



AUDIT  
OFFICE



REPUBLIC  
OF CYPRUS

# **MEASURES 1 & 2 – ACTIONS FOR THE PROMOTION OF AGRICULTURAL PRODUCTS TO THIRD COUNTRIES AND INTERNAL MARKET SUBSIDIZED BY THE EUROPEAN UNION**

## **Executive Summary**



**AUDIT OFFICE OF THE REPUBLIC  
SPECIAL REPORT no. ΟΑΠ/01/2020**

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# **MEASURES 1 & 2 – ACTIONS FOR THE PROMOTION OF AGRICULTURAL PRODUCTS TO THIRD COUNTRIES AND INTERNAL MARKET SUBSIDIZED BY THE EUROPEAN UNION**

## **Executive Summary**

**Cyprus Agricultural Payments Organisation**

**Ministry of Energy Commerce and Industry – Trade Service - Section for the Promotion of Agricultural Products**

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## Executive Summary

The Cyprus Agricultural Payments Organization (CAPO) is an independent Organization that does not come under any Ministry or Department of the Government. CAPO's objective is the management of funds received from the European Union (EU) Funds and the Republic of Cyprus.

One of the measures that is financed by CAPO (Measure 1 & 2) concerns the Actions taken for the Promotion of Agricultural Products to Third Countries and the Internal Market. For the implementation of the actions taken under the Measure, a professional or inter-professional organization from the Community needs to be selected, as the Proposing Organization (PO), which, in turn, submits its Programs that are approved by the European Commission, to the National Competent Authority (NCA). Subsequently, the PO selects one or more Implementation Bodies (IB) , following an appropriate competitive procedure, controlled by the Member State, in order to proceed with the implementation of its Programs.

During the audit of CAPO's financial statements for the year 2017, our Office n audited a sample of payments made by CAPO under the above mentioned Measure, which led to the performance of additional audit procedures for specific applications. In this context, the selection procedures of the IB dealt with the implementation of four Programs of the Measure (Program for information and promotion of agricultural products in Third Countries-Snack a fruit, Program Pan-Dora/It's from Europe, Program for information and promotion of fresh potatoes in the internal market, Germany, Austria and Belgium and Program for the Promotion of Halloumi in Third Countries, United States of America (USA)-China-Australia) were examined, for which a total subsidy of €1,5 million was paid in 2017. Also, with regards to the Program for the Promotion of Halloumi, an additional audit was performed on the entire range of actions subsidized during 2017, amounting to €0,58 million.

The most important findings that emerged from the investigation of the matter are summarized below.

a. The selection of the IB , was based on an open tender procedures with a total cost estimate amounting to €14 million. All tenders were awarded to the same IB . It was obvious that the significant terms of tenders based on which the selection of the IB was made, applied in a restrictive manner, therefore the wide participation of economic operators was prevented. . In turn, this had adversely affected the promotion of fair competition, which might have ensured better offers from economic perspective. Indicatively, it is pointed out that, in one case, only one offer was received.

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Our Office expressed the view that the non-promotion of fair competition should be addressed and pointed out that an investigation should be conducted, in order to identify the reasons why the NCA did not ensure the application of the significant terms.

b. A certain condition that was included to the terms of tenders, requiring the possession of a quality assurance certificate appeared to be very restrictive, since it had automatically disqualified all Cypriot advertising agencies, because none of them possessed such a certificate and gave an advantage to Greek advertising agencies, since on the one hand the invitation to tender was announced only in Greek language and on the other hand all Greek companies are obliged by law to possess such a certificate.

It was expressed that the non-promotion of fair competition should have been urged.

c. In this regard, it is stated that, during the presentation of the Annual Report of the European Court of Auditors (ECA), which took place on 21.11.2019 in the House of Representatives, a reference was made to one of these Programs, which ECA audited in March 2019. According to ECA's audit findings, the amount relating to the payment tested was determined to be 100% ineligible due to the fact that the beneficiary organization (PO) had not applied the prescribed public procurement procedures. This confirms the findings of our Office, in relation to the procedures followed for the selection of IB for all four Programs as stated above and emphasizes their importance, since for the case investigated by the ECA which the findings were identical, the entire amount paid considered to be ineligible. Therefore, the most probable scenario is that EU will require a refund of the expenditure, which will have a significant economic impact on the Republic.

Considering all of the above, our Office, by letter dated 30.1.2020 addressed to the Minister of Energy, Commerce and Industry and to the Commissioner of Agricultural Payments, acting in their capacity as the competent Authorities, suggested to proceed with a conduct of an administrative investigation, in order to identify any disciplinary or criminal offenses.

d. Regarding the Program for the promotion of Halloumi in Third Countries, USA, China and Australia, the following significant weaknesses were identified:

- Failure to confirm the authenticity of the contracts signed between the IB and other companies and subcontractors, which carries significant risks, since for similar cases, in the past, our Office had observed a probable fraud commitment.

It was pointed out that CAPO should confirm the authenticity of the contracts.

- It was observed that most of the invoices, especially those related to advertising arrangements, may have been increased by the profit margin of the IB subcontractor.

It was pointed out that the above matter requires detailed investigation by the CAPO.

- The receipts for the invoices paid to IB subcontractors were not traced, so as to assure the payment of the amounts.

It was pointed out that, in all cases, CAPO should request for the submission of receipts from IB subcontractors.

- It was observed that both the NCA and CAPO have not formed a complete picture of the actions implemented and the potential difficulties related to the implementation of the Budget.

Our Office stated that both the NCA and the CAPO should have formed a complete picture in relation to the actions implemented.

- As it turned out, the company which the PO contracted with to evaluate 'Phase A' of the Program, had commercial relationships with the subcontractors of IB. As a result, a self-review threat arises, and thus the conclusions of the evaluation report cannot be considered reliable.
- It was observed that an executive member of a company not succeeded in one of the tenders, had a special relationship with companies that acted as subcontractors of the selected IB, a fact that indicates the possibility of pre-arrangement between the two candidate bidders.
- Based on the evaluation report, it was noted that several actions were not implemented, either at all, or not to the extent expected, during 'Phase A' of the Program.
- From the movement of a bank account held exclusively for the receipts and payments made under the contract, it was ascertained that a payment of €5.798 was made by the IB to the PO and four days later, an amount of €5.802 appears to have been transferred to another bank account of the PO.

The significance of the issue and the need for further investigation by the CAPO were pointed out.

- The NCA approved the transfer of subsidies between the actions of the Program, with the intention to avoid losing subsidies of the Budget, despite the fact that the significant negative impact on the results of the Program was recognized.

The audit findings and recommendations were communicated by letter to both the Permanent Secretary of the Ministry of Energy, Commerce and Industry (MECI) and the Commissioner for Agricultural Payments, for taking all necessary reparatory actions.