



Control rules and principles on financial instruments

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Implementation of financial instruments: control and audit framework

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*Sofia 06.06.2018
4th annual EU conference on
EAFRD financial instruments
for agriculture and rural development
in 2014-2020*

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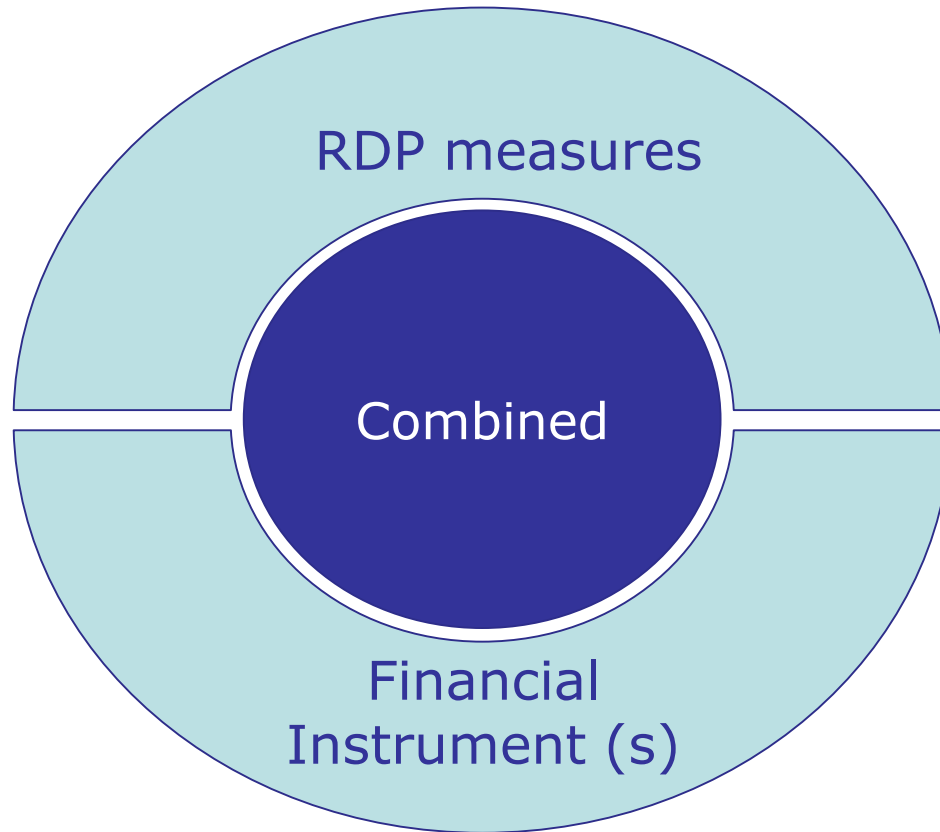
0. Background

- There is limited experience in auditing the Financial Instruments in the DG AGRI-H directorate
 - The audit strategy is still being shaped
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- DG REGIO, that is much more advanced and familiar with this subject, is currently finalising its own strategy for auditing Financial Instruments for the 2014-2020 programming period
 - DG AGRI audit strategy will be aligned with DG REGIO's one

1. Important to remember

- a financial instrument is **not an RD measure**, it is a means for easing the implementation of RD measures
- the **beneficiary** of the EAFRD support **is the financial instrument** (the Fund Manager), not to be confused with the final recipient
- DG AGRI audits review the Paying Agency's procedures in relation to the payments done to the beneficiaries. In normal circumstances, the audit scope does not extend further than this.

2. Two audit angles

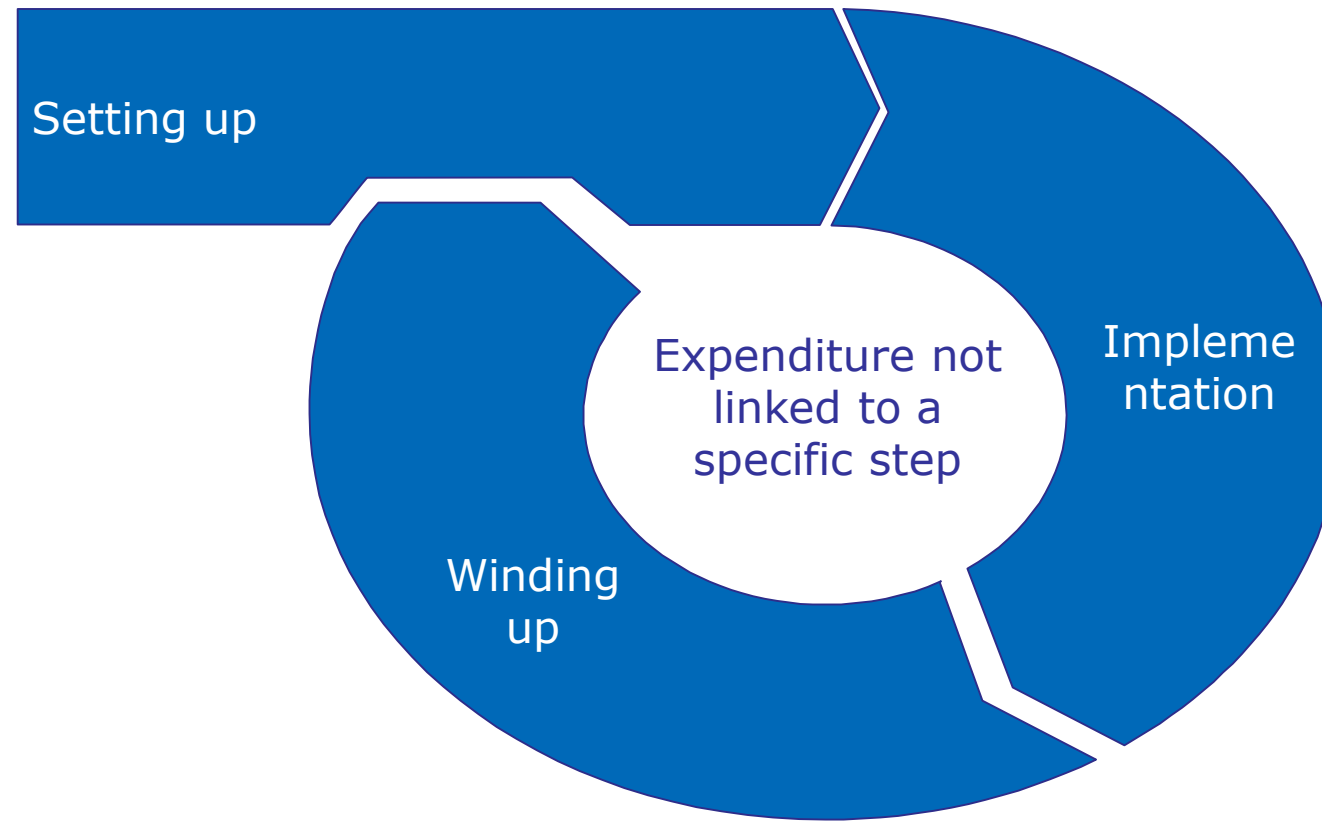


- the subject of DG AGRI audit will remain the **Paying Agency**
- depending of the angle chosen, the **audited procedures**, the nature of the transactions selected will be **different**

3. Audit angle focussing on RDP measures

- the focus of the audit are the **final recipients** (the "traditional beneficiaries")
- for what concerns the eligibility, selection,... → **business as usual**
- typically for operations with combined co-financing: only a part of the support received by the final recipients will come from the financial instrument.
Therefore, in addition to the traditional audit scope:
 - is the operation **eligible** for FI support (seen from RDP viewpoint)?
 - calculation of the **Gross Grant Equivalent**
 - respect of the **aid intensity ceiling**

4. Audit angle focussing on FIs



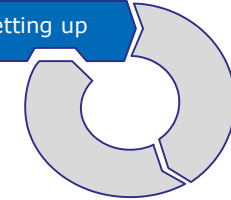
4. Audit angle focussing on FIs

4.1 – Setting-up step

- **ex-ante** assessment
 - Art. 37(2) of Reg. 1303/2013 (CPR)
 - market failures
 - no market distortion
 - required level of the funding
 - ...

- selection of the Fund Manager/Financial Intermediaries
- management costs and fees
- interests and gains
- Gross Grant Equivalent
- first 25% instalment

Procedures in place at the
Paying Agency for checking
this?



4. Audit angle focussing on FIs

4.1 – Setting-up step

Clear **separation of functions** between:

→ appointing the
Fund Manager/
Financial
Intermediaries

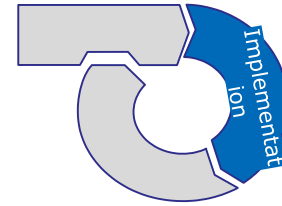


→ paying the
funding to the
Financial
Instrument



→ checking

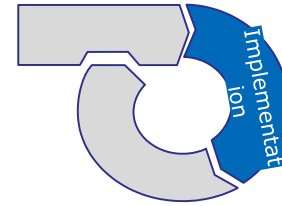




4. Audit angle focussing on FIs

4.2 Implementation step

- the audit history will determine the scope:
 - previous step was the setting-up or an instalment
 - management fees & costs, interests & gains and GGE
 - **calculation** method?
 - only their **amount**?
 - **changes** occurred since the last audit?
- the instalments paid to the FI are **eligible (or not) in block**: fully eligible or fully not eligible, depending on the eligible character of the expenses declared by the Fund Manager
 - Fund Manager's responsibility to request for a subsequent tranche **only when** it has **enough eligible expenses** (60%-85% thresholds including a safety margin)
 - Paying Agency's **responsibility to check it**
 - an audit could lead to asking for the **reimbursement of an instalment**



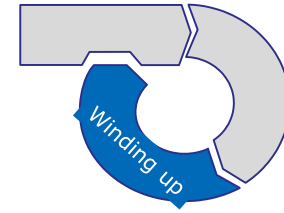
4. Audit angle focussing on FIs

4.2 Implementation step

- DG AGRI will audit the **control procedures the Paying Agency** has put in place in order to assess this eligibility
- as for any transaction audited in view of assessing the robustness of the Paying Agencies control procedures, DG AGRI will also review the **Fund Manager's procedures**
 - for **granting** a Financial Instrument support to the final recipients,
 - for **calculating its level**
 - as well as the **quality of the documentation** delivered to the Paying Agency

4. Audit angle focussing on FIs

4.3 Winding-up step



- Much **too early** for discussing this today



5. Certification Body

- the payments to the FIs are in the population to be audited by the CB
- the **likelihood** that these payments are selected by the Certification body **is high**
- idem by DG AGRI

- the **scope** of the CB audit should be **similar** to what is described earlier
- the existence of one audit does not prevent from having the other one



CERTIFIED

6. Summary

- Do not forget that the subject of DG AGRI audit remains the **Paying Agency**
- As regards the Financial Instrument, the audits look at the **eligibility** of the FI as a **beneficiary** as well as at the eligibility of the **amounts** paid to it
- Consequences: the audited Paying Agency's procedures are those in connection with
 - selection of the **Fund Manager**
 - eligibility of the **FI charges** (management fee...)
 - eligibility of the **amounts transferred** to the FI as funding
 - the instalments paid to the FI are eligible (or not) in **block**: fully eligible or fully not eligible

