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WORKING PAPER

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WORKING DOCUMENT

From: To:	General Secretariat of the Council Working Party on Financial Agricultural Questions
N° Cion doc.:	9634/18 + COR 1 + ADD 1
Subject:	Proposal for a Regulation on Financing, management and monitoring of the CAP - Non-paper from the Commission services on Certification Bodies

With a view to the WP AGRIFIN meeting on 7 March, delegations find attached a non-paper from the Commission services on Certification Bodies (Art. 11) as well as a table reflecting the Certification Bodies' work in the new assurance model - post 2020.

EUROPEAN COMMISSION
DIRECTORATE-GENERAL FOR AGRICULTURE AND RURAL DEVELOPMENT

Directorate H. Assurance and Audit

Brussels,
AGRI.DDG3.H

NON PAPER

CERTIFICATION BODIES' ANNUAL CERTIFICATION AUDIT IN THE FRAMEWORK OF THE NEW DELIVERY MODEL

The purpose of this document is to summarize the main new elements of the certification bodies' annual certification work in the new delivery model, with a focus on the expenditure financed under the CAP Strategic Plan.

Therefore, this document does not detail the work to be performed, as regards expenditure for the measures laid down in Regulation (EU) No 1308/2013 (Article 11 (1d) of HZR), and expenditure financed under the 2014-2020 programming period, since the methodology used currently will remain in place for that expenditure.

The new assurance model is based on solid governance systems in the assurance pyramid, with a shift in focus to performance reporting, as legality and regularity of expenditure under the CAP Strategic Plan is achieved by the Member States' performance expressed in reported aggregated outputs. Thus, the certification bodies will audit **Member States' governance systems and performance reporting on outputs and results.**

1. As per Article 11 of HZR the CBs will need to give an opinion on

i. Annual accounts (if those give a true and fair view) – no change

ii. Governance systems (if they function properly)

iii. Annual performance reporting on output (if Article 35 of HZR is complied with and it is correct) and results indicators

iv. Assertions made in the management declaration – no change

2. In this regard the CBs work will include

i. Verification of the annual accounts – no change

ii. *Review and assessment of the governance systems including governance bodies, basic Union requirements, reporting system as per Article 2 (b) of HZR. The Certification Body should not provide an opinion on itself or on the Competent Authority appointing the Certification Body.*

iii. *Verification of the performance reporting*

iv. Assessment of the management declaration – no change

3. The methodology shall be based on the following main audit techniques, but not exclusively

i. Substantive testing of the accounts (payment and accounting functions), review of analytical and reconciliation procedures – no change

ii. *Analysis of legal, institutional, organisational, procedural, IT system and human resource set-up. The walk-through and compliance audit work at system and other basic Union requirement level can include compliance testing*[1] *and testing of IT general controls and application controls. This work is to assess the effectiveness of the controls used to prevent or to detect record errors or misstatements.*

iii. *Completeness and accuracy test of the performance output indicators matched to expenditure in the Annual Performance Report (APR); This implies testing of records, databases to verify if reported performance output indicators are correctly stated in the APR and matched to expenditure financed by the Union. Justifications provided for the differences between the annual expenditure declared for an intervention and the amount corresponding to the relevant reported output (Article 52 (2) of HZR) will need to be verified and confirmed by the certification body. As regards performance result indicators, similarly, completeness and accuracy test shall be performed; and the work shall also include the verification of the calculation of the indicator.*

iv. Taking account of the results under a), b) and c) and review of the management declaration – no change

4. The assessment methods linked to the audit techniques used shall be, as

i. For the annual accounts: to measure the level of misstatements - no change

ii. *For the governance system grading with 1-4 scale: combining the results of different methods used to establish if the system is functioning (e.g. widespread system failures mean governance systems not functioning)*

iii. *For the performance reporting:*

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[1] Compliance testing examines if the necessary controls are in place and designed in accordance with basic Union requirements and that controls operate to prevent, detect and correct record errors and misstatements.

- *to confirm the performance output indicators matched to the declared expenditure in the APR (e.g. the output matching the declared expenditure corresponds to 1.000 ha instead of the 1.100 ha reported (output indicator) in the APR);*
- *to confirm the correct reporting of the performance result indicators*

iv. For the management declaration, to confirm the assertions made by the director of the paying agency, considering combined results of the various audit steps – no change

5. The CBs will report on the following results

i. Based on level of misstatements:
  - Accounts are free of material misstatement, i.e. level of misstatement is below 2 % of the declared expenditure
  - Accounts are materially misstated, i.e. level of misstatement is above 2 % of the declared expenditure

ii. *Based on grading (see an example below):*
  - *governance systems function*
  - *serious system weakness (serious deficiency) impedes the proper functioning of the governance systems*

Assessment of systems	**System assurance**
1. Functions well	High/Medium high
2. Functions	Average
3. Functions partially	Medium low
4. Not functioning	Low

iii. *It is to be noted that the main objective for the CB's work is to establish if the reported output and result indicators are correctly stated.*

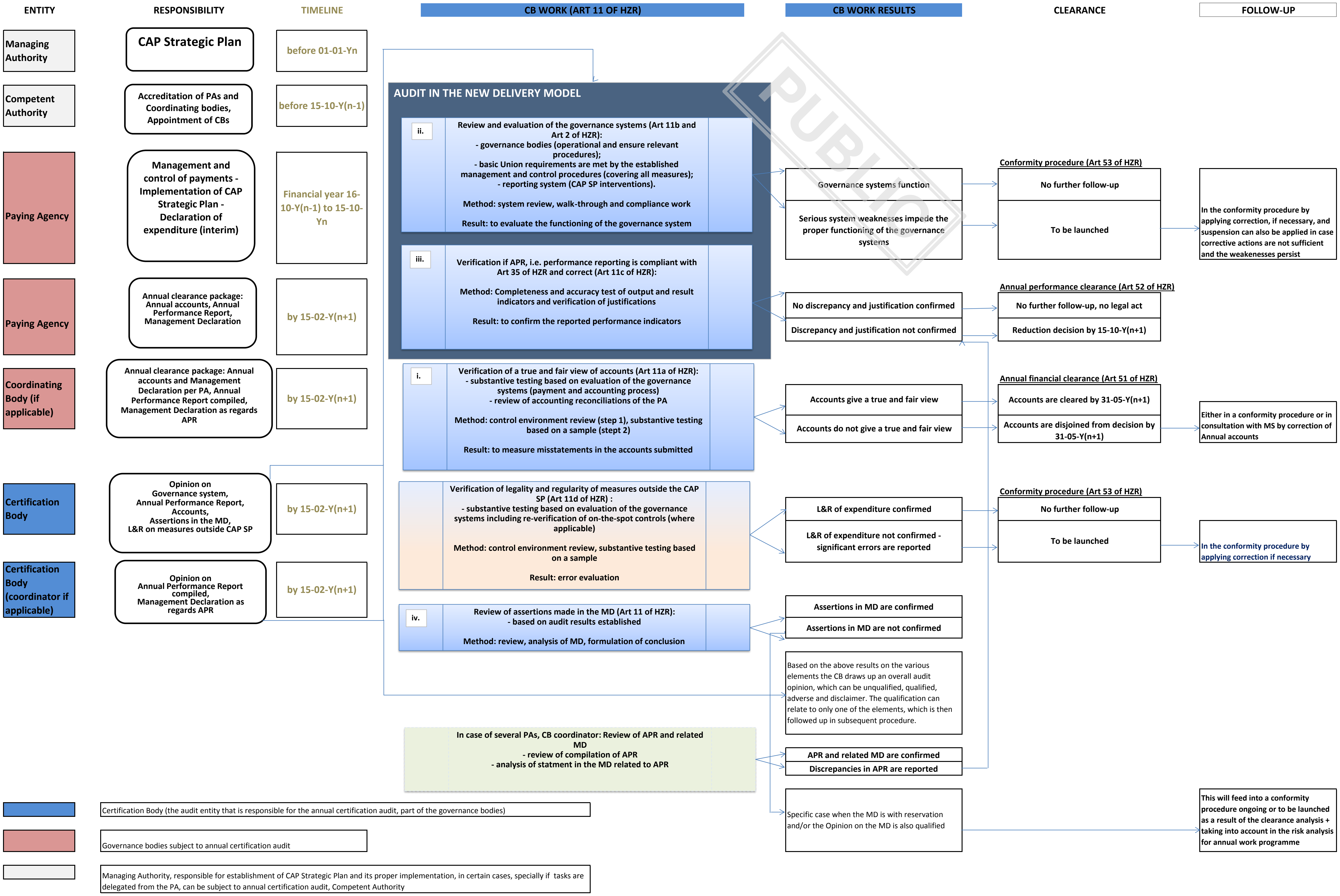
So that is to confirm for output indicators that:
  - *No discrepancy was found and/or justifications for differences (Article 52 (2) of HZR) are confirmed;*
  - *Discrepancy was found and/or justifications for differences (Article 52 (2) of HZR) cannot be confirmed;*

For result indicators it is to confirm that:
  - *The results are accurate and correctly calculated.*

iv. Based on overall assessment of the combined CB results:
  - Assertions can be confirmed
  - Assertions cannot be confirmed

The CBs' work and their link to financial clearance (Article 51 of draft HZR) and performance clearance (Article 52 of draft HZR) or conformity procedure (Article 53 of draft HZR) is summarized in the chart: “Certification Bodies’ work in the new assurance model – post 2020 – shift to audit Member States’ performance”.

Certification Bodies' work in the new assurance model - post 2020



ENTITY	RESPONSIBILITY	TIMELINE
Managing Authority	CAP Strategic Plan	before 01-01-Yn
Competent Authority	Accreditation of PAs and Coordinating bodies, Appointment of CBs	before 15-10-Y(n-1)
Paying Agency	Management and control of payments - Implementation of CAP Strategic Plan - Declaration of expenditure (interim)	Financial year 16-10-Y(n-1) to 15-10-Yn
Paying Agency	Annual clearance package: Annual accounts, Annual Performance Report, Management Declaration	by 15-02-Y(n+1)
Coordinating Body (if applicable)	Annual clearance package: Annual accounts and Management Declaration per PA, Annual Performance Report compiled, Management Declaration as regards APR	by 15-02-Y(n+1)
Certification Body	Opinion on Governance system, Annual Performance Report, Accounts, Assertions in the MD, L&R on measures outside CAP SP	by 15-02-Y(n+1)
Certification Body (coordinator if applicable)	Opinion on Annual Performance Report compiled, Management Declaration as regards APR	by 15-02-Y(n+1)

CB WORK (ART 11 OF HZR)

AUDIT IN THE NEW DELIVERY MODEL

ii. Review and evaluation of the governance systems (Art 11b and Art 2 of HZR):
- governance bodies (operational and ensure relevant procedures);
- basic Union requirements are met by the established management and control procedures (covering all measures);
- reporting system (CAP SP interventions).

Method: system review, walk-through and compliance work

Result: to evaluate the functioning of the governance system

iii. Verification if APR, i.e. performance reporting is compliant with Art 35 of HZR and correct (Art 11c of HZR):

Method: Completeness and accuracy test of output and result indicators and verification of justifications

Result: to confirm the reported performance indicators

i. Verification of a true and fair view of accounts (Art 11a of HZR):
- substantive testing based on evaluation of the governance systems (payment and accounting process)
- review of accounting reconciliations of the PA

Method: control environment review (step 1), substantive testing based on a sample (stept 2)

Result: to measure misstatements in the accounts submitted

Verification of legality and regularity of measures outside the CAP SP (Art 11d of HZR) :
- substantive testing based on evaluation of the governance systems including re-verification of on-the-spot controls (where applicable)

Method: control environment review, substantive testing based on a sample

Result: error evaluation

iv. Review of assertions made in the MD (Art 11 of HZR):
- based on audit results established

Method: review, analysis of MD, formulation of conclusion

In case of several PAs, CB coordinator: Review of APR and related MD
- review of compilation of APR
- analysis of statment in the MD related to APR

CB WORK RESULTS

Governance systems function

Serious system weaknesses impede the proper functioning of the governance systems

No discrepancy and justification confirmed

Discrepancy and justification not confirmed

Accounts give a true and fair view

Accounts do not give a true and fair view

L&R of expenditure confirmed

L&R of expenditure not confirmed - significant errors are reported

Assertions in MD are confirmed

Assertions in MD are not confirmed

Based on the above results on the various elements the CB draws up an overall audit opinion, which can be unqualified, qualified, adverse and disclaimer. The qualification can relate to only one of the elements, which is then followed up in subsequent procedure.

APR and related MD are confirmed

Discrepancies in APR are reported

Specific case when the MD is with reservation and/or the Opinion on the MD is also qualified

CLEARANCE

Conformity procedure (Art 53 of HZR)

No further follow-up

To be launched

Annual performance clearance (Art 52 of HZR)

No further follow-up, no legal act

Reduction decision by 15-10-Y(n+1)

Annual financial clearance (Art 51 of HZR)

Accounts are cleared by 31-05-Y(n+1)

Accounts are disjoined from decision by 31-05-Y(n+1)

Conformity procedure (Art 53 of HZR)

No further follow-up

To be launched

FOLLOW-UP

In the conformity procedure by applying correction, if necessary, and suspension can also be applied in case corrective actions are not sufficient and the weakenesses persist

Either in a conformity procedure or in consultation with MS by correction of Annual accounts

In the conformity procedure by applying correction if necessary

This will feed into a conformity procedure ongoing or to be launched as a result of the clearance analysis + taking into account in the risk analysis for annual work programme

🟦	Certification Body (the audit entity that is responsible for the annual certification audit, part of the governance bodies)
🟥	Governance bodies subject to annual certification audit
⬜	Managing Authority, responsible for establishment of CAP Strategic Plan and its proper implementation, in certain cases, specially if tasks are delegated from the PA, can be subject to annual certification audit, Competent Authority