



**THE COURT OF ACCOUNTS OF ROMANIA
AUDIT AUTHORITY**

STRATEGY REGARDING THE AUDIT OF EAGF AND EAFRD

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1. PREAMBLE

This document represents the strategy, elaborated by the Auditing Authority in its capacity as Certifying Body, with a view to exercising the audit of the funds for agriculture and rural development, respectively: the European Fund for Guaranteeing in Agriculture (EAGF) and the European Fund for Agriculture and Rural Development (EAFRD).

This document was elaborated according to the provisions of the following statutory acts:

- EC Regulations no.1290/2005 of June 21,2005 regarding the financing of the community agricultural policy;
- Commission's Regulations (EC) no.885/2006 of 21.06.2006 regarding the preparing of detailed rules for the implementation of the Council's Regulations no.1290/2005 regarding the accreditation of the payment agencies and of other bodies and the discharge of EAGF and EAFRD of their duties, as well;
- EC Regulation no. 1233/2007 concerning the introduction of new rules for the treatment of recovery cases in the framework of discharge of the annual financial exercise
- Guidelines no 1-8 issued by the European Commission;
- The Law no.200/23.06.2005 regarding the approval of the Emergency Government Ordinance no.22 of 17.03.2005, for supplementing the Law no.94/1992 on organization and operation of the Court of Audit.

This strategy synthesizes in a written form the purpose, objectives and methodology regarding the auditing activity carried on by the Auditing Authority in order to fulfill its responsibilities and it will be reviewed periodical on the basis of the experience gained following the audits performed.

2. SCOPE and OBJECTIVES OF AUDIT

2.1 Introduction of EAGF and EAFRD in Romania

The European Agricultural Guarantee Fund

Starting with the year 2007, in order to fulfil the objectives of the EU community agricultural policy and to financing varied measures, it was introduced, through the Council's Regulation (EC No.1290/21.06.2005 on financing the Community Agricultural Policy, the European Fund for guaranteeing in Agriculture (EAGF).

EAGF finances in the context of joint management between the member states and the Community, the following expenses, which shall be made according to the community legislation:

- a) export repayments for the agricultural produces to third countries;
- b) intervention measures for agricultural markets adjustment;
- c) direct payments to the farmers according to the community agricultural policy;
- d) Community's financial contribution in the measures of informing and promoting the agricultural produces on the Community's internal market and in third countries.

The Pylon I of the Common Agricultural Policy (CAP), financed through the European Fund for Guaranteeing in Agriculture (EAGF), constitutes the basis of the direct payments and of the market measures. It is complementary to the Pylon II of CAP, financed through EAFRD, which addresses both to the rural development and the environment improvement. The actions implemented through the two pylons of CAP are close related and supplement each other.

Romania has implemented starting from 2007, the direct payments scheme – SAPS (Single Area Payment Scheme), which will contribute in a competitive, durable and market oriented agriculture to be practiced. Thus, the farmers will receive subsidies granted by EU, for which they must meet the eligibility conditions. SAPS granting is conditioned by the observance of the cross-compliance requirements, respectively the maintenance of the agricultural land in good agricultural and environment conditions. These requirements are complementary to some actions supported through pylon II that have as their objective the implementation of the environment practices in the areas with a high natural potential (such as Natura 2000) or in the disfavored areas (LFA).

The direct payments will allow the agricultural producers to accumulate larger incomes and in consequence they will have an increasing possibility to provide for the co-financing for the investments that may be made as part of the pylon II. Failure to observe these conditions determines the consequent decrease of the support provided within this scheme.

The improvement of the knowledge regarding the cross-compliance requirements is achieved by providing professional training, information and knowledge spread, as well as by using the consulting and advisory services, which measures are backed through pylon II.

The measures included in the National Plan for Rural Development, which provide investments in agricultural exploitations, do not overlap with the actions carried out through Pylon I of the Common Agricultural Policy in connection with the support for production granted to the sectors: fruits and vegetables, wine, tobacco, olive oil, hop, cattle, sheeps and goats, bee culture and sugar, sectors of which list is attached in Annex I to the Regulations no.1974/2006.

The financial resources necessary for covering the expenses made by the accredited payment agency, pursuant to EAGF, will be made available by the Commission for the member states under the form of disbursements, according to the registers containing the expenses made by those agencies. Until the moment of disbursement, under the form of monthly payments, the financial resources must be mobilized by the member state, according to the requirements of the accredited payment agencies.

The reimbursement phasing of the EAGF funds granted to Romania in the period 2008-2013 is As follows:

Year	EU funds paid by APIA – EURO ‘000.000	
	Direct payments*	Market measures**
2007	440,00	248,00
2008	527,90	208,00
2009	618,10	187,10
2010	706,40	160,90
2011	883,00	133,60
2012	1.059,60	90,00
2013	1.236,20	40,40

* According to the provisions under chapter AA 6/2/05 REV2, item 8 relating to the Regulations 1782/2003, letters z: ab, annex VIIIa

** Amounts estimated during the negotiations with the European Commission.

The European Agricultural Fund for Rural Development

Having in view the obligations incumbent on Romania as a result of the commitments assumed as part of the Treaty for admission into the European Union, a national policy was elaborated for the support of the activities related to agriculture and rural development. The strategy, the objectives and the activities that are to be financed for agriculture development are to be found in the National Plan for Rural Development 2007 – 2013. This plan was elaborated in concordance with the provisions of the EC Regulations no.1698/2005, with the Community guidelines and the national policies, and the implementation of priorities for agriculture development shall take place through programs financed from European funds.

In this view, EAFRD is an important financial support for Romania with the purpose of rehabilitating and modernizing the agriculture and rural development, an essential tool established through Council Regulation no. 1290 from June 21, 2005 concerning the financing of the common agricultural policy and Council Regulation no.1698/2005 from September 20, 2005 concerning the support for rural development.

The support for rural development granted to Romania by the European Union through EAFRD will contribute in meeting such objectives as: increase of competitiveness in agriculture and forestry by supporting the restructuring, development and innovation; environment and rural areas improvement by supporting the land administration; life quality improvement in the rural areas by encouraging the economic activity diversification; starting and operating the local development initiatives (LEADER).

The financial rules applicable to EAFRD have been established by the Commission Regulations no.883 of June, 2006, respectively the preparation of the detailed rules for the implementation of the (EC) Council's Regulations no.1290/2005, regarding the keeping of the accountancy records by the payments agencies, of the expenses statements and of the incomes and the reimbursement conditions of the expenses from EAGF and EAFRD.

The granting of the financial assistance by the European Union is conditioned by a national co-financing, provided in the state budget, according to the provisions under art.16 "Partnership" of the Council's Regulations no.1698/2005 of 20.09.2005 and the provisions of the National strategic Plan for the period 2007 – 2013. To this public contribution (20% national co-financing), a private contribution (25%-60%) depending on the public financing share) is added for certain types of projects.

The (CE) Regulations no. 1698/2005 provides a number of 37 measures for the three priority axes. From among these, according to the National Plan for Rural Development, in the EAFRD there are contained 24 support measures, which depending on the sought strategic objectives are structured as follows:

PRIORITY AXIS I – Improvement of competitiveness of agricultural and forestry sector

- Vocational forming and information actions, including the spread of scientific knowledge and innovating practices, for the persons employed in the agricultural, food and forestry sectors
- Using the consultancy services by the farmers and the wood owners
- Modernizing the agricultural exploitations
- Settlement of the young farmers
- Adding value to the agricultural and forestry produces
- Improvement and development of the infrastructure related to the development and adaptation of agriculture and forestry
- Supporting the semi-subsistence agriculture
- Supporting the establishment of producers' groups

PRIORITY AXIS II – Environment and landscape improvement

- Non-productive investments in the agricultural and forestry field
- First forestation of the agricultural land

PRIORITY AXIS III – Life quality in the rural space and rural economy diversification

- Diversification towards non agricultural activities
- Support for creating and developing micro-enterprises, with an emphasis on the promotion of entrepreneurship and economic structure development
- Encouraging tourism activities
- Basic services for economy and for the rural population
- Villages renovation and development
- preservation and upgrading the rural patrimony

PRIORITY AXIS IV LEADER

- Leader

APIA implements the following measures for Axis II:

- Payments for natural handicap to the farmers in the mountain areas
- Payments to the farmers from the handicap areas, other than the mountain ones
- Agro-environment payments
- First forestation of the agricultural land
- First forestation of the non-agricultural land

In reference to the provisions of chapter 5.2 “Correlation to Pylon 1” from the National Strategic Plan and align.2, art. 143c of the EC Regulation no. 1782/2003, through Commission Decision from September 26, 2007, Romania was authorized to grant direct national complementary payments for the vegetation area, to be financed both by the national budget and EAFRD budget. For this expenditure category APIA does the authorization and actual payment from the national budget of the amounts from the payments requests, and APDRP ensures the recompletion from EAFRD of the national budget.

The annual contribution from EAFRD for 2007-2013 is the following:

YEAR	2008	2009	2010	2011	2012	2013	TOTAL
TOTAL EAFRD	1.146.687,6	1.442.871,5	1.359.770,6	1.357.854,6	1.359.146,9	1.356.173,2	8.022.504,7

2.2 The legal basis regarding the implementation and progress of EAGF and EAFRD

According to the provisions of art.34 from Council Regulation no. 1698/2005, Romania developed the legal, statutory and administrative framework to ensure that the financial interests of the European Community are protected in an efficient manner.

The main community regulations applicable for EAGF and EAFRD are:

- EC Regulations no.1290/2005 / June 21,2005 regarding the financing of the community agricultural policy;
- The Regulations of the Council of Europe no.883 / June 21, 2006, regarding the rules for the implementation of the (EC) Council's Regulations no.1290/2005, regarding the keeping of the accountancy records by the payments agencies, of the expenses statements and of the incomes and the reimbursement conditions of the expenses from EAGF and EAFRD.
- The Regulations of the Council of Europe no.885/2006 for establishing the rules of implementation of the Regulations of the Council of Europe no.1290/2005 regarding the accreditation of payment agencies and other bodies and also the clearance of EAGF and EAFRD accounts.
- EC Regulation no 1042/2007 for establishing the form and content of the accounting information to be presented to the Commission in view of closing the EAGF and EAFRD accounts, as well for monitoring and prognosis;
- EC Regulation no 1848/2006 concerning irregularities and the recovery of sums wrongly paid in connection with the financing of the common agricultural policy and the organization of an information system in this field and repealing Council Regulation (EEC) No 595/91

The main community and national regulations applicable to EAGF:

- The Regulations of the Council of Europe no.894/2006, regarding the rules for implementation of the EC Regulations no.1290/2005 regarding the financing through the European Fund for Guaranteeing in Agriculture (EAGF) of the intervention measures for the stocking operations and the accounting for the stocking operations by the payments agencies of the Member States.
- The Regulations of the Council of Europe no.1782/2003 of 23.09.2003 regarding the establishment of the common norms for the regimes of direct support as part of the common agricultural policy and the establishment of other support regimes in the favor of the farmers, which amends the EC regulations no.2019/93, EC no.1452/2001, EC no.1453/2001, EC no.1454/2001, EC no.1868/94, EC no.1251/1999, EC no.1254/1999, EC no.1673/2000, EC no.2358/71 and EC no.2529/2001.

- The Regulations of the Council of Europe no.796/2004 regarding the establishment of detailed rules for the implementation of the conditioning, modulation and of the integrated system of administration and control, provided by the Regulations of the Council of Europe no.1782/2003 for the establishment of the common norms for the direct support schemes within the common agricultural policy and establishment of some support schemes for the farmers, as amended and supplemented by the EC Regulations no.239/2005 and the EC Regulations no.436/2005.
- The Government Decision no.497/2004 by which APIA was assigned as payment authority for EAGF.
- The Law no.1/2004 regarding the establishment, organization and operation of the Agency of Payments and Interventions in Agriculture, Food Industry and Rural Development as subsequently amended and supplemented.

The main community and national regulations applicable to EAFRD:

- The Regulations of the Council of Europe no.1698 of September 20,2005 regarding the support of the rural development through the European Agricultural Fund for Rural Development (EAFRD).
- Regulation (EC) No 1320/2006 of 5 September 2006 laying down rules for the transition to the rural development support provided for in Council Regulation (EC) No 1698/2005
- Regulation (EC) No 1974/2006 of 15 December 2006 laying down detailed rules for the application of Council Regulation (EC) No 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD)
- Regulation (EC) No 1975/2006 of 7 December 2006 laying down detailed rules for the implementation of Council Regulation (EC) No 1698/2005, as regards the implementation of control procedures as well as cross-compliance in respect of rural development support measures
- Romania accession treaty to the European Union
- The National Strategic Plan (NSP) for rural development;
- The National Program for Rural Development (NPRD) accepted by the European Commission and approved on February 20, 2008 by the Committee of Rural Development, an institutional structure of the European Commission, with responsibilities in this field
- The Emergency Government Ordinance no.13 of 27.02.2007 regarding the establishment, organization and operation of APDRP by the reorganization of SAPARD Agency.
- The Emergency Government Ordinance no 67/2006 concerning the management of the non-refundable funds for financing the common agricultural policy granted by the European Community, as well as the co-financing and pre-financing funds transferred from the state budget, with subsequent modifications and additions;
- The Order of MAPPDR no.422/2006 for approval of accreditation criteria for the Payments Agencies for agriculture, rural development and fishery and for the Coordinating Body of the payments agencies for agriculture, rural development and fishery
- The Order of MAPPDR no 243/2006 for establishing the measures financed from EAFRD which shall be implemented by APDRP and APIA.

2.3 The institutional framework for implementation and control of EAGF and EAFRD

The main entities involved in the implementation and progress of EAFRD and EAGF are defined in the community regulations mentioned above, the responsibilities of which are clearly detailed. In Romania, the institutional system of administration, control and implementation of the funds is formed of:

- **The General Directorate for Rural Development within the Ministry of Agriculture and Rural Development** – function of Management Authority
- **The Authority Competent for the Accreditation of the Agencies of Payments for agriculture, rural development and fishery and of the Coordinating Body of the Agencies of Payments within the Ministry of Agriculture and Rural Development** – function of Competent Authority.
- **The General Directorate for the Coordination of the Agencies of Payments within the Agency of Payments for Rural Development and Fishery** – function of Coordinating Body
- **The Agency of Payments for Rural Development and Fishery** – function of Agency of Payments for EAFRD
- **The Agency of Payments for interventions in Agriculture** – function of Payment Agency for EAGF
- **The Authority of Audit for non reimbursable funds granted to Romania by the European Union through EAGF and EAFRD** – function of Certifying Body

2.4 The role of Audit Authority –for EAGF and EAFRD

2.4.1 The legal basis for the Audit Authority to exercise the role of Certifying Body for providing for the audit of EAGF and EAFRD

The institutional framework created by art.7 of the Council's Regulations no.1290/2005 provides for the existence of a certifying body, operationally independent of the Agency of Payments, which establishes the accounts attestation, reports with respect to management and control systems, verifies the national co-financing element and holds the appropriate competence level.

According to the prerogatives granted by the provisions under art.17, letter g' of the law no.94/1992 regarding the organization and operation of the Court of Audit of Romania, as republished, with the subsequent amendments and supplements, the role of certifying Body for the Sapard Program was fulfilled, starting 2001, by a department of the Court of Audit of Romania.

In the context of the fulfillment of the obligations incumbent on Romania by the commitments assumed as part of the Treaty for Admission to the European Union, through the Law no.200/June,2005 regarding the approval of the Emergency Government Ordinance no.22/2005 for the supplementing of the Law no.92/1992 regarding the organization and operation of the Court of Audit of Romania, it was constituted the Audit Authority for the funds granted to Romania by the European union through the programs ISPA and SAPARD and for the funds granted in the post-admission period.

According to the responsibilities established by the Law 200 of June 2005 from the date of Accession of Romania to the European Union, the Audit Authority under the Court of Audit, through the specialty department fulfills the role of certifying body both for EAGF and EAFRD and for the Sapard Program until the end of this.

The audit authority is a body without legal status, independent from the operation point of view from the Court of Audit and from the entities involved in the progress of the community funds, it having its head-office in Bucharest and at the territorial level regional auditing offices.

The Audit Authority, in its capacity as Certifying Body is carrying on its activity according to the auditing standards accepted at the international level (IFAC), the community and national legislation applicable to the funds granted to Romania by the European union.

According to art.5 of the Commission's Regulations no.885/2006, the Certifying Body is conducting its audit both during and after the end of each financial year.

The organization structure of the Certifying Body

According to its organization structure, within the Audit Authority is functioning the Auditing Department for SAPARD funds and the funds for agriculture, rural development and fishery, which has the following structure:

- The audit unit for EAGF
- The audit unit for EAFRD
- The audit unit for SAPARD and the European fund for fishery (EFF)
- The unit for methodology, syntheses and reporting
- 9 territorial auditing offices in the areas where the regional centers of the payment agency are operating (Alba, Constanța, Cluj, Dâmbovița, Dolj, Iași, Satu Mare, Timiș, București).

2.4.2 The attributions of the Audit Authority

According to the provisions under art.7 of the Council's Regulations no.1290/2005, the Certifying Body accomplishes the external audit of EAFRD and EAGF with a view to certify the reality, completeness and accuracy of the accounts of the accredited payment agencies, taking into account the established control and administration systems.

According to the provisions under art.5 of the Commission's Regulations no.885/2006, the main responsibilities of the Certifying Body are as follows:

- Issuing a certificate to establish if reasonable assurance was obtained regarding the accounts transmitted to the Commission, if they are true, complete and accurate and that the procedures of internal audit functioned satisfactorily
- Issuing a report with findings to determine if a reasonable assurance was obtained in respect of observing the accreditation criteria by the paying Agencies
- Issuing an opinion regarding the assurance statement signed by the person in charge within the accredited payment agency.

2.4.3 The objective of the audit of the Audit Authority

In order to audit the accounts afferent to EAFRD and EAGF, the Certifying Body has the following **general objectives** deriving from the Commission's Regulations no.885/2006:

- certifying the annual accounts of the Agency for Payments, with respect to integrity, accuracy and reality of these accounts
- verifying the compatibility of the management and control systems of the Agencies with respect to their capability to provide for the compliance of the expenses with the provisions of the community regulations
- verifying the existence and correctness of the national co-financing element (for EAFRD)
- issuing an opinion regarding the assurance statement signed by the person in charge within the accredited payment agency.

In order to attain these objectives, with a general character, we identified **specific objectives**, which can be followed up both through the audit at the central, and regional level, with a view to obtaining reasonable assurances, as follows:

- the internal control procedures of the Agencies, are theoretically safe, are elaborated according to the provisions of the community regulations and satisfactorily operates in practice
- the main operational processes within the Agency operate efficiently
- the payment agency observes the accreditation criteria
- the procedures of the payment agency offer the reasonable assurance that the expenses afferent to EAGF and EAFRD were made pursuant to the Community's rules and that the improvement recommendations were implemented and followed up
- the annual accounts of the Payment Agency comply with its registers and accounting records
- the expenses statements afferent to EAGF and EAFRD are true from the material point of view, complete and clearly registered
- non-operational transactions, i.e. advances paid, the guarantees obtained, the intervention stocks and the amounts to be received; respects the provisions of appendix I and III of Commission Regulation no.885/2006 and Guidelines 1 and 2 of the European Commission;
- accomplishing an assessment of the function of internal audit within the Agency (independency, competency and efficiency of internal audit)
- following up the implementation by the Agency of the recommendations from the auditing report afferent to the accreditation process
- assessment of compliancy, credibility and opportunity of management information developed inside the Agency and the means used for commensuring, classifying and reporting of such information.

Having in view the established general and specific objectives, the Certifying Body, following the audit, through the formulated opinions and recommendations, will assist the Agency with a view to enhancing the efficiency in the following fields:

- monitoring the compliance with the community rules and procedures
- conduct of the accounting records and a reliable and correct information management
- the quality of the management, control and internal audit
- risk management

3. SYSTEMS AND CONTROLS

3.1 Accreditation of the Agency of Payments

The procedure of accreditation is accrued out according to the provisions under art.6 of the Commission's Regulations no.1290/2005, the annex to the Commission's Regulations no.885/2005 and the Guideline no.2 of the EC "Accreditation – for the national authorities involved in the decentralized management of EAFRD and EAGF".

Also in Romania, the Competent Authority within MARD is responsible for assignment and withdrawal of accreditation of the payment agencies and for the fulfillment of the duties assigned to these. For the accreditation of APIA and APDRP, the Competent Authority relied on the final auditing report regarding the accreditation criteria, prepared by the auditing firm PriceWaterhouseCoopers. The examination included the processes regarding the authorization and execution of payments, the safety of the Community budget, the safety of the information system, preservation of the accounting records, separation of responsibilities and the sufficiency of the internal and external controls taking into account the rules governing EAGF and EAFRD

According to the provisions under art.6(1) of the Commission's Regulations no.1290/2005 and the annex to the Commission's Regulations no.885/2005, with a view to obtaining the accreditation, APDRP and APIA created an administrative structure and an internal control system of their own, with respect to:

- a) internal environment
- b) control of activities
- c) information and communication
- d) monitoring

Having in view the community provisions and taking into account the size, responsibilities and other specific features, through the order no.422/2006 issued by the minister of agriculture and rural development, there were approved at the national level the criteria of accreditation of APIA and APDRP and for the coordinating body of the payment agencies (an appropriate legal basis, establishing the rights and obligations; written working procedures and instructions, for all the levels within the organization; separation of functions between authorization, payment and accountancy; detailed check lists for the authorization of the applications – accounting for the controls; appropriate procedures for the delegation of certain responsibilities; appropriate procedures for information safety and management; monitoring activities; monthly reconciliation procedures; definition of an appropriate auditing path; constituting a debtors' register at the central level; providing for an appropriate management regarding the advances and the guarantees).

The competent authority decided in December 2007, the accreditation of APIA and APDRP. According to the provisions under art.2 of the Commission's Regulations no.885/2006, on the basis of the certificates and auditing reports prepared by the Certifying Body, the competent Authority will permanently monitor the payment agencies, with a view to observing and maintaining the accreditation criteria.

3.2 Brief description regarding the APIA and APRDF organization

The Agency of Payments for the Rural Development and Fishery

For the implementation in the period 2007 – 2013 of the National Plan for Rural Development, of the National Strategic Plan for Rural Development and the National Strategic Plan for Fishery, of the measures afferent to the investments in agriculture and in the field of pisciculture, it was established through the Emergency Ordinance no.13 of 22.02.2006, the Agency of Payments for Rural Development and Fishery (APDRP), based on the SAPARD Agency's structure.

APDRP is a public institution, with legal status, subordinated to the Ministry of Agriculture and Rural Development, it having the capacity as tertiary manager of credits.

The role, attributions and responsibilities of APDRP are established according to the EC Regulations, which regulate the general framework of organization and implementation of the APDRP financings for the accomplishment of the objectives of the Common Agricultural Policy.

The Agency of Payments for Rural Development and Fishery has mainly the following responsibilities:

- technical and financial implementation of the SAPARD program
- technical and financial implementation of certain measures of rural development financed from the European Fund for Agriculture and Rural Development (EAFRD)
- activities of financial implementation of the measures financed from the European Fund for Fishery (FEP).

The Agency's management is provided by a general director and three deputy general directors, appointed by order of the minister of agriculture, forests and rural development.

The internal regulation of organization and operation of the Agency was approved by the Minister's order no.113 of 30.01.2006, and the Agency's mission and duties were approved by the Minister's Order no.137 of 27.02.2006. According to the Order of MAPDR no.669 of 03.10.2006, regarding the amendment and the supplementing of the Order of MAPDR no.137/2006, the organization structure of APDRP is as follows:

Central level

For accomplishment of the technical implementation function:

- Directorate of Program Coordination
 - Unit for program coordination and institutional relations
 - Unit for program monitoring, assessment and reporting
 - Unit of methodology
- Directorate of selection – contracting
 - Unit for assessment – selection
 - Unit for contracting
 - Unit for technical verification contracts implementing
- Directorate of technical assistance
 - Unit for project selection-projects implementing, technical assistance
 - Leader Unit

For accomplishment of the payment function:

- Directorate of payment of projects:
 - Unit for payment accounting
 - Unit for payment making
 - Unit for payment authorization and debts recovery
 - Unit for technical verification

- Acquisition Unit
- Health and Labor Safety Unit
- IT Unit

For the fulfillment, according to the community regulations, of the two basic functions of the Agency, the following support compartments were created, as well:

- Directorate of internal audit, with the services:
 - Unit for conformity audit
 - Unit for operational audit
 - IT audit Office
- Directorate of control and anti-fraud
 - Unit for financial control
 - Unit for technical control
 - Unit for ex-post control
- Directorate of human resources
 - Unit for remuneration and human resources management
 - Unit for recruitment, personnel and professional training
- Directorate of promotion, communication and mass-media relations
 - Unit for promoting communication
 - Unit for mass-media relations
- Legal Directorate
 - Legislation Unit
 - Unit for litigious matters
- Unit for Own Financial Preventive Control

According to the provisions under art.5 of the Council's Regulations no.1290/2005 of 21.06.2005, within the Agency, at the central level, it is functioning the Directorate for coordination of the payments agencies, which has the role of a **Coordinating body**, which acts as the sole interlocutor with the European Commission from the part of Romania with respect to all the responsibility fields related to EAGF, EAFRD and FEP.

Territorial level

At the territorial level, the Agency has in its structure **8 Regional Payment Centers for rural development and fishery**, without legal status, with their headquarters in each of the regions constituted on the ground of the Law no.315/2004 regarding the regional development in Romania, as subsequently amended and supplemented.

Each Regional Center has the following services:

- ✓ Unit for evaluation, contracting
- ✓ Unit for payments authorization
- ✓ Unit for acquisition
- ✓ Unit for technical verification

- ✓ Legal office
- ✓ IT office

The Regional Centers of payments for rural development and fishery are managed by a director who reports to the Agency's general director.

Under the direct coordination of the regional centers, at the level of each county, **a county office of payments for rural development and fishery** was established, without legal status, lead by a deputy director.

Each county office of payments is organized in the following services:

- ✓ Unit for verification of financing applications
- ✓ Unit for verification of payment applications

The Agency of Payments for Interventions in Agriculture

APIA was established through the Law no.1/2004, as a public institution with legal status subordinated to the Ministry of Agriculture and Rural Development, entirely financed from the state budget, it being designated as a payment authority for EAGF.

At the same time, starting July 1, 2005, APIA also administrates the support funds meant for the support of the agriculture financed from the state budget, according to the provisions of their constitution.

APIA has the following main responsibilities:

- a) to elaborate and implement the procedures regarding the application of the intervention system for the agricultural produces;
- b) it is the public authority in charge with the implementation of the Integrated System of Administration and Control (IACS)
- c) to implement and administrate the restitutions to export and the system of guarantees afferent to the restitutions
- d) to attain and maintain the system of identification of the agricultural parcels.

The Agency of Payments and Intervention for Agriculture is lead by a general director and 3 deputy general directors appointed according to law, through the Order of the minister of agriculture and rural development.

The organizational structure consists of three main segments:

- a) central level,**
- b) county level**
- c) local level**

Central level

- Directorate of internal audit
- Directorate of legal affairs and litigious matters
- Anti-fraud and internal control Directorate
- Directorate of human resources
- Directorate of methodology and institutional relations
- Directorate for inspections and over-control

- Directorate for promoting communication
- **IACS and support measures Directorate**
- **Directorate for field control**
- IT Directorate
- Directorate for investments, administrative
- Directorate for state financial support and subsidies
- Directorate for Monitoring the admission process
- **Directorate of Market Measures and Interventions**
- Economic Directorate

Territorial level

- 42 county branches
- 256 local centers

3.3 Relation between the implementing authorities of EAFRD and EAGF

MARD

According to art.75 of the EC Council's Regulations no.1698/2005, the management Authority is in charge with the EAFRD management and implementation.

On the basis of paragraph (2) under art.75, the management Authority delegated a portion of the specific functions to the Agency of Payments for Rural Development and Fishery, it continuing to keep the full responsibility for the management and implementation of the delegated duties.

For this purpose, through the Frame Agreement of Delegation of the functions related to the implementation of the measures from the National Plan of Rural Development sustained through EAFRD concluded on 30.08.2006, the Management Authority delegate to APDRP the following duties:

- a) implementation of the measures from the NPRD (receiving, assessing, selecting and contracting the financing applications), excepting three measures from Axis I (accomplished by the Management Authority) and the selection of the Local Action Groups
- b) recording, collecting and stocking, in a form suitable for monitoring and assessment, in a computerized system, of the statistic information regarding the financial and physic implementation of EAFRD
- c) informing the beneficiaries and other bodies participating in the implementing of the actions, regarding the obligations incumbent on them as a result of the granting of the support, regarding the need of use of a separate accountancy system, or of a accountancy encoding suitable for all the transactions afferent to the operation, as well as regarding the requirements concerning the data transmission to the management authority and for the registration of the accomplishments and results
- d) observance of obligations regarding the publicity

APDRP

At the same time APDRP, for the payments related to the measures financed from EAFRD, delegated a portion of its specific functions regarding the measures involving payments by area. Thus, two frame delegation agreements and one protocol for collaboration were signed:

- With APIA for implementing the measures concerning the compensatory payments for farmers within the handicap areas and compensatory payments for agro-environment measures;
- With APIA the General Directorate for Forestry Development and Consolidation of Property – the county Territorial Inspectorates of Forestry Regime and Hunting, regarding the delegation:
 - to APIA, of the control duties for the Good Agricultural and Environment Conditions and the forestry measures with payments by area within axis 2
 - to General Directorate for Forestry Development and Consolidation of Property, of the evaluation of the application forms and of the on site control regarding the specific requirements.
- With APIA for implementing the national additional direct payment schemes for cultures placed onfield.

APDRP is in charge with the documents afferent to the payments effected and for the documents regarding the results of the physical and administrative inspections requested by the community legislation and it will made available for the Commission the available documents and information. For the measures that provide for payments by agricultural area, implemented by APIA, the documents will be kept the APIA according to the delegation from APDRP, being responsible for the payments authorization. Having in view this, APIA will report to the Agency of Payments for Rural Development and Fishery with respect to the verifications performed, to their content and regarding the measures taken following the found results in respect of EAFDR (axis II).

APIA

APIA has inter-institutional relations with all the bodies involved in the implementation and progress of EAGF, both at the national and community level.

APIA concluded cooperation protocols with the Sanitary Veterinary and Food Safety National Authority (ANSVSA) and the National Customs Authority (ANV). APIA concluded with ANSVSA 2 protocols by which the modality was established of cooperation and harmonization of the information systems.

With ANV, APIA concluded a protocol in the field of management of the licensing system for the import and export of agricultural produces and the implementation of the community regulations regarding the operation of the schemes of restitutions for export for the agricultural produces.

According to the community norms, the Agencies of Payments remain fully responsible for the legality and periodicity of transactions, including for the protection of the interests of the European Union as well as for the declaration of the expenses to the Commission and the appropriate rendering of the accounting records.

3.4 Internal control system of the Payments Agencies (APIA and APRDF)

The internal control system represents the assembly of control forms exercised at the level of the Agency, established by its management in concordance with the Agency's objectives and the community and national regulations, with a view to providing for the administration of EAFRD and EAGF in an economic, efficient and efficacious manner.

The assessment of the internal control system represents an important component of the objectives of audit performed by the Certifying Body and its purpose is to detect the dysfunctions existent in the manner of its configuration.

With the occasion of accreditation of EAFRD and EFDA a coherent control system was established, which to provide for the implementation in good conditions of the funds, according to the provisions of the community regulations.

At the level of the entities within the Payment Agencies, the working procedures provide for the accomplishment of the following types of distinct controls, namely:

- **Payment authorizing**, which consists of: Operational Controls and Physical inspections:
 - **Operational Controls** – involves the detailed verification and the authorization of the financing and payment applications based on the check lists and the separation of duties within the entity.
 - **Physical Inspections** – involves checking to be performed prior and after each payment, including on site checking and the examination of the accounting records rendered by the beneficiary, in connection with the use of the funds.
- **Controls afferent to the payment execution** – these controls are standardized and involve the verification of the fact that only the applications authorized for payment were forwarded in order the payment to be made and that the payment is made appropriately.
- **Controls afferent to accountancy** – involve the performance of controls of the accounting records and of the reconciliations regarding the receipts and the bank statements of account; these also include the controls regarding the monthly transmission and reconciliation of Table 104 and of the quarterly and annual statements of expenses for EAFDR, as well as the relevant registers in respect of EAGF deposit;
- **Management of debts** – involves the performance of controls on the recognition of all debts and on their registration in the debtor's register, as well as the manner of collecting irregularities and other debts;
- **Controls for advances and guarantees:** involves carrying out controls concerning the manner of authorizing these two items, identifying them in the accounting records and monitoring them to ensure the validity of the guarantee issued, the recovery of advances on time and the issued guarantees within their validity period.
- **Controls concerning the internal audit** – furnishes assistance in configuration, analysis and assessment of the control operations regarding the expenses for the projects afferent to the measures financed through EAFRD and EAGF. At the same time

it involves: checking the procedures adopted by the Paying Agencies to ensure their conformity with the community rules as well as the accuracy of the accounts, the evaluation of the issued reports and recommendations presented

- **Other types of controls** – with express reference to: personnel control; control by supervising; control exercised by the management; own preventive financial control.

Our audit is based on the assessment of the manner of operation of the operational and financial key controls of the Agencies in accordance with art. 4(a) of Appendix I of Regulation 885/2006. As such, we will obtain relevant and sufficient proofs which to allow us to draw a conclusion regarding the efficacy of the control systems and at the same time to issue the certificate of audit.

The assessment of the internal control system of the Payment Agencies and their compliance with the accrediting criteria will be attained by the Certifying Body on the basis of matrixes where a score from 1 to 5 will be granted regarding the manner in which the internal controls operated. The scores granted have the following signification:

1. clear failure of observance of the accrediting criteria of serious deficiencies (the seriousness of deficiencies leads to the impossibility for the Agency to fulfill the duties established by Article 6(1) of the Regulations 1290/2005)
2. weak (other deficiencies that didn't receive the score 1 but they must be followed up according to Article 2(1) of the Regulations 885/2006)
3. suitable (but improvement is necessary)
4. good (only minor aspects are evidenced)
5. the best practice

In the cases when a procedure or a component is not valid, N/A (not applicable) will be indicated. If the assessment will be based on the auditing work carried in the previous years, and the Certifying Body obtained the assurance that no major changes of the components occurred, the score will be indicated in brackets "()". With reference to the internal audit, if certain domains follow to make the subject of the internal audit, the Certifying Body will base its assessment on the degree of coverage of the internal audit plan for 5 years, and the score will also be indicated in brackets "()".

The above mentioned matrixes will have the following format:

The matrix I regards the EAGF measures administrated through IACS, namely the measures of EAGF help established under Title III and IV and Annex No.V of the Council's Regulations no. 1782/2003.

MATRIX I – Assessment of the accreditation criteria for EAGF – IACS measures				
Assessed components	Internal environment	Control activities	Information and notification	Monitoring

Procedures		Organizational structure	Human resources	Delegated duties	es	Notification	IT	Permanent monitoring	Internal audit
Authorization	Administrative controls	*	*	*	*	*	*	*	*
	On site controls	*	*	*	*	*	*	*	*
Payments made		*	*	N/A	*	*	*	*	*
Accountancy		*	*	N/A	*	*	*	*	*

Matrix II regards the EAGF measures not administered through IACS, namely any other EAGF help measures

MATRIX II - Assessment of the accreditation criteria for EAGF – non IACS measures									
Assessed components		Internal environment			Control activities	Information and notification		Monitoring	
		Organizational structure	Human resources	Delegated duties		Organizational structure	Human resources	Delegated duties	Internal audit
Authorization	Administrative controls	*	*	*	*	*	*	*	*
	On site controls	*	*	*	*	*	*	*	*
Payments made		*	*	*	N/A	*	*	*	*
Accountancy		*	*	*	N/A	*	*	*	*
Advances and guarantees		*	*	*	N/A	*	*	*	*

Matrix III regards the irregularities according to Article 32 of the Regulations no. 1290/2005.

MATRIX III - Assessment of the accreditation criteria for EAGF – Debts									
Assessed components		Internal environment			Control activities	Information and notification		Monitoring	
		Organizational structure	Human resources	Delegated duties		Organizational structure	Human resources	Delegated duties	Internal audit
EAGF debts management		*	*	N/A	*	*	*	*	*

The matrix IV regards the EAFRD measures administrated through IACS, established in annex V of the Council's Regulations no.1782/2003.

MATRIX IV – Assessment of the accreditation criteria for EAFRD – IACS measures									
Assessed components		Internal environment			Control activities	Information and notification		Monitoring	
		Organizational structure	Human resources	Delegated duties		Notification	IT	Permanent monitoring	Internal audit
Authorization	Administrative controls	*	*	*	*	*	*	*	*
	On site controls	*	*	*	*	*	*	*	*
Payments made		*	*	N/A	*	*	*	*	*
Accountancy		*	*	N/A	*	*	*	*	*

Matrix V regards the EAFRD measures not administered through IACS, namely any other EFDAR help measures

MATRIX V - Assessment of the accreditation criteria for EAFRD – non IACS measures									
Assessed components		Internal environment			Control activities	Information and notification		Monitoring	
		Organizational structure	Human resources	Delegated duties		Organizational structure	Human resources	Delegated duties	Internal audit
Authorization	Administrative controls	*	*	*	*	*	*	*	*
	On site controls	*	*	*	*	*	*	*	*
Payments made		*	*	N/A	*	*	*	*	*
Accountancy		*	*	N/A	*	*	*	*	*
Advances and guarantees		*	*	N/A	*	*	*	*	*

Matrix VI regards the irregularities according to Article 32 of the Regulations no. 1290/2005.

MATRIX VI - Assessment of the accreditation criteria for EAFRD – Debts

Assessed components	Internal environment			Control activities	Information and notification		Monitoring	
	Organizational structure	Human resources	Delegated duties		Organizational structure	Human resources	Delegated duties	
Procedures								
EAFRD debts management	*	*	N/A	*	*	*	*	*

The matrix should specify the score for the particular accreditation component, the general assessment of the internal control shall be made in respect of the scores given, as follows:

- Where the matrix contains several scores of "1" and/or "2", the internal control system is **ineffective**.
- Where the majority of scores in the matrix are "3" (and the number of "2s" is very limited), the internal control system could be assessed as **adequate**.
- Where all scores in the matrix are at least "3" (with some "4s"), the internal control system could be assessed as **good**.
- Where all scores in the matrix are at least "4", the internal control system could be assessed as **very good**.

4. IDENTIFYING THE AUDIT RELATED RISKS AND THE KEY AUDIT ACTIVITIES

4.1 Identification of the key audit risks related to the audited entity

According to the provisions of the international audit standard 315 “Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement” and of the Guideline no.3 “Audit strategy” of the European Commission. the risk assessment represents a major stage in the auditing process, which requires the auditor to apply the following risk assessment procedures in view of understanding the entity and its environment, including its internal control:

- investigate the management and other staff within the entity;
- analytical procedures and
- observing and inspecting

Thus the risk assessment procedures for obtaining audit evidence concerning the design and implementation of the relevant controls shall include interviewing the entity staff, observing the enforcement of specific controls, inspecting the documents and reports and monitoring the transactions through the relevant information system for financial reporting (walk-through test).

The process of general assessment of risk will be applied:

- at the level of the Agency and of its structures, in order to identify and prioritize the varied constituted control systems that subsequently must be subject to audit;
- at the level of the identified populations and/or axis/measures in order to identify processes, functions that subsequently must be subject to risk assessment and audit planning.

The risk identification will be attained in 2 stages, namely:

1. Primary assessment of risks

The primary assessment of risks will be made on the basis of knowledge of the Agency's activity, of its control systems and of the identified populations, by means of a matrix, where a mark will be granted to each risk, depending on the occurrence probability.

In order to determine the nature, duration and purpose of the auditing procedures, the Certifying Body will assess the risk of occurrence of a significant monetary error, through the Agency's examination, controls and procedures, in order to conclude if this offers sufficient trust. The remainder of the audit assurance will be obtained by the performance of the substantive procedures.

2. Assessment of the efficacy of the Agency's risk management

In order to carry out this assessment, the Certifying Body will:

- a) assess the manner of designing and implementing the internal control system of the audited entity;
- b) assess if the internal controls of the audited entity can identify the risks and assess the impact which any potential risks could have over the financial statements of the audited entity

The Certifying Body must obtain the audit assurance from three areas, namely:

- The Agency's ability to meet the accrediting criteria and to recognize and assess the operational risks;
- Determining the Agency to prepare quality financial statements, concordant with the guidelines of the European Commission;
- Capability of the infrastructure and of the supervising activities within the Agency to assure a reliable financial reporting to the European Commission.

When designing and applying the audit procedures in reply to the assessed risks, the auditors shall consider the circumstances, the component and factors such as:

- The materiality level
- The size of the entity
- The nature of the entity activity including its organization
- Diversity and complexity of the audited entity
- The legal requirements
- The nature and complexity of systems part of the internal control of the entity including using services firms

4.2 Classifying the identified risks and risks assessment methodology

In the process of risk assessment we intend to obtain a sufficient understanding of the accountancy and internal control systems in order to plan the audit and to develop an efficient approach of the same. We will use the professional reasoning in the assessment and classification of the risks and in establishing the audit procedures in order to be sure that the risk is decreased down to a minimum accepted level.

The risk assessment is a process by which we will grant a score to each potential risk identified on the basis of the specific risk factors of each process or structures within the audited entity.

The components of the risk are;

- probability of occurrence
- level of impact, respectively the seriousness of consequences and their duration.

In assessing the risks we will run over the following stages:

- **Identifying the Agency's main objectives**, by discussions with the entity's management and the analysis of the strategic plans
- **Identifying the specific units or processes of the audited entity**: In this stage we will identify and analyze the activities/processes and sub-processes as well as the interdependencies existing between them, fixing as such the scope of analysis.
- **Identifying the risks with effect on the accomplishment of the key objectives**: We will identify that risks which have the most direct impact on the Agency's ability to fulfill the intended objectives. The measurement of risks depends on the probability of occurrence of the risk and on the seriousness of the consequences of the event (level of impact). In order to attain measurement of the risks we will use appreciation criteria as measurements instruments.

The appreciation criteria may be described and defined as follows:

- **Measurement of probability of risks occurrence**

The criteria used for the measurement of the probability of occurrence of the risk are:

- a) appreciation of the entity's vulnerability
- b) appreciation of the internal control

The probability of occurrence of the risk varies from impossibility to certitude and it is expressed on a scale of values presented in the risks analysis (appendix to the annual audit plan)

- **Measurement of the seriousness of the consequences of the event (level of impact)**

The level of impact represents the effects of the risk in case of its occurrence and it may be expressed on a scale of values on three levels:

- ✓ **High** impact – a serious and material impact against the ability of the entity / functional process to meet its objectives;
- ✓ **Middle** impact – a moderate impact against the ability of the entity / functional process to meet its objectives;
- ✓ **Low** impact – a minimum impact against the ability of the entity / functional process to meet its objectives

We will accomplish the ranking of the risks, based on the total scores previously obtained, in: **low risk, middle risk, high risk**, which would lead to ranking the risks in view of guiding the audit activity.

Starting from the provisions of the community regulations and from the analysis of the procedures accomplished by Paying Agencies with a view to technical and financial implementation of EAGF and EAFRD we identified the following potential risks:

- **Strategic and operational risks:**
 - ✓ not fulfillment of all the objectives presented in NPRD
 - ✓ low level of absorption of the funds allotted to Romania through EAFRD and EAGF
 - ✓ allocation of funds for projects that fail to meet the eligibility criteria
 - ✓ failure to observe the terms of approval of the financing and payment applications established in the working procedures
 - ✓ an unsuitable IT system unable to help the Agency in accomplishing the functions of implementation and payment
 - ✓ insufficient organizing of the human resources
 - ✓ absence of a control regarding the high risk operations
 - ✓ legislative, structural, managerial changes etc.

- **Financial risks:**
 - ✓ not protecting the Community's financial interests
 - ✓ misstatements in preparing the financial statements according to the community regulations
 - ✓ errors in payment processing (a deficient management of the funds and of the operational systems, including the financial systems and accounting systems)
 - ✓ failure in the recovery of the debts and the payments in excess.

- **Key risks:**
 - ✓ non-compliance with the accrediting criteria presented in the Commission's Regulations no.885/2006, with the provisions presented in the PNDR and in the national legislation (acquisitions, internal audit, accountancy)
 - ✓ making undue payments to the beneficiaries or payments incorrectly calculated
 - ✓ fraud risk

The accomplishment of an annual auditing plan starting from the risk assessment represents a complex process. From the experience which we will accumulate during the audit of EAFRD and EAGF, we will have the possibility to obtain relevant and sufficient information to use in the process of risk assessment.

4.3 Identified audit key domains

Following the risk assessment process and at the same time taking into account the provisions of the Guideline no.3 "Auditing strategy" and of the Guideline no.5 "Report model" the Certifying Body will have to obtain the audit assurance by the accomplishment of the audit activity on the following domains:

- observing the accreditation criteria by the paying agencies, considering the entity's internal environment (organization structure, human resources, delegated duties), the control, information and communication activities (IT), monitoring (internal audit)
- operational transactions concerning the identified populations (including IACS and non IACS populations)
- non-operational transactions (tables in Appendix III to the EC Regulation no. 885/2006, advances and guarantees);
- checking the existence and correctness of the national co-financing element for EAFRD
- manner of implementation of the recommendations formulated as a result of the accreditation process as well as within other auditing missions
- other domains : IACS and non IACS, analysis of financial platforms, analysis of the Single Payment Scheme (SPS), modulation – findings regarding the Tables 106, 107, 108).

5. AUDIT ASSURANCE AND MATERIALITY

5.1. *Audit assurance*

According to the Guideline no.3 “Audit Strategy” and of the annex to this “Sampling and error evaluation”, following the performance of the auditing procedures, the Certifying Body must offer **an audit assurance** for the certification of the accounts of **95%**. This means that, through the elaborated certificate and report of audit, the audit will offer a reasonable assurance that the data from the accounts transmitted to the Commission are true, complete and accurate and that the internal control procedures were appropriately applied.

Based on the knowledge and experience acquired on the occasion of the previous auditing missions, of the professional reasoning regarding the assessment of the risks of audit, the attainment of the trust level of 95% so that the risk of **non detection** be reduced to the level of 5% will be accomplished by:

- a) assessment of the control environment
- b) performance of substantive procedures.

5.2. *Materiality*

In the elaboration of this methodology, we took into account the threshold of signification and its relation with the risk of audit.

We started from the premise that our objective of audit is to express an opinion according to which the financial statements were prepared, under all the significant aspects, in accordance with the accepted reporting framework.

In order to be able to identify the significant errors within the financial statements, we take into consideration an acceptable level of the threshold of signification of 2% of the total expenses, indicated by the Guideline no.3 “Auditing Strategy”.

According to the community regulations, the threshold of signification is determined both at the global level of the financial statements, and in the relations with the individual accounts balances, with the transaction clauses and the presentation of information.

In establishing the threshold of signification we took into account the fact that there is an inverse relation between the threshold of signification and the level of the risk of audit, i.e., the higher the level of the threshold of signification, the lower the risk of audit and vice-versa. This aspect will determine the nature, the duration and the extension of the auditing procedures.

The adopted threshold of signification constitutes the value related to which we determine if the errors, omissions or mistakes identified in the EAFRD and EFGS accounts afferent to the audited year, considered individually or consolidated, indicate if the said accounts offer a true, complete and accurate image of the transactions afferent to the used funds.

6. AUDIT APPROACH

The audit approach refers to the manner in which the auditors combine varied types of tests / procedures for the purpose of getting proofs of audit for the accomplishment of the objectives of the audit.

6.1 Audit stages

The audit regarding the manner of use of the funds afferent to EAGF and EAFRD is a systematic and complex process, in the conduct of which we run over several stages like:

STAGE	AUDIT ACTIVITY
1. PLANNING	1. Understanding of the audited entity
	2. Establishing the materiality
	3. risks assessment
	4. Establishing the objectives of audit
	5. Establishing the audit approach
	6. Sampling
	7. Plan of audit
	8. Programs of audit
2.EXECUTION	1. Testing of controls
	2. Substantive procedures: - tests of detail - analytical procedures
	3. Errors assessment and conclusions
3. REPORTING	1. Certificate of audit
	2. Report of audit

The area of coverage of the audit is represented by all the entities involved in the implementation of the funds, as follows;

- Ministry of Agriculture and Rural Development
- Agency of Payments for Rural development and Fishery, the central structure and the regional centers
- Agency of Payments for Interventions in Agriculture, central and territorial structure
- Final beneficiaries of the funds, selected by sampling.

6.2 Sampling strategy

In accomplishing the audit regarding the manner of use of the EAFRD and EAGF funds, the strategy of determining the sample will be accomplished according to the annex “Errors sampling and assessment” to the Guideline no.3.

According to the provisions of the community regulations mentioned above, due to practical and efficiency reasons, we will proceed to the selection of a sample of transactions, which we will verify. We can extrapolate the conclusions drawn on the basis of the sample over the entire audited account.

The sampling represents only one of the numerous techniques we envisage in order to get the reasonable assurance with respect to the accuracy of the accounts. For each objective, as part of each population, the auditors may choose one or more methods which to allow them to get the necessary audit proofs.

The first task incumbent on us in the sampling is the definition of the populations which will be audited. The population represents an assembly of transactions for which the control system may be considered homogenous. The populations that represent a different control system will be treated in a different manner and will be sampled in a separated manner.

We will establish the audited populations according to the provisions of the Guideline no.3, respectively the population of debts and the population of expenses.

With respect to the expenses, we will identify the populations that have different control systems and we will treat them separately. in this situation, the populations will make the object of a distinct sampling. According to the provisions under art.4.1 of the annex to the Guideline no.3, we will have expenses within IACS axes / measures, and expenses within non IACS axes / measures.

The sampling is of two types: statistical and non statistical (random selection). We will not apply the statistical sampling on the populations that have a small number of transactions (less than 2000 transactions), such as the debts population.

Statistical sampling

A precedent condition for the statistical sampling is the existence of a “listing” (data base) containing all the transactions constituting a population. The accounting records being in general computerized, we will obtain this listing from the accounting department of the Agency. The application of the computer assisted auditing techniques represents an economic manner of selecting the sample.

The Certifying Body will extract the sample to be audited through the sampling method based on the monetary unit (MUS). The Services of the European Commission use this selection method in their audits and they recommend this method also to the Certifying Bodies. This is a method of statistical sampling by which a transaction with a larger value has a higher probability to be selected in the sample than a transaction with a smaller value.

Planning the size of the sample

As shown in the section 5.2, the level of materiality must be fixed at 2%.

The Certifying Body must estimate the errors liable to be found by the application of the auditing procedures. This will represent, normally, a relatively reduced proportion of materiality. In the annex to the Guideline no.3 it is shown that for a low level of the errors one may opt for a rate of 10% of the materiality. A higher rate means a larger sample, but this reduces the risk for an additional sample to be necessary, as a result of the fact that the preliminary results indicate the existence of the material errors. Thus, an error assumed at 15% of the materiality confers a higher safety but needs a higher auditing volume.

The Guideline no.3 of the European Commission **fixes the confidence level related to the tests of audit at 95%**. A portion of this confidence level may be assured by the testing of the systems. If this testing offers good results, the confidence level may be reduced to 85%. Even this level may be further decreased, but in well established conditions only.

It is to be noticed that as part of the sampling by MUS method, a representative sample is obtained, what means that whatever the size of population, the size of the sample is always the same, no additional auditing effort being necessary.

Often, because the auditing activity is carried out all along the financial year, the population assembly, the materiality and the sample size will be based on estimations, for what reason we will choose values with prudence, so long the actual value of the account is not known. When the population assembly is known, by the end of the financial year, we will accomplish a re-assessment of the manner of sampling accomplishment.

Sample extraction

We will extract the sample on the basis of calculated sampling interval and a random starting value.

In the process of elaboration of the sample we will take also into account the following aspects:

- Population size
- Materiality threshold
- Estimated error level
- Assessment of planning accuracy
- Assessment of the assurance factor.

Population(s) size – We will analyze the homogeneity of the controls within the axes / measures subject to audit and will define the populations to be audited.

Materiality threshold – Will be determined as a percentage from the estimated or realized expenses at the level of the audited financial year

Estimated error level – Will be determined as a percentage from the materiality value, depending on certain criteria. According to the annex to the Guideline no.3 the estimated error level varies between 10% and 15%.

Planning accuracy – represents the estimation of the extension degree of the total error within the population. It represents the uncertainty regarding the total error that exists because a sample of transactions will only be examined. The span between materiality and the estimated error level will be used as a basis for establishing the planning accuracy, as a measure of assessment of the uncertainty level in the estimate of the tolerable level of error. In practice, the planning accuracy is established between 80-90% of the difference between materiality and the estimated error level.

Assurance factor – the confidence level fixed at 95% leads to an assurance factor of 3.

6.3 Audit approach

The audit strategy is based on the assessment of the manner of operation of the operational and financial key controls of the payment Agencies. In this way relevant and sufficient proofs may be obtained in order to allow us to conclude on the efficacy of the control systems and at the same time to issue the certificate of audit. The principles of the annex to the Guideline no.3 as well as the previous experience and the professional reasoning do not allow us, at least in the first two years of audit, to have an audit approach based on the Agency' internal control system. In these conditions the volume of the detailed tests on the transactions will be high.

The main stages in the audit approach are specified below:

a) Assessment of the internal control environment;

b) Effecting the control tests, which include:

- Compliance, eligibility and selection of the financial aid applications, contracting, authorization and making of payments, accounting and recovering of undue payments, advances paid and guarantees formed
- Internal audit
- Control and anti-fraud
- Maintaining the accrediting criteria
- Accounting system and IT system, financial statement preparing
- Protecting the financial interests of the European Union

c) Performing the detailed tests, which include: compliance, eligibility and selection of the financial aid applications, contracting, authorization and making of payments, physical inspections, accounting and recovering of amounts unduly paid.

a) Assessment of the internal control environment;

We will assess the internal control system as follows:

- Performing walk-through tests on all the axes/measures/activities in order to identify and preliminary assess the existing controls
- Revising the process of including the community requirements in the Paying Agencies procedures manual
- Existence of well defined responsibilities of the Agency's management

- Existence and efficiency of an independent internal audit compartment
- personnel's competency and existence of suitable permanent professional training programs
- management's positive attitude regarding the internal control
- existence and operation of a suitable reporting system
- existence and suitable operation of risk assessment based control systems.
- Carrying out the audit tests in order to determine if:
 - ✓ the written procedures concerning the submission, assessment and authorization of aid applications are complete and available for entire staff;
 - ✓ the manner in which the changes of the legislation and procedures regarding the compliance, eligibility and selection of the financial aid applications, contracting, authorization and making of payments are implemented in the Agency's systems;
 - ✓ if suitable procedures exists regarding the selection of the financial aid applications and of the payment applications as well as procedures for the management's controls and if the attributions regarding the authorization, payment and accountancy are appropriately separated and are subject to supervising;
 - ✓ there is an appropriate rotation of staff;
 - ✓ if suitable actions are taken, in replay to the recommendations for activity improvement formulated on the occasion of the accrediting process.

b) Effecting the control tests

Compliance, eligibility and selection of the financial aid applications, contracting, authorization and making of payments

The APDRP and APIA procedures will be assessed in order to check the existence of the operational controls regarding the compliance, eligibility and selection of the financial aid applications, contracting, authorization and making of payments and the physical inspections, seeking if the same offer a reasonable assurance that:

- the approved financial aid applications observe the compliance and eligibility criteria
- only the selected financial aid applications were contracted
- only the authorized applications were forwarded to payment, according to the procedures
- the payment is made to the beneficiary only, in his bank account
- all the amounts for which the transfers are not effected are re-credited in the accounts
- the procedures for the debts establishment and recovery are appropriate and are observed.

According to the provisions of Guideline no. 3, the auditors plan within the audit mission for the sample concerning the control test to include, through random sampling, a number of minimum 10 tests on each identified population at the level of each Paying Agency (IACS and non-IACS) as well as a number of minimum 10 tests to check the debtors, guarantees and paid advances.

Within the territorial level bodies that fulfill functions of implementation and authorization of payments, we will analyze the manner in which the said bodies exercise the specific controls established by the accredited working procedures.

Internal audit

The efficacy of the operation of the Agency's internal audit will be analyzed, as a key element of the internal control environment, under the following aspects:

- independence of the internal audit relative to the other compartments within the Agency and the modality in which the same is reported
- quality of the internal audit work, by following up the procedures effected
- manner in which the internal audit assures the error detection and correction as well as the periodical checking of all the systems.
- organization of internal audit, assigning the personnel by missions and personnel training

The internal audit specific activities will be analyzed, referring to the two funds, which presuppose the assessment of:

- the checking performed by the internal audit, regarding the compliance of the Agency's working procedures with the community provisions
- the audit plans of the internal audit compartment, in order to analyze the controls performed by this compartment
- the internal audit reports and the recommendations for activity improvement
- the internal audit reports related to the accounting system
- the reports on the implementation of the changes occurring in the procedures of the accredited measures.

With respect to the efficiency of the Agency's internal controls, we will take into account in our checking the findings of the internal audit, without to decrease, however, the number of basic procedures and planned control tests.

Control and anti-fraud

The procedures and the activity of the Directorate of Control and Anti-Fraud will be analyzed and the results and the implications of its findings will be assessed, mainly with respect to the accrediting criteria. It will be also assessed the control plan and the manner of application of the internal working procedures specific to this compartment with respect to the debts finding and recovery, in strict compliance with the community provisions.

Maintaining the accrediting criteria

The audit will make sure that the procedures, in particular the procedures related to the major importance accreditation criteria, offer a reasonable assurance regarding the fact that the projects financed by the Agency comply with the community provisions.

The basis accreditation criteria refer to the following:

Internal environment

- Organizational structure
- Human resources
- Delegated tasks

Control activities

- Procedures for authorization of application

- Payment procedures
- Accounting procedures
- Procedures for advances and guarantees
- Procedures regarding debts
- Path of audit

Information and communication

- Communication
- Information systems security

Monitoring

- Continuous monitoring
- Internal audit

For the assessment of the manner of fulfillment and observance of the accreditation criteria we will use the provisions of the Guideline no.2 "Payment Agency's accreditation"

Accounting system and IT system, financial statement preparing

The general assessment, regarding the accounting system, follows up if:

- all the payments EAGF and EAFDR were correctly recorded in the Agency's registers;
- there is a clear audit trail, from the reception of the financial aid applications / contracting through the final registration of the payment;
- there is a clear evidence of payment applications for financial aid and of payments made in this framework;
- the reconciliations between the received applications, the concluded contracts, the payment applications, the payment orders and the accounting records are complete and periodical.
- the quantities and costs associated to the intervention stocks are processed without delay and recorded for each piece of land in the correct accounts, starting from the acceptance of an offer until the physical depositing of a product, in accordance with the current regulations;
- tables F-audit were prepared in accordance with Appendix III requirements of the regulation 884/2006;
- the quarterly expenditures statements and the expenditures forecasts were prepared in accordance with the provisions of Appendix X and XI of the Council Regulation no. 883/2006);
- the tables for undue payments defined as per art.1 of the Council Regulation no. 2988/1995, including the related interest were prepared in accordance with the model established in Appendix III and IIIA of the Council Regulation no. 885/2006;
- accounting records were kept for the eligible expenses, by measures, both in the national currency and euro. The accounting for the commitments and payments is done in separated accounting records, in an electronic manner. The accounting records also include details concerning the debts to recover.

The Agency is responsible to prepare the expenses statements and to keep an accurate computerized data basis. We will follow up the correctness and exhaustiveness of the expenses statements and the findings and the recommendations will be included in the auditing reports.

The key elements in approaching the audit, for this field, are:

- checking if the prepared quarterly and annual Statements appropriately reflect the data from the Agency's balance;
- checking if the principle of accountancy regarding the commitment for registration of contracts, checking the entries of funds and the payments made is observed, in order to assure the financial exhaustiveness of the annual expenses statement.

As part of the IT control system, we will analyze the existing controls, applied in the accountancy system and in the data bases existing at the Agency' level, in order to establish if the data are protected and the access is appropriately controlled. At the same time for meeting the provisions under art.5 of the Commission's Regulations no.885/2006, through the agency of a certified IT auditor we will report taking into account the Standard ISO 27002 of the International Standard Organization: the Guide for the Management of Information Security.

Non-operational transactions

By the performed audit we will follow up if the Community's financial interests are appropriately protected, with respect to the debts finding, registering and recovering, the accuracy and integrality of funds, as well as the existence of the national co-financing element.

Debts checking

According to the community regulations presented by the EC Regulation no.1233/2007, the amounts to be recovered are divided into three categories, as follows:

- undue payments which are not generated by errors made by the beneficiaries and that will treated as per art.6(b) for EAGF and art.6(c) for EAFDR;
- undue payments which are generated by errors made by the beneficiaries and that will treated as per art.6(f), (g) and (h) of Appendix III ;
- undue payments, to be recovered from the beneficiaries, such as: reductions and exclusions due to not respecting the conformity obligations and amounts for temporary restructuring in the sugar field, that will be treated as per art. 6(i) of Appendix IIIA.

Another important objective of the audit is the checking of the correct and timely detection and registration of all the debtors in the "debtors' register", checking the manner of debts recovery and correct registration of all the documents regarding the debtors, as well as the manner of preparing and submitting to the Commission the tables presented in Appendix III and IIIA of the EC Regulation no.885/2006.

We will assess the Agency's procedures and instructions regarding the registration and recovery of debts under the following aspects:

- the Agency implemented a system for acknowledgement of debts and timely registration in accountancy and in the debtors' register of these amounts, as well as a irregularities detecting system

- the Agency implemented a system of reconciliation of the debts between the amounts recorded in the accounting system, the amounts recorded in the debtors' register and the amounts presented in the expenses statements.
- the debtors' register is reviewed at regular intervals of time, with a view to taking measures for the recovery of the due amounts
- the Agency implemented a mechanism for determining the interests for debts established and if it is operational
- the Agency observed the technical specifications from paragraph 3 of the Guideline no.1 in view of submitting the information to the European Commission, by respecting its model.

Advances and securities

In order to evaluate the Paying Agencies controls, in respect of advances and guarantees, the auditor shall check if:

- the records contain all necessary details to allow for proper identification, ageing and accounting, as well as the validity of the documents issued for guaranteeing the advances requested by the financing beneficiaries;
- the Paying Agencies perform regular internal reconciliations with the bank payments; with the authorised payment files; with previous advances; with final payments; and with (where applicable) security records and the related securities;
- regular internal analyses are made by the Paying Agencies of the advance payment accounts and securities records: this includes timely follow-up of all abnormal or long outstanding cases, including initiation of recovery procedures where conditions have not been respected;

Checking the Agency's accounts

We will check and certify the Agency's accounts through the existing working procedures, with respect to:

- commitments and payments from the Commission
- payment applications to the Commission
- authorization of the payments to the final beneficiaries of the financing
- exchange rate and interest

Checking the existence and correctness of the national co-financing element (for EAFRD)

We will check if;

- the national co-financing element was included in the state budget as well as in the budget of the Ministry of Agriculture and Rural Development
- for the projects financed by EAFRD, the Agency assured the national co-financing element in appropriate percentages
- the national co-financing element was paid by the Agency at the same time with, or before the community' contribution
- the Agency assured the distinction of the national co-financing, containing information related to the amount in RON and EUR;

c) Performing the detailed tests

Compliance, eligibility and selection of the financial aid applications, contracting, authorization and making of payments, physical inspections

In the first two years of implementation of the funds, we considered the inherent risks and the control risks as having a relatively high level and in consequence, for all the detailed tests we will select a transaction sample which to offer a high assurance degree.

The detail tests shall be applied for:

- **operational transactions** :conformity, eligibility and selecting the financial aid applications, contracting, authorizing and making payments, physical inspections, public deposit.
- **non – operational transactions**: debtors, advances and guarantees, other amounts as per Appendix IIIA of Regulation 885/2006, modified by Regulation 1233/2007.

The precise nature of these tests may vary according to the type of operational transactions made by the Paying Agencies, but should incorporate the following type of test:

- financing and payment claims have been processed in accordance with written instructions;
- data have been correctly entered into the computer system at the level of the Paying Agencies;
- results from administrative and on-the-spot checks are taken into account in processing claims (where appropriate);
- (SPS) payments match the entitlements;
- the PA has correctly deducted any undue payments under Article 6 (b and c) of Regulation (EC) No. 885/2006 not recovered at the end of the financial year;
- re-performance of payment calculation;
- payment correctly recorded in books of account and payment to correct payee;
- checking the manner of enforcing the procedures concerning the intervention stocks;
- checking the accuracy and correctness of the F-audit tabel

We will also perform detailed tests in order to obtain a reasonable assurance related to the reality, accuracy and level of completeness of the non-operational transactions, as follows:

a) for debtors

- reconciliation of the debts recorded with the control reports issued as well as the reconciliation of the debtors' ledger with the debts reported through Appendix III;
- for a transaction sample we will check the appropriate recordings.
- the interest to the debts recovered by the Agency was recorded in the Agency' accounts and appropriately used
- the amounts representing the recovered debts were credited in the accounts
- the recovered amounts representing incorrect payments or debts recorded in the debtors' ledger, were deducted from the expenditure statement
- for a transaction sample representing debts we will follow up the registration in due time of the amounts that must be collected
- integrality of the debtors' register

b) for advances and securities:

- the advances and securities as correctly recorded in respect of account, amount and period, based on the corresponding supporting documents
 - the securities exist, and are held in a safe place;
 - only approved standard bank securities are accepted which remain valid
- c) for the EAGF and EAFRD accounts
- the opening and closure balance of the accounts
 - discounted interests
 - treatment of losses and gains from exchange rate
 - reconciliation of the payments from the accounts, the amounts requested and received by the Agency, and the amounts actually paid to the beneficiaries
 - reconciliation of the banking closure
 - for a transaction sample we will check the appropriate recording, regulating requirements etc.

Within the audit missions carried on at the territorial level, we plan for each audited measure a sample to be selected with a view to carry out the on site visit, to the beneficiaries of EAGF and EAFRD funds.

The tests we will perform in the on site activity, will be contained in the detailed audit programs and the check lists afferent to these.

The possible errors which we will identify in the examined sample will be assessed according to the provisions of the annex to the guideline no.3.

6.4 Audit methods and techniques

The auditors must obtain sufficient credible, relevant and reasonable proofs of audit, in order they to be able to issue reasonable conclusions regarding the manner of use of the EAGF and EFSARD made available to Romania.

The proofs of audit may be:

- Directly generated by the auditors
- Obtained from third parties
- Collected from the audited entities

In establishing the credibility of the proofs of audit the following will be taken into account:

- The proofs of audit from external sources (for example the confirmation by a third party) are more credible than the ones internally generated
- The internally generated proofs of audit are more credible when the accounting system and the internal control system are operational
- The proofs of audit directly obtained by the auditor are more credible than the ones obtained from the entity
- The proofs of audit produced under the form of documents are more credible than the oral declarations.

With a view to collecting the proofs of audit, we will elaborate **programs of audit**. The programs of audit contain the activities we will carry on at the audited entities for the collection of the proofs of audit and the same are accompanied by check lists or questionnaires.

Based on these proofs, we will formulate conclusions, mentioned in the program of audit.

The programs of audit and the check lists prepared as part of the planning stage of the mission of audit do not have an exhaustive and limitative character. The auditors who will implement the same, based on the professional reasoning, depending on the concrete situations encountered by them, may carry on additional activities, which they will document accordingly in the working sheets.

In order to obtain sufficient and relevant proofs of audit, we will employ the following auditing techniques:

- **Inspection** of the documents, accounting records and physical assets
- **Visits** at the Agency's (central and regional) headquarters, delegated bodys' headquarters, Competent Authority's headquarters and at the beneficiaries of funds.
- **Interview** with experts and management's representatives within the audited entities
- **Observing** the process of implementation of the accredited working procedures by the personnel with specific implementation and supervising responsibilities
- **Transaction confirmation** by the beneficiaries of funds
- **Checking** the arithmetical calculation from the source documents and the accounting records
- **Analysis** of the Agency's and the financing beneficiaries' financial statements
- **Getting information**, orally or in a written form, from the competent and responsible persons.

In choosing the techniques of audit, used for getting the proofs of audit, we will have in view the quality of information, which must be sufficient, relevant and offer a reasonable assurance.

We will use the mentioned techniques of audit on:

- All the transactions, in case of a homogenous population having a small number of transactions (100% testing) or
- A representative sample for the audited population.

The audit will be carried out on the populations, using varied control tests and basic procedures, as exemplified in the table below:

APPROACH FOR EACH POPULATION							
Population	DOC	AR	CT	ST	CRM	IAS	200Y Expenses RON '000
1) EAGF și EAFRD - IACS							-
Authorization –on site controls	✓	✓	✓	✓		✓	
Authorization – administrative controls	✓		✓	✓			

Payments execution	✓	✓	✓	✓	✓		
Accountancy	✓	✓	✓	✓	✓		
2) EAGF și EAFRD– Non-IACS							-
Authorization –on site controls	✓	✓	✓	✓			
Authorization – administrative controls	✓		✓	✓		✓	
Payments execution	✓	✓	✓	✓			
Accountancy	✓	✓	✓	✓	✓	✓	
Public deposits	✓		✓	✓		✓	
Advances and guarantees	✓		✓				
3) Debtors –EAGF and EAFRD	✓	✓	✓	✓			-

NOTE

DOC	:	Measure documentation and run over tests
AR	:	Analytical reviewing, discussions
CT	:	Test of compliance of procedures and controls
ST	:	Detailed tests of the selected files
CRM	:	Testing the system based on Risk of Computerized management using computer assisted techniques of audit
IAS	:	Analysis of the reports of the Internal Audit Service

6.5 Nature and extension of the Certifying Body’s assurance regarding the Internal Audit activity

The Certifying Body may rely on the work of the internal audit both for the performance of the basic procedures (related to the dimensioning of the checked transactions sample), and for other procedures of audit performed as part of the process of certification of the accounts afferent to EAGF and EAFRD.

The auditors will keep in mind the provisions of the auditing standard (ISA) 610 “Taking into account the work of internal audit” in order to determine if the work of internal audit is suitable for their certifying activity.

When the function of internal audit is understood and a preliminary assessment of it is attained, the important criteria are:

- (a) the organizational status: the specific status of the function of internal audit within the entity and the effect this status has on the capability of the function to be objective. In an ideal situation, the internal audit will report to the highest level of the management and it will not have other operational responsibilities. Any restrictions exercised by the management on the internal audit will be carefully considered. More exactly, it is necessary that the internal auditors be free to completely communicate with the external auditor.
- (b) Scope of the function: the nature and extension of the internal audit missions carried on. The external auditor must analyze the manner in which the management acts upon the recommendations of the internal audit and how this thing is sustained with proofs
- (c) Technical competency: if the internal audit is carried out by persons benefiting of a suitable technical training and expertise as internal auditors. The external auditor may, for example, to review the employment and training policies of the persons concerned with internal audit, as well as the experience and professional qualification of these persons.
- (d) Due professional diligence: if the internal audit is appropriately planned, supervised, reviewed and documented. The existence of auditing manuals, of suitable programs and working documents will be taken into consideration.

In case we will decide to use the work of internal audit, then we will assess and test the activities carried on by the internal audit in order to conform their suitability degree for our purposes.

The assessment of the internal audit specific activities involves the taking into account of the suitability degree of the scope of activities and of the afferent programs, as well as the analysis whether the preliminary assessment of internal audit remain suitable. This assessment may include the analysis of the following facts;

- (a) If the activity is performed by persons having the suitable technical training and expertise as internal auditors and if the assistants' activity is appropriately supervised, verified and documented
- (b) If sufficient suitable proofs of audit are obtained to allow the conclusions to be formulated on reasonable bases
- (c) If the relevant conclusions are adequate to the circumstances and if all the reports prepared are consequent with the results of the carried on activity; and
- (d) If any exceptions or unusual aspects presented by the internal audit are correctly resolved.

At the same time, the external auditor will check if the Agency adopted the following procedures:

- The internal audit service will be independent from the other department of the Agency and it will report directly to the Agency's director.
- The internal audit service will check if the procedures adopted by the agency are suitable to provide for the compliance with the Community's rules and that the accounting records are accurate, complete and advisable. The checking may be limited to the selected measures and the transactions samples, provided that the path of audit will guarantee

- that all the significant domains, including the departments in charge with the authorization are covered for a period that does not exceed 5 years
- The activity of the services will be performed according to the accepted international standards, it will be recorded in the working documents and it will result in the reports and recommendations addressed to the agencies' management.

The nature and the extension of the testing of the specific activities of internal audit will depend on the reasoning of the external auditor with respect to the risk and the threshold of significance in the domain in question, on the preliminary assessment of the function of internal audit and on the assessment of the specific activity performed by the internal audit. Such tests may include the checking of the elements already examined by the internal audit, examination of other similar elements and observation of the internal audit procedures.

The external auditor will record the conclusions related to the assessed and tested internal audit activity.

7. REPORT AND CERTIFICATE OF AUDIT, OPINION ON ASSURANCE STATEMENT

7.1 Report of audit (management letter, final report of audit)

According to the provisions under art.5 "Certification" of the EC Regulations no.885/2006, the Certifying Body issues the annual certificate and report of audit for the audited financial statements.

According to the same legal document, the Authority of Audit, in its capacity as Certifying Body, plans and attains the audit of EAGF and EAFRD according to the provisions of the international standards of audit, the Guidelines of the European Commission and the other community regulations in the field.

The report of audit will be prepared according to the provisions under art.5 of the Commission's Regulations no.885/2006 and the Guideline no.5 of the European Commission.

The scope of report of audit is larger than the scope of the certificate of audit and it contains express specifications with respect to the following aspects:

- a) the payment agency observes the accreditation criteria
- b) the procedures of the payment agency offer the reasonable assurance that the expenses afferent to EAGF and EAFRD were made according to the Community's regulations and that the improvement recommendations were implemented and followed up
- c) the annual accounts are according to the accounting records of the payment agency
- d) the statement of expenses afferent to EAGF and EAFRD are true from the material point of view complete and clearly recorded
- e) the Community's financial interests are appropriately protected with respect to advances paid, guarantees obtained, the intervention stocks and the amounts to be collected.

The report will be accompanied by:

- a) information regarding the number and qualification of the personnel that perform the audit, the work performed, the number of examined transactions, the level of materiality and confidence, any discovered weak point and the recommendations made for the improvement of the activity of the payment agency

b) **an opinion regarding the assurance statement** signed by the person in charge within the accredited payment agency.

The report of the Certifying Body will include, related to the security of the computerized systems, conclusions with respect to the manner of adjusting the security measures to the administrative structure, the staff and technological environment of each paying agency. The financial and technologic effort has to be proportional to the actual risks. In respect of Standard ISO 27002 of the International Standard Organization: the Practical guide for Management of Information Security, the report shall present the evaluation of the following field:

- risk approach and treatment
- security policy
- organizing the information security
- management of assets
- physical and environmental security
- management of communication and operations
- access control
- acquisition, developing and maintaining the informational systems
- management of incidents
- management of activity continuing
- conformity

Types of reports

Having in view the provisions under art.5 of the Commission's Regulations no.885/2006, we plan to carry on the audit of certification of the accounts afferent to EAGF and EAFRD both during the financial year and after its closing.

As a result, for the audited financial year we plan to accomplish:

a) **the letter to the management of the audited entity, containing the information afferent to the audit performed for the audited period, during the year.** This report will be less detailed, the purpose of its preparation being to facilitate the audit work carried on after the closing of the financial year having in view the very short period provided until the closing and transmission of the annual report to the European Commission.

b) **the annual report of audit, containing the information afferent to the audit performed for the entire financial year.**

a) The letter to the management of the audited entity

Through the letter to the management of the audited entity we will communicate the deficiencies and the weak points identified during the audit mission. The purpose of this letter is as follows:

- to furnish to the management the result of an assessment independently accomplished, in the auditor's field of competence
- to improve the communication with the audited entity and to furnish a basis for turning to account
- to stimulate a professional approach of the audit
- to include in the report the management's answers to the recommendations made by the auditor, and to use them afterwards in the process of turning to account of the audit

The content, the size and the form of presentation of the letter are established by the auditors of the Certifying Body on the basis of professional reasoning. This will contain the following elements: the addressee; information regarding the objective of audit, correlated with the subject matter of the letter and the audited field; audited period; short recital of the finding; recommendation and the term within which the management must reply with respect to the formulated findings and recommendations : signature and date (the letter will be signed by the President of the Audit Authority).

After receiving the answers from the audited entity, after possible clarifications, the same will be introduced in the report of audit, which will be **drawn up in the final form**.

b) The annual report of audit will be signed by the members of the auditing team, will be supervised by the director of the directorate and it will be approved by the President of the Audit Authority.

Taking into account the provisions of the Guideline no.5, the report of audit of EAGF and EGARD will have the following structure:

Chapter I – Executive summary

Chapter II – Approach of audit

Chapter III – Reconciliation of quarterly and annual statements

Chapter IV – Relation between the key bodies and the organization of the Payment Agency

Chapter V – Analysis of observance of the accreditation criteria

Chapter VI – Operational transactions

Chapter VII – Non-operational transactions

Chapter VIII – Other aspects

Chapter IX – Monitoring the recommendations of the previous years

7.2. Audit certificate

The **audit certificate** will be elaborated according to the provisions under art.5.3 of the Commission's Regulations no.885/2006 and the Guideline no.6 "Form, purpose and content of the certificate of the Certifying Body".

7.3 Opinion on assurance statement issued according to art.8 of the Commission's Regulations no.1290/2005.

According to art.5 of the Commission's Regulations and the provisions of the Guideline no.7 of the European Commission, we will issue an opinion on the assurance statement issued by the Agency's general director.

According to art. 8(1) (c) (III) of the (EC) Regulations no.1290/2005, the general director of APDRP must transmit to the commission the annual accounts of the Agency together with the Assurance Statement.

In order to issue the opinion on the Assurance Statement, we will assess if it was prepared and signed according to the requirements of the community regulations.

7.4 Notification

According to the provisions under art.7 “Information transmission” of the Commission’s Regulations no.885/2006, the report of audit, accompanied by the opinion on the Assurance Statement will be transmitted to the European Commission not later than February 1 of the year coming after the end of the audited financial year.

The annual audit report shall be prepared in the Romanian language and the English language and it will be transmitted to:

- the payment agency
- the Competent Authority of MADR
- the Coordinating Body, which will send the report to the European Commission.

8. NECESSARY HUMAN AND TIME RESOURCES

8.1 Personnel involved in EAGF and EAFRD

The Directorate from the Audit Authority with audit responsibilities regarding the funds for agriculture, rural development and fishery consists of 42 financial controllers, 12 at the central level and 30 within the 9 Regional Offices (Alba, Constanța, Cluj, Dâmbovița, Dolj, Iași, Satu Mare, Timiș, București).

The majority of staff involved in EAGF and EAFDR audit has over 7 years professional experience, and one of the financial controller working at the central level has an engineer degree in construction field. The personnel of the directorate were involved starting from 2001 in the audit regarding the manner of using the funds granted through SAPARD Program in Romania.

The personnel of this directorate manifested a continuous concern for the improvement of their professional training, obtaining various qualifications in the economic-financial field:

- accounting survey (18 persons)
- financial audit (6 persons)
- fiscal consultancy (11 persons)

The matrix regarding the responsibilities by levels of employment of the personnel is presented in the table below:

Responsibilities	Director	Head of Service	Auditor	Assistant Auditor
Coordinate the accomplishment of the plan of audit for EAGF and EAFRD	X			
Provide for technical support to the members of the audit team	X	X		
Monitor the performances of the members of the audit team	X	X		
Provide for the accomplishment of the plan of audit for EAGF and EAFRD		X		

Participate in accomplishment of the plan of audit			X	X
Assesses the risks of audit afferent to the audited entities and axes/measures financed through EAGF and EAFRD		X	X	
Establishes the area of applicability of the audit and the objectives of audit	X	X	X	
Assess the operational and financial controls within the audited entities		X	X	
Accomplish the measures of audit for EAGF and EAFRD (applies the procedures of audit within the audited entities according to the standards of audit)		X	X	X
Formulate the findings and the recommendations resulted following the application of the procedures of audit		X	X	X
Obtain, assess and document the proofs of audit		X	X	X
Coordinate and supervise the report of audit regarding EAGF and EAFRD	X			
Provide for the accomplishment of the report of audit regarding EAGF and EAFRD		X		
Participate in the accomplishment of the report of audit			X	
Other activities	X	X	X	X
Requirements regarding the professional experience				
Over 7 years of experience	X	X		
Over 2 years of experience			X	X
Experience regarding the knowing and application of the international audit standards	X	X	X	X

8.2 Certifying Body's activity program

According to the provisions under art.5 of the Commission's Regulations no.885/2006, the Certifying Body will perform checking both during and after the end of the financial year. Following the audit missions, no latter than **February 1** of the year coming after the audited financial year, there will be prepared the certificate of audit, the report of audit and the opinion on the Assurance Statement in order the same to be transmitted to the European Commission though the Coordinating Body of the payment agencies.

Having in view the deadlines, provided by the community regulations for transmission of the certificate and report of audit to the European Commission, the schedule of activities for the financial year 2007 is as follows:

- elaborating the audit plans regarding the certification of the accounts afferent to EAGF and EAFRD, in the period July- August, year N

- performing the audit missions regarding the system of management and internal control within the paying Agencies and checking a sample of transactions, in the period September – December year N, including the preparation of the letter to the management of the audited entities
- completing and submitting the report and certificate of audit, not latter than **February 1, year N+1.**