

# The ECA's Annual Statement of Assurance (DAS)



## **ECA'S AUDIT APPROACH FOR ITS ANNUAL STATEMENT OF ASSURANCE (DAS)**

**EAGF**

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# The Court's DAS approach for EAGF



## **Sources of Audit evidence:**

### Main sources:

- Audits of the supervisory and control systems
- Substantive testing of a representative statistical sample

### Secondary sources:

- **The Commission's Annual Activity Report**
- Declarations of the Directors General
- Work of other auditors (internal audit service, certification bodies, Commission services, etc)

# The Court's DAS approach for EAGF



## **The audit environment:**

- More than 80 Paying agencies in 27 Member States managing a significant number of EAGF direct aid schemes
- Several hundred regional and local services involved in management and control of aid applications
- Changing legal requirements and more and more optional EU provisions
- Stakeholders wish to obtain information on where the errors occur

# The Court's DAS approach for EAGF



	<b>Major EAGF aid schemes year 2009</b>	<b>Billion €</b>
1.	Single Payment Scheme (SPS)	28,8
2.	Single Area Payment Scheme (SAPS)	3,7
3.	Remaining coupled direct aid schemes for crops or animals	6,6
4.	Market intervention measures (storage, export refunds)	3,0

\* Schemes under 1-3 are managed through the Integrated Administration and Control System (IACS)

# The Court's DAS approach for EAGF

## Substantive testing



A) Substantive testing of a representative sample of transactions

# The Court's DAS approach for EAGF

## Substantive testing



- **Determination of a representative sample :**
  1. Assurance model with a confidence level of 95%
  2. Materiality threshold of 2%
  3. Inherent risk is assessed to be high
  4. In the absence of complete and up to date systems evaluations the control risk is assessed to be high (prudent approach)
  5. Audit assurance must be generated from a sample of at least 150 transactions (substantive testing)
  6. HIT transactions determined by using MUS

# The Court's DAS approach for EAGF

## Substantive testing



### **Audit of HIT transactions:**

- ECA applies an integrated audit approach:
  - The overall residual error rate is the sum of:
    - ❖ the residual error rate component related to administrative controls and procedures plus
    - ❖ the residual error rate component related to irregularities detected on the spot

# The Court's DAS approach for EAGF

## Substantive testing



### **Audit of HIT transactions:**

- Audit trail from monthly aggregate statements of expenditure down to HIT payment
- Complete review of all key controls relevant for HIT payment and follow up of all anomalies detected by key controls
- Modifications and corrections carried out after the notification of the audit are disregarded
- No distinction between under- and overpayments

# The Court's DAS approach for EAGF

## Substantive testing



### **Determination of HIT area and on-the-spot inspection:**

- Measurements cover at least 3 parcels and 20ha, but max. 10 parcels
- Measurement results (area deficits found by ECA expressed as a %-age of area determined by Paying agency for the HIT area) generates the residual error rate component related to irregularities detected on the spot
- Check of Good Agricultural Environmental Condition (GAEC) and Cross compliance aspects

# The Court's DAS approach for EAGF

## Substantive testing



### **Computation of the DAS error rate:**

- Error rate determined at level of HIT transaction is extrapolated to whole selection interval
- Known errors of more than 10.000€ (discovered outside DAS sample) are added to the extrapolated error value

#### **Note!**

- Residual error rate calculated at level of individual transaction does not necessarily reflect actual overpayment to be recovered from the beneficiary
- Overall DAS error rate is representative only for EU27

# The Court's DAS approach for EAGF IACS systems audits



## B) Audit of the Integrated Administration and Control System (IACS)

# The Court's DAS approach for EAGF IACS systems audits



## **IACS:**

- Main management control system for EAGF
- Covers around 85% of EAGF expenditure
- Equally relevant for area, or animal related EARDF aid schemes
- Introduced in 1993 reform

# The Court's DAS approach for EAGF IACS systems audits



- IACS consists of several databases used for efficient cross-checks:
  - Computerised database
  - Identification system of agricultural parcels
  - Aid applications
  - Farmer identification database
  - System for identification of Payment entitlements
  - System for registration of bovine/ovine animals
  - Integrated control system

# The Court's DAS approach for EAGF

## IACS systems audits



- ECA carries out 6-8 systems audits in order to assess the efficiency of IACS as applied by Paying agency.

This comprises:

- Analysis of the design of the control system (identify missing key controls, or other weaknesses)
- Test whether individual key controls function reliably
- Re-performance of on-the-spot inspections
- Review reports of internal audit service, or other auditors

# The Court's DAS approach for EAGF

## IACS systems audits



- **Fundamental requirements for a system to be “reliable”**
  1. Segregation of incompatible functions
  2. All necessary key and ancillary control functions exist, perform reliably and anomalies detected are cleared
  3. Databases contain accurate and updated information
  4. Data input, changes, deletions generate full audit trail
  5. Level of internal control built into the system makes it robust against errors, mistakes or manipulation attempts
  6. Efficient quality review procedures are in place at all levels

# The Court's DAS approach for EAGF IACS systems audits



## **The audit addresses the following Key Audit Questions (KAQ):**

- KAQ 1 : Are all IACS databases in place and do they contain updated and reliable information?
- KAQ 2 : Do the administrative controls and procedures contain sufficient built in internal control and do they provide assurance that the correct amount of aid is paid to the farmer?
- KAQ 3 : Are on-the-spot inspections selected in conformity with EU regulations and Commission instructions and are they of the quality required to assure that the area used for payment calculation is correct?
- KAQ 4 : Do procedures and control systems ensure that Good Agricultural and Environmental Conditions (GAEC) are met?

# The Court's DAS approach for EAGF

## IACS systems audits



### **KAQ 1 : Are all IACS databases in place and do they contain updated and reliable information?**

- 1.1 Database of farmers
  - 1.1.1 Unique identification of farmer
  - 1.1.2 Access restriction to change personal data (banking etc)
- 1.2 Land parcel identification system (reference parcel database)
  - 1.2.1 Unique identification number for every reference parcel
  - 1.2.2 Digitized area allowing on screen measurement (GIS)
  - 1.2.3 Regular updates by new ortho-photos and inspection results
  - 1.2.4 Access restriction to change LPIS reference parcel data and respect of 4-eye principle

# The Court's DAS approach for EAGF IACS systems audits



## **KAQ 1 : Are all ACS databases in place and do they contain updated and reliable information?**

- 1.3 Claim database
  - 1.3.1 All claim data recorded for every farmer for past 10 years
  - 1.3.2 All operations (data input or changes) are recorded by author, time and content of operation, initial data remains accessible
  - 1.3.3 Access restriction and respecting the four eye principle
- 1.4 Entitlement database (*relevant for SPS only*)
  - 1.4.1 National ceiling for entitlements respected
  - 1.4.2 All entitlements identified (individually or by homogenous group) by unique identification number, holder, value, last activation, transfers, date of establishment, origin, kind of entitlement .

# The Court's DAS approach for EAGF IACS systems audits



## **KAQ 1 : Are all ACS databases in place and do they contain updated and reliable information?**

- 1.5 Animal databases (only relevant where animal premium remains partly coupled)
  - 1.5.1 National envelope for animal premium respected
  - 1.5.2 Monitoring of pending transfers
  - 1.5.3 Monitoring of retention periods
- 1.6 Integrated control system
  - 1.6.1 The databases referred to above are used for effective cross checks (see KAQ 2 below).

# The Court's DAS approach for EAGF IACS systems audits



## **KAQ 2 : Do the administrative controls and procedures contain sufficient built in internal control and do they provide assurance that the correct amount of aid is paid to the farmer?**

- 2.1 Claim registration and data input
  - 2.1.1 Do the registration procedures give assurance that the date of arrival recorded in the database is reliable?
  - 2.1.2 Do the data input procedures assure that the claim data is correctly input into the database?
  - 2.1.3 Do the claims contain all data and information required to unambiguously determine the agricultural parcels claimed?
  - 2.1.4 Do procedures give assurance that requests for modification (addition of new parcels and/or withdrawals) were spontaneous or triggered by anomalies found;

# The Court's DAS approach for EAGF IACS systems audits



## **KAQ 2 : Do the administrative controls and procedures contain sufficient built in internal control and do they provide assurance that the correct amount of aid is paid to the farmer?**

- 2.2 Cross-checks between the various IACS databases
  - 2.2.1 Claim lodged by registered farmer;
  - 2.2.3 Land and land use claimed are eligible;
  - 2.2.2 Claimed reference parcel exists and is not overshoot;
  - 2.2.4 Double claimed areas are identified, investigated and anomalies cleared
  - 2.2.5 Withdrawals of land affected by anomalies detected by administration lead to penalties
  - 2.2.6 Obvious error corrections meet the regulatory criteria
  - 2.2.7 List of entitlements held and claimed by farmer at the cut off date determined by the Member State (*for SPS only*).

# The Court's DAS approach for EAGF IACS systems audits



**KAQ 2 : Do the administrative controls and procedures contain sufficient built in internal control and do they provide assurance that the correct amount of aid is paid to the farmer?**

- 2.3 Correct calculation of the aid amount

- 2.3.1 Determined eligible area is correct

- 2.3.2 Application of penalties (late claim, over-declaration or under-declaration)

- 2.3.3 Application of GAEC and CC penalties

***For SAPS only:***

- 2.3.4 Calculation of the aid rate /ha (reduction coefficient where applicable)

***For SPS only:***

- 2.3.5 Use of weighted average value of all entitlements declared (after correction of set aside entitlements)

- 2.3.6 Modulation deducted

# The Court's DAS approach for EAGF IACS systems audits



## **KAQ 3 : Are on-the-spot inspections selected in conformity with EU regulations and Commission instructions and are they of the quality required?**

- 3.1 Inspection selection
  - 3.1.1 Are at least 5% of all farmers submitting applications selected for on-the-spot inspection ?
  - 3.1.2 Are procedures in place which ensure that selections are made from total populations of claimants?
  - 3.1.3 Are between 20-25% of the minimum number of farmers to be inspected chosen randomly ?
  - 3.1.4 Is the control rate increased in cases where significant discrepancies are found?

# The Court's DAS approach for EAGF IACS systems audits

## **KAQ 3 : Are on-the-spot inspections selected in conformity with EU regulations and Commission instructions and are they of the quality required?**

- 3.2 Coverage and Quality of inspections
  - 3.2.1 During OTS inspections, are areas determined for at least 50% of claimed parcels?
  - 3.2.2 Are accepted measurement methods used by the inspectors?
  - 3.2.3 Are the permissible (official) tolerances applied ?
  - 3.2.4 Are inspection results correctly processed by the Paying Agencies'

# The Court's DAS approach for EAGF IACS systems audits

## **KAQ 4 – Do procedures and control systems ensure that Good Agricultural and Environmental Conditions are met?**

- 4.1 Nat. GAEC standards exist and are controlled;
  - 4.1.1 Has MS defined minimum requirements, based on the framework in Annex IV (GAEC)?;
  - 4.1.2 Is the control report sufficient and comprehensive?
    - nature and extent of checks specified
    - findings
  - 4.1.3 Has the minimum inspection rate of 1% been achieved?;
  - 4.1.4 Have GAEC penalties been correctly calculated and applied ?

# The Court's DAS approach for EAGF IACS systems audits



- Overall assessment of the reliability of IACS:
  - **“Effective”** (residual error rate below 2%)
  - **“Partially effective”** (residual error rate 2-5%)
  - **“Not effective”** (residual error rate above 5%)
- **Results published in the ECA's annual reports**

Between 2006 and 2008 ECA has audited 20 paying agencies in 17 Member States. (1 effective; 12 partly effective, 7 not effective)

THANK YOU FOR YOUR  
ATTENTION

ANY QUESTIONS?