



# **Romanian SAI - Certifying Body for EAGF and EAFRD**

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25/10/10

# Introduction

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- Romanian SAI is the **Romanian Court of Accounts (RCoA)**.
- In 2002, the RCoA received a formal invitation from the Ministry of Finance to fulfil the role of **Certifying Body (CB)** for SAPARD Programme.
- The invitation was accepted
- The Romanian SAI started the audit of CAP funds by undertaking **the Certifying Body's responsibilities through one of its Divisions**.
- This Division represented the foundation of a new audit structure established within the RCoA – **Audit Authority** - responsible for the audits of all funds granted to Romania after its accession to European Union.



# New funds introduced by Regulation 1290/2005

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- ◆ European Agricultural Guarantee Fund 'EAGF'
- ◆ European Agricultural Fund for Rural Development 'EAFRD'

Detailed rules for the application of the Council Regulation no 1290 were issued in 2006, i.e: EC Regulation no 883, 884 and 885.

European Commission also issued a set of eight **guidelines** helping Member States to manage the 2 Funds implementation.



# Romanian organisational structure for CAP implementation

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- ◆ Competent Authority – specific unit within Ministry of Agriculture;
- ◆ Paying Agencies (PA) – Paying Agency for Rural Development and Fisheries for EAFRD and Paying and Intervention Agency for Agriculture for EAGF;
- ◆ **Certifying Body** – the Audit Authority functioning within the RCoA;
- ◆ Management Authority for EAFRD - directorate within Ministry of Agriculture;
- ◆ Coordinating Body – directorate within Paying Agency for Rural Development and Fisheries



# Planning the work – Audit strategy

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- ◆ should be prepared by Certifying Body in accordance with Commission Guideline no 3
- ◆ should be made available to the Commission upon request - EC always request Certifying Body to submit the audit strategy.



# Audit strategy - elements

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Should cover the following:

- ◆ the audit scope and objectives;
- ◆ key audit activities arising from the risk assessment;
- ◆ audit assurance and materiality;
- ◆ systems and controls;
- ◆ the audit approach;
- ◆ the nature and extent of the CB's reliance on the work of Internal Audit;
- ◆ the CB's audit report, certificate, and opinion on the Statement of Assurance
- ◆ an audit timetable, a description of audit resources and a contact (liaison) point.



# Key elements for the audit approach

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- ◆ Materiality level: 2%
- ◆ Audit assurance – total confidence level of 95%
- ◆ Compliance testing - audit assurance from controls max. 30%
- ◆ Correlation between the internal control assessment and the assurance gained from compliance tests
- ◆ Estimated error: 10 to 20% of Materiality
- ◆ Substantive testing - minimum sample size should be presented in number of hits and no of transactions (files) selected
- ◆ Sampling will be based on the forecasts – Sampling Interval is determined based on the forecasts.



# Key elements for the process of sampling and error evaluation

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- ◆ populations;
- ◆ treatment of small populations and sample sizes;
- ◆ operational and non operational transactions;
- ◆ statistical sampling, non-statistical sampling;
- ◆ **systematic** vs **random** errors; known and extrapolated errors;
- ◆ calculation of **MLE**, Precision, UEL and Total error;
- ◆ if material error is identified:
  - i. increase the estimated error rate
  - ii. re-examine errors that have been extrapolated
- ◆ if actual errors exceed expected errors:
  - i. it means the CB's original assumption about the extent of errors in the population was not borne out by reality;
  - ii. CB should either re-examine the errors found or perform additional audit testing to reach a conclusion as to whether there is material error in the account





# Audit work - assessing the PA control environment

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Aspects taking into account when assessing the PA control environment:

- ◆ walk through tests to confirm auditor understanding of the schemes and control procedures
- ◆ translation process – to check if the requirements set out in EC Regulations are **incorporated in the PA's manual and computer procedures and written instructions**
- ◆ written guidance – check whether on the receipt, processing and authorisation of claims is comprehensive and up-to-date and available to all staff
- ◆ authorisation, payment and accounting duties are appropriately segregated and subject to supervisory control
- ◆ appropriate staff training and rotation
- ◆ adequate procedures for senior management checks
- ◆ appropriate action is being taken in response to recommendations on improvement



# Audit work - assessing the PA control environment (2)

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After reviewing the PA's compliance with the accreditation criteria, the assessment shall be indicated in the matrix by using grades from 1 to 5, where:

- (1) clear non-respect of the accreditation criterion or serious deficiencies (the seriousness of the deficiencies is such that the PA cannot fulfil its tasks)
- (2) poor (other deficiencies which do not fall under (1), but which would have to be followed-up)
- (3) adequate (minor issues highlighted but scope for improvement)
- (4) good
- (5) best practice



# Audit work - assessing the PA control environment (3)

**MATRIX I - Assessment of the accreditation criteria of the EAGF - IACS related aid schemes**

Component of the assessment Procedure		Internal environment			Control activities	Information and communication		Monitoring	
		Organizational structure	Human resources	Delegated tasks		Communication	IT Security	Permanent monitoring	Internal Audit
Authorization	Administrative controls	4	3	N/A	2	3	3	2	3
	On-the-spot controls	3	3	3	2	3	3	2	3
Execution of payments		4	3	N/A	2	3	3	2	3
Accounting		4	3	N/A	2	3	3	2	3



# Audit testing

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The audit testing has to be carried out taking into account that:

- ◆ each Paying Agency should be treated separately
- ◆ existence of 6 populations:
  - ✓ EAGF IACS
  - ✓ EAGF NON IACS
  - ✓ EAGF DEBTORS
  - ✓ EAFRD IACS
  - ✓ EAFRD NON IACS
  - ✓ EAFRD DEBTORS



# Audit testing (2)

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- ◆ compliance testing

on authorisation, execution and accounting of payments, debt management and advances and securities

- ◆ substantive testing

on operational transactions (including public storage) and non operational transactions (Annex III and Annex IIIA)



# Audit testing - methods and techniques

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- ◆ **DOC**: Scheme **doc**umentation and walkthrough tests
- ◆ **AR**: **A**nalytical **r**eview, discussion, interviews
- ◆ **CT**: **C**ompliance **t**esting of procedures and controls
- ◆ **ST**: **S**ubstantive **t**esting of selected files
- ◆ **CRM**: **C**omputer **r**isk **m**anagement based system testing using CAATs
- ◆ **IAS**: Review of **I**nternal **A**udit **S**ervice reports



# Audit testing - Systems

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- ◆ questionnaires regarding the accreditation criteria (organisational structure, human resources, delegation, control activities, communication, IT, monitoring and internal audit)
- ◆ compliance testing (10 items to be tested per population IACS and non IACS for: admin controls, OTS controls , payments, accounting, adv and guarantees, debtors)
- ◆ field visits (OTS controls assessment through accompanying or re-performance);
- ◆ written confirmations sent to beneficiaries who were asked to provide information regarding the total aid received from PA



# Substantive testing

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- ◆ tests of details for the items selected in the statistical sample (Monetary Unit Sampling) or non statistical sample, documented by filling in checklists for each tested item
- ◆ tests of details for public storage on a sample of transactions
- ◆ tests of details for a sample of records from Annex III and IIIA (debtors)





# Audit work - other issues

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- ◆ Reconciliations between:
  - ✓ X Table with monthly and annual declarations
  - ✓ Debtors Ledger with Annex III and Annex IIIA
- ◆ control statistics review: OTS reperformance; substantive tests; data reconciliation with IACS)
  - ✓ a **separate report** to be delivered according to the new Guideline for the reinforcement of assurance as to the legality and regularity of transactions at the level of final beneficiaries «AGRI/D(2010) 248617Rev1»
- ◆ review of financial ceilings
- ◆ follow up of previous years findings



# Reporting - reports and opinions

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- ◆ audit report model is presented in EC guideline no 5 “Model of report for the Certification Bodies”.
- ◆ opinions are issued according international auditing standards (IFAC) and observe the format set out by EC guideline no 6 “The form, scope and contents of the certificate of the Certifying Body”. Separate opinions are delivered for each paying agency.
- ◆ Certifying Body is also issuing opinions on the statement of assurance of the director of paying agency, following the opinion model set out by EC guideline no “The Certifying Body's opinion on the Statement of Assurance”.



# Our experience: opinions issued

<b>Financial Year</b>	<b>Audit certificates:</b>	<b>Opinions on the statement of assurance</b>
SAPARD 2002	<b>unqualified</b> opinion with emphasis of matter paragraph	Not applicable
SAPARD 2003	<b>qualified</b> – detected differences	Not applicable
SAPARD 2004	<b>qualified</b> – detected differences	Not applicable
SAPARD 2005	<b>qualified</b> – detected differences	Not applicable
SAPARD 2006	<b>qualified</b> – detected differences	Not applicable
SAPARD 2007	<b>unqualified</b> opinion with emphasis of matter paragraph	Not applicable
SAPARD 2008	<b>qualified</b> – detected differences (followed by CB additional work)	Not applicable
SAPARD 2009	<b>qualified</b> – detected differences (followed by CB additional work)	Not applicable



## Our experience: opinions issued (2)

Financial Year	Audit certificates:	Opinions on the statement of assurance
EAGF 2007	<b>unqualified</b> opinion with emphasis of matter paragraph	<b>unqualified</b> opinion
EAGF 2008	<b>qualified</b> – detected differences (followed by CB additional work)	<b>unqualified</b> opinion
EAGF 2009	<b>qualified</b> – detected differences (followed by CB additional work)	<b>unqualified</b> opinion with emphasis of matter paragraph
EAFRD 2008	<b>unqualified</b> opinion with emphasis of matter paragraph	<b>unqualified</b> opinion
EAFRD 2009	<b>qualified</b> – detected differences (followed by CB additional work)	<b>qualified</b> – detected differences





# Certifying Body



- ◆ Protection of national financial interest;
- ◆ Financed domains are very well regulated;
- ◆ CB work is conducted according to international auditing standards;
- ◆ SAI reports directly to the Parliament;
- ◆ Competent and rapid guidance is assured by EC representatives, when needed;
- ◆ EC and ECA supervision on the work carried out by Certifying Body



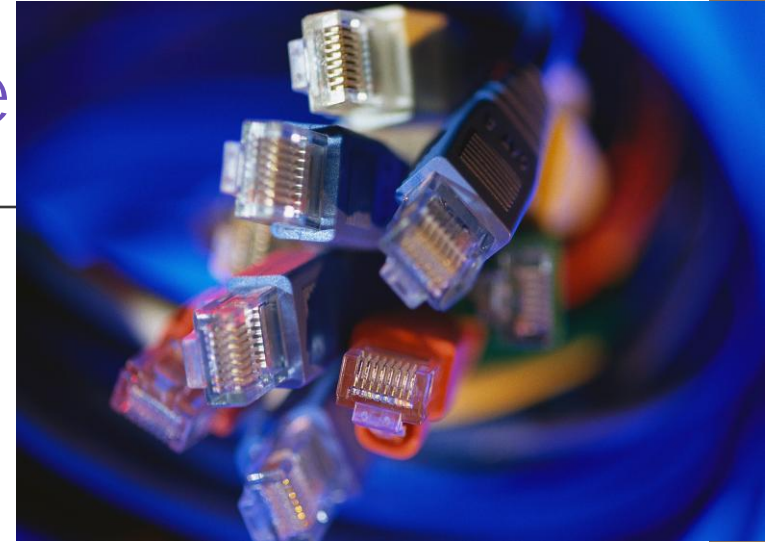
The  
choice  
is  
yours !

- ◆ Protection of Community financial interest;
- ◆ Too many and too complicated EU regulations;
- ◆ Certifying Body has to strictly follow the EC guidelines;
- ◆ Certifying Body reports are addressed to EC;
- ◆ Large number of on the spot verifications;
- ◆ Additional work is often required;
- ◆ Specialized equipment needed: vehicles, GPS, tools;
- ◆ Tight deadlines;
- ◆ High budgetary effort



# CAP network future

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- ◆ This network should exist;
- ◆ A more proactive attitude of the members is needed;
- ◆ Specific documents should be uploaded: audit strategies, audit programmes, checklists and questionnaires, opinions and reports, any other relevant documents;
- ◆ Open an integrated forum to allow free discussions between the network members.





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