



UK Co-ordinating Body

UK Co-ordinating Body
Annual Report

1 May 2011 - 30 April 2012

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Section 1 Statement by the Chairman

- 1.1 The Co-ordinating Body continues to provide an essential role in the administration of the Common Agricultural Policy (CAP) under European Union (EU) regulations. Its duties include:
- ensuring that paying agencies' accounts are certified;
 - ensuring that corrective action in response to audit recommendations is monitored;
 - acting as the European Commission's primary contact for all questions regarding the management and control of agricultural expenditure; and
 - promoting the harmonised application of Commission rules in the UK.
- 1.2 This has been a very important year with regard to the negotiations for the forthcoming CAP reform. Given the current economic climate, lobbying for a more proportionate and risk-based CAP is a key UK objective and I am pleased to see the Co-ordinating Body and particularly the Director, Michael Cooper, at the vanguard. The Co-ordinating Body's growing influence within both the domestic and external fora is clearly evident and it is particularly significant that the Commission recognises the key function that groups such as the Learning Network, in which the Co-ordinating Body has such a prominent role, can play as the challenges of CAP reform loom ever closer.
- 1.3 Clearly this additional responsibility has placed considerable demands on the Co-ordinating Body at a time when budgets are under constant pressure. I would therefore like to thank Michael, and all of his team, for maintaining the, by now, customary high levels of performance during the past year. In particular the Co-ordinating Body met all of its performance targets set for 2011/12 and, on a personal note, I was delighted at the positive Internal Audit Report that was issued following a review of the Co-ordinating Body's internal control arrangements.
- 1.4 On behalf of my colleagues, I would like to re-affirm that the Co-ordinating Body Management Board (the Management Board) will continue to provide its full support to the achievement of the Co-ordinating Body's objectives during the coming year.

Peter Ryland
Chairman
2011/12

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 CAP is properly administered across the UK.
- 2.2 The Co-ordinating Body acts as secretariat for the UK 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.
- 2.3 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 the Commission and 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 signs that this work is paying off in terms of calculated rather than flat-rate financial corrections.
- 2.4 Last year the Co-ordinating Body established the Paying Agency Directors' Forum (PADF) to promote the harmonized implementation of the CAP by the four paying agencies and their delegated agents within the UK. This Forum has now become well-established.
- 2.5 There is considerable pressure from all Member States for simplification of the CAP, with less administrative burden for claimants and lower costs of control for paying agencies. Over the past year this has been put into particular focus in light of the Commission's formal proposals for CAP reform. The Co-ordinating Body has been at the forefront of this debate and has worked closely with key domestic and external stakeholders. Significant achievements include:
- active engagement with senior UK policy officials, providing advice and guidance as to the practical implications of EU CAP reform proposals;
 - promotion of the Learning Network of EU Paying Agencies and the Conferences of Paying Agency Directors as key players in influencing the Commission; and
 - effective direct dialogue with senior officials in the Commission and European Parliament.
- 2.6 All of this has been achieved without deflecting the Co-ordinating Body from its core activities and I would like to thank all members of the team for their hard work during the year. The workload of the Co-ordinating Body has increased, both in quantity and complexity. This challenge has been met through further efficiency savings and an enhanced senior management team.
- 2.7 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.

Michael Cooper
Director
May 2012

Section 3 Constitution, Objectives and Performance Indicators

3.1 Ministers¹ 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 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 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 Chairmanship of the Board rotates between the four Ministers' representatives on an annual basis. Management Board representatives are listed at Appendix I. The Management Board supports Ministers to discharge their obligations in respect of the financial management of the CAP and oversees the work of the Co-ordinating Body. The Management Board delegates to the Director the day-to-day discharge of the Co-ordinating Body's functions and oversees the way in which these functions are discharged.

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 CAP, 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 the above outcomes.

3.4 The Co-ordinating Body's objectives during 2011/12 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 CAP 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.

¹ The Secretary of State for Environment, Food and Rural Affairs; the Scottish Ministers; the Welsh Ministers and the Department of Agriculture and Rural Development for Northern Ireland, acting collectively under SI 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 its 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 The Co-ordinating Body remains co-located with the Rural Payments Agency (RPA) at its corporate headquarters in Reading. As in previous years, funding for the Co-ordinating Body's headline administrative costs for both pay and non-pay was secured directly from Defra, with RPA acting as funding manager.
- 4.2 RPA continued to be responsible for the provision of the Co-ordinating Body's common services under a formal SLA. This sets out the responsibilities of both parties in respect of funding, staff terms and conditions of service and the provision of services. Separate arrangements apply to the provision of legal advice by Defra lawyers. The SLA with the RPA was subject to the usual annual review and was retained as the basis for the provision of services during the year under report. Arrangements for the provision of legal services by Defra Legal were also reviewed and retained.
- 4.3 The Co-ordinating Body's initial budget for the financial year 2011/12 (year ended 31 March 2012) 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 (NAO) as UK Certifying Body. However, agreement was reached with Defra early in the financial year for budgetary cover of up to £70k for temporary additional Certifying Body costs (read paragraph 7.2.10 for details). When this is taken into account, final out-turn was £46k below budget.

£k	2011/12 budget initial	2011/12 budget revised	2011/12 actual	2011/12 variance	2011/12 actual
Pay	480	480	438	42	457
Non-pay (excluding Certifying Body fees)	32	32	24	8	28
Certifying Body fees (net of VAT)	1,183	1,253	1,257	-4	1,210
Total expenditure	1,695	1,765	1,719	46	1,695

- 4.4 Whilst the Co-ordinating Body remains operationally independent, its staff (except for the Director, who is a core-Defra Senior Civil Servant) are RPA employees in terms of contracts of employment, pay and conditions of service, including retirement and redundancy policies.
- 4.5 The Co-ordinating Body's complement comprises 10.6 posts¹ (full-time equivalents) as follows:

1	Director (SCS)
1	Deputy Director (Grade 7)
2	SEOs
3	HEOs
2	EOs ²
1.6	AOs

¹ The senior management team was enhanced from 1 April 2012 to meet the challenges of CAP reform and other initiatives. Three post-holders (G7, 1 SEO and 1 HEO) are currently on TARA to the next grade and an additional HEO is being recruited for a two-year period. These enhancements have been met within the existing pay budget via efficiency savings in other areas of work.

² The current EO post-holders work part-time hours totalling 1.4 full-time equivalent (FTE).

- 4.6 The Co-ordinating Body is committed to the principles of Investors in People (IiP) and remains accredited as part of the wider RPA community for this purpose. Continuing and improved involvement of staff at all levels in the development and management of the Co-ordinating Body's activities was promoted. Monthly cascade and feedback meetings continued to be held for all staff. Procedures and desk instructions continue to be subject to six-monthly review.
- 4.7 The Co-ordinating Body continued to encourage training as a tool to deliver more efficient and effective services in keeping with the principles of IiP and shared RPA policies for equal opportunities and diversity. In line with the new system introduced by the RPA, all annual appraisals of staff were based on the Performance Management Framework. All staff completed Personal Development Plans (PDPs), which form an integral component of the new Performance Management Record, and these were subject to both in-year review and annual appraisal with line managers.
- 4.8 The Co-ordinating Body promotes the following values:
- Our stakeholders matter – the Co-ordinating Body must seek to meet the needs and win the trust of our stakeholders.
 - Our people matter – the Co-ordinating Body must give people responsibility and opportunities for learning and development. Staff must accept responsibility for the work of the Co-ordinating Body and be able to achieve a reasonable work/life balance.
 - Collaboration matters – the Co-ordinating Body must work collaboratively, both internally and with external organisations, to achieve its objectives. Staff should respond positively to requests for help.
 - Performance matters – the Co-ordinating Body is clear about its purpose and objectives and consistently delivers individual and team targets.

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 CAP, 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 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 by the four UK paying agencies. The risk register and management of internal controls are considered at the regular Co-ordinating Body's management meetings (CMM). 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 an assignment to provide an independent and objective review of the process by which the Co-ordinating Body's interim Statement of Internal Control (SIC) was prepared; its compliance with HM Treasury requirements and; the quality of evidence of governance, risk management and control supporting it. The IAU Report concluded that there were no material weaknesses identified in the interim Statement of Internal Control, which covered the period 1/5/2011 – 31/10/2011.
- 5.7 The Report made two observations (that is, findings that had no risk impact, but were raised to highlight best practice). These suggested that:
- identified gaps in the assurance commentary are addressed within the final Governance Statement (that is, steps taken to address data security; extension of Certification work; and review the Management Board's performance); and
 - given the profile and complex nature of the Co-ordinating Body's work, formal risk management training should be considered when planning training priorities for 2012/13.
- These observations were accepted.

- 5.8 Risk assessment and management is integrated with the Co-ordinating Body's key areas of business (such as the management of EU audits) and matters concerning paying agency accreditation. In respect of accounting services to paying agencies, the Co-ordinating Body's Indent Section has been audited for the purposes of EU accreditation. Through its Annual Report to Ministers and the Management Board, the Co-ordinating Body publishes details of its activities and performance against agreed targets. These are agreed in advance by the Management Board via an annual Business Plan, which includes a rolling forward-look for the next five years.
- 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 as regards 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 2011/12 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) Provide formal responses to Commission/ECA audit letters and submit regulatory statistical returns within the relevant deadlines.	Target met. All formal audit responses were sent within prescribed timescales. The statistical returns were submitted by the deadline of 15 July.
iii) Publish CAP beneficiary data for financial year (FY) 2011 by the regulatory deadline of 30 April 2012.	Target overtaken by events. Following the issue of Commission Regulation 410/2011, the publication of beneficiary data was restricted to legal persons only. For FY 2009 and 2010 data, paying agencies identified the split between natural and legal persons and the website was revised. Following these changes data was published on 2 October 2011. FY 2011 data was collected from the paying agencies and processed with data published to the regulatory deadline of 30 April 2012. In addition, the UK made available a downloadable spreadsheet for all payments, including anonymised natural person 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 2011 for all UK paying agencies to the Commission by 1 February 2012 or such alternative deadlines as may be agreed.	Target met. All 2011 Accounts data sent to Commission by the regulatory deadline of 1 February 2012.
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 2010.	Target met. The Commission's decisions were published in the Official Journal (OJ) on 7 May 2011. The submission was sent to the Competent Authority on 10 May 2011.

<p>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.</p>	<p>Target met. Detailed proposals relating to the audit and control regime have been developed and presented to the Commission and Members of the European Parliament (MEPs) via the Learning Network, Conference of Paying Agency Directors and other fora. This work will continue in 2012/13.</p>
<p>viii) Negotiate a fee for the delivery of the FY 2011 certification audit that incorporates efficiency savings by the Certifying Body compared to the FY 2010 audit and, as regards any additional testing, obtain budgetary approval from Defra.</p>	<p>Target met. A fee of £1,253k was agreed for the FY 2011 Certification Audit. This incorporated £10k efficiency savings compared to the FY 2010 audit, and reflected the need for mandatory additional substantive testing in accordance with Commission guidelines, the budget for which was approved in advance by Defra.</p>
<p>ix) Ensure that all staff have work objectives and receive in-year appraisal in accordance with the performance management system.</p>	<p>Target met. All staff had agreed work objectives and in-year appraisal meetings under the performance management system.</p>

Section 7 Performance against Objectives

7.1 Harmonisation Activity

A. Domestic Engagement

Paying Agency Director's Forum (PADF)

- 7.1.1 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) meeting. The purpose of PADF is to ensure a consistent strategic approach in the implementation of the CAP across the UK, both as regards 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.
- 7.1.2 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 minimizing the risk of financial corrections. In addition, it tries to identify changes that will make the CAP 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.
- 7.1.3 The Forum also provides the means by which UK Agriculture Ministers fulfill their role as designated UK Coordinating Authority for the Integrated Administration and Control System (IACS) under Article 20 of Council Regulation 73/2009 and Regulation 4 of SI 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 as regards 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 EU Directors' 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.
- 7.1.4 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.

7.1.5 During the year under report PADF met on 8 July 2011, with a presentation from the EU Joint Research Centre (Monitoring Agricultural Resources Unit), 26 October 2011 at Ordnance Survey's HQ near Southampton and 1 February 2012 at the Agriculture & Horticulture Development Board at Stoneleigh Park.

The main issues covered during the year included:

- CAP post 2013;
- changes to the Single Payment Scheme (for example, Greening);
- audit of legality and regularity;
- strategic risks for UK paying agencies; and
- CAP simplification.

7.1.6 CAP reform, and the associated challenges, both in terms of ensuring UK policy aims are met and in relation to practical delivery considerations, has been the single biggest issue facing the Co-ordinating Body this year. PADF has therefore proven invaluable in gauging the potential impact of Commission proposals and in establishing a forum where UK policy leads can liaise with senior paying agency representatives.

7.1.7 The themes and topics covered at PADF have formed part of a wider engagement by the Co-ordinating Body with key UK stakeholders. The Director and senior managers have worked closely with UK policy leads responsible for negotiating the four main European Council regulations underpinning CAP reform, that is, the three sector-specific regulations covering market measures, direct payments and rural development, and the horizontal regulation with common rules for EAGF and EAFRD. Key issues have included:

- Greening;
- the definition of active farmer;
- IACS, particularly the Land Parcel Identification System (LPIS);
- the role and remit of Co-ordinating Bodies;
- clearance procedures, particularly the audit of legality and regularity;
- ensuring financial corrections are proportionate;
- reducing administrative burdens;
- payment procedures, suspensions and deadlines; and
- irregularity and penalty procedures.

7.1.8 The Co-ordinating Body has also worked closely with HM Treasury in terms of the UK negotiating position in respect of Commission proposals revising the over-arching Commission's financial regulation. From the Co-ordinating Body's perspective, this is a fundamental piece of legislation as across all EU Funds it originally proposed:

- a standard requirement for Member States to protect the financial interests of the EU;
- a requirement for Competent Authorities to grant and withdraw accreditation of relevant bodies;
- annual accounting, to include an assurance on the underlying legality and regularity of transactions;

- Statements of Assurance to include reservations and an analysis of control systems and error rates;
- annual synthesis reports where there is more than one accredited paying agency;
- the application of financial corrections and reductions or suspensions of funding by the Commission; and
- mandatory national declarations.

7.1.9 The financial framework also introduced the concept of a Common Strategic Framework (CSF) designed to tackle the perception that the diversity and fragmentation of rules governing the various spending programmes are unnecessarily complicated. With this in mind, the Commission has proposed a common set of rules and provisions to cover the so called CSF funds, that is to say the:

- 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).

7.1.10 The Co-ordinating Body is in a unique position to offer advice and practical guidance as to how to set up and implement proposed common management and control arrangements for accreditation and coordination. For the future, given that EAFRD will be part of the CSF, consideration will be given to what input the Co-ordinating Body might have with the other CSF funds.

Paying Agency Co-ordination Board (PACB)

7.1.11 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 CAP across the UK, both as regards 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.

7.1.12 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 as regards 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.

7.1.13 PACB meets three times a year (usually in advance of PADF meetings) under the chairmanship of the Co-ordinating Body Deputy Director. During the year under report PACB met on 26 May 2011, 31 October 2011 and 25 January 2012. The main issues covered during 2011/12 included:

- LPIS Quality Assurance Framework;
- land change detection;
- IACS – mapping, inspections and eligibility issues;
- intentional over-declaration;
- cross compliance issues;
- Secure Data Transfer; and
- management information.

7.1.14 The latter issue was in respect of an initiative undertaken by the Co-ordinating Body on the collation, interpretation and presentation of disallowance data. This comprehensive exercise involved bringing together available information within a single database in order to better inform key stakeholders of the values, trends and common themes which underpin EU financial corrections across not only UK paying agencies but also throughout all other Member States. Work continues in order to develop PACB so that it takes a more proactive approach, escalating issues to PADF as necessary, leaving detailed discussion of implementation issues to be handled by the various sub-groups of PACB.

7.1.15 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, run under the chairmanship of the Co-ordinating Body are set out below.

Accounts and Finance Working Group (AFWG)

7.1.16 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.

7.1.17 The group met twice during the year under report: on 27 September 2011 and 3 April 2012. Representatives from all paying agencies as well as the Forestry Commission attended. The main discussion topics included:

- Certifying Body requirements, including agreement for schedule of deliverables, Co-ordinating Body input at Countries Conferences and changes to Certifying Body requirements;
- issues identified during the accounts clearance process;
- the reporting of cross border payments in order to differentiate between different levels of modulation applied;
- the secure transfer of restricted data outside the Government Secure Intranet (GSI) network;
- matrix requirements, including the additional request for cross compliance data on EAFRD lines;
- use of individual and unique identifiers for beneficiaries, and the impact on the CAP beneficiary website;
- accuracy of EAFRD forecasts, in particular credible forecasting for the budget management of EU funds via the Annex X and XI reports;
- concerns over timely EAFRD re-imburement and the impact on cash-flow management;
- publication of CAP beneficiary data;
- pre-2007 voluntary modulation;
- implications of draft CAP reform proposals on financial reporting; and
- lack of financial reconciliations, particularly in respect of debtors.

7.1.18 The latter point was subject to a proactive exchange of views by all UK paying agencies and from which all were able to identify appropriate measures to improve their own internal procedures. Also, following the completion of the payments of residual amounts for voluntary modulation in the 2011 annual accounts exercise, it was acknowledged that small amounts of voluntary modulation would continue to be withheld. These would be as a result of adjustments to payments with a scheme year of 2006 or earlier. The UK would have no option but to surrender these amounts and AFWG agreed proposals to action this on an annual basis.

Information Technology Working Group (ITWG)

7.1.19 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 Community 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.

7.1.20 ITWG met once during the year under report, on 9 February 2012, where the main issues

discussed were:

- the Learning Network's 'non paper' on eServices;
- EU eGovernment Action Plan;
- Panta Rhei³, updates on the meeting including UK tour-de-table and presentations (read paragraph 7.1.30);
- IT Security, feedback on 2010 Certification of Accounts audit findings and implementation of IT recommendations; and
- E-Commerce Issues.

B. External Engagement

Conferences of Directors of EU Paying Agencies

7.1.21 Each Presidency hosts a Conference of Directors of EU Paying Agencies, where senior officials from all Members 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 Herceghalom (Hungary) in May 2011 and Sopot (Poland) in October 2011. The main issues covered were:

- LPIS updates;
- mobile devices for controls;
- data warehousing;
- Information System for Agricultural Market Management and Monitoring (ISAMM);
- using social media; and
- public procurement.

Hungary

- cross compliance;
- LPIS Quality Assurance Framework;
- risk based selection for on-the-spot controls; and
- intervention policies and food aid.

Poland

- Direct aids, possible reductions in implementation costs; and
- CAP reform implementation.

At the Polish conference, the UK Co-ordinating Body Director co-presented the CAP Reform Implementation workshop.

7.1.22 The fifth annual meeting on certification for Directors of Paying Agencies and Co-ordinating Bodies took place in Brussels on 16 November 2011. The main issues of discussion were:

- Commission Guideline No. 4 (Statement of Assurance⁴);
- Commission Guideline No. 8 (Annual Synthesis);

³ 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.

⁴ Details of the UK Statements of Assurance and Annual Synthesis are at paragraphs 7.2.8 and 7.2.9

- Commission Audit Findings (Recurring themes); and
- Commission Proposals for CAP Reform (Both General and Policy aspects).

Learning Network

7.1.23 The Learning Network is a forum of EU Paying Agencies and Co-ordinating Bodies that initially looked to address issues such as simplification and means of reducing the costs and burden of controls, but has subsequently expanded its remit to cover CAP reform implementation issues.

7.1.24 During the year activity relating to the Learning Network has taken on an increased prominence. This has been delivered through a three-tiered approach involving the main plenary sessions, attended by representatives of around 15 participating Member States (including representatives of the Co-ordinating Body and all four UK paying agencies); a small Steering Group, on which the UK Co-ordinating Body Director is a key player, and individual working groups on specific topics such as Greening and the Audit of Legality and Regularity.

7.1.25 During the year under report, the main plenary sessions of the Learning Network were held on: 20 May 2011 (Budapest), 4 November 2011 (Amsterdam), 10 February 2012 (Amsterdam) and 20 April 2012 (Paris). Initial focus was on the production of four 'non-papers' and associated working groups designed to stimulate discussion with the Commission. These covered:

- LPIS/Greening;
- On the-Spot Controls and cross compliance;
- Database, Social Media, e-Commerce and e-Archives;
- Audits, Risk based Controls and clearance of accounts.

The Co-ordinating Body Director presented the views of the Learning Network at meetings with Rudolph Moegele (Deputy Director General of DG AGRI) in May and November 2011.

7.1.26 Subsequently, attention of the plenary group turned to specific Commission proposals post 2013, in particular:

- legality and regularity audit requirements;
- possible reductions in on-the-spot controls;
- Greening.

7.1.27 The first of these issues was the subject of three meetings in Brussels in early 2012 between the Learning Network Working Group (chaired by the Co-ordinating Director and including the NAO Director) and Directorate General AGRI (DG AGRI) officials to look at ways in which the audit burden could be minimized. These meetings were augmented by a series of one-to-one meetings between individual Member States (including the UK) and Commission officials and a concluding meeting on 19 April 2012 between the Learning Network Steering Group and DG AGRI. Initially, it appeared that the Commission might adopt a pragmatic approach and there were expectations that the audit burden (not to mention the associated costs) would be far less than originally feared. Subsequent discussions and latest proposals indicate this is now less likely. With the audit of legality and regularity set to become mandatory post 2013, the need for a solution that meets the concerns of Member States is essential.

7.1.28 The second of these issues has been mooted for some time by the Commission as the carrot for those Member States that can demonstrate wholly effective control systems. However, the

current proposals appear far too complex, would involve considerable work for little, if any, gain and ignore the fact that Member States have invested heavily in the LPIS over the last decade. The general consensus is that improvements in the latter, would in themselves justify a reduction in the level of on-the-spot control. The Commission has also made no reference to the potential for reduced financial corrections and conformity audit visits. The Co-ordinating Body is therefore strongly advocating that these arguments should continue to be advanced forcefully in negotiations with the Commission.

7.1.29 Two UK paying agencies were represented on a Learning Network Working Group regarding Commission's greening proposals. This produced a detailed paper commenting on both the general aspects of greening and the likely impact of specific elements (crop diversification, ecological focus areas and permanent grassland), which was submitted to the Commission in advance of a meeting between the Learning Network Steering Group and DG AGRI in May 2012.

Panta Rhei

7.1.30 One meeting of Panta Rhei was held during the year under report, offering the opportunity to promote the greater acceptance by EU institutions of e-business solutions. The conference took place in Malta in October 2011. The Co-ordinating Body provided support for the UK delegation, which also included representatives from the four UK paying agencies.

7.1.31 The main issues discussed were:

- CAP 2013;
- E-services – improving communications with beneficiaries;
- collaboration platform; and
- cloud computing.

European Parliament

7.1.32 In February 2012, the Co-ordinating Body Director accepted an invitation from George Lyon MEP, an influential figure within the European Parliament's Agriculture and Rural Development Committee, to speak at a seminar on 'CAP Reform and Efficiency' at the European Parliament. There was a lot of interest from MEPs in simplification and implementation issues and the Co-ordinating Body will maintain dialogue with the European Parliament's Agriculture and Rural Development Committee on simplification and specific delivery concerns.

C. Core Harmonisation Activity

Agricultural Funds Committee Meetings

7.1.33 The Co-ordinating Body continued to represent UK paying agencies at the monthly meetings of the Commission's Agricultural Funds Committee (AFC). During the year, and in agreement with Defra as UK lead policy department, it was agreed that the Co-ordinating Body would assume the lead UK 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 two working days in all cases.

7.1.34 Each meeting follows a set format, with standard issues covered monthly. However, particular topics of interest covered during the year included:

- delay of rural development reimbursement by the Commission (and the impact on the Funding Body);
- criticism on the lack of accurate forecasting for rural development expenditure by Member States;
- timely submission of control statistics;
- new application for the recording of public storage operations (P-STO);
- increase of co-financing rates for Member States benefiting from financial assistance under the Balance of Payments mechanism;
- Commission ad hoc clearance decisions, and
- amendments to the accreditation regulation.

7.1.35 The latter point concerned Commission proposals for amendments to regulation 885/2006 (detailed rules on accreditation) and was discussed at length at the March and April 2012 meetings. When originally tabled, a number of Member States (including the UK) requested additional time to consider the implications. In summary, the proposed changes were:

- to allow data to be retained in electronic format only (where national rules recognise the legitimacy of such data and the relevant IT Security meets accreditation standards);
- clarify the process for recovering EAFRD corrections;
- introduce a 'de minimis' in terms of Commission correction proposals (under €50k and 10%), and;
- permit delays in the reimbursement of all corrections (both Pillars) taking into account the current economic climate and its impact on certain Member States.

7.1.36 The main issue of contention concerned the proposal to allow deferral of financial corrections to certain Member States (and under specific conditions) as this appeared contrary to the principles of sound financial management. Although the amendments were subsequently approved, several Member States either abstained (including the UK) or voted against the proposal.

7.1.37 Rural development issues also prompted discussions at several meetings. The Commission continued to emphasise the serious difficulties many Member States have in the forecasting of EAFRD expenditure compared to the actual out-turn. Almost half of Member States reported a variance of more than 25% between forecast and actual expenditure. Although not in this category, UK paying agencies' forecasts have deviated by an average of 18% over the four reporting periods covered by this report. This is an important issue which the Co-ordinating Body continues to raise at the UK Rural Development Finance Group.

EU Audits

7.1.38 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 ECA. During the period 1 May 2011 to 30 April 2012 there were six missions by the Commission and 10 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 four separate Commission bilateral meetings and one Conciliation Body meeting during this period.

The audits, bilateral and Conciliation Body meetings covered the following:

Commission Audits

- Area Aids (RPA)
- Rural Development Programme in England (RPA)
- Conformity Audit (Clawback/Irregularity) (RPA)
- Fruit and Vegetables (RPA)
- Scottish Beef Scheme (SGRPID)
- Accreditation of Paying Agencies (SGRPID)

ECA Audits

- Statement of Assurance 2011 (EAGF) – six visits (RPA/SGRPID)
- Statement of Assurance 2011 (EAFRD) – two visits (RPA/WG)
- Rural Development Programme in England– two visits (RPA)

Bilateral Meetings

- Cross compliance (SGRPID)
- Rural Development Programme in Wales (WG)
- Rural Development Programme in Scotland (SGRPID)
- Fruit and Vegetables (RPA)

Conciliation Body Meetings

- Rural Development Programme in England (RPA)

7.1.39 All the EU audits and bilateral meetings ran smoothly and are currently at various stages of the clearance process. Following the Conciliation Body hearing on rural development procedures in England and the subsequent issuing of a very positive report, the Co-ordinating Body arranged an informal meeting with the Commission to discuss the issues highlighted. As a direct result of this meeting the formal Commission financial correction proposal was reduced from €7.7m to €4.3m.

Publication of CAP Beneficiary Data

7.1.40 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. This effectively invalidated part of regulation 259/2008 on the publication of CAP beneficiary data, leading the Commission to request that all Member States suspend publication of individual beneficiaries but continue to publish data for legal entities, provided it was feasible for Member States to do so. As UK data did not at the time distinguish between legal and natural beneficiaries, the decision was taken to suspend access to the public website.

7.1.41 The Commission subsequently issued regulation 410/2011 on 27 April 2011, amending the requirements for publishing beneficiary data to legal persons only. Given the publication date it was not possible for 2010 data (and revised 2009 data) to be published by the normal regulatory deadline of 30 April 2011. Data for 2009 and 2010 was matched against Companies House records where possible, followed by a manual sift by paying agencies, to identify legal persons. The public website showing details of payments to legal beneficiaries for 2009 and 2010 went live on 2 August 2011.

- 7.1.42 The 2011 data exercise was undertaken on the same basis, with the Co-ordinating Body overseeing the project. Paying agencies provided data and identified any changes to the legal status of beneficiaries. In addition, the opportunity was taken to increase transparency, within the ECJ restrictions, by making available on the public website a downloadable spreadsheet of all payments made for the 2010 and 2011 financial year data, but with anonymised natural person details. The 2011 data was published on the regulatory publication date of 30 April 2012.
- 7.1.43 The Commission continues to review the options available for increasing transparency while taking account of the objections raised by the ECJ. The UK fully supports any move to greater transparency. The Commission is expected to issue revised requirements, but these are not likely to come into force until the publication of the 2013 financial year data.

Control Statistics

- 7.1.44 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.
- 7.1.45 The UK returns for the 2010 claim year were collated and sent to the Commission by the Co-ordinating Body in July 2011. 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. The Co-ordinating Body also participated in the Rural Development Business Practitioners Group meeting held on 24 June 2011 where the Co-ordinating Body tabled agenda items specifically with regard to the Article 31 returns.
- 7.1.46 The Commission regards the integrity of the control statistics as paramount 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 stress this fact to UK paying agencies.

D. Other Issues

During the year under report, the Co-ordinating Body played a significant contribution on a number of other issues including:

- attendance at UK RDP Finance meetings;
- representation of UK paying agency interests at the 'Evaluation and Monitoring for CAP 2013 Stakeholder Conference';
- input into the UK statement of EU-funded expenditure;
- liaison with UK institutions, in particular HM Treasury, to encourage the Commission and ECA to take a more risk-based approach to audit requirements;

- attendance and contribution at the Defra Disallowance Working Group;
- participation, by invitation, at paying agency accreditation groups;
- contribution to the UK (Defra) line-to-take on CAP simplification proposals and attended the Simplification Experts meeting in Brussels.

7.2 Competent Authority Activity

Clearance of the 2011 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, all reports were submitted by the regulatory deadline. Following submission, the Commission raised queries on the reports via the Co-ordinating Body. Whilst most were requests for clarification of data, which were cleared quickly, there was one highly significant issue threatening the clearance of the SGRPID EAFRD account.
- 7.2.2 The Certifying Body had given an unqualified audit opinion (albeit with an Emphasis of Matter), on the basis that the adjusted Most Likely Error (MLE) was below materiality. However, the Commission proposed to disjoin (not clear) the EAFRD account for SGRPID on the basis that the initial value of the MLE, resulting from the substantive testing of EAFRD transactions, exceeded the materiality threshold of 2%. However, in line with International Auditing Standards, the Certifying Body agreed to the paying agency crediting to the Fund the known value of the errors identified. This reduced the value of the MLE to below 2%.
- 7.2.3 The SGRPID Certification Report clearly detailed the action taken, stressing that the methodology was wholly consistent with normal statistical sampling methodologies. The subsequent audit opinion, by the Comptroller and Auditor General, was therefore unqualified, but included an appropriate 'Emphasis of Matter' paragraph. This was in line with Commission Guideline No. 3.
- 7.2.4 The Commission proposal prompted immediate dialogue between the Co-ordinating Body and the Commission. The discussions culminated in a meeting in Brussels between the Co-ordinating Body Director, accompanied by the lead Director of the National Audit Office, and EC officials including the Deputy Director General of the Agriculture Directorate. Commission officials acknowledged that they were not challenging the work or audit opinion of the Certifying Body, but cited that, in their view, the paying agency should not have made the correction. However, the Commission confirmed that it would not carry out an additional conformity audit and would look to clear the SGRPID EAFRD account at the earliest possible opportunity, dependent on an appropriate update from the paying agency.
- 7.2.5 The Commission also used the clearance decision to inform the UK that expenditure de-committed by SGRPID in 2009 and 2010 could not be resubmitted in subsequent years. The Certifying Body's 2010 Report had detailed how SGRPID had de-committed EAFRD expenditure. This related to transactions on five measures relating to grant payments on capital projects, totally €19m. Responding to errors identified by the Certifying Body during the 2009 and 2010 Certification of Accounts exercises, SGRPID had removed all the expenditure relating to these measures. This had been undertaken primarily to protect the Fund. There had been no criticism of this procedure by the Commission for 2009 and it had been repeated for 2010. However, the 2011 Article 10 letter made it clear that the reimbursement for the €19m could not be claimed retrospectively, a decision based on a strict application of Commission regulation 883/2006. It also appears to take no account of the fact that SGRPID, following a thorough review, had gained

assurance that the vast majority of expenditure against the projects was correctly paid. The Co-ordinating Body will be working with the paying agency to consider how and whether to pursue this matter further.

- 7.2.6 A further, significant, potential €7.1m financial correction has been identified by the Commission in respect of the RPA 'clawback'. This is the term used for the process by which RPA has claimed back from the Commission, as a credit in the 2011 accounts, sums that were originally paid over in previous clearance decisions as outstanding administrative debt but which have subsequently been reduced following re-assessment. There is some uncertainty how the Commission will handle this procedure. Following a reported clawback of €22.5m in the 2010 accounts, the Commission invoked 'Article 11' procedures and conducted a separate enquiry into the validity, or otherwise, of the clawback. The official Commission response to this enquiry is awaited, specifically, in respect of whether any correction will be applied. The outcome will clearly indicate how the Commission will respond to the €7.1m detailed in the 2011 clearance letter, although there is clear indication cited that the procedure should not be replicated for 2012. The RPA is currently considering possible alternative options.
- 7.2.7 The clearance decision also included proposals for financial correction for the UK. These are relatively minor in nature and concern the RPA and Department for Agriculture and Rural Development for Northern Ireland (DARD) paying agencies only. For EAGF, this was for identified material error in the DARD debtor population. There were also additional EAFRD corrections proposed for the RPA debtors and 'known errors' following substantive testing in the EAFRD IACS population.
- 7.2.8 In line with Guideline No.4, each year Heads of paying agencies have to provide a Statement of Assurance 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 Statements of Assurance were made without reservation or qualification. However, three Heads made use of the 'additional remarks' section within the Statement of Assurance 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: SPS entitlements, repayment of SPS debtors and controls in respect of manual payments; reconciliation of debtors to the financial declarations;
 - SGRPID: Scottish Rural Development Programme (SRDP), control issues within the paying agency and delegated agents, de-commitment of expenditure;
 - DARD: SPS and Area Aids disallowance and subsequent enactment of the Commission's voluntary guideline on legality and regularity.
- 7.2.9 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 2011 was submitted on 15 February 2012.

Certifying Body

- 7.2.10 For 2011, the UK Certifying Body (the NAO managed by the Co-ordinating Body via an SLA) conducted transaction testing in line with the requirements of Commission Certification Guideline Number 3. The total cost of the audit was £1,253,000. In addition a charge of £3,500 relating to

the 2010 audit was paid in the 2011/12 year. Although this was higher than the original budget allocation for the year, it was due to the need for temporary higher levels of SPS substantive testing in RPA, reflecting the very prescriptive nature of Commission Guideline 3. The additional cost, some £70k above the initial budget allocation, was agreed in advance by Defra. For 2012, improvements within the RPA's SPS control environment means that the projected sample size will be reduced. The forecast for the 2012 audit fee is therefore in the region of £1,188,000.

- 7.2.11 Management of the SLA was handled in-year by meetings and correspondence. For 2011/12 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 submission of Interim Management Letters and Draft Reports within set deadlines the main priority. All targets were met, and therefore all performance-related payments were made in full.
- 7.2.12 Following DARD's agreement to implement the guideline on the audit of legality and regularity in respect of the populations for SPS claim year 2011 only, an audit strategy was drawn up in June 2011. The Commission raised a couple of concerns over the proposal: to take 30% controls assurance (rather than the 10% specified in the guideline) which would reduce the number of re-performance visits to 57 from around 100; and over the use of sub-contractors by Northern Ireland Audit Office to undertake the audit of the on-farm inspections. The Co-ordinating Body advised that a robust challenge should be made on both issues as a matter of principle and audit integrity, and drafted an appropriate response, which the Commission swiftly accepted.
- 7.2.13 KPMG were appointed as contractors in August 2011 and, after training, re-performance inspections commenced in October 2011. The Co-ordinating Body is liaising with Northern Ireland Audit Office on the practical implementation of the Commission guideline. Management of this area of work is covered by separate letters of engagement, SLA and Audit Strategy. The final report to the Commission is due to be submitted by 1 September 2012.

United Kingdom Accreditation Compliance Committee (UKACC)

- 7.2.14 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.
- 7.2.15 UKACC met once during the year, on 27 April 2012, to review the 2011 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, and the current situation regarding submission of control statistics.

7.2.16 UKACC also looked at the audit strategy for the 2012 exercise, including a discussion on the implementation of the audit of legality and regularity in DARD, and the current situation regarding proposed changes post CAP reform. UKACC also considered paying agencies' self-assessments, as part of the Co-ordinating Body's overall monitoring procedures, which fed into recommendations to the Competent Authority on paying agencies' accreditation.

Appendix I

Management Board Membership 2011/12

Michael Cooper	Director, UK Co-ordinating Body
Miles Beale ⁵	Department for Environment, Food and Rural Affairs (Defra)
David Barnes	Scottish Government (SG)
Peter Ryland	Welsh Government (WG)
Graeme Wilkinson ⁶	Department of Agriculture and Rural Development, Northern Ireland (DARD)

The Management Board met on 15 June 2011, 23 November 2011 and (by conference call) on 7 February 2012

⁵ Replaced by Amy Holmes w.e.f. 26/4/2012

⁶ Replaced John Smith w.e.f. 3/1/2012

Appendix II

Governance Statement 2011/12

Corporate governance framework

- 1.1 The 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 regulations 1290/2005 (Article 6.3) and 885/2006 (Article 4) and SI 2001 No 3020 and in accordance with its own written Constitution and Procedures as lodged with the 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 the Rural Payments Agency (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 Co-ordinating Body. A separate SLA is in place with 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 the Director-General of Defra's Food and Farming Group.
- 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, including risk management. The Co-ordinating Body's management monitors performance against targets and budgets. The Co-ordinating Body's Management Team handles the identification, evaluation, ownership and prioritisation of risks. The monthly team meeting reviews performance against targets and budgets and discusses current and emerging risks.

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 the Co-ordinating Body's 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 2012 and up to the date of approval of the Annual Report and accords with HM Treasury guidance.

- 2.2 Within the Co-ordinating Body, the post of Deputy Director has been designated Risk Management Officer (RMO), responsible for managing and implementing risk policy. The RMO is responsible for ensuring formal risk management training is provided where appropriate and that all staff 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 countermeasures 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 countermeasures 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 its commitment to liP and staff communications 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 the Co-ordinating Body's 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 a full internal audit was carried out by RPA Internal Audit Unit on behalf of the Coordinating Body. The report concluded that sufficient, effective controls were in place and that Co-ordinating Body staff adhered to these. However, the Management Board intends to review its effectiveness during the coming year.

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, result 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 lead to EU disjoining accounts.
 - Failure by paying agencies to implement corrective action 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 lead to disallowance.
 - Failure by paying agencies to supply accurate statistical returns 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 the 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 CAP.
- 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 (correspondence, bilateral meetings etc) as well as through regular meetings and conference calls between the Co-ordinating Body and the paying agencies. PADF met regularly during the year 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.
- 3.3 The Commission's LPIS quality assurance framework was completed by the UK paying agencies for the second time 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.
- 3.4 Indications are that the current annual certification exercise will be extended to cover legality and regularity on a mandatory basis after 2013. 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. At present, the Commission has issued a voluntary guideline. Only DARD is currently undertake an audit (for SPS) under this guideline. This decision is linked to the current level of proposed disallowance for Northern Ireland and is considered an appropriate means of providing the Commission with evidence to reduce the level of disallowance below a flat rate of 5%. The UK believes that the Commission's 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 of EU Paying Agencies and Co-ordinating Bodies 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.

Significant internal control problems

- 4.1 There were no material internal control weaknesses. Appropriate controls have been applied over data receipt, processing and transmission. Proposals have been made to core-Defra regarding the need to undertake a security review of the CAP beneficiary data environments to ensure these are fully compliant with current guidance.

Michael Copper
Director
May 2012

Appendix III

UK Co-ordinating Body Structure



