

Auditing Common Organisation Market Measures

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Legal Basis

- Council Regulation 3/2008 on information provision and promotion measures for agricultural products on the internal market and in third countries.
- Commission Regulation 501/2008, which lays down the detailed rules for the application of Regulation 3/2008.

Auditees

- Agricultural Payments Organisation
- Ministry of Commerce, Industry and Tourism, (MCIT) as delegate body for this specific Measure

Audit Methodology

- Selection of application to be audited based on risk analysis and materiality
- Reviewed records of Agricultural Payments Organisation
- Based on findings of above review, it was deemed necessary to perform a site visit to the delegate body

Details of application selected

- Promotion of Cypriot and Bulgarian cheese products to Russia and Ukraine
- Three phases
- Total budget of approved actions €5 mln
- 50% of programme expenses financed by EU, 30% by the participating countries and 20% by the proposing organisations

Main requirements

- Proposing Organisations (PO) should appoint an Implementing Body (IB) to execute the programme.
- Selection of IB should be done by an appropriate competitive procedure.

Main audit findings

Article 8(3) of Reg. 501/2008 :«For the purposes of implementing its programmes, each proposing organisation shall select one or more implementing bodies by an appropriate competitive procedure validated by the Member State concerned. Where this selection has been made before the programme is submitted, the implementing body may take part in drawing up the programme».

Main audit findings

- Programme submitted to EU for approval on 20.3.2008. The procedure for the appointment of an IB was instigated in mid-June 2008, ie three months after the submission of the programme to the EU. Therefore, based on Reg. 501/2008, the IB should not have been involved in the preparation of the programme.

Audit findings (ctd...)

- The company selected to act as IB should have been disqualified from the tender procedure as it states in the tender documents submitted that it participated actively in the preparation of the programme.
- The evaluation of the tenders was done by a person appointed by the proposing organisation. It was established that the tender evaluator was the son of one of the key experts of the company that won the tender.

Audit findings (ctd...)

- IB chosen was a newly formed company, therefore the requirement for adequate experience was not met.
- The financial capability of the IB was not substantiated. The evaluation was based on unaudited financial information relating to a group of companies to which IB was a member.

Audit findings (ctd...)

- The tenders received were not initialled before given to the evaluator so as to ensure that they are not amended afterwards. We noted that the tender documents of the IB were very similar to those of another tenderer.
- Appointment was communicated to the IB by the PO before the approval of the MCIT. Therefore, the requirements of Article 8(3) of Regulation 501/2008 were not fully fulfilled.

Audit findings (ctd...)

- The husband of the Managing Director of the IB was acting as a consultant of the PO.
- IB delegated the execution of certain actions of the programme to other companies, most of which were newly incorporated and therefore had no proven experience. The delegation was done directly, with no competitive procedure being followed to ensure that value for money was offered and that the best prices were secured, leaving open the possibility of inflated pricing.

COMPANY Y

PREPARATION OF PROPOSAL /
PROGRAMME (SUBMITTED 20.3.2008)

DIRECTOR: WIFE OF **MR C**

**PROPOSING
ORGANISATION**

Attorney: **Mr A**

Tender Evaluator: **Mr B**

Consultant: **Mr C**

IMPLEMENTING ORGANISATION (BELGIUM)

(TENDER AWARDED 12.12.2008)

DIRECTOR & TEAM MEMBER: WIFE OF **MR C**

TEAM MEMBER: FATHER OF **MR B**

COMPANY X (CYPRUS)

ADDRESS: OFFICES OF
ATTORNEY A

DEP.DIRECTOR: **ATTORNEY A**

FORMED: 9.3.2009

CONNECTED WITH **MR E**,
DIRECTOR OF COMPANY R

**COMPANY Z
(CYPRUS)**

FORMED:
31.12.2007

**COMPANY Q
(CYPRUS)**

FORMED:
31.12.2007

COMPANY R (UK)

FORMED: 9.7.2009

DIRECTOR: **MR E**,
CONNECTED WITH
COMPANY X

SAME OFFICES:
THOSE OF ANOTHER ATTORNEY

What was done then???

- Findings raised suspicions for irregularities and/or commitment of fraud.
- Findings communicated to Attorney General, who forwarded the case to the Police, for an investigation to be carried out.
- As the case involved EU funds, OLAF was notified.
- Investigation is still in progress.

Lessons learned

- Relevant EU regulations could be strengthened in order to promote a more robust control system, regarding the execution of these measures.
- Our Office sent a letter with suggestions for improvement to the European Commission and the ECA.

Lessons learned

- There will always be scope for manipulation of grants (EU or national) – we must assess where there is more potential for such an opportunity (risk analysis) and give emphasis in these areas when designing the audit.
- Measures that are not subjected to the controls of IACS are more susceptible.

Lessons learned

- Things are not always what they appear to be
 - Applications/ Payments that look “in order” may reveal significant problems when examined.
- Look beyond the “ticking and vouching” approach and ask more “intelligent” questions.