



UK Co-ordinating Body

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**Annual Report**

1 May 2012 - 30 April 2013



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## Section 1 Statement by the Chairman

- 1.1 Having served on the Management Board of the UK Co-ordinating Body (the Co-ordinating Body) for several years, I feel well placed to report on its activities and achievements. When first appointed, I was aware that European Union (EU) rules stated that any Member State which has more than one paying agency (as is the case here in the UK) must have a Co-ordinating Body. My initial view was that much of its role was rather technical; for instance compiling financial and statistical returns from all the paying agencies and transmitting them to the European Commission (the Commission) in Brussels and co-ordinating various audit responses. That is of course the case, and the importance of this aspect of its business should not be under-valued. For example, the preparation of coherent financial data ensures timely re-imburement from the Commission and with annual Common Agricultural Policy (CAP) financing of around €4 billion, getting the numbers right is paramount.
- 1.2 But the work of the Co-ordinating Body covers a much broader remit and I would like to highlight some of the other areas in which it operates and which are relevant to the shape of the future Common Agricultural Policy. Under the leadership of its Director, Michael Cooper, it has for several years now been working with counterparts in other Member States on important questions of practical implementation, looking to strip away red-tape and simplification. Michael was instrumental in the formation of the Learning Network of EU Paying Agencies and Co-ordinating Bodies (the Learning Network), a forum which has grown in both shape and stature to the extent that it is now regarded by the Commission as the focal point for dialogue with Member States. That the UK is playing such a key role, in what is evidently a vital period in the evolution of the new Common Agricultural Policy, can only be of tremendous value.
- 1.3 On the domestic front the Co-ordinating Body works closely with our policy negotiators, to make sure that what is agreed in Brussels is deliverable, and with our paying agency Directors, to ensure what is delivered is compliant with EU legislation. Both are vital in the drive to minimise disallowance.
- 1.4 This year's report again records a high level of performance with the Co-ordinating Body meeting all of its performance targets for 2012/13. On behalf of my colleagues on the Co-ordinating Body Management Board (the Management Board), I would like to offer my thanks to all members of staff who have contributed to this success. What this report also shows is the importance of the Co-ordinating Body's influence with key stakeholders as the challenges of the CAP reform proposals become a reality.

David Barnes  
Chairman  
2012/13

## Section 2 Executive Summary

- 2.1 The Co-ordinating Body has maintained high levels of performance during the year, meeting the targets set by the Management Board within the strategic framework described in the Business Plan. Working in close collaboration with policy and paying agency colleagues, EU institutions and other stakeholders, the Co-ordinating Body continues to play a significant role in ensuring that the Common Agricultural Policy is properly administered across the UK. This report provides details of how the Co-ordinating Body has performed against its Business Plan targets, managed resources and risks, and delivered activities to achieve its objectives.
- 2.2 The Co-ordinating Body has been actively involved in the CAP reform process, working closely with stakeholders. Significant achievements include:
- active engagement with senior UK policy officials, providing advice as to the practical implications of EU CAP reform proposals;
  - close involvement in the work of the Learning Network, which the Director co-chairs, and the Conferences of Paying Agency Directors; and
  - direct dialogue with senior officials in the Commission on the implications of CAP reform for paying agencies.
- 2.3 The Co-ordinating Body acts as secretariat for the UK Competent Authority (the Competent Authority), ensuring that paying agency accounts are certified and monitoring corrective action in response to audit recommendations. It works closely with paying agencies and the Certifying Body to ensure that the UK's regulatory obligations in this area are effectively delivered. In addition to the clearance of the accounts for financial year 2012, there has also been a significant focus on the audit of legality and regularity, both under the existing voluntary guideline (which has been applied in Northern Ireland) and under the 'horizontal regulation' and associated guidelines. This has involved significant engagement with the Commission, the Certifying Body, paying agencies and other Member States.
- 2.4 There continues to be a very high level of audit activity by the Commission and the European Court of Auditors (ECA), involving extensive interaction with these bodies and the Conciliation Body to manage the significant risk of disallowance as far as possible. The application of flat-rate financial corrections, particularly to a scheme as large as the Single Payment Scheme (SPS), has led to significant concern that the level of proposed disallowance considerably exceeds the true risk to EU funds. The Co-ordinating Body has been active with other Member States in lobbying for a proportionate approach in this area as well as a more risk-based approach to audits. It is encouraging to see evidence that this work is paying off, both in terms of calculated rather than flat-rate financial corrections and in the improvements made to the text of the horizontal regulation in the European Council (the Council) working group as a result of the comments made by the UK working closely with other Member States. However, a focus on this area will need to continue during discussions on the implementing and delegated acts.

- 2.5 As set out in section 7, the Paying Agency Directors' Forum (PADF) continues to promote the harmonised implementation of the Common Agricultural Policy by the four paying agencies and their delegated agents within the UK. It has focused in particular during the year on the implications of CAP reform. Although negotiations continue on the basic regulations, the Co-ordinating Body is working closely with paying agencies on implementing the new regulations from 2014, with particular attention to ways of building regulatory compliance and assurance into this process from the start.
- 2.6 All of this has been achieved without deflecting the Co-ordinating Body from its day-to-day activities. The workload of the Co-ordinating Body continues to increase, both in quantity and complexity. For example, the Co-ordinating Body now has responsibility for UK irregularity reporting and lead responsibility for the CAP beneficiary website. I would like to thank all members of the team for their hard work during the year.

Michael Cooper  
Director  
May 2013

## Section 3 Constitution, Objectives and Performance Indicators

- 3.1 Ministers<sup>1</sup> have established the Co-ordinating Body as an executive unit, independent of the four UK paying agencies, to:
- carry out the functions of the Co-ordinating Body, as defined in Article 6.3 of Council Regulation No 1290/2005, that is, bring together information to be sent to the Commission and promote the harmonised application of Commission rules and guidelines; and
  - act as secretariat to the Competent Authority for the granting, maintenance and withdrawing of paying agency accreditation under Article 6.4 of Council Regulation No 1290/2005, based on the annual reports of the UK Certifying Body and reports from the European Commission's services.
- 3.2 The Co-ordinating Body reports to a Management Board consisting of four individuals nominated by Ministers, and the Director of the Co-ordinating Body, the members are listed at Appendix 1. The chairmanship of the Management Board rotates between the four Ministers' representatives on an annual basis. This Board supports Ministers in carrying out their responsibilities relating to the financial management of the Common Agricultural Policy and oversees the work of the Co-ordinating Body. It delegates to the Director the day-to-day management of the Co-ordinating Body's functions and oversees this.
- 3.3 The Co-ordinating Body's purpose is 'to work with paying agencies to ensure that they maintain their accreditation status and effectively administer the Common Agricultural Policy, thereby mitigating the risk of disallowance'. The Co-ordinating Body's vision is to be a highly-motivated and skilled team that is recognised as helping paying agencies to achieve these outcomes.
- 3.4 The Co-ordinating Body's objectives during 2012/13 were to:
- i) bring together the financial, audit and statistical information required by the Commission and promote the harmonised application of Commission rules and guidelines in the UK;
  - ii) provide the UK Competent Authority with advice and recommendations on paying agencies' corrective actions and accreditation and to manage the Service Level Agreement (SLA) with the UK Certifying Body;
  - iii) promote an effective financial control environment that protects EU funds and reduces the risk of disallowance;
  - iv) work with paying agencies, policy makers and EU institutions to promote changes that make the Common Agricultural Policy simpler and cheaper to administer and ensure that controls are proportionate to risks; and
  - v) deliver services efficiently and effectively.
- 3.5 The above objectives have been designed to cover business and corporate management outcomes and to build capability (financial/people/efficiency) that supports business outcomes, now and in the future. They seek to use the skills and experience of staff within the Co-ordinating Body to maximum effect.

<sup>1</sup> The Secretary of State for Environment, Food and Rural Affairs; the Scottish Ministers; the Welsh Ministers and the Minister of Agriculture and Rural Development in the Northern Ireland Executive, acting collectively under Statutory Instrument 2001 No. 3020: The Common Agricultural Policy (Paying Agencies: Competent Authority and Co-ordinating Body) Regulations 2001 (ISBN 0 11 0299442).

- 3.6 The Co-ordinating Body's key performance indicators (KPI), which help to assess whether its objectives are being achieved, are to:
- i) submit accurate monthly/quarterly/annual accounting returns in support of European Agricultural Guarantee Fund (EAGF) and European Agricultural Fund for Rural Development (EAFRD) reimbursement claims within EU regulatory deadlines;
  - ii) co-ordinate EU and ECA audits and relevant statistical returns within agreed deadlines, working with paying agencies to provide the information requested by the Commission;
  - iii) publish CAP beneficiary data on the internet in accordance with the requirements of the Commission's transparency regulation (259/2008, as amended);
  - iv) provide advice and facilitate discussions on the interpretation and application of CAP regulations to support UK paying agencies, both collectively and individually, to meet regulatory requirements and minimise disallowance;
  - v) manage the SLA for the certification audit of the paying agencies and seek to ensure that all relevant documents are submitted to the Commission to allow clearance of the paying agencies' accounts by 30 April following the year end;
  - vi) seek endorsement from the Competent Authority of paying agencies' proposals for corrective action in response to recommendations agreed with the Certifying Body and monitor paying agencies' progress against these plans;
  - vii) identify ways to make CAP administration simpler, cheaper and more focused on the genuine risk to EU agricultural funds;
  - viii) manage financial resources effectively and demonstrate year-on-year efficiency gains in the delivery of the Co-ordinating Body's services, including the delivery of the annual certification audit by the Certifying Body; and
  - ix) ensure that all of the Co-ordinating Body's staff have work objectives linked to the unit's objectives and are performing against their objectives to a high standard.

3.7 Table 1 maps these key performance indicators against the Co-ordinating Body's five objectives:

**Table 1 - Key performance indicators**

	i)	ii)	iii)	iv)	v)	vi)	vii)	viii)	ix)
Objective 1	✓	✓	✓	✓					
Objective 2					✓	✓			
Objective 3		✓		✓		✓			
Objective 4							✓		
Objective 5								✓	✓

## Section 4 Resources and Staffing

- 4.1 As in previous years, funding for the Co-ordinating Body's direct running costs was provided by the Department for Environment, Food and Rural Affairs (Defra). The Co-ordinating Body's budget for the financial year 2012/13 (year ended 31 March 2013) was £1,695k. This comprised £480k for pay, £32k for non-pay running costs and £1,183k for work undertaken by the National Audit Office (as UK Certifying Body) and its consortium partners. Actual outturn was £1,690k, that is, a small underspend of £5k (0.3%) against the budget.

£k	2012/13 Budget	2012/13 Actual	2012/13 Variance	2011/12 Actual
Pay	480	478	2	438
Non-pay (excluding Certifying Body fees)	32	28	4	24
Certifying Body fees (net of VAT)	1,183	1,184	-1	1,257
<b>Total expenditure</b>	<b>1,695</b>	<b>1,690</b>	<b>5</b>	<b>1,695</b>

- 4.2 The Co-ordinating Body remains co-located with the Rural Payments Agency (RPA) at its headquarters in Reading. RPA continued to be responsible for the provision of the Co-ordinating Body's corporate support services under an SLA. The SLA also sets out the terms and conditions for Co-ordinating Body's staff. With the exception of the Director, who is a core-Defra Senior Civil Servant, Co-ordinating Body staff are RPA employees in terms of their contracts of employment, pay and conditions of service, including retirement and redundancy policies.
- 4.3 Arrangements for the provision of legal services by Defra legal advisers, a division of the Treasury Solicitor's Department, also remain unchanged.
- 4.4 Staff in post at 31 March 2013 comprised 10.2 full-time equivalents: 1 Director (SCS), 1 Deputy Director (Grade 6), 1 Grade 7, 2 SEOs, 3 HEOs, 0.6 EOs and 1.6 AOs. Three post-holders (G7, SEO and HEO) are currently on a temporary additional responsibility allowance (TARA) to the next higher grade and another HEO was recruited in December 2012 for a two-year period. The staff structure will be reviewed in the next year, regarding priorities and funding, with a view to filling all posts on a substantive basis.
- 4.5 Staff at all levels are involved in all aspects of Co-ordinating Body's activities. Monthly cascade and feedback meetings are attended by all staff. Procedures and desk instructions continue to be reviewed on a six-monthly basis.
- 4.6 In line with the new system introduced by RPA, all annual appraisals of staff were based on a new Performance Management Framework. All staff completed Personal Development Plans, which form an integral component of the new Performance Management Record, and were subject to both in-year and year-end appraisals with line managers.

## Section 5 Corporate Governance and Risk Management

- 5.1 The Co-ordinating Body is the executive arm of the UK Competent Authority. It acts as a link between the UK on the one hand and the Commission and ECA on the other in matters concerning the EAGF/EAFRD and manages the relationship with the UK Certifying Body.
- 5.2 The Co-ordinating Body's direct costs are funded by Defra and there is recognition that these are substantially influenced by the requirements of the certification audit. The Co-ordinating Body's budget is set with due regard to the demand-led nature of the Certifying Body's audit work and the Co-ordinating Body's limited staff resources. Nevertheless, there is an expectation within Defra that the Co-ordinating Body should look for efficiency savings where these can be achieved.
- 5.3 The Co-ordinating Body's size and nature are such that corporate governance arrangements do not need to be complex. However, as its objectives are designed to ensure that UK paying agencies maintain their accreditation status and effectively administer the Common Agricultural Policy, thereby mitigating the risk of disallowance, the Co-ordinating Body's risk register includes certain key risks owned by paying agencies. The Co-ordinating Body's staff identifies and manages risks and reports accordingly to the Management Board and to the Defra Accounting Officer via an annual governance statement
- 5.4 In addition, the Co-ordinating Body maintains a risk register covering its own business and measures jointly owned with the four UK paying agencies. The risk register and management of internal controls are considered at the Co-ordinating Body's regular management meetings. All high level risks identified continue to be directly linked to its objectives. Details of changes to the High Level Risk Register are notified routinely to the Management Board.
- 5.5 The Management Board also fulfils the role of the Co-ordinating Body's Audit Committee. RPA's Internal Audit Unit (IAU) acts as the Co-ordinating Body's internal auditor and, if required, can seek access to the Management Board's chairman. The Co-ordinating Body forms an element of the IAU's five-year audit plan and provides the Director and Management Board with assurance as to the adequacy and effectiveness of the Co-ordinating Body's risk management, control and governance processes.
- 5.6 During the year RPA IAU undertook a review of the processes underpinning the Co-ordinating Body's interim governance statement. This review focused on providing the Co-ordinating Body's Management Board with independent assurance on the interim governance statement covering the period 1 May 2012 to 31 October 2012.
- 5.7 RPA IAU found there was reasonable evidence of an appropriate and proportionate control environment in both the processes that support how the Co-ordinating Body's governance statement was drawn up and the quality of evidence on governance, risk management and control supporting it. The key areas for management to address in conjunction with the year-end governance statement for 2012/13 were:
- need for the Management Board to review and report its performance formally;
  - need for the Management Board to assess its compliance with HM Treasury's code of good practice on corporate governance in central government departments, with explanations of any departures and include information about the quality of data it has used and why it is deemed acceptable;

- recognition within the statement of the potential impact on the Co-ordinating Body of Defra funding reductions from 2014/15 onwards; and
  - need to include a reference in the governance statement that the third-party assurance provided by IAU is not a full audit.
- 5.8 Risk assessment and management is integrated with the Co-ordinating Body's normal business, such as the management of EU audits and paying agency accreditation. Through its Annual Report, the Co-ordinating Body reports details of its activities and performance against agreed targets to Ministers and the Management Board. These are agreed in advance by the Management Board via an annual Business Plan.
- 5.9 In accordance with the Co-ordinating Body's strategy for risk management the Director maintains the following systems and procedures for internal controls and for accountability regarding corporate governance:
- ownership of risk by the Director;
  - accountability to the Management Board and Ministers for corporate governance through routine and annual reporting;
  - consideration jointly of risks to the Co-ordinating Body and paying agencies by assessing risk probability and impact;
  - delivery to the Defra Accounting Officer (and the Management Board) of an annual governance statement;
  - maintenance of routine and regular review and assessment of risk by the Director and management team;
  - internal audit by RPA IAU; and
  - maintenance of procedures for monitoring and managing performance against targets and for managing risks at all levels to support the governance statement.

## Section 6 Performance against Business Plan targets

6.1 The Business Plan for 2012/13 set a number of targets in respect of the Co-ordinating Body's key performance indicators. The table below records performance against each target.

Target	Outcome
i) Submit EAGF and EAFRD expenditure reports and reimbursement claims to the Commission within regulatory deadlines.	Target met. All expenditure reports and reimbursement claims were sent within Commission deadlines.
ii a) Provide formal responses to Commission/ECA audit letters and	ii a) Target met. All formal audit responses were sent within prescribed timescales.
ii b) Submit regulatory statistical returns within the relevant deadlines.	ii b) The land eligibility statistical returns were submitted by the deadline of 15 July. The cross compliance statistics were sent to the Commission on 17 July and the rural development returns were made on 19 July.
iii) Publish CAP beneficiary data for financial year (FY) 2012 by the regulatory deadline of 30 April 2013.	Target met. Following the issue of Commission Regulation No 410/2011, the publication of beneficiary data should include 'legal persons' data only. FY 2012 data was processed and published within the regulatory deadline of 30 April 2013. In addition, the UK makes available a downloadable spreadsheet for all payments, including anonymised 'natural persons' data.
iv) Provide effective advice to paying agencies, collectively and individually, on interpreting regulations and managing the risk of disallowance.	Target met. The Co-ordinating Body provided responses to individual queries, attended paying agencies' disallowance and accreditation committees and convened meetings of UK groups. Positive feedback was received.
v) Submit certified accounts and Matrix data for FY 2012 for all UK paying agencies to the Commission by 1 February 2013 or such alternative deadlines as may be agreed.	Target met. The RPA, Welsh Government (WG) and Department of Agriculture and Rural Development, Northern Ireland (DARD) Accounts were submitted by the regulatory deadline of 1 February 2013. The Co-ordinating Body wrote to the Commission on 15 January requesting a derogation for the Scottish Government Rural Payments and Investigation Directorate (SGRPID). The Commission granted a derogation until 15 February and the accounts were submitted on 14 February 2013.

vi) Provide the Competent Authority with a submission on paying agencies' plans for corrective action within 10 days of the publication of the clearance of accounts decision for FY 2012.	Target met. The Commission's decisions were published in the Official Journals (OJs) on 2 and 4 May 2012. The submission was sent to the Competent Authority on 9 May 2012.
vii) Make proposals, via Defra Policy, HM Treasury and meetings of EU Paying Agency Directors, for a more proportionate and risk-based approach to audit and control.	Target met. During the year, the Co-ordinating Body has worked closely with Defra Policy and, via the Learning Network, with other Member States and the Commission to propose a more proportionate and risk-based approach under the horizontal regulation, particularly regarding the certification audit, Integrated Administration and Control System (IACS) and the application of financial corrections.
viii) Negotiate a fee for the delivery of the FY 2012 certification audit that is no higher than that for FY 2011 audit or alternatively obtain agreement from Defra for any increase.	Target met. The total cost of the audit was £1,184k compared to £1,257k for the previous exercise.
ix) Ensure that all staff have work objectives and receive in-year appraisal in accordance with the performance management system.	Target met. All staff had agreed work objectives and in-year appraisal meetings under the performance management system.

## Section 7 Harmonisation and Competent Authority Activity

### 7.1 Harmonisation Activity

#### Paying Agency Director's Forum (PADF)

7.1.1 Details of PADF including its objectives can be found in Appendix III. Membership of PADF comprises the heads of each of the UK paying agencies, the Director of the Co-ordinating Body and one or more senior UK lead policy representatives. Defra is represented on the forum to ensure that there is a close working relationship between policy and delivery. Whilst the lead for developing UK policy remains with Defra, the forum considers the practical application of policy and highlights issues of potential concern.

7.1.2 During the year under report PADF met on 27 July, at Dun & Bradstreet near Marlow with a presentation on Single Customer Registration, 14 November at Defra, London and 4 March at the Scottish Government, Edinburgh.

The main issues covered during the year included:-

- CAP reform – transition and implementation issues;
- single customer registration;
- audit of legality and regularity;
- proactive management of disallowance; and
- CAP simplification.

7.1.3 CAP reform and the associated challenges, both in terms of ensuring UK policy aims are met and in relation to practical delivery considerations, has again been the single biggest issue facing the Co-ordinating Body this year. PADF is therefore invaluable in gauging the impact of Commission proposals and providing a platform for discussions between UK policy officials and senior paying agency representatives.

7.1.4 The themes and topics covered at PADF have formed part of a wider engagement by the Co-ordinating Body with UK stakeholders. The Co-ordinating Body has had a significant input into the work of the CAP reform policy negotiations. The Director is a member of the CAP Reform Programme Board and has made very regular input into relevant papers and briefing material. Senior managers continue to work closely with UK policy leads responsible for negotiating the four main Council regulations underpinning CAP reform, with particular emphasis on the horizontal regulation setting out common rules for EAGF and EAFRD, where the key issues have included:

- the work of the Certifying Body, particularly the audit of legality and regularity;
- ensuring financial corrections are proportionate;
- reducing the administrative burden of IACS, particularly in the context of the introduction of greening;
- payment procedures, suspensions and deadlines; and
- irregularity and penalty procedures.

- 7.1.5 In respect of the role of the Certifying Body, the Co-ordinating Body was instrumental in ensuring that Article 9 of the horizontal regulation made explicit reference to the application of International Standards on Auditing (ISAs) to the audit of legality and regularity. This was an extremely significant achievement because if the audit of legality and regularity is implemented according to current Commission draft guidelines, it is estimated that it could increase the cost of the audit by as much as 300%, mainly due to the extra resources required to re-perform on-the-spot checks. There would also be significant additional costs for paying agencies, as inspectorate staff would need to accompany the auditors.
- 7.1.6 The Co-ordinating Body has been working closely with both National Audit Office (NAO) and Defra to draw up counter proposals which would significantly reduce the cost of the audit whilst complying with ISAs.
- 7.1.7 In terms of the three sector-specific regulations, covering market measures, direct payments and rural development, the key issues include:
- greening and associated Land Parcel Identification System (LPIS) and mapping issues;
  - definition of active farmer;
  - capping;
  - entitlements; and
  - verifiability and controllability of rural development programmes.
- 7.1.8 The Co-ordinating Body has provided support to Defra by seconding a senior manager to work within the CAP Delivery Programme team as risk manager, where the key tasks have been to:
- develop and manage the CAP Reform Programme risk register;
  - report on risk to senior governance groups;
  - manage the Office of Government Commerce gateway review of the CAP Reform Programme as well as creating and managing the subsequent action plan; and
  - undertake a lessons learned exercise – reviewing recommendations that were flagged up across a series of separate reviews on the implementation of CAP 2005 and analyse which of these recommendations are still relevant and should be 'implemented' into the wider delivery plan.

### **Paying Agency Co-ordination Board (PACB)**

- 7.1.9 Details of PACB, including its purpose and objectives, can be found in Appendix III. During the year under report PACB met on 21 May, 1 August, 6 November and 27 February. The main issues covered included:
- LPIS challenges;
  - artificiality;
  - common land;
  - intentional over-declaration;
  - legality and regularity;
  - dual use of land; and
  - appeals process.

7.1.10 There are five sub-groups that report directly to PACB. These groups meet on a regular basis or when required. These are the:

- Accounts and Finance Working Group (AFWG);
- Information Technology Working Group (ITWG);
- SPS Business Practitioners Group;
- Cross Compliance Inspections Practitioners Working Group; and
- Rural Development Programme (Pillar II) Business Practitioners Group.

Reports of the two technical sub-groups, chaired by the Co-ordinating Body, are set out below.

### **Accounts and Finance Working Group (AFWG)**

7.1.11 The purpose of AFWG can be found in Appendix III. During the year under report, the group met twice: on 3 October and 15 April. Representatives from all paying agencies as well as the Forestry Commission and Defra attended. The main discussion topics included:

- Certifying Body requirements – including agreement for schedule of deliverables, Co-ordinating Body discussions at Countries Conference and changes to Certifying Body requirements;
- issues identified during the accounts clearance process, and queries raised by the Commission in respect of Matrix (X-table) data;
- the continuing, perceived, Commission stance on the lack of accuracy in EAFRD forecasting – in particular on credible forecasting for budget management of EU funds via the Annex X and XI reporting systems;
- concerns over timely EAFRD re-imburement and the impact on cash-flow management for the Funding Body;
- adoption of new financial regulation, including the mandatory requirement for legality and regularity;
- implications of draft CAP reform proposals on financial reporting; and
- calculation of interest for payment recoveries.

7.1.12 The practical implications of this last point were discussed in depth at the October meeting. This was due to a decision taken at the September 2012 meeting of the Direct Payments Management Committee where a new method of calculating interest of undue payments was agreed. At the consultation stage, the period of grace was set at 30 days and all paying agencies were invited to comment. However, on publication, the period of grace had increased from 30 to 60 days for direct payment and rural development schemes. AFWG was used as an opportunity to discuss the repercussions of this for each paying agency. A unified approach was agreed for the UK and after seeking Commission clarification, as requested by AFWG members, the Co-ordinating Body was able to confirm that the interest rate will apply from day 61.

## Information Technology Working Group (ITWG)

7.1.13 The purpose of ITWG can be found in Appendix III. ITWG issues were handled by correspondence during the year and the following issues were dealt with via correspondence:

- Panta Rhei<sup>2</sup> - updates on the meeting including UK tour-de-table and presentations (see paragraph 7.1.16); and
- IT Security - feedback on 2011 Certification of Accounts audit findings and implementation of IT recommendations.

## Conferences of Directors of EU Paying Agencies

7.1.14 Each Presidency hosts a Conference of Directors of EU Paying Agencies, where senior officials from all Member States and the main EU institutions meet to discuss key issues. The Co-ordinating Body is represented at all such conferences. During the year under Report, conferences were held in Horsens, Denmark (19-21 June 2012); Paphos, Cyprus (11-13 September 2012); and Dublin, Ireland (24-26 April 2013).

7.1.15 The main issue covered in Horsens was CAP reform implementation, with specific workshops considering greening, LPIS, and the validation of error rates by Certifying Bodies and the reduction of on-the-spot controls.

In Paphos the presentations included 'CAP: A Member State's perspective' (Cyprus); 'Spanish LPIS Web system' (Spain); 'Introducing and Implementing SPS' (Slovenia); 'On-the-Spot Checks' (Italy); 'IT Administration' (Finland); and 'CAP reform costs' (Hungary). There were also two workshops covering: 'The Implementation of the new Common Agricultural Policy' and 'Experiences from the 2007-13 Rural Development Programme Implementation'.

In Dublin, the main presentations included 'Legality and Regularity' (Northern Ireland) and two from the presidency on 'CAP Reform' and 'Delivering New CAP Objectives'. There were also three workshops covering legality and regularity, greening and rural development error rates.

7.1.16 At each conference, the Director facilitated one of the workshops, whilst he also made a presentation in Dublin covering the work of the Learning Network.

7.1.17 The sixth annual meeting on Certification for Directors of Paying Agencies and Co-ordinating Bodies took place in Brussels on 15 November 2012. The main issues of discussion were:

- Directorate General (DG) AGRI's action plan on rural development;
- the most common findings from Commission audits concerning i) rural development, ii) direct aid, iii) market measures and certification; and
- the outcome of the Certification Bodies Expert Group meeting on legality and regularity of transactions and issues related with CAP reform.

## Learning Network

7.1.18 The Learning Network is a forum of representatives of EU paying agencies and co-ordinating bodies from all Member States that shares information, concerns and best practice regarding CAP administration through regular meetings and an online portal and maintains a dialogue with the Commission on CAP implementation issues, particularly relating to CAP reform. The Director is co-chair of the Learning Network and a member of its Steering Group.

<sup>2</sup> Panta Rhei is the EU forum for paying agencies for the exchange of ideas and experiences with regard to IT questions and implementation of CAP measures.

7.1.19 During the year the Learning Network held full plenary sessions in October 2012 (hosted by the Director at the Northern Ireland Executive's offices in Brussels) and in April 2013. There were also meetings between the Learning Network Steering Group and the Commission in September 2012 and February 2013, augmented by several meetings of paying agency experts with the Commission covering specific topics. The Director co-chaired several meetings in 2012 on the audit of legality and regularity. There were also meetings on LPIS (October 2012), the Rural Development Programme (March 2013) and greening (March 2013).

7.1.20 The success of the Learning Network is clearly evidenced by the fact that the Commission now regards it as an essential interlocutor on matters relating to CAP delivery. Furthermore, the Learning Network offers Member States a platform to share experiences and difficulties so that solutions, which mitigate the risk of disallowance, can be identified and implemented.

### **Panta Rhei**

7.1.21 Two meetings of Panta Rhei were held during the year under report, offering the opportunity to promote the greater acceptance by EU institutions of e-business solutions. These took place in Vilnius, Lithuania (May 2012) and Bratislava, Slovakia (October 2012). The Co-ordinating Body provided support for the UK delegation, which also included representatives from the four UK paying agencies.

7.1.22 The main issues discussed were:

- implementation of CAP reform;
- electronic applications;
- enterprise architecture;
- cloud computing;
- information security; and
- testing of IT systems.

### **Agricultural Funds Committee Meetings**

7.1.23 The Co-ordinating Body continued to represent UK paying agencies at the monthly meetings of the Commission's Agricultural Funds Committee. In agreement with Defra as UK lead policy department, the Co-ordinating Body currently assumes the lead representative role. Each month, paying agencies were offered, and responded to, the opportunity to provide views and comments from their own as well as the UK perspective. A formal 24 hour report was produced after each meeting and was circulated by the Co-ordinating Body within 2 working days in all cases.

7.1.24 Each meeting follows a set format, with standard issues covered monthly. During the year, several particularly interesting topics were covered causing, in some cases, protracted discussions:

- The Commission's proposal to extend the potential period for interrupting EAFRD reimbursements to Member States from 45 days to 3 months. Whilst most Member States questioned the timing and need for such a change, the subsequent 'No Opinion' was sufficient for the Commission proposal to go ahead.
- The new provision to submit control statistics via a 'matrix' style facility for 2012.

- The impasse in budgetary negotiations lead to discussions on whether to impose the provision to use the 'twelfths' principle in accordance with Regulation No 883/2006. This regulation details that without an agreed budget, EAGF reimbursement is based on 1/12 of the previous total budget. In the end, this option was not utilised as budget agreement was reached in January 2013.
- The occasions where there had been delay of rural development reimbursement by the Commission (and the impact on the Funding Body).
- Criticism on the high rate of errors in rural development expenditure by Member States (this led to an extraordinary joint rural development/Agricultural Funds Committee meeting on 29 April 2013).
- Commission ad hoc clearance decisions.
- Amendments to the finance implementing regulation.
- Proposal to reduce number of Agricultural Funds Committee meetings.

7.1.25 The Commission sought opinion of all delegates on the provision to reduce the number of Agricultural Funds Committee meetings from May 2013. This would lead to savings both financially and in terms of work disruption for the Commission and Member States. For this to take place, it was agreed that there would be close liaison between respective directorates to take account of business issues. The conclusion was that where the only items on the agenda were those that could be covered by correspondence (as with August meetings), a Brussels meeting would be deemed unnecessary.

7.1.26 There were three Commission ad hoc clearance decisions during the year. From the UK prospective, these led to a total of €200m disallowance, mainly in Area Aid, and applicable for financial years 2007 to 2009. It also included disallowance for Scotland of €10m for Meat Bovine Premiums for the years 2004 to 2006. The Co-ordinating Body took the opportunity of pointing out the tardiness of this to the Commission, which was accepted. An additional €40.8m disallowance for Scotland was deferred from the December 2012 meeting due to the Commission including, in error, a non-area based measure in the disallowance calculation. This was pointed out to them by the Co-ordinating Body and the calculation is being re-assessed. The new figure is due for publication before the Commission summer recess.

## EU Audits

7.1.27 The Co-ordinating Body continues to coordinate, facilitate and where practical, attend EU audit missions (EAGF and EAFRD) in the UK by the Commission and the European Court of Auditors (ECA). During the period 1 May 2012 to 30 April 2013 there were 5 missions by the Commission and 15 by the ECA (including the annual statement of assurance). The Co-ordinating Body also provided, or arranged for, secretariat support at all start-up and wash-up meetings and accompanied paying agency officials at an additional 3 separate Commission bilateral meetings during this period. The audits, and bilateral meetings covered the following:

### Commission Audits

- |                                    |          |
|------------------------------------|----------|
| • Area Aid                         | (WG)     |
| • Cross Compliance                 | (RPA)    |
| • Accreditation of Paying Agencies | (RPA)    |
| • Control Statistics               | (WG)     |
| • Certification of Accounts        | (SGRPID) |

## ECA Audits

- Statement of Assurance 2012 (EAGF) – 7 visits (RPA/WG/DARD)
- Statement of Assurance 2012 (EAFRD) – 3 visits (RPA/SGRPID)
- Statement of Assurance – Systems audit – 4 visits (RPA/DARD)
- Monitoring and Evaluation of the Rural Development Programme (RPA)

## Bilateral Meetings

- Area Aid (SGRPID)
- Rural Development Programme (RPA)
- Scottish Beef Scheme (SGRPID)

7.1.28 All the EU audits and bilateral meetings ran smoothly and are currently at various stages of the clearance process.

## Publication of CAP Beneficiary Data

7.1.29 The Co-ordinating Body continues to manage the UK's website for the publication of CAP beneficiary data. In November 2010 the European Court of Justice (ECJ) ruled that the publication of data for individual beneficiaries (natural persons) exceeded the limits imposed by the principle of proportionality. The Commission subsequently issued Regulation No 410/2011 on 27 April 2011, amending the requirements to publish beneficiary data about legal persons only. Data for 2009 and 2010 was initially matched against Companies House records where possible, followed by a manual sift by paying agencies, to identify legal persons.

7.1.30 The 2011 and 2012 data exercises have been undertaken on the same basis, with paying agencies providing data and identifying any changes to the legal status of beneficiaries. In addition, the opportunity has been taken to increase transparency, within the ECJ restrictions, by making available on the public website a downloadable spreadsheet of all payments, but with anonymised natural person details.

7.1.31 In January 2013 the contractor responsible for hosting the website and processing the data, 2e2, went into administration. Following intensive discussions between the Co-ordinating Body, Defra procurement and Mouchel (the managing company for the contract), Mouchel arranged for a new subcontractor, Foundation SP, to undertake the 2012 data processing work. The data centre aspect of 2e2's work was taken over by the Daisy Group.

7.1.32 The 2012 data project began in March 2013 with a much shortened timetable for delivery of the various processing stages. Foundation overcame some problems encountered with out-of-date process documentation obtained from 2e2, and the Co-ordinating Body liaised with paying agencies to resolve some data quality issues. Paying agencies were kept informed of developments at all stages. Despite the issues surrounding the 2012 exercise the data was successfully published on the regulatory deadline of 30 April 2013.

7.1.33 In September 2012 the Commission issued their draft proposals for extending transparency. The main features of their proposal were:

- payments to be published for all beneficiaries, both natural and legal;
- breakdown of amounts paid, split by measure;
- a de minimis to be set, equal to the amount set for small farmers. Amounts under this threshold will be published, but with the names of beneficiaries anonymised and replaced by a code reference.

If confirmed, these proposals would be relatively straightforward to implement. However in April 2013 an Opinion of the European Data Protection Supervisor (EDPS) was published reviewing the Commission proposal in the context of the ECJ ruling. The EDPS recommended that, beneath the de minimis threshold, only natural person data should be exempt from publication. Although the UK supports any move towards greater transparency, this would increase the administrative burden as it would require paying agencies to continue to identify the legal status of beneficiaries.

7.1.34 The draft implementing regulation is likely to be issued during 2013. However, this is not expected to come into force until publication of the 2014 data due in April 2015.

## Control Statistics

7.1.35 Article 84 of Commission Regulation (EC) No 1122/2009 and Article 31 of Commission Regulation (EC) No 65/2011 requires Member States to provide key control statistics on an annual basis. For Pillar I this covers SPS eligibility and cross compliance and information on the number of claims made, areas/amounts covered by claims, associated control measures and sanctions imposed. For Pillar II the returns cover schemes under all four axes. Responsibility for the collation and submission of such data continues to rest with the Co-ordinating Body.

7.1.36 The UK returns for the 2011 claim year were collated and sent to the Commission by the Co-ordinating Body in July 2012. As a result of Commission queries and audit missions, a number of returns were subsequently revised by paying agencies. Verification and validation of both Pillar I and Pillar II control statistics were covered by the annual certification audit. To assist in the process, the Co-ordinating Body liaised closely with both UK paying agencies and the Commission in order to gain a better understanding of the Commission's requirements and to ensure a more consistent approach. A number of questions were subsequently sent to the Commission regarding the completion of the templates. The dialogue with the Commission and the paying agencies helped to resolve a number of queries.

7.1.37 The Commission has continued to reinforce its view that the integrity of the control statistics is essential, considering them a fundamental control tool used to support its analysis of the underlying error rate in terms of overall legality and regularity. The Co-ordinating Body continues to work with UK paying agencies to ensure that control statistics are prepared accurately and on a timely basis.

## Other Issues

7.1.38 During the year under report, the Co-ordinating Body contributed to the work of a number of other groups including:

- membership of the Defra CAP Reform Programme and project boards;
- membership of the Defra Disallowance Working Group;
- participation at paying agency accreditation groups; and
- participation at a Commission seminar on the root causes for errors in the implementation of rural development programmes.

7.1.39 The Commission has proposed a Common Strategic Framework (CSF) covering:

- European Regional Development Fund (ERDF);
- European Social Fund (ESF);
- Cohesion Fund (CF);
- European Agricultural Fund for Rural Development (EAFRD); and
- European Maritime and Fisheries Fund (EMFF)

7.1.40 The Common Provisions Regulation covering these funds initially proposed a system of accredited paying agencies and annual certification following the model already used in the Common Agricultural Policy. However, it has now become clear that administration of the structural and cohesion funds and of EMFF will not require the accreditation and certification of paying agencies. Accordingly there will be little opportunity for synergies in co-ordination activities between these funds and the Common Agricultural Policy.

## 7.2 Competent Authority Activity

### Clearance of the 2012 Accounts

7.2.1 The outcome of certification audits should be reported to Brussels by 1 February each year as a basis for a Commission decision on the clearance of the accounts for both agricultural funds (EAGF and EAFRD). This year, the accounts for RPA, WG and DARD were submitted on 31 January 2013. Whilst the SGRPID accounts were not submitted until 14 February 2013, a two-week derogation having been granted in advance by the Commission. Following a detailed examination, during which time the Co-ordinating Body liaised closely with the Certifying Body to answer a number of Commission queries, the Commission adopted Decisions on 26 April 2013<sup>3</sup> confirming the clearance of all four UK paying agency accounts for both the EAGF and EAFRD.

7.2.2 The clearance decisions included proposals for financial correction. These concerned the RPA (€15.9m) and SGRPID (€1.6m). For RPA, the proposal relates to the 'claw-back' of debt, that is, the gross amount of debts paid-over in previous clearance decisions as outstanding administrative debt, which the RPA has effectively claimed back from the Commission by inclusion as a credit in the 2012 accounts following re-assessment. This is a process which is already the subject of previous potential correction of some €142 million (covering financial years 2008 to 2011). A robust response has been provided to the initial correction proposal but as yet the Commission has not formally responded. It is likely that this additional correction proposal will be treated as part of the earlier enquiry.

<sup>3</sup> OJ L118, Decision Numbers 2013/209/EU and 2013/210/EU, published on 30 April 2013.

- 7.2.3 For SGRPID, the proposed correction concerns the fact that there was material error identified in the EAFRD non-IACS population. The Certifying Body identified 23 random financial errors and 2 known financial errors during substantive testing. For the random errors, most of which concerned projects under the LEADER initiative, the extrapolated value was €1,587,115, whilst the known errors amounted to €9,263. In accordance with Commission Guideline No.3, this resulted in the Certifying Body giving the EAFRD account an 'Emphasis of Matter' (but with an unqualified overall opinion) and the Commission proposing a financial correction equal to the Most Likely Error. The paying agency has however provided its commitment to rectifying the underlying issues identified.
- 7.2.4 In line with Guideline No.4, each year the heads of paying agencies have to provide a Statement of Assurance (SoA) with the Certification Report and Accounts to confirm that the accounts presented are true, complete and accurate and that systems are in place which provide reasonable assurance on the legality and regularity of the underlying transactions. As with previous years, all SoAs were made without reservation or qualification. However, three heads made use of the 'additional remarks' section within the SoA designed for any issues not considered appropriate for a reservation but which were felt sufficiently serious as to bring them to the attention of the Commission. These covered the following issues:
- RPA: Manually-validated payments; Debt Management; and Debtors Clawback;
  - SGRPID: LEADER; Capital Expenditure under Axes 1 and 3; and LPIS improvement work; and
  - DARD: SPS Area Aid disallowance.
- 7.2.5 The Co-ordinating Body was required to include these additional remarks in its annual 'synthesis' report, an overview of the contents of the individual Statements of Assurance and a summary of the relevant opinions of the Certifying Body on both the Statements of Assurance and the accounts submitted. The UK synthesis for 2012 was submitted on 15 February 2013. The Co-ordinating Body was also required to prepare and submit on behalf of the Competent Authority, a Triennial review of the period 2010 to 2012. It was based, in the main, on the results of the annual certification exercises. It concluded that all UK paying agencies were fully compliant, although it did recognise the need for improvements within RPA (debtors) and SGRPID (LEADER).

## Certifying Body

- 7.2.6 For 2012, the UK Certifying Body (that is to say the NAO managed by the Co-ordinating Body via an annual SLA) conducted transaction testing in line with the requirements of Commission Certification Guideline Number 3. The total cost of the audit was £1,184k. This was over £70k less than the 2011 exercise, due mainly to improvements within the RPA SPS control environment which meant that the level of substantive testing could be reduced.
- 7.2.7 Management of the SLA was handled in-year by meetings and correspondence. For 2012/13 the SLA therefore continued to be underpinned by targets to be met as a condition of performance related payments. These targets were unchanged from previous years, with the timely submission of interim management letters and draft reports the main priority. All targets were met and, as such, all performance-related payments were made in full.
- 7.2.8 The audit report on legality and regularity, entered into on a voluntary basis by DARD for SPS 2011, was submitted to the Commission at the end of August 2012. The findings were extremely positive with the Certifying Body determining the error rate in the randomly selected on-the-spot inspections to be materially correct. The Commission considered response is awaited. Given the positive outcome for 2011, DARD is repeating the exercise for SPS 2012.

## United Kingdom Accreditation Compliance Committee (UKACC)

7.2.9 Background to UKACC including its objectives can be found in Appendix III. UKACC met once during the year, on 10 April 2013, to review the 2012 certification of accounts and the subsequent monitoring of corrective actions. The meeting also considered the statements of assurance provided by the head of each paying agency, control statistics, the introduction of the mandatory audit of legality and regularity and the 2012 Triennial Review.

## Appendix I

### Management Board Membership 2012/13

Michael Cooper	Director, UK Co-ordinating Body
John Roberts	Department for Environment, Food and Rural Affairs (Defra)
David Barnes	Scottish Government (SG)
Peter Ryland	Welsh Government (WG)
Graeme Wilkinson	Department of Agriculture and Rural Development, Northern Ireland (DARD)

The Management Board met on 13 June 2012 and on 7 January 2013.

## Appendix II

### Governance Statement 2012/13

#### 1. Corporate governance framework

- 1.1 The UK Co-ordinating Body is an independent unit, established by the administrative agreement of Ministers responsible for agriculture in England, Scotland, Wales and Northern Ireland (the Ministers). It operates under the provisions of EC Regulation No 1290/2005 (Article 6.3) and No 885/2006 (Article 4) and Statutory Instrument 2001 No 3020 and in accordance with its own written constitution and procedures as lodged with the EC Commission. It is subject to oversight by a Management Board, comprising the Director and a representative of each of the Ministers.
- 1.2 The Co-ordinating Body is co-located with RPA in Reading to facilitate close working relationships and shared use of resources. An SLA sets out the basis on which RPA provides common services to the UK Co-ordinating Body. A separate SLA is in place with Defra Legal on the provision of legal advice.
- 1.3 Funding of the Co-ordinating Body's administration costs is provided by Defra (direct costs, including the cost of the annual Certification Audit) and RPA (indirect cost of common services). These resources are secured through the Defra Resource Estimate. The Defra Permanent Secretary, as Departmental Accounting Officer, is ultimately responsible to Parliament for this expenditure. The Director is the Co-ordinating Body's budget holder and receives a delegated budget from Defra's Chief Operating Officer.
- 1.4 The Director has responsibility for maintaining a sound system of internal control that supports the achievement of the Co-ordinating Body's objectives and targets and safeguards the public funds and assets for which he has responsibility. Objectives and annual targets to be met are approved by the Management Board and published in an annual business plan. Results are published in an annual report to the Ministers.
- 1.5 The Management Board meets at least twice a year to review plans, performance and corporate governance. The Co-ordinating Body's management monitors performance against targets and budgets. The Co-ordinating Body Management Team handles the identification, evaluation, ownership and prioritisation of risks. The monthly Co-ordinating Body team meeting reviews performance against targets and budgets and discusses current and emerging risks.

#### 2. System of Internal Control and Risk Management

- 2.1 The system of internal control is designed to identify and prioritise risks to the achievement of Co-ordinating Body objectives and targets, to evaluate the likelihood of those risks materialising and the impact should they be realised and to manage risks effectively. It is designed to manage risk to a reasonable level rather than to eliminate all risk. The system of internal control has been in place throughout the year ended 31 March 2013, and up to the date of the Annual Report, and accords with Treasury guidance.
- 2.2 Within the Co-ordinating Body, the post of Deputy Director has been designated Risk Management Officer, responsible for managing and implementing risk policy. Formal training is available to the Risk Management Officer and other staff, who are regularly reminded of their responsibilities for identifying and managing risks.

- 2.3 The Co-ordinating Body risk management strategy is designed to:
- help prevent business failure;
  - facilitate timely decision making to prevent or manage threats to business success; and
  - provide an up-to-date picture of the Co-ordinating Body's exposure to risk in achieving its objectives and targets.
- 2.4 The key elements of this provide for:
- **Training and communication.** This is to promote risk awareness, ensure appropriate skilled resources are available and encourage risk awareness by all staff.
  - **Risk appetite.** This is largely determined by the regulatory nature of the Common Agricultural Policy. In the main, exposure to risk is minimised through counter measures and pro-active management.
  - **Risk identification.** This is a continuous process in which managers and staff are encouraged to identify risks to the business.
  - **Risk assessment.** This is undertaken mostly in the Risk Management Review Team and is against probability and impact.
  - **Risk management.** Appropriate counter measures are implemented and monitored by named managers for each risk and sub-risk.
  - **Contingency planning.** A contingency plan has been developed to ensure that disruption to services is minimised in the event of unforeseen circumstances.
- 2.5 The Co-ordinating Body is a small team and through internal communication and regular team meetings it ensures that all staff are actively involved in risk management. All staff are encouraged to participate fully in the monthly review of risks and are, as appropriate, assigned ownership of relevant risks.
- 2.6 As Director, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the scrutiny of the Management Board and by the work of Co-ordinating Body managers and internal audit. After each management team meeting I receive, review and endorse the Risk Register. The results are notified to the Management Board. If a risk may impact on UK paying agencies, the Co-ordinating Body liaises with them in the identification, assessment and management of the risk.
- 2.7 In December 2011 an assurance review on the processes underpinning the governance statement was carried out by the RPA Internal Audit Unit (IAU) on behalf of the UK Coordinating Body. The report concluded that sufficient, effective controls were in place and that Co-ordinating Body staff adhered to these. A follow-up review was carried out by the IAU in February 2013 on the interim statement covering the period 1 April 2012 to 31 October 2012, and the quality of evidence on governance, risk management and control supporting it. This confirmed that the overall controls remain effective.
- 2.8 RPA IAU recommended that the Management Board should formally review and report on its performance against its defined purpose, scope and function, as set out in the Co-ordinating Body's constitution and procedures. The recommendation has been accepted. The review process will be considered at the Management Board meeting in June 2013.

2.9 The IAU also recommended that the Management Board should assess its compliance with code of good practice on corporate governance in central government departments and include information about the quality of data it has used and why this is deemed acceptable. It was agreed that this issue would be covered by correspondence.

### 3. Key Business Risks

3.1 The following high-level risks are identified in the risk register:

- Inconsistent implementation of regulations leads to EU criticism.
- Weaknesses by paying agencies in implementing the requirements of existing or new regulations and Commission guidelines put EU funds at risk and lead to financial corrections and/or audit criticism.
- Inaccurate or incomplete accounting returns by paying agencies, or problems in the approval of Commission budgets, results in the UK receiving incorrect level of reimbursement from the EU.
- Delays in the submission of paying agencies' annual accounts or deficiencies found in the Certifying Body's audit reports leads to EU disjoining accounts.
- Failure by paying agencies to implement corrective actions in response to recommendations made by the Certifying Body threatens their accreditation status.
- Failure by paying agencies to provide the information requested or to address issues raised by EU auditors within agreed timescales leads to disallowance.
- Failure by paying agencies to supply accurate statistical returns and irregularity reports on a timely basis results in EU criticism and weakens disallowance defence.
- CAP administration, both under existing and new regulations, is overly complex and expensive to administer.
- Co-ordinating Body fails to deliver its services efficiently and effectively.
- Failure to publish data on CAP beneficiary website by the regulatory deadline harms the UK's reputation.
- Deterioration in wider relations between UK and Commission threatens effective interactions regarding the Common Agricultural Policy.

3.2 Inconsistent and/or inadequate application of CAP regulations by the UK paying agencies remains a significant risk to the Co-ordinating Body's objective to promote an effective financial control environment which protects EU funds and thereby reduces the risk of disallowance. This risk is managed through joint working with paying agencies during audit missions and subsequent stages (for example, correspondence, bilateral meetings) as well as through regular meetings and conference calls between the Co-ordinating Body and the paying agencies. The Paying Agency Directors Forum (PADF) meets regularly and takes a strategic view of this risk, including the challenges presented by the implementation of CAP reform within what are likely to be very tight deadlines. The Co-ordinating Body is working with paying agencies to encourage the proactive management of the risk of disallowance by focusing on key controls and the level of error rates in payments.

- 3.3 This issue has been put into even sharper focus by the proposed changes to direct payments under CAP reform. These include new features such as greening, an active farmer test, capping and a small farmers' scheme. All of these appear to increase the administrative burden both to beneficiaries and paying agencies, and the increased complexities could lead to a greater risk of disallowance. This is being managed, on the domestic front, through co-operation between the Co-ordinating Body and the Defra policy teams charged with CAP negotiations. Significant effort has also been invested in developing the influence and impact of the Learning Network, which meets regularly with the Commission. A further initiative has seen the secondment of the Co-ordinating Body's Grade 7 to lead Defra's CAP reform risk management work. This arrangement will be beneficial to both parties.
- 3.4 The Commission's LPIS quality assurance framework was completed by the UK paying agencies during the year. Member States are required to undertake an annual comparison activity of that data against the most current remote sensing imagery data (termed the Execution Test Suite or ETS). The outputs of the exercise are supplied to the Commission on an annual basis. UK paying agencies are not yet fully compliant with the seven regulatory quality measures. The risk of disallowance is not yet known and the results of the exercise will continue to be monitored by PADF.
- 3.5 It has been confirmed that the current annual certification exercise will be extended to cover the audit of legality and regularity on a mandatory basis after 2013. Under the Commission's draft guidelines this would lead to a substantial increase in the workload and costs of the Certifying Body, with an associated impact on paying agencies and beneficiaries. The Commission already has in place a voluntary guideline, which has been used by DARD for the audit of SPS. This decision was linked to the current level of proposed disallowance for Northern Ireland and was considered an appropriate means of providing the Commission with evidence to reduce the level of disallowance below a flat rate of 5%.
- 3.6 The UK believes that the Commission's current approach to the audit of legality and regularity is disproportionate and the Co-ordinating Body is working closely with the Certifying Body, the Learning Network and DG AGRI to find ways in which equivalent assurances might be provided without recourse to the highly prescriptive levels of transaction testing that the current guideline requires. The UK proposed an alternative approach to auditing legality and regularity which is felt to be less bureaucratic and more in line with International Standards on Auditing. A revised draft guideline has been issued by the Commission, which includes a number of improvements. Nevertheless the focus of the audit remains on Certifying Bodies re-performing significant numbers of on-the-spot checks, which would be inconsistent with International Standards of Auditing. Reinforced levels of assurance are considered a paying agency responsibility. The Co-ordinating Body continues to work with the Certifying Body to draw up an alternative approach based on these principles.
- 3.7 The monitoring of direct aid ceilings, which is undertaken on behalf of the UK by the Co-ordinating Body, identified the risk that the gross entitlement ceiling for SPS 2010 could be exceeded at Member State level. This exercise was also examined in a recent ECA audit as part of a systems audit on SPS carried out in England and Northern Ireland. A review of the 2010 data was undertaken and as a result the RPA element was amended to take account of entitlement adjustments. This reduced the overall UK total below the UK national ceiling.

- 3.8 A potential risk was posed in February by the collapse of the IT supplier 2e2, who were responsible for maintaining many of RPA's IT systems, as well as hosting and managing the CAP beneficiary data website. The Co-ordinating Body was involved in RPA's Incident Management Group, and also in discussions with Defra and Mouchel regarding the CAP beneficiary website. Alternative sub-contractors were identified to ensure continuity of service. Agreement was also reached that code and documentation should be placed in escrow.
- 3.9 The Co-ordinating Body faces significant budget pressures, arising in particular from the increase in scope of the annual certification audit to include an opinion on the legality and regularity of expenditure. The timing and amount of work required currently remains uncertain. The Certifying Body has also stated that certain costs currently allocated to the Exchequer Audit of RPA will in future be reclassified to the certification audit from 2013 onwards. The budget for the CAP beneficiary website currently remains with core-Defra. The costs of running the website will depend on a number of factors, including development costs arising from CAP reform, the renegotiation of hosting charges from 2013, the migration of the website to GOV.UK and any work required to meet Cabinet Office security standards. At the same time as these pressures there is uncertainty regarding funding from 2014/15 onwards, particularly in the light of the Spending Review. The Co-ordinating Body is liaising closely with Defra Finance on budget requirements and allocations.

#### **4. Significant Internal Control Problems**

- 4.1 There were no material internal control weaknesses. Appropriate controls have been applied over data receipt, processing and transmission. Improved procedures for data handling have been introduced whereby all sensitive data that cannot be sent via the GSI network is sent by secure iron keys. Iron keys have been provided to the Co-ordinating Body by all paying agencies for this purpose. Assurance was sought from the CAP beneficiary data contractors concerning their data security arrangements, following the collapse of the previous contractor, 2e2, and the security of the relevant environments is being monitored in conjunction with Defra IT security specialists.

Michael Cooper  
Director  
May 2013

## Appendix III

### Details of Key UK Co-ordinating Body Groups

#### 1. Paying Agency Director's Forum (PADF)

- 1.1 PADF was established in 2010 under the rotational chairmanship of the UK paying agencies. It meets three times a year and is timetabled to follow the Paying Agency Coordination Board (PACB). The purpose of PADF is to ensure a consistent strategic approach in implementing the Common Agricultural Policy across the UK, both regarding horizontal regulations and the regulations specific to individual schemes. This approach is subject to variation arising from the application of regional options permitted under EU legislation.
- 1.2 PADF promotes an effective financial control environment that meets the requirements placed on accredited paying agencies and ensures the legality and regularity of expenditure, thereby maintaining accreditation status, protecting EU funds and minimising the risk of financial corrections. In addition it tries to identify changes that will make the Common Agricultural Policy simpler and cheaper to administer and less burdensome for claimants and acts as a forum for discussion between policy and delivery colleagues on simplification principles and implementation issues.
- 1.3 The forum also provides the means by which UK Agriculture Ministers fulfill their role as designated UK Coordinating Authority for IACS under Article 20 of Council Regulation No 73/2009 and Regulation 4 of Statutory Instrument 2009/3263. To achieve its objectives PADF:
- promotes the harmonised application of EU regulations and guidelines by UK paying agencies and their delegated agents;
  - identifies and monitors risks for UK paying agencies relating to accreditation, scheme compliance and disallowance and agrees appropriate mitigating actions;
  - provides a forum to enable paying agencies to discuss the practical implications of CAP reform and other policy developments for delivery bodies, both regarding implementation and ongoing administration, and to discuss these matters with UK policy-makers;
  - identifies opportunities for the simplification of CAP regulations;
  - prepares for meetings of the EU Conference of Paying Agency Directors and the Learning Network;
  - promotes common standards for controls and databases;
  - exchanges information and best practice between paying agencies; and
  - undertakes the executive functions of the IACS Coordinating Authority.

#### 2. Paying Agency Co-ordination Board (PACB)

- 2.1 PACB was established in 2007 under the Co-ordinating Body's chairmanship. The purpose of PACB is to promote consistency in the implementation of the Common Agricultural Policy across the UK, both regarding horizontal regulations and the regulations specific to individual schemes. PACB considers whether controls over claims and payments are adequate to protect EU funds and keep the value of errors within materiality, thereby reducing the risk of disallowance, and whether the administrative costs of controls are proportionate to the risks that they are designed to address.

2.2 To meet these objectives PACB is mandated to:

- promote the harmonised application of EU regulations and guidelines by paying agencies and any other bodies responsible for their application;
- consider and promote the application of accreditation criteria and IACS controls, including common standards for inspections and databases;
- promote, subject to variation arising from the application of regional options permitted under EU legislation, a consistent approach to the implementation of CAP schemes and programmes;
- provide a forum to enable paying agencies to be aware of policy developments and allow UK negotiators to take account of the practical implications for delivery bodies, for example, resources and timescales, both regarding implementation and ongoing administration;
- consider ways of improving administrative processes;
- exchange information and best practice between paying agencies;
- coordinate responses to the Commission and ECA where audits and resulting findings relate to more than one UK paying agency; and
- ensure the timely submission of returns to the Commission and monitor expenditure against UK and regional ceilings.

### 3. Accounts and Finance Working Group (AFWG)

3.1 The purpose of AFWG is to:

- provide a forum for accredited UK paying agencies to consider and resolve issues arising from EAGF and EAFRD finance and accounting requirements;
- provide a lead on the interpretation of these requirements and the implementation of suitable systems and procedures; and
- promote the harmonised application of the regulations across all paying agencies.

### 4. Information Technology Working Group (ITWG)

4.1 The purpose of ITWG is to:

- encourage the efficient and effective exchange and dissemination of information concerning the development and implementation of E-Commerce and IT Security initiatives within accredited UK paying agencies;
- promote the development of practical, sensible and cost-effective solutions that deliver paying agencies' business needs and comply with the appropriate Commission legislation; and
- provide the necessary direction to those representing the UK in discussions with the Commission, other Member States and any other bodies responsible for advancing the implementation of E-Commerce and IT Security.

## 5. United Kingdom Accreditation Compliance Committee (UKACC)

5.1 UKACC was established in 2008 to consider matters concerning the Co-ordinating Body's functions as secretariat to the Competent Authority and its responsibility for managing the SLA with the UK Certifying Body. Its main objectives are to:

- agree schedules of paying agency corrective actions required following the annual certification audit;
- agree deadlines for the implementation of such corrective action;
- monitor implementation of corrective actions in accordance with agreed Co-ordinating Body guidelines;
- review the horizontal implications of recommendations made by the Certifying Body where they may impact on the work of other UK paying agencies;
- consider matters relating to the granting, review, downgrading and withdrawal of paying agency accreditation;
- discuss issues arising from the work of the Certifying Body; and
- consider ways of improving the delivery of paying agency data to the Certifying Body.

# Appendix IV

## UK Co-ordinating Body Structure



