



# FI Campus 2023

## *Audit of financial instruments*

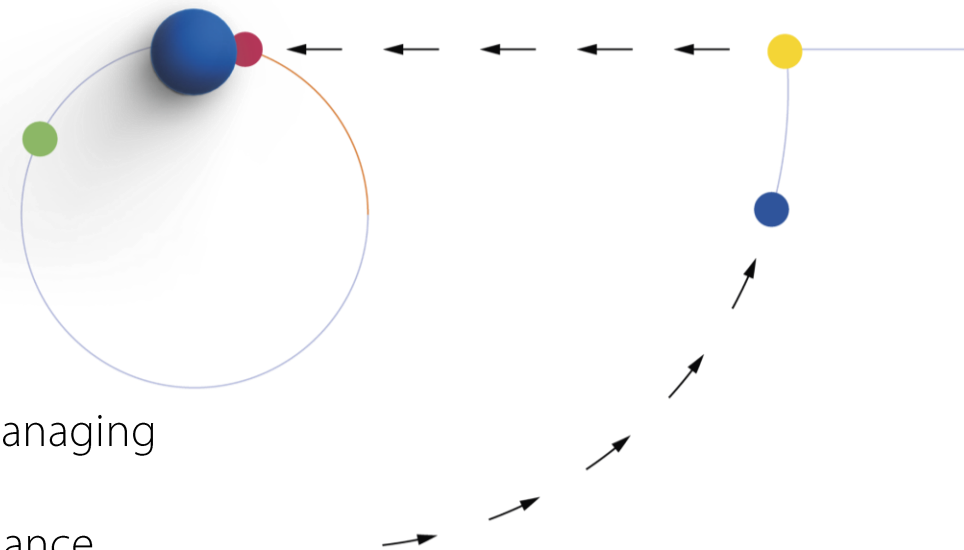
Moderator: **Jacki Davis**

**Anna Maria Fontana**, Director, Ministry for Enterprises and Made in Italy, Managing Authority, Italy

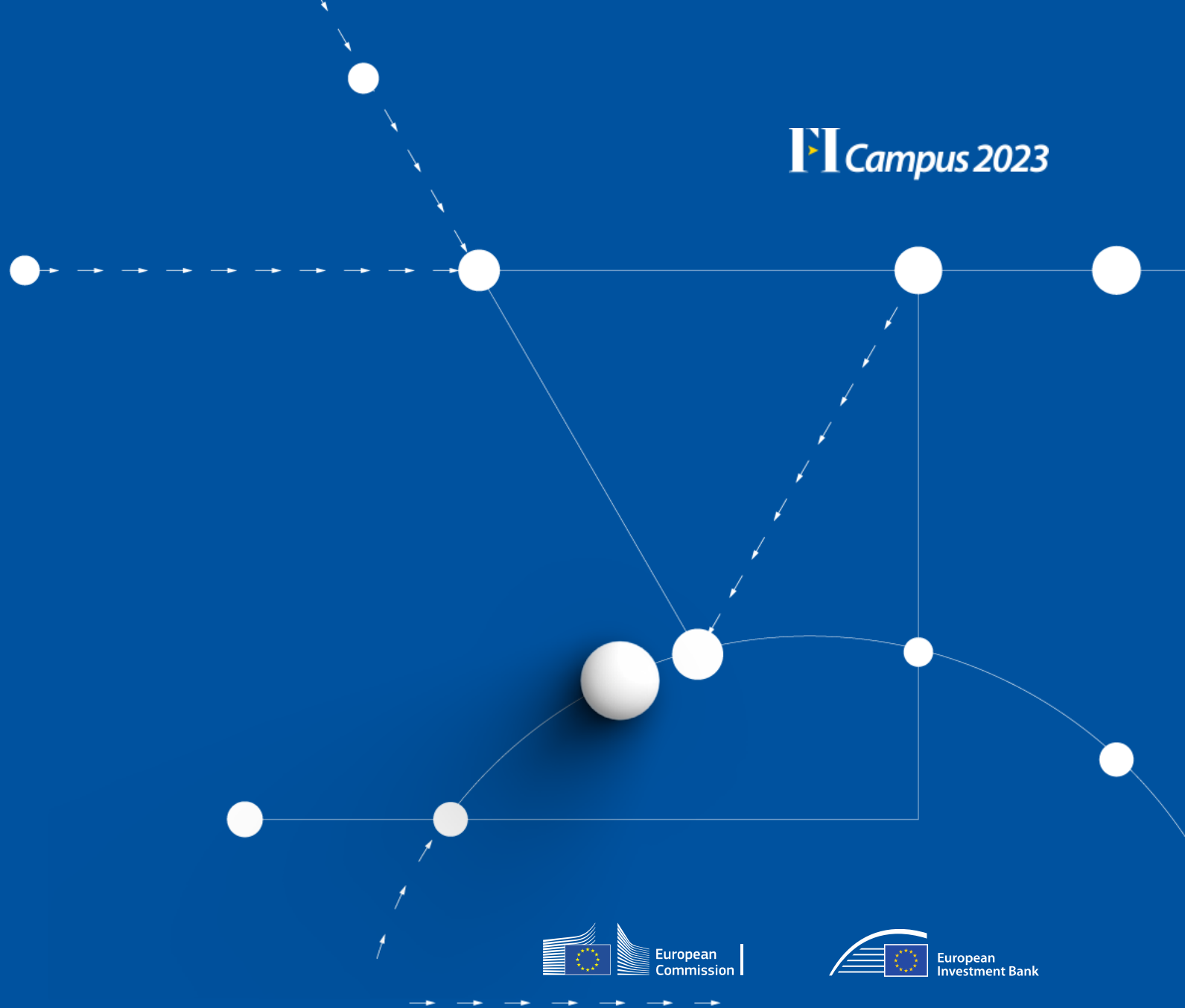
**Nataša Prah**, Head of Unit, Internal Auditor, Senior Secretary, Ministry of Finance, Slovenia

**Axel Badrichani**, Head of Audit VI Unit, DG REGIO, European Commission

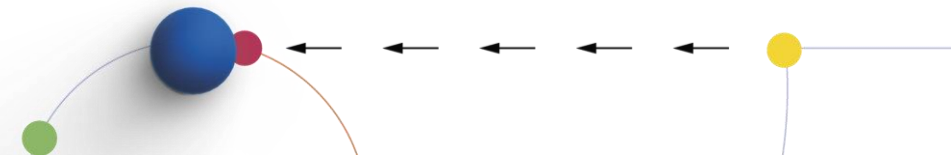
**Dana Greceanu**, External Auditor, European Commission



# Introduction

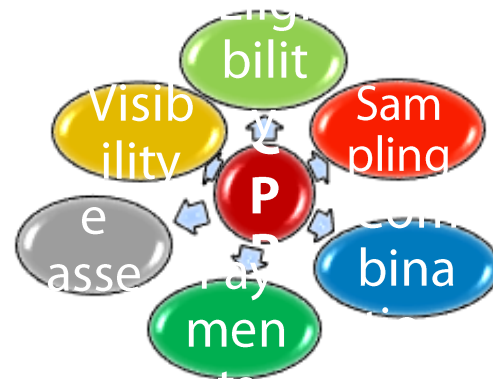


- **CPR Regulation (EU) No 1060/2021:**
  - ✓ Articles 58-62, 92 rules governing the setup and implementation of FIs
  - ✓ Article 68 specific eligibility rules for financial instruments
  - ✓ Article 74 risk-based management verifications
  - ✓ Article 81 general principles of management verifications and audit for FIs  
(reduced scope under Article 83 enhanced proportionate arrangements)
  - ✓ Articles 77 and 79 system audits and audits of operations
- **Programme requirements**

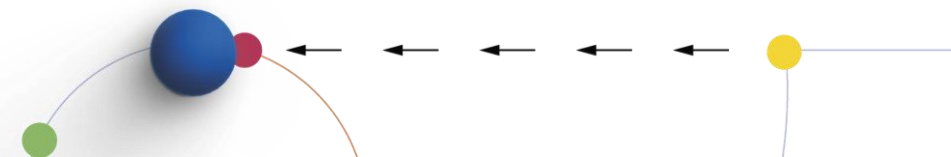


## A new Audit methodology for FIs

- **WHY:** simplification of legal framework for FIs, streamlining of rules pertaining the management and control system



- **TIMING:** the first time we issue an audit methodology so early in the period to help the national authorities

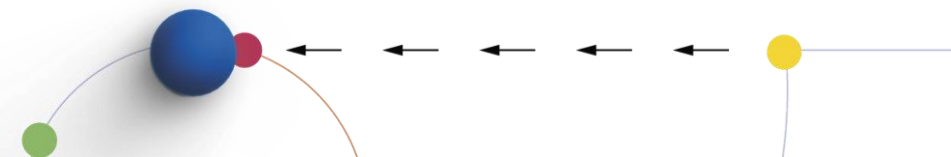


- **Scope:**

- ✓ Set out the overall audit approach for EC auditors (Art. 70 CPR)
- ✓ Give the orientation on the audit approach to the AAs (Art. 77 CPR)
- ✓ Assist the MAs (Art. 72 CPR)

- **Audit Approach:**

- ✓ Identify risk areas (e.g. eligibility issues, selection of bodies implementing FIs, implementation options, type of financial products)
- ✓ Define audit procedures: **system audits** (Art. 77 CPR) and **substantive testing** (Art. 79 CPR)



## SYSTEM AUDITS



### What?

Assess controls/systems (Key requirements)

### • How?

Risk based analysis

### • Where?

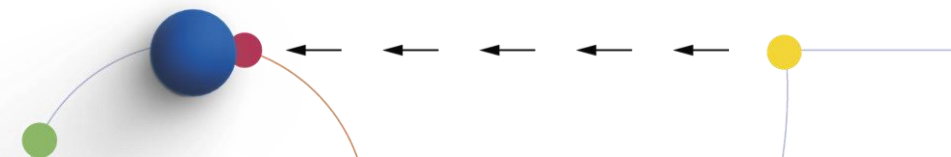
At the level of bodies implementing FIs  
(MA/HF/SF) or

At the level of bodies delivering the underlying  
new loans

## AUDIT OF OPERATIONS

- **Design and Set-up**

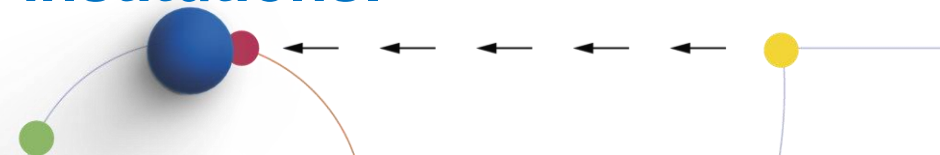
- **Implementation**



# EXCEPTIONS



- **The work of managing authority and audit authorities may be limited in the following situations:**
  - ✓ when enhanced proportionate arrangements apply (Article 83 CPR)
  - ✓ when the principles of single audit and proportionality are applied (Article 80 CPR)
  - ✓ when the results of audits by external auditors of the bodies implementing the FI can be taken into account (Article 81 CPR)
- **No management verifications or audits shall be conducted at the level of final recipients.**
- **No management verifications or AA's audits shall be conducted at the level of the EIB or other international financial institutions.**

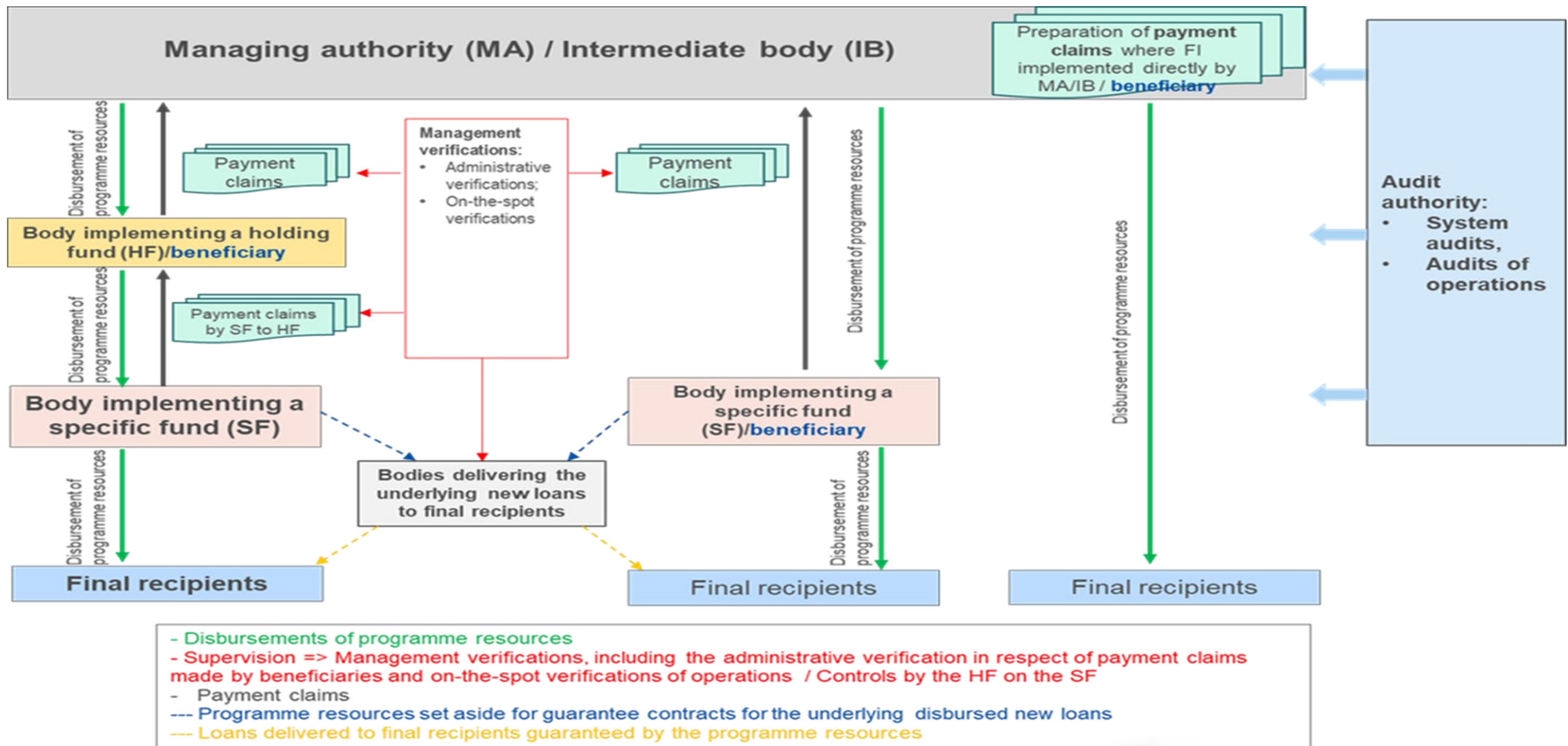


# Management and Control Framework



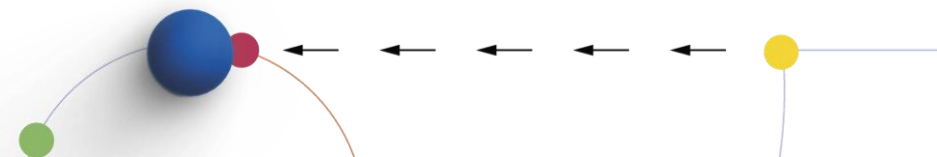


# CONTROL FLOWS



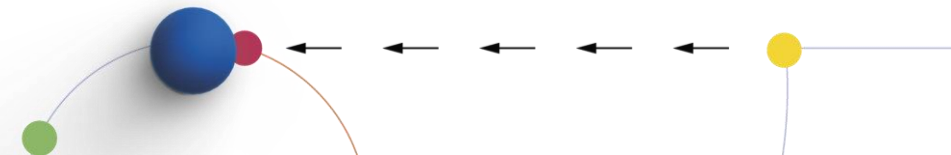
# IMPLEMENTATION MODES

Verifications	CPR Ref.	Implementation <b>directly</b> by the MA Art 59(1): MA = Beneficiary	Implementation <b>under the responsibility</b> of the MA – Art 59(2):
Risk based administrative verifications	Art 81(1)	X	X
<i>Verification of reports/ payment claims from HF/SF</i>			X
Risk based on-the-spot verifications	Art 81(1)		X
Direct Award of contract to the body implementing FI (HF/SF)	Art 59(3)		X
Selection of the body implementing FI (HF/SF)	Art 59(4)		X
<b>Verification of eligibility</b>	Art 64, Art 68		
<i>final recipient</i>		X	X
<i>support is to be used for intended purpose</i>		X	X
<i>management and control fees (MCF)</i>			X
Combination of FI with grants	Art 58(5)	X	X
Visibility rules	Art 50	X	X
Audit trail	Annex XIII	X	X



# Audit approach - Design and Set-up of FIs

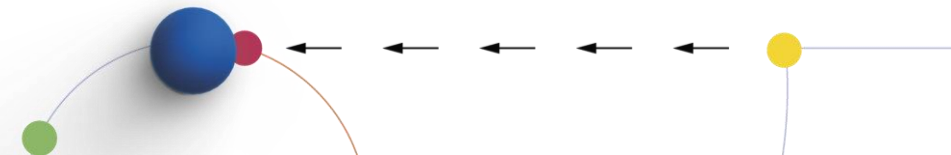
- **Ex-ante assessment / Funding Agreement / Strategy Document (Art. 58(3) CPR)**
  - ✓ Check for **completeness** (e.g., minimum requirements) and **date** (e.g., ex-ante assessment and funding agreement/strategy document are preceding MA contribution to the FI) -> **observations/recommendations**
  - ✓ Check for **coherence** with the FI effectively implemented and the relevant **justifications for deviations** from the Ex-ante assessment -> **observations/recommendations**
  - ✓ The auditors are **not** expected to **reperform** the ex-ante assessment



# Audit approach - Implementation of FIs

- **Specific FI eligibility rules (Art. 68(1)-(3) CPR)**
  - ✓ Verify eligibility of **final recipients** – type of final recipients (e.g. SMEs).
  - ✓ Verify eligibility of **investments** – cf. programmes, national rules, funding agreements.
  - ✓ Verify that the **investment** (elements of the investment) is **not physically completed** or fully implemented at the date of the investment decision by the body implementing FI.
  - ✓ **“is to be used for its intended purpose”** (Annex XIII CPR): Only **ex-ante verifications** for the **intended purpose**, based on FA/ SD / BP, assessment by HF/SF (i.e., investment decision).
  - ✓ Verify that the programme support has **reached the final recipient**.

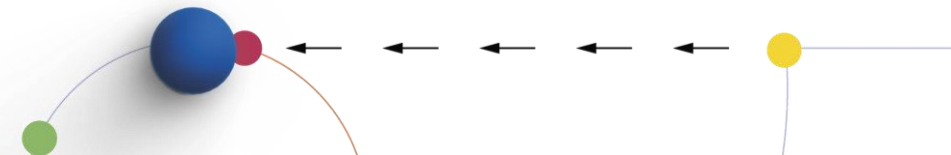
**!! Potential financial implications**



- **MCF eligibility rules (Art. 68(4)-(5) CPR)**
  - ✓ Management **costs** - linked to incurred expenditure.
  - ✓ Management **fees** - to be audited on the basis of the funding agreement.
  - ✓ In case of **direct award**, the respect of the **thresholds** defined in the CPR are to be verified:
    - for each payment application to the EC;
    - for final amounts, only at the moment of the **clearance of the advance**.

## !! Potential financial implications

- **Visibility (Art. 50 CPR)**
  - ✓ N/A to working capital or to acquisition of intangible assets.
  - ✓ Possible **implications** ->> Article 50(3) CPR, principle of proportionality, MA could **cancel up to 3% of the support** from the Funds to the operation concerned.

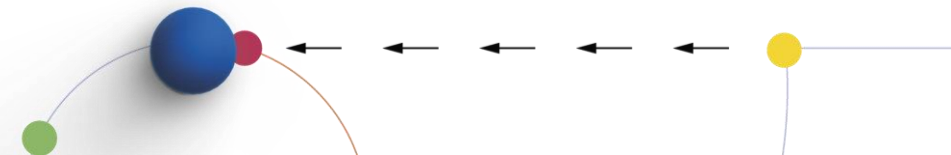


# AUDIT IMPLICATIONS

- **Purchase of land and VAT (Art. 64 CPR)**
  - ✓ Verification of the respect of the **thresholds** of the CPR.
- **Payments (Art 92)**
  - ✓ The audits of the **advance** do not require verification of the incurred expenditure, but:
    - Verification that **the payment** of the amount to the FI was done **before** it is included in the **first payment application**;
    - Verification that the amount claimed in the first payment application **does not exceed 30%** of the amount of programme contribution committed in the FA.
  - ✓ The audit of the subsequent payment applications is audit of **eligible expenditure**.
  - ✓ Verify that the amount claimed in the first payment application (up to 30%) was **cleared no later than** the final accounting year.



- **Combination (Art. 58(5) CPR)**
  - ✓ Verify that the **ex-ante assessment** contains a justification for the grant linked to the FI; the need and the implementation modalities have to be translated into the funding agreement.
  - ✓ Verify that the **programme support** in the form of grant < the **value of the investments** supported by the financial product:
    - to be done at the level of the fund and not at the level of each investment, and
    - to be complied with in the final accounting year.
  - ✓ Verify **separate records** are kept for each form of support by the body implementing the FI.
  - ✓ For combination of FIs and grants in **two separate operations**, audit cf. separate rules.



# AUDIT IMPLICATIONS

- **Irregularities (Art. 103 CPR)**

✓ Verify that the **irregular amounts** were deducted by the MA from the payment claim.

- **Irregularities – Typology**

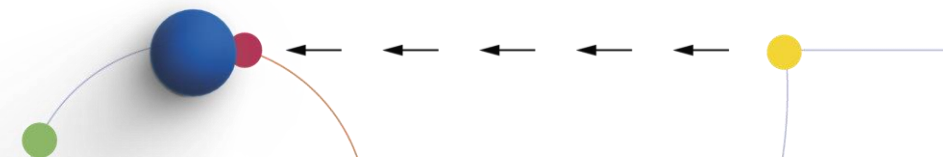
Lack of appropriate documentation and audit trail

Ineligible expenditure / final recipients

Non-compliance with the rules for selection of bodies implementing HF/SF

Interest / gains / re-use of resources not used in accordance with Articles 60 and 62

For combination of support, Article 58(5) CPR not respected



- **Checklist – Annex to the Audit Methodology**

- ✓ **It mirrors the structure of the Audit methodology and the logical flow:**

- I. Financial Instruments under the Single Audit Arrangements

- II. Monitoring, reporting and management verifications

- III. Ex-ante assessment

- IV. Implementation options and Selection

- V. Funding Agreement and strategy document

- VI. Eligibility of the final recipient

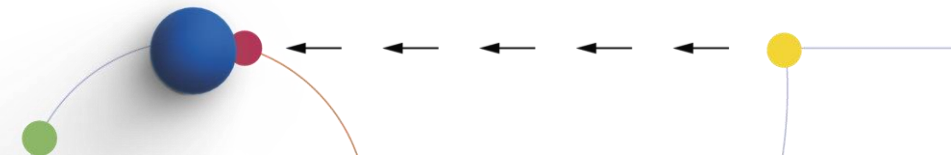
- VII. Eligibility of expenditure and MCF

- VIII. Audit trail, performance, information, communication

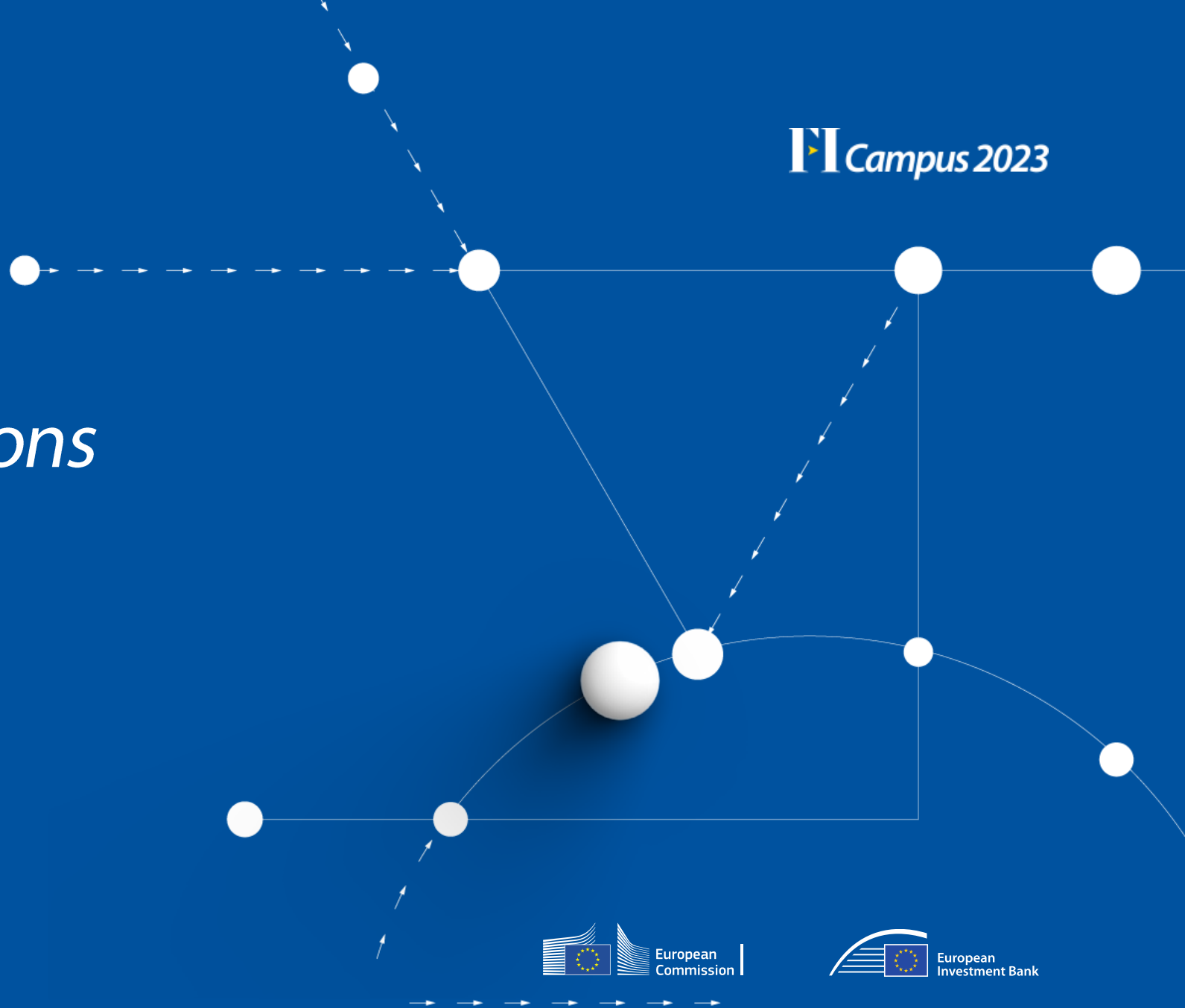
- IX. Combination of FI and grants

- X. Specific verifications – EIB & IFI

- XI. Irregularities



# Sampling implications



# SAMPLING



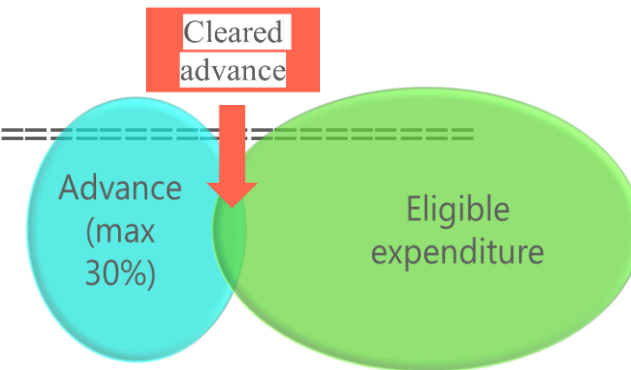
- **SAMPLING - Changes / simplifications in the legal framework**

- ✓ Significant simplification => no tranches
- ✓ Audits of operations => on the basis of **expenditure** declared per programme or group of programmes (no requirement of common management and control system)
- ✓ The same rules like for grants are applicable
- ✓ Stratification remains optional

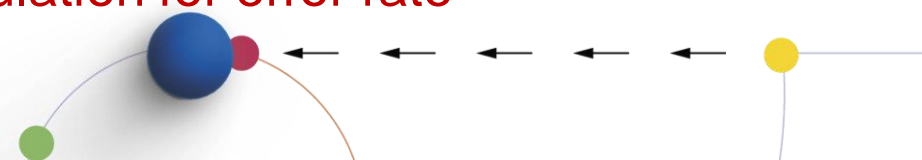
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- **Audit implications**

- ✓ **Audit population** = Advance (Art 92) + incurred expenditure
- ✓ **Advance cleared - Art 92(3)** = the **amount declared in columns C and D** of the Appendix I of the payment applications.

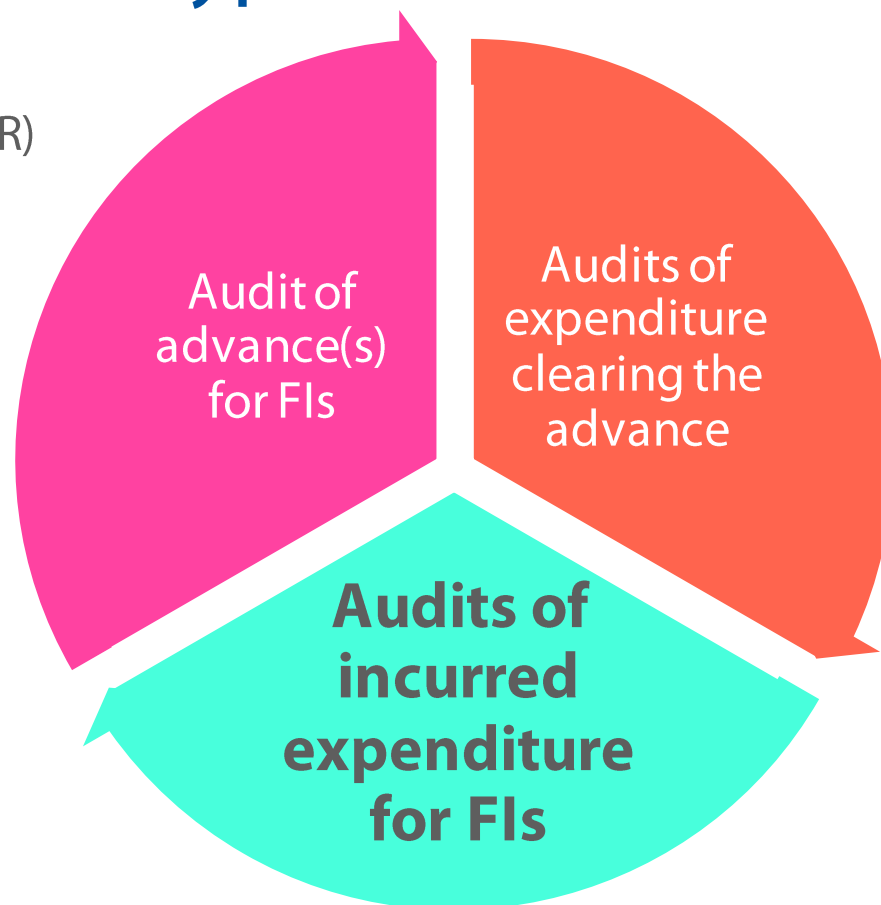


= **will not be covered by the population for error rate**



# AUDIT frameworks / types

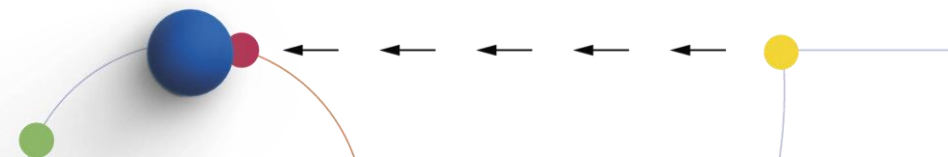
- Check ceiling of 30% (Art 59(5) CPR)
- Check payment to the body implementing the FI
- No verification of incurred expenditure



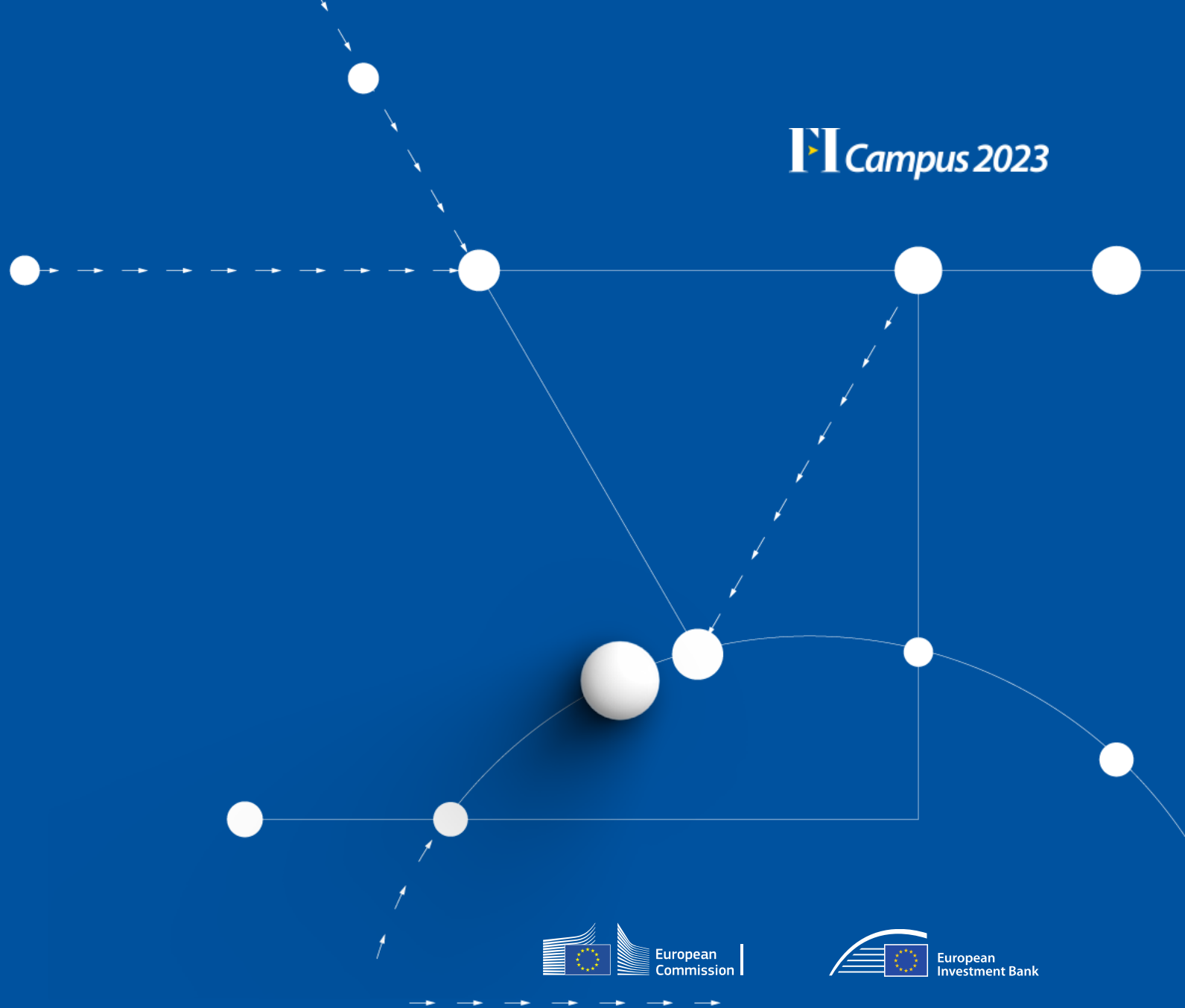
*[Column C & D in Appendix 1 payment declaration]*

- Audit of accounts
- System audits
- Closure audits

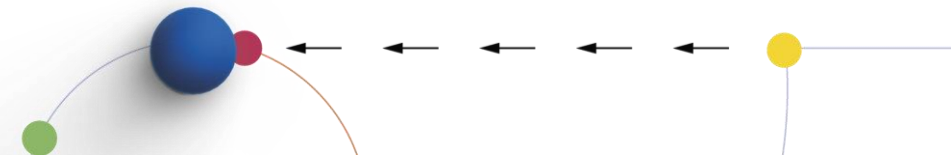
- Exhaustive check or Sub-sampling
- Article 7 of the Commission Delegated Regulation (EU) 2023/67



# Closure of FIs

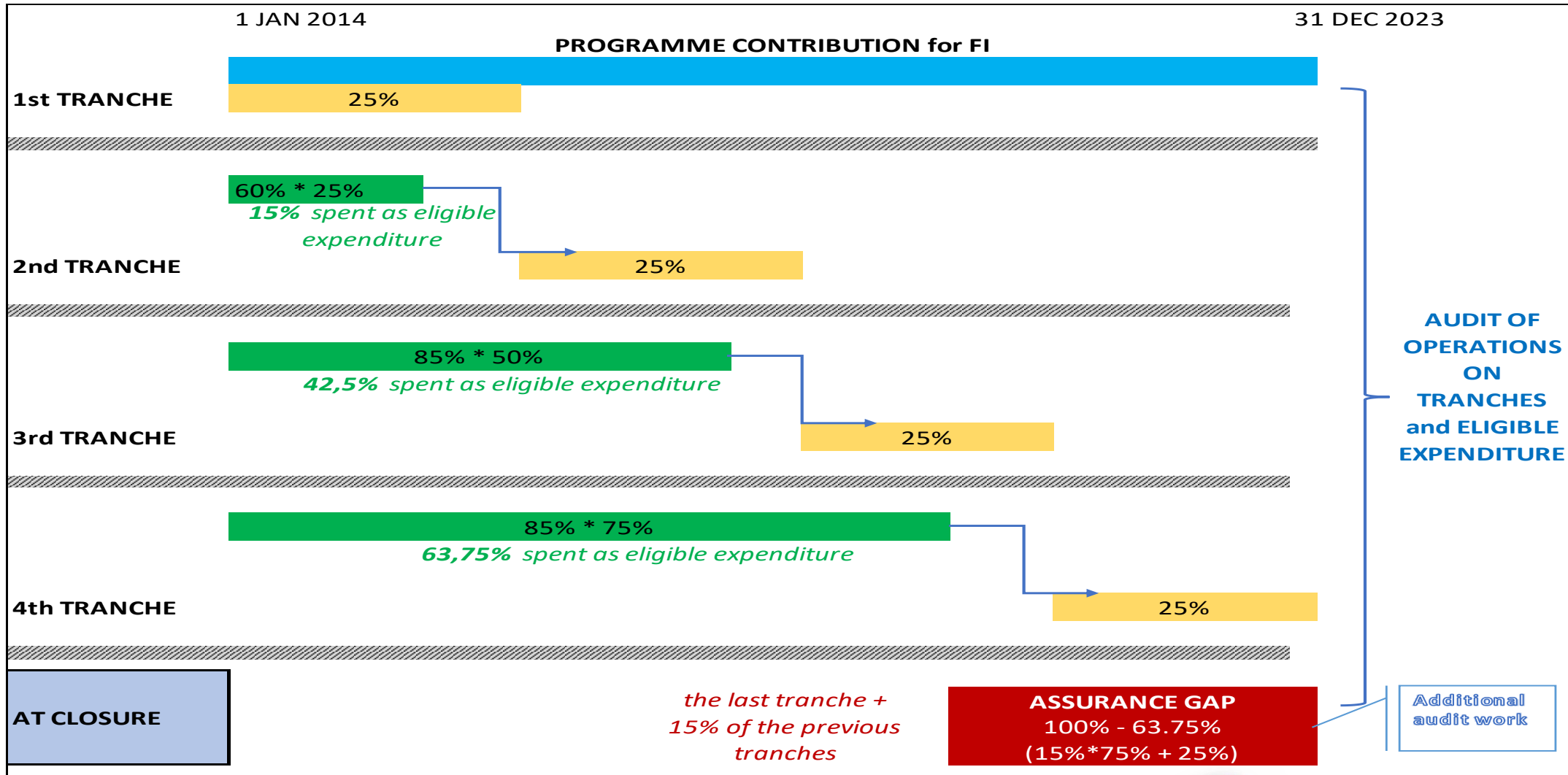


- **At closure**, AA has to obtain assurance that the final amounts declared for the FIs are eligible in line with **Art. 42 CPR**
- **Guidelines on the closure 2022/C/8836 of 7/12/2022, § 12.4.1:**
  - ❖ *AA to obtain assurance that the final amounts declared at closure are eligible*

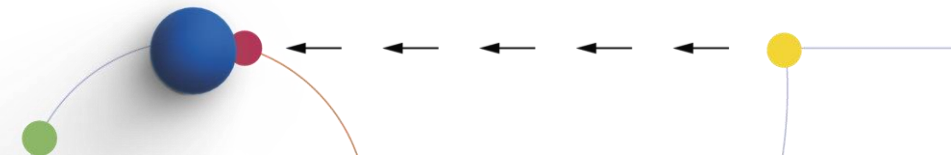




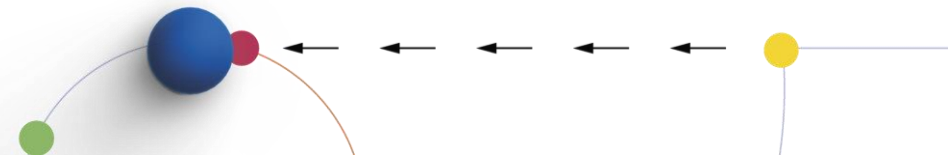
# ADVANCES - AUDIT CASCADE



- *Audits during the programming period: system audits, audits of operations during which implementation thresholds for tranches are checked*
- *Audits at closure: closure audits covering incurred expenditure not covered during previous audits (**Assurance gap**)*
- **Exception:** *No audits shall be conducted at the level of the EIB or other international financial institutions.*
  - ✓ *Reliance on external auditors of the EIB/EIF*



- **Not all FIs** must be **audited** by closure BUT **no FI** shall be **excluded** from the **random selection**
- **Grouping** of FIs is possible => the results applicable to the group
- **Sample based on statistical selection method** of investments and MCF =>>  
**Sample size** based on:
  - ✓ **statistical formulas** or
  - ✓ a **simplified off-the-shelf method** presented in the sampling annex to the FI audit methodology (30 items if selection covers all expenditure incurred or, in case of FI already audited, 10 items from the incurred expenditure not covered by the previous audits)



- **STEP 1: Select FIs to be audited at closure**

## Option 1

- **Random selection of FIs** out of the total number of FIs for the progr. period  
(*Sampling method:* Equal-probability-selection or probability proportional to size)

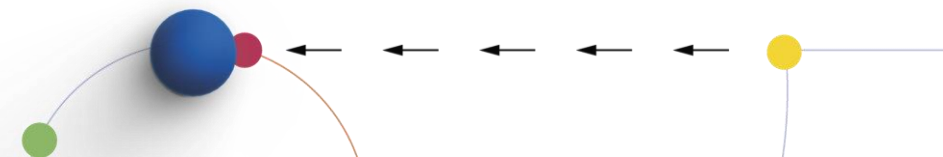
## Option 2

- **Sub-step 1:** Selection of FIs based on **professional judgement\***
- **Sub-step 2: complement by random selection** (cf. option 1)

## Option 3

- Check **all FIs**

*\* Example of Criteria: number and complexity of FIs, level of absorption, audit work already done within system audits and audit of operations, risk of irregularities based on previous audit work*



- **STEP 2: Selection of investments / FIs other incurred expenditure**

**OPTION 1 + OPTION 2 +  
OPTION 3**  
**Audit each selected FI  
separately**

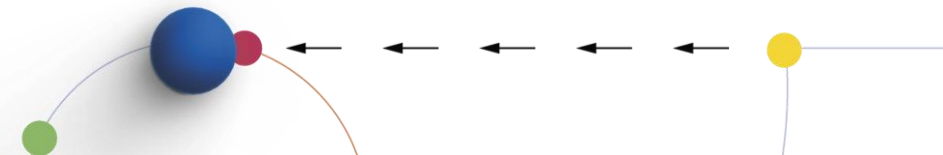
- Number of items to be audited for each selected FIs in case of simplified method: 30 items /10 items

**OPTION 1 + OPTION 2 +  
OPTION 3**  
**Partial grouping**

- Sample based on the grouped items
- The selected FIs not grouped will be audited per each instrument

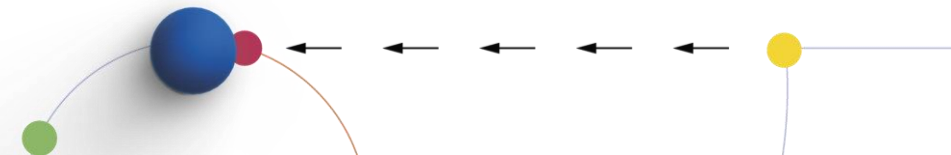
**OPTION 1 + OPTION 2**  
**Group all selected FIs**  
**OPTION 3**  
**Group all FIs**

- One single sample size





- ❖ **What will be your approach to sampling at closure and how you intend to gain assurance on the eligibility of expenditure for FIs at closure?**
- ❖ **What are the challenges at closure in relation to FIs?**



A decorative graphic consisting of several colored dots (blue, green, orange, white, yellow) connected by thin lines, forming a network-like structure across the top and right sides of the slide.

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## Thank you

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## Thank you

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