



European Commission  
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# *Agriculture and Enlargement*



*Zagreb, Croatia, 12 - 13 June 2009*

## **Controlling Agricultural Expenditure**

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# Management and Control System



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- Compulsory administrative structure, centred around accredited **paying agencies**
- Detailed **systems for controls** of beneficiaries and sanctions in case of irregularities
- **Ex-post controls** of paying agencies' annual accounts and internal control procedures and of support under certain aid schemes
- Financial and conformity **clearance of accounts** by the Commission



# Paying Agencies



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## - Accreditation Criteria -

- Internal environment (organisational structure, human resource standard, delegation)
- Control activities (procedures for authorising claims, for payments, for accounting, for advances and securities, for debts, audit trail)
- Information and communication (communication, information systems security)
- Monitoring (ongoing monitoring via internal control activities, separate evaluations via an internal audit service)



# Paying Agencies



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## - Accreditation Process -

- Issued by competent authority at ministerial level
- Based on pre-accreditation audit by independent body
- Granted provisionally or definitively



# Paying Agencies



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## - Control of Accreditation -

- By competent authority (constant supervision), certification body (annual report) and Commission (ex-post audits)
- All deficiencies have to be remedied
- Serious deficiencies lead to paying agency to be put under probation and remedial action plan to be drawn up and implemented within 12 months (extendable)

# Paying Agencies



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## - Statement of Assurance -

- Annual statement by director of paying agency
- Based on effective supervision throughout the year
- Covers (1) completeness, accuracy and veracity of the annual accounts and (2) reasonable assurance on the legality and regularity of the underlying transactions
- Possibility of reservations, to be quantified and accompanied by a remedial action plan and a timetable for its implementation



# Systems for Controls and Sanctions



## - Common Features -

- Administrative control of all aid applications
- Cross-checks with other databases, where appropriate
- On-the-spot checks of a sample of transaction before payment (normally 5%, but may be up to 100%, depending on the risk of the aid scheme in question)
- Sample selected through a risk analysis based on relevant criteria
- Increase of on-the spot checks in case of high number of irregularities
- Sanctions which are dissuasive, effective and proportionate



# Systems for Controls and Sanctions



## - Integrated Administration and Control System -

- IACS is single most important system
- Covers all direct payments under the first pillar and rural development measures based on area or animals retained (Axis 2)
- Covered 87.5% of EAGF expenditure and 73.5% of EAFRD expenditure in 2008
- Considered, by the European Court of Auditors, to be an effective system for limiting the risk of error, where properly applied



# Systems for Controls and Sanctions



## - IACS cont'd -

- Computerised database
- Identification system for agricultural parcels (LPIS-GIS)
- System for the identification and registration of payment entitlements
- Aid applications
- Integrated control system
- Single system to record the identity of each farmer who submits an aid application



# Systems for Controls and Sanctions



## - IACS cont'd -

- Single aid application by 15 May (June) at the latest
- Automated cross-checks with LPIS-GIS and animal databases
- Annual risk analysis based on relevant factors for selecting applications to be checked on-the-spot
- Minimum 5% controls by remote sensing (with rapid final visit) or classical on-the-spot checks
- Gradually increasing sanctions, to be deducted from the payment (double of over-declaration, exclusion if over-declaration exceeds 20%)



# Ex-post Controls



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## - Regulations 485/2008 and 1975/2006 -

- Post-payment controls in addition to pre-payment checks
- Cover undertakings (not farmers) receiving support not covered by the IACS
- Risk focussed on larger beneficiaries (above EUR 40,000 in support)
- Carried out by special department from July n+1 to June n+2
- Report to Commission by end of year n+2

# Ex-post Controls



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## - Certification -

- Annual exercise by independent body (public or private)
- Covers completeness, accuracy and veracity of the annual accounts and operation of the internal control procedures
- Detailed Commission guidelines on work to be done and on reporting
- Includes opinion on the director's statement of assurance
- Forms the basis for the financial clearance decision

# Clearance of Accounts - Overview -



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## Clearance of accounts

### Financial clearance

**Annual**  
(latest on 30.04.n+1)

On the basis of certification by  
certification bodies

- Completeness, accuracy and veracity of the annual accounts
- Satisfactory operation of the internal control procedures

Possible consequences  
under conformity clearance

### Conformity clearance

**Multiannual**  
(2 to 3 decisions per year)

On the basis of audits by DG AGRI

Exclusion of expenditure which has not  
been paid in conformity with Community  
rules (as a result of deficiencies in the  
in management and control systems

Financial corrections applied to  
Member States



# Financial Clearance



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- Commission decision by 30 April n+1
- Covers completeness, accuracy and veracity of the annual accounts
- Based on annual certification exercise
- Is without prejudice to subsequent conformity decisions



# Conformity Clearance



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## - Legal Rules -

- Correct expenditure not effected in compliance with Community rules
- Determine correction on the basis of:
  - nature and gravity of infringements
  - financial loss to the Community budget
  - Commission Guideline VI/5330/97
- Cover period up to 24 months prior to Commission's written notification (24-month rule)



# Conformity Clearance



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## - Practice -

- Annual audit programme based on a central risk analysis
- On-the-spot audit, normally for one week
- System audit covering Member States' management and control systems (proper documentation of procedures, quality of administrative and on-the-spot checks, quality of control reports etc)
- Financial corrections for deficiencies in key or ancillary controls (calculated, extrapolated or flat rates of 2, 5, 10, 25 or 100%)
- Strong incentive for Member States to improve their management and control systems

# Key and Ancillary Controls



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## Key controls

Physical and administrative checks required to verify substantive elements

- Existence of the subject of the claim
- Quantity
- Qualitative conditions
- Application of sanctions

## Ancillary controls

Administrative operations required to correctly process claims

- Respect of time limit for their submission
- Identification of duplicate claims
- Risk analysis
- Calculation of sanctions
- Appropriate supervision of the procedures



# Conformity Clearance



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## - Procedure –

- Written notification with findings and recommendations
- Bilateral meeting in Brussels
- Formal communication with conclusions and evaluation of amount of financial correction
- Possibility of review by Conciliation Body with the aim of reconciling the divergent views of both sides
- Final letter by Commission
- Consultation of Agricultural Funds Committee
- Commission decision (executed in month  $n+2$ )



# Clearance of Accounts



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## - Treatment of Irregularity Cases -

- Member States obliged to prevent and pursue irregularities and to recover irregular payments
- Member States charged 50% of outstanding amounts 4 years after primary findings (8 years in case of legal procedures) – 50/50 rule
- Member States obliged to continue recovery and credit 50% to the Community budget
- Full amounts can be charged to Member States in case of negligence

# Clearance of Accounts



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## - Reduction and suspension of payments to MS -

- Done for non-respect of ceilings and payment deadlines (Article 17 of Regulation 1290/2005)
- New mechanism applicable as of 2008 for cases of serious and persistent deficiencies which Member States cannot remedy in the immediate future (Article 17 of Regulation 1290/2005)
- Special safeguard mechanism for Bulgaria and Romania



# Clearance of Accounts



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## - Special safeguard mechanism for Bulgaria and Romania -

- Regulation 1423/2006, based on Article 37 Accession Act
- Concerned support granted under aid schemes covered by the IACS
- Ministerial declaration on the functioning of the IACS, based on an audit report from an independent body
- Monthly and intermediate payments to be reduced by 25% in case of serious deficiencies in the IACS or the other elements necessary to ensure the correct payment of the support to beneficiaries
- Eventually not applied (though procedure was launched for Romania)



# Conclusions



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- Comprehensive system with control mechanisms to be applied at both Member State and Community level
- Constant improvement of Member States' management and control systems over recent years
- Errors at final beneficiary level are, according to the Court of Auditors, close to an acceptable level
- Conformity clearance proven to be an effective mechanism to protect the Community's financial interests and a strong incentive for Member States to remedy any deficiencies in their systems



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# Thank You!