

**Joint Training Event
of the Contact Committee of the Heads of SAIs of the EU and the European Court of Auditors
and of the EUROSAI**

(organised by the Czech Supreme Audit Office and the European Court of Auditors)

**Experience with the development and carrying out CAP audits
(Prague, 25 – 27 October 2010)**

SEMINAR SUMMARY REPORT

INTRODUCTION

Background

In 2009 the Czech SAI and the European Court of Auditors (ECA) agreed to prepare and organise a CAP audit seminar. Following this agreement and at the recommendation of the Liaison Officers, the EU SAI Contact Committee approved the seminar in December 2009 as one of its future activities.

The EUROSAI Governing Board expressed its willingness to support its organisation, noting that this event was of clear interest to a considerable proportion of its membership constituting a specific sub region within the EUROSAI, including EU member state SAIs, the ECA and SAIs of Candidate and Potential Candidate Countries. At the recommendation of the EUROSAI Training Committee the Governing Board agreed to provide a financial contribution.

This training event was the first joint training activity of the Contact Committee and the EUROSAI.

Invitations were sent to all members of the Contact Committee and the EUROSAI. On this occasion organisers asked SAIs to fill in a questionnaire that was aimed at professional CAP audit issues and at assessing SAIs' interest in participating. In this questionnaire SAIs confirmed and agreed that the seminar should address 5 topics:

- Audit of the CAP and its position within the audit activity of SAIs
- Planning and coordination of CAP audit
- Techniques and methods used in CAP audit
- Treatment of errors in the implementation of the CAP
- Possibility of performance audit of the CAP

Objectives of the training event

The objectives of the training event were, for each of the five themes selected, to:

- Share CAP audit experiences
- Propose possible solutions to problems faced when auditing CAP expenditure
- Propose questions relating to a more effective CAP audit

The descriptions below of the outcome of each of the five themes include, where relevant, sub-headings for each of these objectives.

TOPIC 1: AUDIT OF THE CAP AND ITS POSITION WITHIN THE AUDIT ACTIVITY OF SAIs

Replies to pre-workshop questionnaires

Over 80% of SAIs replying to the questionnaire stated that the share of CAP audits in relation to their total audit work is less than 10%.

The same proportion says that they combine elements of regularity, financial and performance audits within the same audit tasks.

Whereas nearly two thirds of responding SAIs confirms, that they do regularity audits, nearly half do financial audits and nearly half do performance audits.

If we view the percentages based on types of audits conducted, than regularity audits take 48%, financial audits 29% and the share of performance audits is 23% of all conducted audits.

Concerning audits of CAP measures in 2006 – 2009, five SAIs stated that they conducted audits of all CAP pillars annually, whereas most cover the pillars on a rotational basis from year to year. Planned audits for 2010-2013 also show significant coverage of the all CAP pillars.

The criteria, reasons and procedures applied to the choice of CAP measures for audit varied widely from one SAI to another, but many cited monetary importance and risk of error as the primary criteria.

Sharing CAP audit experiences

To set the scene for the training event five presentations were made by the host SAI, the ECA, the EC and the Czech Paying Agency and Ministry of Agriculture.

The Czech SAI described the evolution of its approach to the audit of CAP measures, which started before accession to the EU, and its plans for the future which will include the audit of all nine CAP measures before the end of the programming period 2007 – 2013. The Czech SAO and the ECA are currently carrying out the pilot project on co-ordinated audit relating to the Axis II of Rural Development Plan.

The ECA described its overall objectives, approach and responsibilities in relation to the audit of CAP expenditure, and referred to upcoming reports on the results of its recent audits in this area.

The EC presentation explained that the control system applied to CAP expenditure by the EU and Member States in the shared management context has been developing for many years and is still under development. The key elements are accredited Paying Agencies, a detailed system for controls of beneficiaries and sanctions in case of irregularities, administrative control of all aid applications, cross-checks with appropriate databases, on-the-spot-checks of a significant sample of transactions, and ex-post controls of the Paying Agencies' annual accounts by Certifying Bodies. Currently the Certifying Bodies are being asked to extend their audit to legality and regularity on a voluntary basis. While this would involve extra costs the interest for Member States would be a reciprocal EC

commitment to link the level of eventual financial corrections applied by the EU to CAP expenditure to the results shown by such extended audits.

The Czech Paying Agency (SAIF) and Ministry of Agriculture made presentations explaining their role in the control and audit of CAP expenditure, how they interact, and what audits they carry out and are subject to. The Ministry of Agriculture reports potential fraud cases to OLAF (the EU anti-fraud office) via the national Anti-Fraud Co-ordination Service.

TOPIC 2: PLANNING AND COORDINATION OF CAP AUDIT

Replies to pre-workshop questionnaires

Potential coordination problems:

- Audits by an SAI at the same time as audit teams from the ECA, the EC or other national audit bodies at the same audited body are common
- A small majority of respondents say that more than 30% of the subjects of such audits carried out in the same fiscal year are the same, and that the accumulation of audits requires the reinforcement of staff at the audited body. Nearly half of the respondents consider this accumulation a problem when planning their audits
- Whereas half of the respondents say that more than 2% of staff of the paying agency are tasked with supporting incoming external auditors, the other half says it is under 0.5%
- Only 20% of responding SAIs have the role of public body tasked with the overall coordination of national audits of EU funds

Coordination measures in place

- Most SAIs have the audit plans of the ECA, and one half has the audit plans of the EC
- Nearly all responding SAIs consider it useful to coordinate their audit plans for EU funds with audits planned by the ECA and the EC, and just over half do so
- Most replying SAIs consider it possible to share the results from audits performed by various EU and national audit bodies
- Nearly all replying SAIs use the results of audits conducted by the ECA, the EC and other national audit bodies in their own audits and reports
- With the exception of 3 cases replying SAIs use audit results of other national bodies

Sharing CAP audit experiences

A number of interesting presentations were given by the SAIs of Austria, Netherlands and Spain, the ECA and the Czech Paying Agency.

The presentations highlighted the need to take measures which would result in potential improvements to the current situation:

- Closer coordination and planning of audits to eliminate duplicity and overlapping of audits performed by different audits entities (EC, ECA, SAI etc.). As an example, the Czech Paying Agency presented their concrete experience in 2009 when audit teams from the Czech SAO, Certifying Body, EC, ECA and/or other entities met at their premises repeatedly at the same time.

- A reduction the significant burden on paying agency staff caused by the multiplicity of audits carried out by different EU and national bodies
- Maximization of the exchange of information on planned audits as far ahead as possible
- Stabilization and simplification of legal regulations
- Avoidance of „learning by doing“ work by inexperienced or inexpert auditors

The importance of the role played by the Ministry of Agriculture in coordinating all EU and national external audits (including its own) of CAP funds was highlighted by the Austrian presentation.

The co-ordinated audits of the ECA with the SAIs of the Netherlands and the Czech Republic, which are planned to be completed by April 2011, were mentioned as examples of enhanced cooperation and coordination.

Possible solutions of problems faced when auditing CAP expenditure

The ECA and the EC underlined their readiness to do what they could to address problems with the coordination of EU and national audits of CAP expenditure, but pointed out that there exist some mechanisms to help (such as the Liaison Officer function) and that there were times when it was very difficult to reconcile the requirements of the different bodies to meet their obligations. The ECA stated that it would continue to address coordination problems by using a pragmatic and practical approach on a case-by-case basis

It was stressed that it was most important, in advance of ECA audits in particular, to identify the national or regional experts required to be present on the spot and make arrangements to make sure of their availability.

Questions relating to a more effective CAP audit

1. Would it be possible to consider the feasibility of progressively implementing a “single audit” model for the audit of CAP expenditure in Member States?
This could have the potential to reduce EC presence in Paying Agencies, and enable the ECA to limit its on-the-spot audits in Member States. It would of course be dependent on certain pre-conditions having the prior approval of the EC and the ECA, such as the mandatory extension of the audit of paying agencies by fully independent Certifying Bodies to cover legality and regularity, and representative on -the-spot checks being carried out by Member State bodies.
2. Would there be scope for Member State Declarations providing assurance on CAP expenditure (and audited by national SAIs) to be considered as a useful element in the required control and audit structure?

DELIVERED UNDER TOPIC 2: THE EXPERIENCE OF SAIs AS CERTIFICATION BODIES

Sharing CAP audit experiences

Three SAIs made presentations about their experience of acting as the Certifying Body providing assurance to the EU about the operations of the paying agencies managing CAP expenditure in their countries.

The advantages for the SAIs concerned were gaining familiarity with the audit area of CAP expenditure, helping to detect other subjects of audit interest in the CAP area, and contributing to the protection of the national financial interest. Disadvantages were the burden on the budget and staff of the SAI given the time consuming nature of the audit and the tight deadlines, and the increased element of duplication with the audits of the ECA and the EC.

Slovakia considered that the disadvantages of SAI prevailed and ceased acting as Certifying Body after 3 years until 2006.

Romania and the UK are continuing but are seeking to find ways to increase the efficiency of their work, and have concerns about the extra cost involved in accepting the Commission's invitation to extend the audit to cover also legality and regularity (although this would be in return for an EC commitment to link the level of eventual financial corrections applied by the EU to CAP expenditure to the results shown by such extended audits).

TOPIC 3: TECHNIQUES AND METHODS USED IN CAP AUDIT

Replies to pre-workshop questionnaires

- Most SAIs have standardized their audit methodology for regularity and financial audits.
- However, less than half of those responding have done so in the case of performance audit. As a common reason for not doing so SAIs cite limited knowledge, and the differing scope and aims of such audits from year to year.
- While most of the SAIs responding who have standardized their audit methodologies believe that their audit methods could be useful for other SAIs, and are prepared to share their methodology with others, a number of SAIs gave negative answers on both issues.
- A small number of SAIs say that they do not employ for their audits in the CAP area methods and standards that were created by the ECA, EUROSAI or other international organizations, or that there are obstacles to standardizing their audit methodology.

Sharing CAP audit experiences

The ECA's presentation described its audit approach for its annual Statement of Assurance (DAS), which consists of two main elements:

- Substantive testing of a sample of CAP transactions on the spot to verify their legality and regularity
- Systems audits of the IACS (Integrated Administration and Control Systems) which control a large majority of CAP expenditure in the Member States

The detailed list of key audit questions and sub-questions for IACS audits included in the presentation provides a very useful guide for any audit body intending to focus on these systems.

The presentation by the regional Audit Office of the German state Baden – Württemberg described the methods and techniques used during its audit in 2007 of the IACS system in that state. This audit was a performance audit focussed on economy and efficiency which resulted in recommendations for improvement and for cost saving. The major conclusion was that the administrative cost for applying the current IACS system, at about 10% of the total amount of aid being disbursed, was too high, and that the system needed to be simplified.

The presentation by the SAI of the Czech Republic described the methods and techniques used during particular phases of its CAP audits (the methodology was developed by the Czech SAI for

audits of projects co-financed from the Structural Funds and Cohesion Fund and is also used for audits of the CAP, especially for Fisheries and the Rural Development Programme projects). Reference was made to the list classifying CAP shortcomings detected by its audits in the period 2004 – 2009 which was made available to participants.

TOPIC 4: TREATMENT OF ERRORS IN THE IMPLEMENTATION OF THE CAP

Replies to pre-workshop questionnaires

Less than a half of the responding SAIs say that:

- they rate the detected errors or shortcomings according to their importance;
- they compile a database of errors or shortcomings identified by CAP audits.

The most common errors or shortcomings identified by SAIs are the following:

- public procurement (problems with contracting and executing contracts, delays and failure to comply with deadlines for approval of projects, non-compliance with EC regulations);
- irregularities in management and control of CAP funds,
- variances in eligible area evidence recorded in the IACS and in reality;
- personal relationships and ties between beneficiaries and personnel approving payments;
- differences in recorded and real number of animals;
- shortcomings in internal control and accounting systems;
- advance processing of requests.

All SAIs who responded say that they can share their (presumably anonymous) audit findings with other SAIs, and more than a half are ready to share results of their risk analysis.

Sharing CAP audit experiences

Interesting presentations were made by the SAIs of Netherlands, Cyprus, Germany and Italy, and the ECA.

The Italian presentation consisted of an overview of the requirements of the EU regulations for the treatment of irregularities. The ECA and the Netherlands presented their approaches to their treatment of errors and some examples. Cyprus and Germany presented the results of specific audits as examples of errors and shortcomings found in the CAP area.

Inconsistency in the classification and treatment of errors

One significant issue that evolved from the discussion on the Topic 4 presentations, and was also touched upon in the plenary session, was the issue of inconsistency in the classification and treatment of errors.

It was recognised that it is difficult to achieve consistency even between different audits of expenditure in one policy area executed by the same audit institution. The answers to the questionnaires showing that only a minority of SAIs rated errors according to their importance or maintained a structured database of audit findings suggests that there may be a lack of stable methodology in the treatment of errors.

There is also the wider issue of consistency between different audit institutions. Although a large majority of SAIs is prepared to share audit findings with other SAIs this will remain of limited value unless there is a stable methodology for the treatment of errors.

While making their presentations under Topics 1 and 3 the Czech Republic SAI distributed an interesting document with an overview of errors detected in the CAP area that could serve as basis for further work on a (proposed) database of errors that would be periodically updated by CAP audit experts.

Types of error highlighted by presentations describing the results of specific audits

The audit of measures for the protection of aquatic resources by the SAI of Germany highlighted the negative impact of sharing inspection tasks between federal and state authorities which inevitably led to gaps and overlaps. There were also serious shortcomings concerning the random selection of routes and vessels for inspection and the unreliable paperwork of fishermen.

The audit of measures to promote the export marketing of agricultural produce by the SAI of Cyprus highlighted defective public procurement procedures involving serious conflicts of interest and dubious commercial structures. The audit results indicated that there was a higher risk of error in measures not governed by the IACS control system.

Other topics raised during the workshop session on this theme

The subject of the **re-performance** of procedures carried out by other auditors or inspectors raised some interesting questions concerning what is meant by this term. There seem to be considerable differences in the practical application of this technique by different audit bodies. For the Netherlands SAI re-performance typically consisted of the answering by their auditors of complete questionnaires completed initially by internal auditors. For the ECA it consisted of accompanying inspectors carrying out their verification work on behalf of paying agencies. For the EC it consisted of repeating checks initially performed by paying agencies' inspection service.

There was also an interesting discussion on the relative merits of the "**direct evidence**" and "**single audit**" approaches to audit. The former provided a statistically underpinned audit result and there were no timing constraints due to the work schedules of other auditors carrying out the collection of audit evidence and reporting. On the other hand the latter involves a lesser burden of audit work, requires fewer resources, and is more focused on systems and recommendations.

Possible solutions of problems faced when auditing CAP expenditure

Inconsistency in the classification and treatment of errors

The main proposals on how SAIs could achieve higher consistency in their treatment of errors and system weaknesses in the CAP area, particularly in successive audits of the same or similar measures, included the following:

- Adopt a stable methodology for the classification of errors detected and their treatment for the purposes of aggregating and reporting audit results
- Adopt where possible common bases for the classification of errors and system weaknesses in the CAP field. (At beneficiary level the **subsidy target** (land area/ market intervention) is

similar in every Member State. At systems level the **key controls** defined in EU legislation are similar in every Member State.

- Educate auditors on the definitions used in the classification process
- Establish a structured database of audit findings based on the methodology used for classification of errors
- Share the structured audit findings in an anonymised format which would be helpful to other audit bodies such as SAIs

TOPIC 5: POSSIBILITY OF PERFORMANCE AUDIT OF THE CAP

Replies to pre-workshop questionnaires

Those SAI's who did reply:

- Confirmed their interest in this topic, 65% of those having a mandate to carry out performance audit indicating that they had carried out or intended to carry out performance audits of CAP expenditure;
- Indicated their commitment to developing their skills and resources devoted to this important area;
- Welcomed a wide sharing of views and experiences with other SAIs on the subject.

Sharing CAP audit experiences

A number of very interesting presentations were given by the SAI's of Finland, Denmark, Austria, Belgium, Portugal and France, and the ECA. The presentations confirmed the interest of SAI's in this topic and the value of sharing information.

The principal issues highlighted by the presentations and subsequent discussions can be summarized as follows:

- To date many SAI's focused on an examination of economy and efficiency which were aspects considered to be more easily examined than the concept of effectiveness.
- Many of the presentations made put the focus on an examination of operational efficiencies of public service bodies. This was seen as an area of particular interest given the emphasis of the delivery of efficient services at least cost in view of current budgetary constraints in this regard, for instance, emphasis was placed on the timeliness in processing claims relative to standards set, as well as the success of efforts to contain, and even reduce, administrative costs. In this context the results of the audit of IACS presented by the Audit Office of Baden-Württemberg under Topic 3, which concluded that administrative costs were too high, are interesting.
- Evaluation of effectiveness was considered to be hindered by an often lack of clarity in what policy objectives were set, as well as their contradictory aims, the difficulty in isolating the impact of specific measures as compared to external effects, the long term nature of the objectives, and as was frequently encountered, the lack of reliable or complete data to evaluate results and outcomes.
- The need for effective follow up of audit findings was considered to be very important in order to ensure that genuine improvement occurred; this was an important feature of all SAI's work with those having the possibility to impose administrative fines being in a relatively strong position in this regard.

- A number of presenters advocated or at least favoured an integrated approach to performance audit where compliance as well as issues of S F M were addressed; this was sometimes seen as enriching the audit experience helping to focus on key issues. However this approach, the relevance of which has been discussed for many years, also carries with it the risk that auditors fall into the comfort zone of compliance rather than addressing the substantive issues associated with performance.
- A distinction was drawn between the respective responsibilities for conducting evaluations which was seen as being the responsibility of the managing body and that of performance audit whose responsibility lies with the auditors; however the lines between the two disciplines can sometimes become somewhat blurred.

Possible solutions of problems faced when auditing CAP expenditure

The discussions resulted in the following recommended procedures to be applied to the planning of potential performance audits of CAP expenditure so that their chances of a successful outcome are maximised:

- The spending of a considerable amount of time focussing the audit on key issues from the outset was considered to be a key element contributing to the success of performance audit. This was seen as being particularly important given the broader framework within which sound financial managements issues need to be considered. In this regard techniques such as issue analysis, whereby the main issue to be addressed was considered in an open “brainstorming” session, frequently facilitated by an external independent facilitator, were considered as being particularly useful. This ensures that the key audit question is identified from the outset, as well as the relevant sub-questions to which the answers would help answer the main question. Such techniques could also be usefully employed at the reporting stage of the audit in order to identify the main conclusions which could be drawn.

Another desirable procedure highlighted was the need insofar as possible to identify the key criteria to be used to judge the success of a policy. Ideally these need to be discussed in advance of the audit with the auditee with the aim of gaining his agreement on such criteria. Given the absence of a regulatory framework, identification of “best practice” techniques was seen as being particularly relevant in this respect.

MEETING CONCERNING THE FUTURE OF THE CAP NETWORK

The CAP Network is a networking activity of the Contact Committee created to enable cooperation of CAP audit experts of EU SAIs and the ECA. This Network is chaired by the ECA.

Its members were invited to Prague to discuss at a separate meeting the Network’s future activities, means of cooperation and way forward. Minutes of this meeting are attached to this report as an Annex.

CONCLUSION

Participants were asked to answer questions related to their satisfaction with the seminar.

Of the concrete topics discussed at the seminar participants welcomed most:

- sharing experiences of CAP audit in individual Member State SAIs and by the ECA (participants called for even more case studies and experience sharing),
- the overall topics of treatment of errors, coordination of CAP audits and performance auditing of the CAP,
- presentations on audits of fisheries and the LEADER programme,
- the integrated approach to audit (both performance and compliance audit together),
- the single audit model as implemented in the Netherlands,

99 % of participants stated that they were given a good understanding of the seminar objectives (54% state complete understanding) and over 90 % agree that the programme of the seminar was adequate to meet those objectives.

When asked whether the goals have been achieved, participants answered that:

- The objective of sharing CAP audit experience was achieved well by 96 % of participants (35% rate the achievement as complete and 42% as very well achieved)
- The objective of looking for possible solutions of problems that SAIs are confronted with when auditing the CAP was achieved according to 94% of participants (57% rate achievement as complete or very well).
- Objective 3 of the seminar (to formulate general questions that will enable a more effective CAP audit) was achieved according to 90% of participants, including 58% of those who rated achievement as complete or very well achieved).

The overall achievement of goals can therefore be considered as positive.

Organizers are of the opinion that the amount of presentations at the seminar did not allow for a very deep discussion on some issues, despite the fact that 69% of participants state that they had sufficient opportunities to comment or ask questions. The reason for this was an unexpected number of requests by participants to present their experiences at this occasion. To accommodate these requests, time originally reserved for discussions had to be shortened. Some participants also confirmed that they would have welcomed more space for discussion. However, many participants called for more presentations (case studies).

In conclusion, participants appreciated the organization of the seminar (the event was evaluated as excellent or very good by 95% of participants), many participants asked for follow ups of this seminar and suggested more space for discussions as well as more experience sharing and case studies.

In the future participants would like to see annually held seminars on agriculture audit (under the CAP Information Network established within the Contact Committee's activities), some dedicated especially to post 2013 CAP and single audit issues. Presenting case studies and the workshop approach are preferred.

ANNEX

Minutes of Meeting of CAP Network held in Prague on 27 October 2010

The meeting was organised to coincide with the joint training exercise organised by the Czech SAI and the ECA on Auditing the CAP. The main objective was to evaluate the usefulness of the network and, if considered appropriate, to explore possible means to revitalise it.

Mr Fennessy recalled the origins of and objectives set for the network which was originally intended as a forum for informing members of the key elements of the 2003 CAP reform. Since then, the network had become largely inactive as few members had demonstrated an interest in uploading information to share with other members. Following an exchange of views it was agreed that:

- The network continued to be relevant to inform members of recent developments
- To be a success in achieving the objectives set, however, it was necessary for all members to become more proactive in exchanging information
- An annual meeting was considered helpful, but the most appropriate forum should be carefully considered
- It was considered useful to set up a discussion forum to exchange information on instructions, guidelines etc relating to CAP controls.

The following course of action was proposed:

1. To reactivate the network around the theme of the CAP policies post 2013
2. To investigate the setting up of a discussion forum
3. To reflect on the most appropriate forum for regular meetings to take place as well as the most appropriate timeframe (annual/biannual meetings)
4. To revert to members with concrete proposals to put such changes into effect.