



Management verifications and audit Financial instruments 2014-2020

Rafael López Sánchez, Deputy Head of Unit

Vladislava Glietz, Team leader for audit methodology

Unit C.1 – Coordination, relations with the Court of Auditors and OLAF, DG REGIO, European Commission

 #ficompass





Management verifications and audit

Financial instruments 2014-2020

Rafael López Sánchez, Deputy Head of Unit C.1

Vladislava Glietz, Team Leader Unit C.1

Directorate C – Audit

Directorate-General Regional and Urban Policy

Outline

- **Financial instruments implementation stages**
- **Control levels**
- **Financial instruments implemented by EIB Group or other IFIs**
- **Main shortcomings / audit findings of period 2017-2013**
- **Conclusions**

Financial instruments – implementation stages

- **Design and set-up**
 - Ex-ante analysis
 - Decision on implementation options
 - Funding agreement
 - State aid compliance

Financial instruments – implementation stages

➤ **Implementation**

- Eligibility of expenditure, final recipients, investments
- Payments
- Monitoring
- Audit trail

➤ **Closure**

- Confirmation of eligible expenditure
- Use of interests and other gains
- Exit policy and use of resources after the end of eligibility period

Commission audit manual

- Covers the before mentioned implementation stages
- Covers the treatment and reporting of irregularities identified
- Covers the sampling approach
- Addressed to audit authorities, but useful for managing authorities as well
- To be shared with audit authorities on 11 December 2018 and finalised by end-2018

Control levels

- **Financial intermediaries**
 - Selection of final recipients
 - Verification and audit trail
 - Accounting and treasury
 - Recycling of interests and returns
 - State aid
 - Management costs and fees
 - Winding-up and exit policy

Control levels

- **Fund of Funds**
 - Selection of financial intermediaries
 - Monitoring and reporting
 - State aid
 - Management costs and fees

Control levels

➤ **Managing Authority**

- Investment strategy
- Ex-ante assessment and implementation design/option
- Selection of Fund of Funds / financial intermediaries
- Monitoring and reporting
- Management verifications (tranches and at closure)

Control levels

- **Audit Authority**
 - System audits
 - Audits of operations
 - Audits at closure

Control level Managing Authority

- It should be ensured that the set-up of the financial instrument as well as its implementation are in accordance with applicable law, including rules covering the ESI Funds, State aid, public procurement, economic viability of fund managers, relevant standards and applicable legislation on the prevention of money laundering, the fight against terrorism and tax fraud
- Management verifications of financial instruments are quite specific and require adequate knowledge in this respect

Control level Managing Authority

- administrative verifications on each application for payment submitted by the beneficiary
 - verification of implementation reports, list with disbursements to final recipients, supporting documents (business plans, loan agreements, etc.)
- on-the-spot verifications of operations
 - mostly at the level of the financial intermediary (and/or Fund of Funds)
 - verification of eligibility of disbursed expenditure to final recipients

Control level Audit Authority

- System audits
 - Verification of the proper reporting to the Managing Authority
 - Verification of proper monitoring by the Managing Authority
 - Verification of proper management verifications ensuring that only eligible expenditure is disbursed to final recipients

Control level Audit Authority

- Audits of operations
 - First tranche: mainly audit on the set-up/design
 - Second and following tranches: in addition, a sample from the files of final recipients (restrictions under Art. 40(3) of the CPR)

Control level Audit Authority

- Audits at closure (last assurance package)
 - To confirm the final eligible amount attributable to the ESIF
 - To calculate the error rate and to verify the corrections

Financial instruments implemented by EIB Group or other IFIs

- Amended Article 40 CPR by Regulation 2018/1046
- Audit authorities shall carry out system audits and audit operations at the level of the **financial intermediaries** (exceptionally at the level of financial recipients)
- Similar provision for the managing authorities for their management verifications

Financial instruments implemented by EIB Group or other IFIs

At the level of the EIB and other IFIs

- The external auditors of the EIB and other IFIs will provide to the programme authorities an annual control report
- The model and content of these annual control reports is to be established in an implementing act which will be adopted beginning 2019

Main EC audit findings 2007-2013

Set-up of the instruments

- National co-financing not effectively paid
- Non-compliance with the rules for selection of Financial Intermediaries
- Missing of compulsory elements in the funding agreement
- Investment strategy inconsistent with programme's objectives
- Returns from investment not to be entirely re-used
- Conversion of ERDF contribution into a debt-to-equity
- Lack of audit trail, e.g. absence of use of adequate accounting codes

Main EC audit findings 2007-2013

Implementation

- Absence or inadequate management verifications
- Lack of control on the SME status
- Investments not implemented in eligible region
- Financing firms in difficulty
- Financing provided to ineligible final recipients or for ineligible activities
- Risk of management costs exceeding maximum thresholds set in the Implementing Regulation
- Wrong calculation of the eligible expenditure for guarantees

Main EC audit findings 2007-2013

Implementation

- State aid
- Ineligible management costs
- Irregular preferential treatment of Financial Intermediaries
- Combination of different forms of assistance (FEI loans, FEI guarantees and grants) without respecting EU and national law and contractual arrangements
- Incorrect use of returns from loans and resources returned from loans provided
- Final recipients charged with unjustified costs
- Modification of the typology of investments and proof of investments not adequately assessed against the initial objective of the loan

Conclusions

- Management verifications are the main pillar of the assurance. Managing authority to annually sign the management declaration
- FIs to be checked at several stages throughout the programming period based on progress of implementation (to timely identify issues and be preventive)
- Audits by audit authorities to confirm the well-functioning of the management and control systems in place for FIs

Conclusions

- EC foresees thematic audits on financial instruments in the Single Audit Strategy (starting in 2019)
- Draft audit manual already provided to all Member States audit authorities and is to be finalised end-2018



***Thank you
for your
attention!***

