



AUDIT METHODOLOGY¹
FOR AUDITING FINANCIAL INSTRUMENTS
PROGRAMMING PERIOD 2021-2027

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¹ **DISCLAIMER.** This note expresses the views of the Commission services and does not commit the European Commission. Only the Court of Justice of the European Union is competent to authoritatively interpret Union law.

TABLE OF CONTENTS

ABBREVIATIONS3

DEFINITIONS.....3

1 INTRODUCTION.....4

2 LEGAL BASIS5

3 MANAGEMENT AND CONTROL FRAMEWORK FOR FINANCIAL INSTRUMENTS7

3.1 FI implemented directly by the MA/IB (Article 59(1) CPR)8

3.2 FI implemented under the responsibility of the MA/IB (Article 59(2) CPR)8

4 AUDIT METHODOLOGY FOR FINANCIAL INSTRUMENTS 10

4.1 System audits.....10

4.2 Audits of operations 11

4.2.1 Sampling considerations 11

4.2.2 Design and set-up of the financial instruments 13

4.2.3 Implementation of the FI.....14

4.2.3.1 Audit work on the eligibility of expenditure 14

4.2.3.2 Use for intended purpose..... 15

4.2.3.3 Audit work as regards the combination of financial instruments and grants 16

4.2.3.4 Audit work as regards the interest and other gains generated from the Funds to financial instruments 17

4.2.3.5 Audit work as regards the re-use of resources attributable to the support from the Funds 17

4.2.3.6 Audit work to ensure compliance with Article 50 CPR 17

4.2.3.7 Audit work on reporting 18

4.3 Specificities of audits of financial instruments implemented by EIB and other International Financial Institutions.....18

ABBREVIATIONS

Abbreviation	Full name
AA	Audit Authority
CPR	Common Provisions Regulation – Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021
EIB	European Investment Bank
FIs	Financial instruments
HF	Holding Fund
IB	Implementing Body
IFI	International Financial Institution
MA	Managing Authority
SF	Specific Fund

DEFINITIONS

Term in the context of FI	Definitions cf. Article 2 CPR ²
Operation	An operation in the context of financial instruments , is a programme contribution to a financial instrument and the subsequent financial support provided to final recipients by that financial instrument.
Final recipient	A legal or natural person receiving support from the Funds from a financial instrument.
Body implementing a financial instrument	A body, governed by public or private law, carrying out tasks of a holding fund or specific fund.
Holding Fund	A fund set up under the responsibility of a managing authority under one or more programmes, to implement one or more specific funds.
Specific Fund	A fund through which a managing authority or a holding fund provides financial products to final recipients.
Leverage effect	The amount of reimbursable financing provided to final recipients divided by the amount of the contribution from the Funds.
Multiplier ratio	In the context of guarantee instruments means a ratio established on the basis of a prudent ex ante risk assessment in respect of each a guarantee product to be offered, between the value of the underlying disbursed new loans, equity or quasi-equity investments, and the amount of the programme contribution set aside for guarantee contracts to cover expected and unexpected losses from these new loans, equity or quasi-equity investments.
Management costs	Direct or indirect costs reimbursed against evidence of expenditure incurred in the implementation of financial instruments.
Management fees	A price for services rendered, as determined in the funding agreement between the managing authority and the body implementing a holding fund or a specific fund; and, where applicable, between the body implementing a holding fund and the body implementing a specific fund.

² Regulation (EU) 2021/1060 of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy (OJ L 231/159, 30.06.2021).

1 INTRODUCTION

Financial instruments (FI) help deliver cohesion policy to achieve territorial cohesion through innovation, digitalisation, economic transformation and support to small and medium-sized businesses as well as foster a greener, carbon free Europe and investing in energy transition, renewables and the fight against climate change.

This document presents the audit methodology for the audit of FIs under the 2021-2027 programming period. The audit work is detailed in the checklist in the [Annex](#) to this audit methodology.

The present audit methodology is prepared with the objective to assist the Commission auditors and AAs in their audits pursuant to Articles 70 and 77 of CPR. It sets out the overall audit approach of the Commission services to carrying out system audits and audits of FI operations, in accordance with the applicable rules and internationally accepted audit standards. It focuses on the key risk areas that might have a material impact on the legality and regularity of the expenditure related to the FI operations. Compared to 2014-2020, payment applications include **expenditure incurred for financial instruments that is subject to the same assurance process as any other type of expenditure**³. This audit methodology aims to clarify the specificities of the audit work related to the nature of the FI operations and is relevant for audits of operations and system audits. System audits with respect to programmes providing support in the form of FIs should be conducted based on the key requirements listed in the CPR and the **methodological note on the assessment of the management and control systems**⁴.

There are specific risks linked to the different FI implementation options, i.e. FI implemented directly by the MA or under its responsibility, including aspects of the selection of bodies implementing FI and the direct award of contract for the implementation of the FI according to Article 59(3) CPR (e.g. a publicly-owned bank or institution).

Typical risk areas include:

- (i) the eligibility of expenditure, eligibility of final recipients, eligibility of management costs and fees including aspects of the selection of bodies implementing FI, i.e. HF and/or SF as applicable;
- (ii) compliance with State aid rules;
- (iii) compliance with public procurement rules in the selection of bodies implementing FI;
- (iv) combination of the different types of financial products (loans, (quasi-)equity investments, guarantees) with grants under Article 58(5) CPR.

This document is organised around three main sections. Section 2 below presents the legal basis for audit of FI operations. Section 3 sets out the management and control framework for FIs. Section 4 lays down the audit methodology based on identified risks.

³ Methodological Note on the Preparation, Submission, Examination and Audit of Accounts programming period 2021-2027.

⁴ Methodological Note for the assessment of the Management and Control Systems in the Member States.

2 LEGAL BASIS

The legal basis for audits of operations and system audits for programmes providing support in the form of FI is set out in Article 81(3).

The set-up and implementation of FIs are governed by the Articles 58-62, 68 and 92 of the CPR.

According to Article 81(3) of the CPR, the AA carries out system audits and audits of operations in accordance with Article 77 and Article 79 CPR at the level of bodies implementing the FIs (body implementing a HF or body implementing a SF) and in the context of guarantee funds, at the level of bodies delivering the underlying new loans. For guarantee funds, further rules are set out in Article 81(4) CPR.

When carrying out audits, the Commission and the AAs shall take due account of the principles of single audit in line with Article 80(1) of the CPR. In that respect, the Commission and AAs shall first use all the information and records referred to in Article 72(1)(e), including results of management verifications, and only request and obtain additional documents and audit evidence from the beneficiaries concerned where, based on their professional judgement, this is required to support robust audit conclusions.

The auditors take into consideration in their audit work the management verifications carried out by the MAs in accordance with Article 81(1) CPR. The MA carries out management verifications⁵, in accordance with Article 74(1) CPR, only at the level of bodies implementing the FIs (body implementing a HF or body implementing a SF) and in the context of guarantee funds, at the level of bodies delivering the underlying new loans.

When the MA implements FI directly in line with Article 59(1) CPR, the management verification should be carried out at the level of MA in accordance with Article 74(1) CPR. As the MA is also a beneficiary, arrangements for management verifications should ensure appropriate separation of functions in accordance with Article 74(3) CPR.

The AAs shall carry out system audits and audits of operations in accordance with Article 77, 79 or 83, as appropriate, at the level of bodies implementing the financial instrument and, in the context of guarantee funds, at the level of bodies delivering the underlying new loans when the situation(s) enshrined in Article 81(4) of the CPR are met. It results that no audits should be conducted at the level of final recipients as outlined in Article 81(3) of the CPR.

The following situations may have an impact on the work of the AAs:

- when **enhanced proportionate arrangements** apply and the programme authorities decide to make use of the options offered under the provisions of Article 83 CPR.
- when the **principles of single audit** and proportionality are applied in order to avoid duplications of audits and management verifications of the same expenditure (Article 80 CPR).

⁵ Administrative verifications in respect of payment claims made by beneficiaries and on-the-spot verifications of operations.

- when reliance is put on verifications carried out by **external bodies** and on the audit results of external auditors of bodies implementing the FI for the purposes of the overall assurance, in accordance with Articles 81(1) and (3) CPR.

No management verifications or audits should be conducted at the level of the EIB or other international financial institutions, in accordance with Articles 81(2) and (5) CPR.

Any FI operation must be in compliance with the relevant programme specific objectives under priorities, eligibility rules, the funding agreement, provisions related to legality and regularity of expenditure, co-financing elements and visibility and publicity requirements.

Information about the functioning and the lifecycle of FI is available on the fi-compass website at the following link: <https://www.fi-compass.eu/sites/default/files/publications/ESIF-factsheet-developing-action-plan.pdf>.

3 MANAGEMENT AND CONTROL FRAMEWORK FOR FINANCIAL INSTRUMENTS

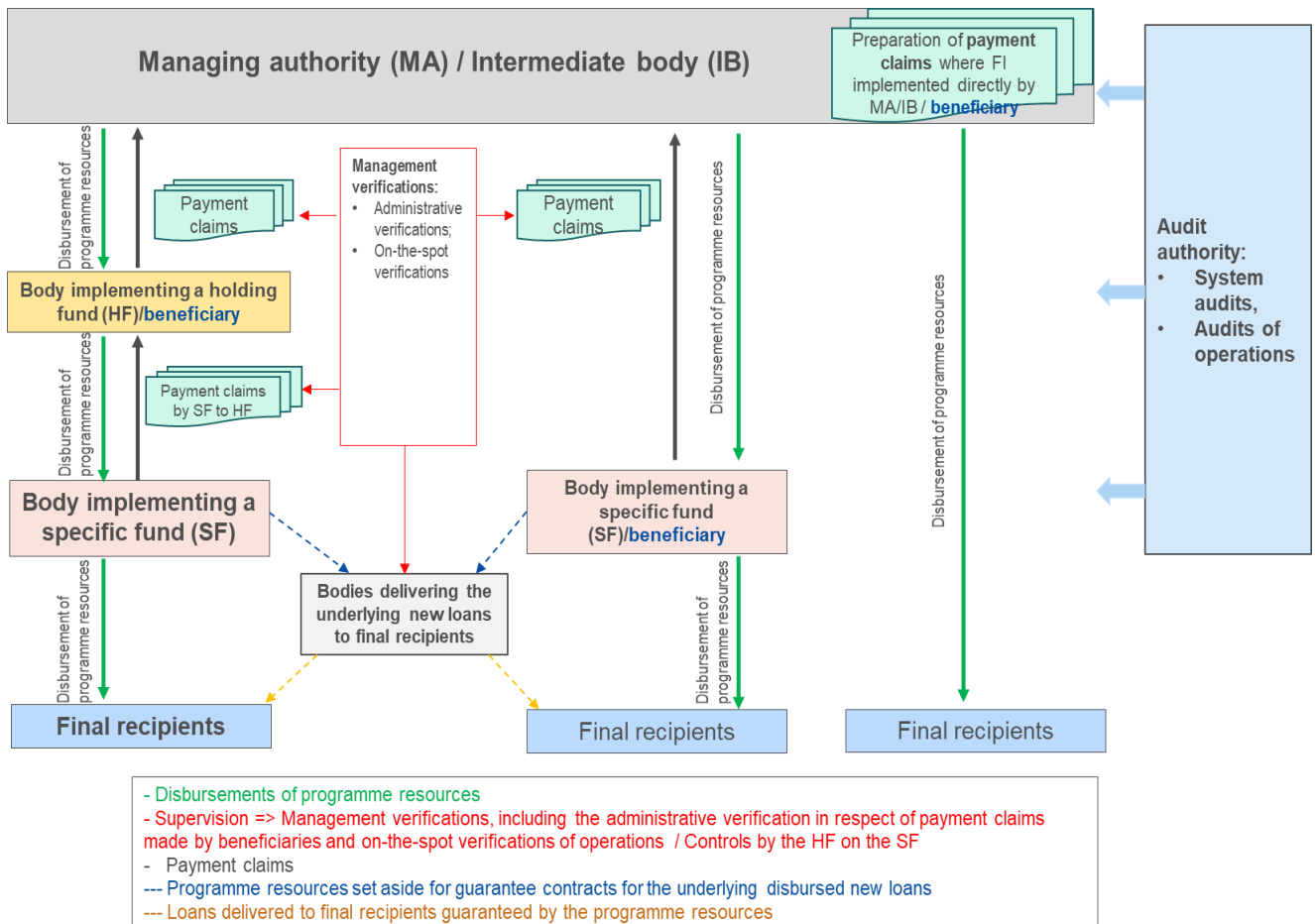
In order to perform the audit work, the AAs should understand the management and control system (MCS) and the work carried out by the responsible bodies (i.e. MA, bodies implementing FIs and in the context of guarantees, the bodies delivering the underlying new loans).

This section outlines the structure of the MCS for the set-up and implementation of FI, including the responsibilities of the concerned bodies.

FI may be implemented:

- (i) directly by the MA along the terms and conditions of the programme contribution to the FI set out in a **strategy document** (Annex X CPR); or
- (ii) under the responsibility of the MA along the terms and conditions of the programme contribution set out in a **funding agreement** (Annex X CPR).

The management and control framework for FI can be summarised as follows:



3.1 FI IMPLEMENTED DIRECTLY BY THE MA/IB (ARTICLE 59(1) CPR)

The MAs should exercise management verifications in case the FIs are implemented **directly by the managing authority**. As the MA is also a beneficiary, arrangements for management verifications should ensure appropriate separation of functions (Article 74(3) CPR). The management verifications should consider the strategy document referred to in Article 59(1) CPR which sets out the terms and conditions of the programme contribution to the financial instrument. The management verifications should be risk based and should cover at least:

- verifications on payment claims, including reconciliations of the total amounts disbursed, and the amounts set aside for guarantee contracts as referred to in Article 68(1)(a) and (b) CPR;
- verification of the eligibility of final recipients (e.g. verifications on SME status, when applicable);
- verification of the eligibility of the investments supported. For example, on the basis of business plans (or equivalent documents) the following checks could be made: (i) the potential for financial viability of the investment and (ii) the intended purpose of the support;
- compliance by the MA with the visibility requirements stipulated in Article 50 CPR (see below section 4).

3.2 FI IMPLEMENTED UNDER THE RESPONSIBILITY OF THE MA/IB (ARTICLE 59(2) CPR)

The MA should establish a management and control framework to regularly monitor that the implementation of FI by HF or by SF (when without a HF structure) comply with the programme and the funding agreement.

The body implementing a HF is expected to report to the MA about the implementation of FI. The MA should exercise its supervisory role through adequate checks which could include verifications or, where appropriate re-performance, of checks put in place by the body implementing a HF. The verification or re-performance of these checks is to determine whether reliance can be put on the work performed by the body implementing a HF. The verification or re-performance should include both risk-based administrative verifications and on-the-spot verifications. When there is no body implementing a HF, the supervision is exercised on the body implementing a SF.

It is expected that management verifications referred to in Article 74(1) CPR will include the following elements:

- Risk-based⁶ administrative verifications on the amounts included in the payment claims sent by the beneficiaries, i.e. bodies implementing a HF or a SF.

⁶ Proportionate to the risks identified ex-ante, in accordance with Article 74(2) CPR.

- The list of eligible transactions should be annexed to the payment claim from the body implementing a HF or a SF. It is recommended that the list of transactions which is annexed to the payment claim includes information on the final recipients (name, type) and on the loans/investments (amount, maturity date, purpose, date of disbursement). The MA is expected to obtain and review this information from the HF/SF.
- On-the-spot verifications can be performed proportionate to the risks and are carried out at the level of the body implementing the HF (except for EIB group) or the SF in the absence of the HF. Checks at the level of the bodies implementing a SF (where existing together with a HF structure) could be performed and adjusted in time depending on the risks identified⁷. MA could also join the on-the-spot verifications if such are carried out by the HF on the body implementing the SF and if foreseen in the funding agreement.
The MA may decide to rely upon on-the-spot verifications carried out by external bodies, provided the necessary assurance on the competence and quality of the work of these external bodies is obtained.

In accordance with the obligatory elements for the audit trail for FI under Annex XIII CPR, the bodies implementing FIs bear the responsibility that supporting documents are available.

The MA has the ultimate responsibility for the implementation of FI. The eligible expenditure to be included by the body carrying out the accounting function in payment applications to the Commission (to be included by the AA in the audited population) is decided at MA level.

⁷ These are risks related to the implementation of FI, different from the risks linked to the financial products. FI may intervene in areas where the expected level of losses may be very high. This does not mean that if the level of loans not repaid or paid with delays or losses in venture capital are high, this automatically implies a high level of risk for management verifications.

4 AUDIT METHODOLOGY FOR FINANCIAL INSTRUMENTS

In line with the provisions of Article 77(1) and 81(3) CPR, the AAs are responsible for carrying out *inter alia*:

- *system audits* on the proper functioning of the management and control system at the level of the MA and bodies implementing FIs (where applicable); and
- *audits of operations* on an appropriate sample of operations based on the declared expenditure.

4.1 SYSTEM AUDITS

According to Article 81(3) CPR the AA carries out system audits in accordance with Article 77 and 79 or 83, at the level of bodies implementing the FI and, in the context of guarantee funds, at the level of bodies delivering the underlying new loans.

System audits are performed at the level of MA/IB and the bodies implementing FI (HF and SF and the bodies delivering the underlying new loans, if necessary, depending on the availability of the documents at the level of HF or SF, and the identified risks) in line with the responsibilities of the bodies involved in the implementation of FI and the list of controls performed at each level (see representation of MCS above).

The scope of **system audits at the level of the MA** includes an assessment of the controls to be carried out by the MA at each stage of implementation of the FI, the review of the work performed by the body implementing the HF, if applicable, and by all or some bodies implementing the SF in respect of the relevant funding agreement. System audits focus on the functioning of the programme's management and control system and not on individual operations. The tests of controls at the level of the MA and its IBs, where applicable, may include checks of procedures and of the functioning of the management and control system by conducting walk-through tests. Due consideration should be given to the fact that credit institutions are subject to financial supervision and are regulated institutions and this should be considered in the risk assessment if applicable. This approach should also be applicable to bodies implementing FI or delivering underlying new loans, which are subject to financial supervision and (or) are regulated institutions in accordance with EU or national laws. Nevertheless, the bodies implementing FI are expected to embed in their usual banking practice the necessary CPR requirements for FI implementation.

System audits at the level of the bodies implementing FI are expected to be based on an audit strategy and take into consideration specific risks, such as a large number of implementing bodies. System audits should verify the systems put in place by the bodies implementing a HF and the SF.

4.2 AUDITS OF OPERATIONS

Expenditure related to financial instruments may fall in the sample of the AA. This will cover both advance payments and subsequent incurred expenditure items since expenditure under FIs is now declared in the overall population of transactions underlying payment applications to the Commission).

The audit work to be carried out on FI expenditure falling in the AA's sample (or in any complementary sample, as needed) should be adjusted to the different stages of implementation of the FI.

4.2.1 Sampling considerations

The audits of operations are carried out based on the expenditure declared to the Commission. The standardised off-the-shelf sampling methodologies used for the selection of the main sample and modalities to cover one or more programming periods are laid down in the Commission Delegated Regulation EU) 2023/67⁸.

The general sampling principles for the programming period 2021-2027 remain the same as those used for the programming period 2014-2020, in the sense that only expenditure declared to the Commission is included in the audit population. However, there are different rules concerning the declaration of FIs expenditure in payment applications to the Commission which impacts the audit population, as clarified below.

The amounts paid to FIs and included in the first payment application that covers expenditure for FIs under the relevant funding agreement (advance for FIs) may amount up to 30 % of the total amount of programme contributions committed to the FIs under the relevant funding agreement, in accordance with the relevant priority and category of region, where applicable. The amounts included in subsequent payment applications submitted during the eligibility period cover the eligible expenditure as referred to in Article 68(1) CPR.

The audit population covers the total amount of eligible expenditure declared to the Commission in payment applications during an accounting year, which can include advances and incurred eligible expenditure for FIs in line with Article 92(2) CPR. In consequence, any legality and regularity issue might potentially trigger a financial impact on the error rate.

By contrast, the amounts of eligible expenditure clearing the advance and disclosed only for information purposes in Appendix 1 to the payment applications in line with Article 92(3) CPR, will not be part of the audit population used for the selection of the main sample.

Stratification of expenditure declared for FIs remains optional and the decision in this respect should be taken by the AAs based on their professional judgment.

⁸ Commission Delegated Regulation EU) 2023/67 supplementing Regulation (EU) 2021/1060 of the European Parliament and of the Council by establishing standardised off-the-shelf sampling methodologies and modalities to cover one or more programming period (*OJ L 7, 10.1.2023*).

Audits of advances within audits of operations:

As the amount included in the first payment application (up to 30% of the programme contribution committed in the funding agreement (Article 92(2)(a) CPR)) is not linked to any specific implementation progress, the audits of the advance do not require checks of the incurred expenditure.

In case the ceiling of 30% stipulated in Article 92(2)(a) CPR is not respected, the unjustified amount will be considered irregular. Errors regarding this first payment application can occur in particular in one of the following situations:

- (i) the amount was not paid to the body implementing the financial instrument; and
- (ii) non respect of the ceiling of 30% of the total amount of programme contributions committed to the financial instruments under the relevant funding agreement according to Article 59(5) CPR.

As regards the possible calculation of those erroneous amounts towards the total error rate, only amounts corresponding to irregularities may be taken into account. Whether the expenditure concerned corresponds to an irregularity depends *inter alia* on the nature of errors; in case of delimited systemic errors and uncorrected anomalous errors, they are added to the total error rate. Moreover, irregular amounts would require withdrawals from the expenditure declared to the Commission.

Errors found in expenditure clearing the advance are not reflected in total error rates because the audit population and the total error rate are established for expenditure declared to the Commission. However, any errors found in such expenditure must be corrected in Appendix 1 to the payment application⁹.

Audits of incurred expenditure within audits of operations:

If the sampling unit selected in the sample consists of incurred expenditure for a financial instrument operation - in line with Article 7 of the Commission Delegated Regulation EU) 2023/67, the auditors may check it exhaustively (in case of a limited number of investments/other expense items) or by application of a sub-sampling methodology.

Example:

In the first accounting year, the AA selected for the sample 30 operations and 2 sampling units of the sample related to FIs (no stratification for FI expenditure): an advance of EUR 2 million and an incurred amount declared to the Commission in the amount of EUR 100,000. During the audit of the advance of EUR 2 million, the AA was not checking any incurred expenditure and concluded that the conditions for payment of the advance are fulfilled, and the advance is eligible. During the audit of the second sampling unit (incurred amount of EUR 100,000), the AA has detected an irregular loan of EUR 5,000 out of EUR 100,000 of the loans included in expenditure of that sampling unit. Consequently, for that sampling unit, the error of EUR 5,000 will be considered for the calculation of the TER of the expenditure declared to the Commission.

⁹ Same approach to be applied for columns (C) and (D) in Appendix 3 to the accounts.

Audits of expenditure clearing the advance:

The AAs are expected to audit the amounts of incurred expenditure corresponding to cleared amounts as referred to in Article 92(3) CPR (disclosed in columns (C) and (D) in Appendix 1 to the payment application), but outside the audit of operations. Assurance on the legality and regularity of this type of expenditure not included in payment applications may be obtained by the AAs through specific audit tests during audits of accounts and system audits to be conducted during the accounting year when the clearance of the advance takes place. The AAs are expected to report on the outcome of these checks in the annual control reports. The audit work on the amounts clearing the advance should be performed no later than in the final accounting year.

4.2.2 Design and set-up of the financial instruments

When an FI operation is selected in the sample of the AA, the audit work should cover the design and set-up phases of FIs (ex-ante assessment, funding agreement, monitoring and control arrangements).

The audit work should take into consideration *the ex-ante assessment* drawn up under the responsibility of the MA, in line with the provisions of Article 58(3) CPR. The ex-ante assessment must be completed before MA makes programme contributions to the FI. Deviations from the proposed amounts of programme contribution, the estimated leverage effect, the proposed financial products or the proposed target group in the ex-ante assessments as compared to those set out in the funding agreement, are possible where they are duly justified by the MAs.

The audit work should also verify *the selection* by the MA *of the body implementing a FI* (body implementing a HF or body implementing a SF). The MA may directly award a contract for the implementation of a FI to bodies set out in Article 59(3) CPR.

For all aspects concerning public procurement, the auditors should use the applicable section of the **public procurement checklist**.

FIs must comply with State aid rules at all levels: body implementing a holding fund (if any), bodies implementing specific funds, final recipients and co-investors. State Aid should be considered at different levels: bodies implementing FI, private investors (who are co-investing and may receive aid) and final recipients. For all aspects concerning the in-depth check of the relevant State aid rules, the auditors should use the applicable sections of the **State aid checklist for FIs**.

The audit work should then focus on the terms and conditions included in the *funding agreements* and *strategy documents*, in accordance with Annex X CPR. Audit work should cover the requirements and procedures for managing the contribution provided by the programme, including requirements for fiduciary accounts or separate blocks of finance as referred to in Article 59(2)(b) CPR.

The audit of the set-up of FI may be performed after the first *payment application* declared to the Commission in accordance with Article 92(2)(a) CPR. When the first payment application was not selected for an audit of operation or was not covered by a system audit, the audit work on the set-up may be performed at a later stage, together with an audit work on subsequent payment applications.

Separate accounts or accounting codes for expenditure declared under each priority / specific objective should be made available by the bodies implementing the FI and maintained for auditing.

4.2.3 Implementation of the FI

The audit work focuses on the following:

4.2.3.1 Audit work on the eligibility of expenditure

When auditing the expenditure on FIs incurred and declared to the Commission, the audit work should include checks on the eligibility of such expenditure.

The eligibility rules of FI are set out in Article 68 CPR. Further eligibility requirements may be set out in Fund-specific Regulations and under the respective programme and funding agreement.

The audits of operations at the level of the disbursed expenditure should cover the eligibility of final recipients and their projects audited against the eligibility rules (eligible area, eligible expenditure, SME status, State aid aspects, etc.) and the conditions of the investment decision. The eligibility of management costs and fees should also be part of the audit of operations (Article 68(1)(d) CPR).

In certain cases, the programme may have specific eligibility conditions, e.g. a programme priority focusing only on support to enterprises eligible under Article 21 (risk finance aid) GBER, support to energy efficiency measures under Article 39 GBER.

The audit work should include checking the eligibility of different types of expenditure, such as:

- **payments to final recipients** (for example, loans actually disbursed) and to the benefit of final recipients, and the compliance of those payments with the funding agreement and related investment decisions;
- **resources set aside for guarantee contracts**, whether outstanding or having already come to maturity, in order to honour possible guarantee calls for losses, calculated based on a multiplier ratio established for the respective underlying disbursed new loans, equity or quasi-equity investments in final recipients, and the compliance of those resources set aside for guarantee contracts with the funding agreement and related investment decisions;
- **payment of management fees and reimbursement of management costs** incurred by the bodies implementing the FI. As concerns the declaration of eligible management costs and fees to the Commission, these have to respect either the thresholds determined in the second and third paragraph of Article 68(4) where the body implementing FI is awarded the contract directly, or eligible management costs and fees are to be declared according to the conditions agreed in the funding agreement when the body implementing FI was selected in a competitive tender. In case of direct award, the final level of management costs and fees can be known only at the moment of the clearance of the amount included in the first payment application ('advance') based on the level of implementation of the FI (i.e. total amount of programme contributions disbursed to final recipients) under the eligibility period.

Therefore, the audit work aims to confirm that the expenditure declared to the Commission is eligible according to Article 68 CPR (taking into account also Articles 63 and 64 CPR¹⁰) and it does not exceed the sum of the total amount of support from the Funds paid to the FI and the corresponding national co-financing (Article 68(6) CPR).

4.2.3.2 Use for intended purpose

The evidence that the support provided through the FI is to be used for intended purpose is one of the elements of the audit trail for FIs. Therefore, the auditors should verify this audit trail to gain assurance that the bodies implementing FI have provided support for eligible expenditure.

The wording and requirements with regard to ‘use for intended purpose’ have changed in the 2021-2027 period compared to the 2014-2020 period. Annex XIII/II.10 CPR provides that one of the obligatory elements of the audit trail for a FI is ‘*evidence that the support provided through the FI is to be used for its intended purpose*’. There is therefore no requirement in the CPR that the audit trail includes evidence that the support **was used** for its intended purpose as it was in 2014-2020 programming period¹¹.

Once evidence that the support provided ‘is to be used for its intended purpose’ is available at the level of the body implementing the instrument, no further verifications of this point is needed. Furthermore, there is no requirement for a subsequent check that the support was actually used for its intended purpose.

As regards audit trail for bodies implementing FIs, Annex XIII/§II lists the respective documents and elements that must be kept and produced by such bodies in the event that they are requested by the MA in the course of management verification at the level of that body.

The bodies delivering the support to final recipients should check and document whether the support provided through the FIs is to be used for its intended purpose. Those checks will be made based on the following elements:

- A **funding agreement** or a **strategy document** which should define the terms and conditions of programme contributions, including specific objectives and targeted results of the relevant priority. Particular attention should be placed on investment strategy and policy, including the final products to be offered.
- A **business plan** or equivalent documents (such as loan application, assessment of the purpose of the loan, etc.) submitted by the final recipients. The business plan should specify how the support from the FIs will be used. The bodies implementing a FI should check whether the intention to use the support, as described in the business plan, does not deviate from the elements defined in the funding agreement or strategy documents.
- Evidence of the **assessment conducted by the body implementing the FI** (the results of the analysis conducted by these bodies) and the related **investment decision** containing the conditions for the support.

¹⁰ Particular attention should be paid to the eligibility of purchase of land and VAT.

¹¹ Article 9(1)(e)(xi) of Regulation (EU) 480/2014.

- The **contractual arrangements** (e.g. loan contract) between final recipients and the bodies implementing the FIs (or bodies delivering the underlying new loans in the context of guarantees).

4.2.3.3 *Audit work as regards the combination of financial instruments and grants*

Two possible combinations of support are allowed by the CPR:

- Grants can be combined with FIs in **one single operation** (Article 58(5) CPR), within a single funding agreement. In such a case, the rules applicable to FIs apply to the entire FI operation, including to the grant part. Contrary to the 2014-2020 period¹², all type of grants can be combined if directly linked and necessary for the FI and do not exceed the value of the investments supported by the financial product. Both forms of support should be provided by the body implementing the FI.

The audit work on combinations of FIs and grants in one operation should ensure in accordance with Article 58(5), (6) and (7) that:

- the programme support in the form of grants is directly linked and necessary for the FI operation based on the outcome of the ex-ante assessment and the investment strategy/business plan agreed in the funding agreement;
 - support from the FIs and grants are covered by a single funding agreement;
 - the programme support in the form of grants does not exceed the value of the investments supported by the financial product. This should be observed at the level of the portfolio of the FI no later than the final accounting year (or an earlier accounting year if the FI is wound up earlier than the final accounting year);
 - separate records are maintained for each form of support. The body implementing the FI combined with the grant should ensure a distinct accounting and reporting of the two elements of the support;
 - the sum of all forms of combined support (e.g. grant component and the FI support) are not exceeding the total amount of the expenditure item concerned; and
 - the applicable State aid rules are respected.
- Grants can also be combined with FIs at the level of the final recipient in **two separate operations** (Article 58(4) CPR).
In case of combinations of FIs and grants in two separate operations, the FI has to be audited as explained in this audit methodology, and the audit of grant operations has to follow the methodology for grants. Particular attention should be paid to the avoidance of double declaration of the FI support. The CPR does not provide how the fulfilment of that requirement should be verified by programme authorities. It is the responsibility of the MA to set up and implement verification methods to check that requirement. The AA should pay particular attention to the risk of double declaration in its audits of operations and by taking into account the management and control system put in place by the MA. The audit work

¹² In the 2014-2020 period, FIs could only be combined with grants in one operation where the grants took the form of an interest rate, guarantee fee or technical support subsidy.

should ensure that separate records are kept for each source of support in accordance with Article 58(6) CPR.

The audit work should take into account that under Article 58(7) CPR, grants must not be used to reimburse support received from FI and FI must not be used to pre-finance grants. Auditors should verify that the Member States do not declare to the Commission an amount of eligible expenditure higher than the supported investment (e.g. loan and capital rebate should not be higher than the supported investment).

4.2.3.4 Audit work as regards the interest and other gains generated from the Funds to financial instruments

The audit work should ensure that the interest and other gains generated by support from the Funds to financial instruments are managed in accordance with the provisions of Article 60 CPR and are recorded in a separate account in accordance with the provisions of Article 59(9) CPR.

No later than in the final accounting year (or an earlier accounting year if the FI is wound up earlier than the final accounting year) the interest and other gains should be used by the bodies implementing FI in line with the provisions of Article 60(2) CPR. Nevertheless, as these are not programme resources, any deviation from the provisions of Article 60(2) CPR cannot impact the error rates reported in the annual control report.

Where it is identified that interest and other gains are not used as required by the provisions of Article 60(2) CPR, the AA should confirm in the (last) annual control report that those resources were deducted from the accounts submitted for the final accounting year or an earlier accounting year if the FI was wound up earlier than the final accounting year.

4.2.3.5 Audit work as regards the re-use of resources attributable to the support from the Funds

Audit work should ensure that the resources returned attributable to the Funds are managed in accordance with the provisions of Article 62 CPR and are recorded in a separate account in accordance with the provisions of Article 59(9) CPR.

4.2.3.6 Audit work to ensure compliance with Article 50 CPR

Audit work should be conducted on the compliance with the requirements on visibility according to Article 50 CPR.

Article 50(1)(a) and (b), the first sentence of Article 50(1)(d), Article 50(3) CPR apply to beneficiaries and bodies implementing financial instruments as defined respectively in Article 2(9)(e) and Article 2(22) CPR.

Article 50(1)(c) should be read together with the second subparagraph of Article 50(2). The second subparagraph of Article 50(2) provides that beneficiaries should, by way of contractual terms, i.e. in loan agreements signed with final recipients, ensure that final recipients comply with the requirements in Article 50(1)(c).

The provisions of Article 50(1)(c) explicitly stipulate that the requirement concerning the display of durable plaques or billboards concerns only physical investments and their physical

implementation, as well as the installation of purchased equipment. Support to working capital is outside of the scope of that provision, as it is intended to strengthen the general activities of a final recipient (e.g. an enterprise) without inducing any defined physical investment or purchase of equipment that would be considered a tangible asset. Equally, the provisions of this article do not apply to instances where the support is provided for the acquisition of intangible assets due to the absence of physical substance of these assets.

The second sentence of Article 50(1)(d) does not apply to financial instruments beneficiaries as that point applies only to natural persons.

Article 50(1)(e) applies to beneficiaries and bodies implementing financial instruments:

- where the FI operation is included in the list of operations of strategic importance; and
- in case of operations whose total cost exceed EUR 10 000 000.

When the above obligations are not respected and where remedial actions have not been put in place, the MA is required to apply measures according to Article 50(3) CPR, taking into account the principle of proportionality, by cancelling up to 3% of the support from the Funds to the operation concerned.

4.2.3.7 Audit work on reporting

Audit work should be conducted on the completeness and reliability of the data transmitted to the Commission in accordance with Article 42(3) CPR.

4.3 SPECIFICITIES OF AUDITS OF FINANCIAL INSTRUMENTS IMPLEMENTED BY EIB AND OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

The AAs are not to carry out audits at the level of EIB or other international financial institutions in which a Member State is a shareholder (Article 81(5) CPR), for FIs implemented by them.

The auditors should take into account the following documents provided by the EIB and other international financial institutions in which a Member State is a shareholder:

- **control reports** supporting the payment claims to the MA (Article 81(2) second subparagraph CPR);
- an **annual audit report** drawn up by their external auditors according to the template in Annex XXI CPR and sent to the Commission and to the AAs (Article 81(5) second subparagraph CPR) by the end of each calendar year. In the annual audit report, the external auditor will provide reasonable assurance on the set-up and effectiveness of the internal control system put in place by the EIB or other international financial institutions. The AAs will base their audit work on the assurance provided in this annual audit.

The AA should continue to carry out system audits and audits of operations in accordance with Articles 77, 79 or 83, as appropriate, at the level of bodies implementing the financial instrument and, in the context of guarantee funds, at the level of bodies delivering the underlying new loans.

The EIB or other international financial institutions provide the AAs/MAs with all the necessary documents available to them to enable them to fulfil their obligations, in accordance with Article 81(6) CPR.