management and control systems by allowing to focus management verifications on problematic areas instead of spending time and resources on verifications of every single euro declared.

2. National procedures to carry out management verification

The CPR for 2021-2027 (articles 83, 84 and 85) includes, for the first time, the possibility for Member States (MS) to opt, if certain conditions are fulfilled, to apply enhanced proportionate control arrangements (EPA). These arrangements provide for options that can be applied, together or separately, depending on the environment of the programme and the assessment made by authorities:

- The Managing Authority (MA) may apply only national procedures to carry out management verifications; MA may also rely on verifications carried out by external bodies provided that it has sufficient evidence of the competence of those bodies;
- The Audit Authority (AA) may limit the audit activity to audits of operations covering a sample based on a statistical selection of 30 sampling units for the programme or group of programmes concerned; where the population consists of less than 300 sampling units, the audit authority may apply a non-statistical sampling method.

In case the Member State applies EPA, the Commission limits its audits to a review of the work of the audit authority through re-performance at this level only, unless available information suggests a serious deficiency in the work of the audit authority.

In case a Member State decides to use EPA, the Commission needs to be notified and certain conditions need to be observed:

- for the last 2 years preceding such a decision, the management and control system was functioning effectively (Category 1 or 2) and
- the confirmed total error rate for each year is 2 % or below

based on the information published in the annual activity report.

At the beginning of the programming period, changes to the management and control system should be compared with the previous programming period, in line with Article 84(2) CPR: the Member States may apply the enhanced proportionate arrangements referred to in Article 83, provided that the conditions set out in Article 84(1) are met with respect to a similar programme implemented in 2014-2020 and where the management and control arrangements established

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for the 2021-2027 programme build largely on those from the previous programme. In such a case, the enhanced proportionate arrangements apply from the start of the programme.

Objective of the workshop

- Reflect on the operational arrangements to be in place at the level of management and control systems to ensure risk-based management verifications and enhanced proportionate arrangements;
- Reflect on audit procedures to be applied by the ESIF audit community in relation to these changes in management verifications procedures;
- Provide concrete examples on the role of audit authorities and impact on the audit work in case of risk-based management verifications and enhanced proportionate arrangements for management verifications;
- Share experience/best practices from ESIF audit authorities.

Possible issues/questions to be covered by the workshop

- Is a closer collaboration AA/MA necessary in the new environment?
- What exactly is the difference between 2014-2020 approach in management verifications and the one in 2021-2027?
- Are there specific adjustments needed in auditing expenditure in a risk based management verifications model or in instances when the MA uses the enhanced proportionate arrangements opportunities? Practical applicability.
- Will the audit opinion on the legality and regularity of expenditure be affected when management verifications rely on national procedures (use of enhanced proportionate arrangements)?
- Can we achieve better results by focusing the management verifications?

Suggested reading and reference documents

[Reflection paper on Risk Based Management Verifications](#)

[REGIO AAR 2022 annexes.pdf \(europa.eu\)](#)

[EMPL AAR 2022 annexes_en.pdf \(europa.eu\)](#)

[annual-activity-report-2021-regional-and-urban-policy annexes_en.pdf \(europa.eu\)](#)

[annual-activity-report-2021-employment-social-affairs-and-inclusion_en-annexes.pdf \(europa.eu\)](#)