



**DIRECTORATE GENERAL FOR AUDIT OF EUROPEAN FUNDS**

Ref. No.: EUTAF-IX/00009/001/2024.

**REVISED AUDIT STRATEGY  
FOR THE HUNGARIAN RECOVERY AND RESILIENCE  
PLAN**

with reference to Regulation (EU) No 241/2021

in accordance with Article 13(1) a) of Government Decree No. 373/2022

Version 4

**Approved by:**

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**Budapest, June 2024**

## TABLE OF CONTENTS

<b>I. INTRODUCTION .....</b>	<b>3</b>
Legal framework .....	3
Institutional and professional background of the Audit Authority.....	3
Independence of the Audit Authority .....	4
Audit strategy .....	5
<b>II. METHODOLOGY.....</b>	<b>6</b>
Overview of the audit methodology .....	6
<b>III. PLANNING AND IMPLEMENTATION .....</b>	<b>8</b>
Audits of the internal control system .....	8
System audits on milestones and targets .....	9
System audits with a special thematic focus .....	12
Substantive testing of milestones and targets.....	12
Audit of a separate sample of projects .....	15
<b>IV. REPORTING .....</b>	<b>16</b>
<b>V. RESOURCES.....</b>	<b>17</b>
<b>ANNEX.....</b>	<b>19</b>

## I. INTRODUCTION

### *Legal framework*

The relevant legal framework governing the audit of the implementation of the national RRF plan is as follows:

#### **Community legislation:**

- 2018/1046/EU Regulation of the European Parliament and of the Council (Financial Regulation)
- 2021/241/EU regulation of the European Parliament and of the Council establishing the Recovery and Resilience Facility (hereinafter: Regulation)
- Commission Delegated Regulation (EU) 2021/2105 supplementing Regulation (EU) 2021/241 of the European Parliament and of the Council establishing the Recovery and Resilience Facility by defining a methodology for reporting social expenditure
- Commission Delegated Regulation (EU) 2021/2106 on supplementing Regulation (EU) 2021/241 of the European Parliament and of the Council establishing the Recovery and Resilience Facility by setting out the common indicators and the detailed elements of the recovery and resilience scoreboard

#### **National legislation:**

- 1037/2021. (II. 5.) Government Decision on the action plan for economic regeneration
- 373/2022. (IX. 30.) Government Decree on the basic rules and responsible institutions for the implementation of the Hungarian Recovery and Resilience Plan
- Act XLIV of 2022 on the Directorate General for Audit of European Funds and the amendment of certain acts adopted on the request of the European Commission in the interest of the successful closure of the conditionality procedure

### *Institutional and professional background of the Audit Authority*

The Directorate General for Audit of European Funds (hereinafter: DGAEF, Directorate) has been nominated in 2022 in accordance with Section 13(3) of Government Decree No 373/2022. (IX. 30.) as the audit authority (hereinafter: AA) responsible for the audit tasks related to the implementation of the Recovery and Resilience Plan of Hungary. The provisions of Government Decree 373/2022 (IX. 30.) and the audit-related tasks contained therein cover the entire RRF Plan, that is, they are equally relevant for non-refundable grants and financial instruments. Pursuant to § 8 of Act XLIV of 2022, the Audit Authority's activities include the examination of the internal control systems designed to implement the RRF-sourced financial instrument.

DGAEF is an autonomous public administrative body. The employees of DGAEF are public officials.

Pursuant to Act XLIV of 2022 – effective as of 1 January 2023 in respect of the legal status of DGAEF – and previously Gov. Decree No. 210/2010. (VI. 30.), in addition to acting as the audit authority for the RRF, DGAEF had and has wide ranging responsibilities as the audit authority in Hungary for programmes financed from European Union funds, and has fulfilled this responsibility for several programming periods and continues to do so in the forthcoming

years. DGAEF is also responsible for various audit tasks related to international cross-border cooperation programmes, support from home affairs funds, the Swiss Contribution, the EU Solidarity Fund, etc.

Consequently, the audit experience of DGAEF covers three programming periods and diverse implementation and control requirements. The AA's profile covers audits in the fields related to the different components under the national RRF plan (such as transport, green transition, and the healthcare sector). Accordingly, it has the necessary experts in the identified areas (e.g. transport, energy and water management engineers, IT experts) and has experience in auditing projects on the spot. As a general rule DGAEF does not involve other bodies in its audit activity.

The AA has also gained experience in testing of milestones and targets in the framework of audits on operations in other EU-funded programmes, as well as on the reliability of data on performance indicators through thematic audits – including one joint audit mission with the European Commission. DGAEF has experience with the audit of retrospective projects as well.<sup>1</sup>

Act XLIV of 2022 provides the detailed rules on the legal status, organization, tasks and procedures of the Directorate.

DGAEF performs its activities in line with the requirements in EU and national legislation, and on the basis of audit manuals approved by the Head of DGAEF and prepared having regard to internationally accepted audit standards and best practices.

### ***Independence of the Audit Authority***

Pursuant to Act XLIV of 2022 DGAEF is an autonomous public administrative body. The organisational, functional and professional independence of the staff of the Directorate – including the Director General and the Deputy Director General – is ensured, they perform their duties completely independently and are bound only by the legal regulations. The staff of DGAEF cannot be instructed by any person or body, no guidance may be requested from another person or body for the performance of duties, and the staff is obliged to perform its tasks free from influence by any other institution, body, political party, company, association, legal or natural person.

A clear separation of functions between the AA and other members of the internal control system (ICS) and final recipients is ensured. While performing its tasks, DGAEF is independent of the national authority as coordinating body<sup>2</sup>, as well as the implementing bodies and final recipients.

In respect of its audit activity, it has functional independence regarding in particular the drawing-up of audit strategies and annual audit plans; preparation and implementation of audit programmes; selection of audit methods; establishment of findings, conclusions and recommendations; identification of irregularities detected in the course of audits; preparation of audit reports and reporting.

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<sup>1</sup> as needed in view of the provisions of Article 17(2) of Regulation

<sup>2</sup> Based on the implementing government decree, the body fulfilling the coordinating body function in Hungary is the National Authority (NA).

Both the Director General and his/her deputy are required to sign a declaration of non-conflict of interest, and shall announce a change affecting their independence within 15 days. These positions may only be filled by persons who fulfil the requirements for non-conflict of interest laid down in Art. 28 of Act XLIV of 2022. The auditors of DGAEF are required to make declarations on non-conflict of interest upon entry in the organisation as well as at the start and end of each audit mission they take part in. All staff members are also required to regularly submit asset declarations.

### *Audit strategy*

The overall objective of the audit strategy is to ensure the complete and effective fulfilment of the AA's obligations regarding RRF and, thus, to provide assurance on the regular and transparent use of EU financial resources, as well as on the compliance of institutions with relevant requirements and on the effective functioning of the internal control systems. Through the application of the audit strategy, the AA maximizes the overall impact of its audits, and increases their effectiveness by ensuring the optimal use of resources.

The Audit Authority prepares the audit strategy based on which it executes audit work on the implementation of measures in the national RRP and the functioning of the system taking into account the different risks.

The AA shall review annually the audit strategy until 2026 in the light of changes in the internal control system and in relevant legislation and internal regulations. The results of audit activities and remedial actions implemented by audited organisations on the basis of audit recommendations shall also be taken into account. As part of the review of the audit strategy, DGAEF will prepare the annual audit plan for the next period of audits based on the results of the risk analysis and professional judgement, taking into account the relevant requirements.

## II. METHODOLOGY

### *Overview of the audit methodology*

The audit activity is regulated by the RRF Audit Manual (issued with Director General’s Ruling No. 5/2024), elaborated in compliance with the relevant EU and national legal regulations and internationally accepted audit standards. When elaborating the Audit Manual, the guidelines issued by the European Commission and the methodologies elaborated for the audits as well as the AA’s internally developed methodologies have been completely integrated. The AA’s RRF Audit Manual regulates each task to be carried out by DGAEF; i.e. it defines the methodologies, the revision of the audit strategy, planning, sampling and performance of different types of audit tasks (i.e. system audit, substantive testing of milestones and targets, thematic audit). Deadlines for the performance of all audit procedures and processes, as well as the procedures concerning the required internal checks and supervision, reconciliation, the follow-up of findings, and the required reporting and communication activities are also covered by the Audit Manual. DGAEF takes into account the RRF-specific audit requirements during the elaboration of the methodology and as well as the guidance, methods, templates and checklists prepared by the audit unit of Directorate General for Economic and Financial Affairs<sup>3</sup> of the European Commission, in order to ensure harmonisation of the audit approach.

Based on point 5.1.3 of the RRP DGAEF shall use the IT system developed to support fraud and corruption risk analysis, i.e. the **ARACHNE risk assessment tool**. DGAEF will incorporate the results received from the ARACHNE risk assessment tool into its planning process, primarily for developing its audit plan, to determine projects to be selected based on risk analysis. Furthermore, the use of the results yielded by the ARACHNE tool will also be incorporated into the audit procedures, and while checking milestones and targets auditors have to check with respect to the selected projects what levels of risk are indicated by the system connected to the project/final recipient/contract/contractor concerned. In case of a high risk rating, it has to be indicated in the audit checklist – irrespective of the type of risk factor – and further examination is required tailored to the given type of risk factor to determine the reason for the high risk rating, and the underlying factors, and whether further detailed examination is needed. Within RRF, fraud, corruption, conflict of interest and double funding risks, linked primarily to the “Reputational & Fraud Alerts” and „Concentration” categories, are treated as special focus areas. For this purpose, the AA takes into account the recommendations of the guidance note prepared by DG ECFIN on the use of ARACHNE, and the main risks listed under Section III.

DGAEF also checks the availability of relevant **conflict of interest** (COI) declarations when auditing projects, verify the activity of DIAI and the implementation of its control plan on COI declarations and COI-related notifications. Furthermore DGAEF uses other national databases too to screen projects, final recipients, contracts, contractors for the above risks.

The AA audits the **avoidance of double funding** in the framework of its substantive testing and the audit of the separate sample: the audit’s scope includes checking the demarcation between eligible activities in the call for proposals and in the operational programmes, the final recipient’s audited project and its other projects, the endorsement of the invoices (project

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<sup>3</sup> Ref. Ares(2022)656129 – 28/01/2022, Enquiry Planning Memorandum, system audit on Measures Implemented to Protect the Financial Interest of the Union  
Ref. Ares(2022)573477 - 25/01/2022, Enquiry Planning Memorandum, Audits of Milestones and Targets

number appearing on the invoice), furthermore EUPR does not allow the repetition of the same invoice number. In the framework of the system audit, the first level assessment and control procedures related to double funding are also examined.

DGAEF has an overview of programme implementation and access to several monitoring and information systems (EUPR, EMIR, Interreg+, BAMIR), other databases (OPTEN, company register) in addition to Arachne, which is essential for enabling effective checks on risks related to double funding, conflicts of interest as well as possible fraud or corruption, in line with the requirements set out in the RRP and relevant legal regulations. The Audit Authority also has access to the IT sales (e.g. EUKIR2) and data registration (Fontium4) systems of the Hungarian Development Bank as Implementing Partner, and is able to use their data and the uploaded documentation when conducting its audits.

### III. PLANNING AND IMPLEMENTATION

#### *Audits of the internal control system*

##### 2023

The AA performed an **initial set-up audit** on the basis of the experience gained with the former compliance and designation audits, focusing on the establishment of the institutional system, the planned procedures, IT systems and human capacities. The specific risks concerning sound financial management and fraud prevention can be managed through the methodology already prepared and applied in practice. The audit also focused on procedures and control points related to conflict of interest and double funding. The set-up of the repository system was audited separately (see below).

DGAEF prepared – in cooperation with the Commission services – a specialised audit methodology and checklist for the set-up system audit to assess the establishment of the system and fulfilment of all key requirements (KR1, KR2, KR3, KR4 and KR6). The scope of the audit covers the internal processes and rules of procedures related to selection, evaluation, information, communication and publicity, management verification, irregularity and recoveries, audit trail, IT system, management declaration and audit summary, payment requests and data management.

Having regard to the fact that DGAEF checked whether all applicable rules are observed during the implementation of measures and financing, and also that one of the objectives of the set-up audit is the prior detection of any possible systemic errors or deficiencies, the scope of the audit is wider in certain places than what is strictly required by the key requirements developed for the RRF. Specific questions were developed for some aspects that are key to the regularity of implementation (e.g. assessment of applications, system of controls applied to public procurements), in order to provide sufficient assurance on the adequacy of all relevant segments of the internal control system, the set-up and readiness for operation of the screening mechanisms within procedures ensuring the protection of the financial interests of the Union.

During the assessment of the system, DGAEF also took into account the results of its previous validation tasks on the remedial measures included in the milestones which ensure efficient functioning of the internal control system for the RRF (i.e. the application of the ARACHNE tool, conflict of interest procedures and anti-fraud and corruption strategy).

The **assessment of the repository system** used for the implementation of the RRP, was carried out as a separate system audit in order to enable the AA to issue a final audit report confirming the functionalities of the repository system and that the system is fully functional and is in operation, in line with the requirement of Milestone 227, under reform no. C9.R25 of the CID. The primary scope was to assess whether the set-up of the repository system is in line with the legal regulations and other external requirements, and whether its functions and processes ensure the monitoring of milestones and targets and the collection and storage of data required by Article 22(2)(d)(i) to (iii) of the RRF Regulation.

As an additional scope, DGAEF included the assessment of the procedures of the internal control system and testing related to the collection, monitoring and aggregation of data on milestones and targets, and other required data, such as common indicators and data on contribution to climate and digital targets.



## 2024

The new organisational and operational rules adopted for the managing authorities as implementing bodies and the national authority, and the resulting changes will be assessed in the framework of a thematic system audit of 2024 as a first step. After the completion of the reorganisation, DGAEF's second system audit can be launched. The audit on the institutional changes will also incorporate the assessment of any changes affecting the single monitoring and information system in respect of RRF. Formulation of the exact tasks of the audit regarding the institutional change, as well as the scope and methodology of the audit will only be possible after the specifics related to the changes become known, which will also have an impact on the expected time requirement and completion date.

DGAEF will also perform the verification of DIAI's activity related to control of conflict of interest, handling of complaints and legal remedies in line with the prescriptions of Gov. Decree No. 373/2022. (IX. 30.).

Additionally, the AA also plans to carry out a thematic audit to check the initial set up of the system related to the implementation of financial instruments, introduced as part of the new RePowerEU component of the RRP (see also in the next section).

### *System audits on milestones and targets*

In accordance with the relevant audit approach of the AA, annual audits of the internal control systems shall be planned using risk assessment. Accordingly, the components of the RRP to be audited in the framework of the system audit shall be determined based on the results of the risk assessment procedure. DGAEF developed a risk assessment methodology for the planning of system audits, which is an annex of the RRF Audit Manual. The risk assessment procedure shall be carried out in line with the methodology, before the launch of the system audits on milestones and targets.

According to the risk assessment methodology the following *inherent risk factors* are relevant for the selection of components to be audited:

- amount of granted assistance and number of contracted projects in a given component – on the basis of EUPR and data to be submitted by the NA,
- complexity of the organisational structure and rules (number and type of IBs) – on the basis of the RRP and the results of the initial set-up system audit,
- number, type and complexity of measures (type and number of final recipients, reforms/investments) – on the basis of CID and data request,
- number of milestones and targets concerning the component – on the basis of RRP and CID,
- component funding from other sources – on the basis of RRP.

The following *control risk factors* are taken into consideration during scoring:

- failure in the implementation of milestones and targets or large differences in the values reported from one period to the next one – on the basis of CID, EUPR, the last payment request or implementation report prepared by the NA,
- changes in the procedures or organisations – on the basis of the reports of the organisations of the internal controls system/audit summary,

- audit results – on the basis of the opinion/references in ECA, EC audits related to the RRP or OLAF investigations, if relevant. Or observations made by the EC linked to the given component in the framework of the reconciliation of the submitted payment claim, if relevant – on the basis of data request from NA,
- results of the substantive testing and audit on the separate sample.

The risk assessment results will be summarised in the following table:

Component	Inherent risk factors						Total Scoring for inherent risk	Control risk factors				Total scoring for control risk	Total Risk Score	Order
	amount of assistance	number of projects	complexity of organisational structure and rules	number, type and complexity of measures	number of milestones and targets concerning the component	component funding from other sources		failure in the implementation of milestones and targets	large differences in the values reported from one period to the next one	change in procedures or organisation	previous audit results			

The final score attributed to each component is determined through the weighted aggregation of the risk scores defined in the risk assessment methodology. Following the scoring of the different factors per component, each component is classified as low risk, medium risk or high risk. As a general rule system audits shall be envisaged for the three components with the highest total risk score. Beside this the AA also takes into account representativeness criteria and prepares the annual audit plan on the basis of professional judgement.

When carrying out the risk analysis task for financial instruments, it may be justified to consider the following risk factors: the amount of support for a given investment/reform and the number of products/transactions, the method of implementation of the scheme (indirect or direct), the type of scheme (combined or loan), delays compared to the planned schedule of placements, changes in the institutional system (e.g. a newly involved financial intermediary) and in the regulations. In addition, the Audit Authority conducts a separate thematic audit for the purpose of evaluating the system established for financial instruments, the results of which are taken into account when forming an opinion on the internal control system. Based on the experiences of the thematic audit, the AH reviews and, if necessary, supplements the range of risk factors to be used during the risk analysis.

The AA ensures the coverage of the following representativeness criteria:

- all components of the RRP, and
- all organisations in the internal control system

by system audits during the implementation period.

The *objective* of the audits shall be to obtain reasonable assurance that the repository system ensures complete, accurate and reliable data for the milestones and targets of the selected components defined in the national RRP; and that effective controls are implemented for

collecting, storing, verifying, aggregating and reporting the related data. The specific objective of the system audit is to assess the quality, integrity and ability of the underlying data management and IT systems to store, collect, aggregate and report on these milestones and targets. Furthermore the scope of system audits covers controls applied by the Coordinating Body and the implementing bodies. System audits thus cover Key Requirements 4<sup>4</sup> and 6<sup>5</sup> of the internal control system as well.

The milestones and targets data quality is an essential element in ensuring the legality and regularity of the RRF payments. In accordance with the method elaborated by the Commission, the assessment of the data management system will be based on the following functional areas:

1. Structures, functions and capabilities of the authority(ies) entrusted with the implementation of the RRP
2. Definition of milestones and targets and reporting guidelines to the lower levels of implementation
3. Data collection and reporting forms and tools
4. Data management processes
5. Aggregation of data at national level (link between national reporting system and lower implementing levels).

Furthermore, system audits also include the check of whether the changes and functioning of the internal control system are in line with relevant legislation and internal regulations, and whether the recommendations made in relation to previous audits have been appropriately implemented.

System audits implemented based on risk assessment and with the required *frequency* shall examine the functioning of the system set up for the implementation of the RRF. In the initial period of program implementation, system audits shall be conducted on an annual basis.

Audit work shall generally be carried out at the level of the authorities involved in the RRF internal control system (e.g. National Authority, implementing bodies)<sup>6</sup>. If the information necessary for the audit work is not available at that level, the audit can be carried out at final recipient level. Audits are performed using an audit programme and checklists, applying desk-based check as well as on-the-spot interviews. The actual functioning of the system is also assessed by *walkthrough testing* of selected items. The test items shall be selected based on the progress of the component and the AA's professional practice, in line with the principles of proportionality and representativeness. During the testing the AA examines whether the procedures were carried out in accordance with the internal regulations, the audited organisations applied the required controls in relation to the test items, the selected milestones and targets were submitted, verified and reported appropriately, the performed work is documented and underpinned.

The purpose of the system audit is to provide reasonable assurance regarding the efficient and effective functioning of the internal control system, including first level controls. The audit assesses the functioning of the system and defines the level of assurance obtained from the systems. On that basis it determines the necessary extent and the minimum sample size for substantive testing. The classification of the system is established taking into account the following factors:

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<sup>4</sup> Appropriate measures, including procedures for checking the fulfilment of milestones and targets and compliance with horizontal principles of sound financial management

<sup>5</sup> Effective system to ensure that all information and documents necessary for audit trail purposes are held

<sup>6</sup> The procedures of the sub-granting body will be audited in the framework of a thematic audit.

1. examination of the functioning of selected components from regularity aspects, qualification based on test items;
2. assessment of changes in the system and the relating regulations in the audited period;
3. follow-up of previous audit findings;
4. other relevant information available to the AA,
5. mitigating factors and compensatory controls,
6. professional judgement.

### *System audits with a special thematic focus*

Beside this the AA will also carry out **system audits with a special thematic focus** in order to ensure protection of the financial interests of the Union. Thematic audits may assess inter alia whether the audited internal control system ensures that the funds are managed in accordance with all applicable rules and that the systems are able to prevent, detect, correct and investigate cases of fraud, corruption, conflict of interest, and to avoid double funding. In the frame of such audits AA will assess e.g. the fulfilment of Key requirement 2 related to the effective implementation of proportionate anti-fraud, anti-corruption measures and measures to effectively avoid conflict of interests and double funding. For this purpose the AA uses the adapted version of the checklist developed by DG ECFIN (Ref. Ares(2022)656129 – 28/01/2022, Enquiry Planning Memorandum, system audit on Measures Implemented to Protect the Financial Interest of the Union). In the framework of thematic audits, the AA has the possibility to also audit other topics linked to implementation that it considers to be risky based on its internal risk assessment or ARACHNE results (e.g. public procurements, state aid).

### **2023**

DGAEF launched an audit to check how the institutional system uses ARACHNE in line with its legal obligations under Gov. Decree No. 373/2022. (IX. 30.) and RRP: the AA assesses the availability of data and due transmission in line with the requirements, as well as the control methodologies and practices applied within the grant management procedures including the use of the ex ante module.

### **2024**

The ARACHNE audit extends into 2024, to include the testing of the correction of previously identified errors and deficiencies, thereby assessing whether the results yielded by the ARACHNE tool are used adequately in all relevant procedures.

The Audit Authority will conduct a separate thematic audit for the purpose of evaluating the system established for financial instruments, the results of which will be taken into account when assessing the internal control system.

### *Substantive testing of milestones and targets*

The *aim* of the substantive tests is to provide assurance to the European Commission that the milestones/targets to be reported, the audit trail and supporting data are correct and reliable, and to ensure the protection of the financial interests of the Union. So dual purpose testing will be used, the simultaneous checking of the milestones and targets and of the sound financial

management conditions in order to provide the assurance that the use of funds in relation to measures supported by the Facility complies with applicable Union and national law, and that fraud, corruption, conflict of interests and double funding are avoided.

During the planning phase the AA relies on records kept in the national repository system and data provision of the NA.

For the selection of items to be covered by testing, the AA uses a *sampling methodology* covering possible methods, the definition of the population and the sampling unit, the sampling parameters and the method of extrapolation. The methodology applies the principles set out in the Guidance on sampling methods for audit bodies under RRF developed by DG ECFIN.

Accordingly the planning methodology is based on the *assurance model*, and provides for a high degree of assurance through the audits of the AA, in line with relevant legislation and Commission guidance. To provide for this, the (principally inherent and control) assurance arising from the system is assessed based on the system audit, and accordingly, the necessary level of detection assurance – and thus the confidence level – to be achieved through substantive testing is determined.

The linkages among the internal control system assessed, the assurance arising from it and the confidence level parameter to be applied at substantive testing are shown in the table below:

<b>Result of the system audit</b>	<b>Assurance level obtained from the system audit</b>	<b>Confidence level for substantive testing</b>
Complies fully	High	60%
Complies partly	Average	80%
Does not comply	Low	90%

The use of the assurance level obtained through the system audit is considered to be adequate for the whole sampling exercise, as the basic functions of the internal control system are mostly identical for all components, and also the system audit focuses on the most risky components.

The AA applies *two levels of sampling* for the selection of projects to be audited in the frame of substantive testing:

- I. The first level sampling at the level of a payment request for the selection of the milestones and targets, will be based on non-statistical risk-based sampling combined with a random element; and
- II. The second level sampling at the level of the selected milestone or target to select a number of projects will be based on a statistical sampling method.

In case of grants the risk criteria are the following:

- The type of awarding procedure of grants/contracts;
- The type of measure (investment/reform);
- The type of project(s) (implemented via calls for proposals/technical);
- The type of final recipient(s) (public/private);
- The number of final recipients involved;
- The amount of grant awarded for the achievement of the given milestone/target;

- Deviation of rate of achievement of a target from the timing, or a sudden leap in progress directly before reporting ;
- Audit previously carried out or not.

In case of FI the risk criteria are the following:

- The amount of support for a given FI
- Number of products/transactions
- The method of implementation and complexity of the scheme
- Delay in the rate of implementation
- Changes in the implementation system /new financial intermediary
- Result of the thematic audit

The Audit Authority shall consider risk criteria for its risk assessment on the basis of data sent by the National Authority and data available in the RRP and in the monitoring and information system (EUPR) functioning as the national repository system for RRF.

The *population* for the first level sampling includes all milestones and targets to be submitted to the Commission in the respective payment request.

The Audit Authority shall ensure adequate coverage of measures related to milestones and targets in the audit sample. AA plans to *stratify the population* into two strata: high risk stratum and medium/low risk stratum. As a general rule the milestones and targets with the highest risk (based on the highest risk score) shall be audited 100%. The milestones and targets from the medium and low risk stratum shall be selected randomly. The AA shall ensure that the sample covers both reforms and investments.

The *sample size* is determined based on internationally accepted standards (primarily ISA) and the relevant chapters of Delegated Act on the off-the-shelf sampling methodologies (Regulation (EU) No. 2023/67) and guidance note EGESIF 16-0014-01. If significant deficiencies are identified by the AA in the sample, DGAEF may increase the sample for the substantive testing.

The *reporting period* to be covered by the audits should correspond to the time period of the most recent RRP payment request.

In the course of the *second level sampling*, the AA shall take a sample from the projects linked to the milestones and targets selected in the first round, using simple random sampling. The principles of this procedure are laid down in the Delegated Act on the off-the-shelf sampling methodologies in line with the recommendation of Guidance on sampling methods for audit bodies under the RRF. The population for the second level sampling includes all projects for the milestone or target selected under the first level sampling. In case the population does not exceed 30 items, 100% of the items shall be covered. When the audit population is higher than 30 items, the audit body applies a random sampling method.

The use of a risk-based non-statistical method does not allow the *projection of the errors* identified in the sample to the level of the payment request. However, when using the statistical sampling method for the second level sampling, the level of error identified should be extrapolated to the whole population of the particular milestone/target.

Substantive testing is carried out on projects included in the audited payment request, and provides an opinion on the reliability and correctness of the payment requests.

In the frame of the audit on the selected milestones/targets the AA examines the validity and correctness of data provided at project level, taking into account the relevant supporting documents, and evaluates the accuracy of the aggregation at national level. The AA plans to apply the checklists provided as part of the Enquiry Planning Memorandum for audits of milestones and targets by DG ECFIN. Sub-sampling – using the method of sampling provided in the guidance EGESIF 16-0014-01 – could be justified at the level of the final recipients depending on the type of the indicator. The audit scope also includes the assessment of the eligibility period, procedures to avoid double funding and conflict of interest, fulfilment of publicity requirements. When assessing a project the audit takes into account the available information in the ARACHNE risk-scoring tool related to the selected project/final recipient/contractor.

The audit shall be carried out at the level of the responsible authority at which the supporting documents are available. If, due to the nature of the project, the implementation/progress can be traced mainly on a documentary basis and there is no doubt concerning the valid content of the available documents, and other audit questions can also be answered on the basis of documents uploaded to the IT system, there is no need to carry out an *on-the-spot check*.

The schedule of the substantive testing is aligned with the submission of payment requests. The AA will carry out *ex ante audits* of the reported data related to the achieved milestones and targets to be declared in the requests for payment.

#### ***Audit of a separate sample of projects***

In cases justified by the results of ARACHNE risk assessment tool or any other available information, the AA may draw a *separate sample*, which can be audited with a wider scope to ensure the protection of the financial interests of the Union during the implementation of the given projects. The AA decides on the necessity of the separate sample when preparing the annual audit plan, after reviewing the results obtained from ARACHNE. If the AA becomes aware of information necessitating a wider audit scope (e.g. selection procedure, public procurement procedure, state aid, audit of declared expenditure), these must be taken into consideration depending on the current audit tasks, or in the next planning cycle at the latest.

#### **IV. REPORTING**

The Audit Authority compiles a preparatory report for the summary of audits to be submitted by the NA on the results of the system audits and substantive testing, including weaknesses identified and any corrective actions taken. The report follows the template proposed in Annex I of the Guidance Note on the audit summary, provides information on the modifications of the audit strategy, an assessment of any amendments in the internal control system, the main findings and recommendations of system audits and substantive testing, measures taken and controls used for preventing and detecting fraud, conflict of interest and double funding. It also indicates the overall level of assurance on the areas covered by the management declaration based on the results of audits and other relevant information.

DGAEF will prepare the reports in line with the schedule of submission of payment requests. The report will cover the audits by AA conducted between the previous payment request and the one to be submitted, plus any findings that have been discovered during that period, related to audits that have been performed in the past.



## V. RESOURCES

A separate directorate has been set up to carry out the planning, methodological, audit and reporting tasks related to the RRF. The staff of this organisational unit is dedicated to RRF-related tasks. The head of the organisational unit reports directly to the Director General.

Each staff member possesses higher education degrees and many of them have several years of experience in various fields of expertise and in auditing European funds, including methodology, system audits, audits of operations and reporting. Each staff member receives training upon entering the organisation and is also required to take part in regular planned training activities, in order to develop their knowledge and skills.

DGAEF is also able to involve further experienced staff members in RRF audits through flexible internal job rotation. There are also experts with experience in specific domains (e.g. engineers of transport, energetics and water management) within the organisation. In duly justified cases DGAEF has the possibility and financial resources to involve external experts in the audit work.

EUTAF has considerable experience in the field of financial instrument audits, considering that during the 2014-2020 programming period, it examined the instrument's implementation in the framework of system audits and sample audits in several operational programs. Auditors who already have experience can be involved in the audit of RRF's financial assets, and before starting the task, as part of the preparation, EUTAF ensures the implementation of knowledge transfer within the framework of internal training. Furthermore, in accordance with the RRF implementation schedule, additional staff with specialized experience may be hired.

In terms of capacity planning the AA also takes into account that the audit of RRF is different from ESIF and is able to flexibly adapt to the capacity needs. It is expected, based on the analysis of tasks to be performed, that the performance of the audit activities will require 20 staff members once the implementation of the RRF plan is at full speed.

The resources for the performance of the tasks of the AA are also ensured. Based on Art. 2 of Act XLIV of 2022 budget of the Directorate General is planned independently and may only be modified with the agreement of the Director General and if it does not endanger the effective and timely performance of the tasks of the Directorate.

## List of abbreviations

AA	Audit Authority
AS	audit summary
Art.	Article
BAMIR	Belügyi Alapok Monitoring és Információs Rendszer (Monitoring and Information System for IFS and AMIF)
CB	Coordinating Body
COI	Conflict of interest
DGAEF	Directorate General for Audit of European Funds
DG ECFIN	Directorate General for Economic and Financial Affairs
DIAI	Directorate of Internal Audit and Integrity
EC	European Commission
ECA	European Court of Auditors
EGESIF	Expert group on European Structural and Investment Funds
EMIR	Egységes Monitoring és Információs Rendszer (Monitoring and Information System for 2007-2013)
ESIF	European Structural and Investments Funds
EU	European Union
EUPR	Európai Unió Programok Rendszer (Monitoring and Information System for ESIF and RRF)
IB	Implementing Body
ICS	Internal Control System
IFAC	International Federation of Accountants
IIA	Institute of Internal Auditors
INTOSAI	International Organization of Supreme Audit Institutions
KR	key requirement
MD	management declaration
NA	National Authority
OLAF	Office européen de lutte contre la fraude (European Anti-Fraud Office)
RRF	Recovery and Resilience Facility
RRP	Recovery and Resilience Plan

## Annex

### IMPLEMENTED AUDIT TASKS AND INDICATIVE AUDIT PLAN\* 2023-2025

The detailed audit plan is summarised in the table below:

Audit type	2023	2024	2025
Audit of the ICS	set up audit of the system  audit of the Repository System and the reliability of data on M/T	assessment of the institutional changes in 2 phases  assessment of DIAI's activity	
System audit of milestones and targets		to be determined at a later stage on the basis of risk assessment	to be determined at a later stage on the basis of risk assessment
Thematic audit	X (ARACHNE)	X (FI, ARACHNE)	X (PFIU)
Substantive testing of milestones and targets		X (based on payment requests to be submitted)	X (based on payment requests to be submitted)
Audit of separate sample		X (based on risk assessment)	X (based on risk assessment)

\*The feasibility of the audit plan and the commencement of certain audit tasks is subject to the time of signature of the Operational Arrangements.