



European Commission
Agriculture and Rural Development

Experience with the Development and Carrying-out of CAP Audits

Auditing the CAP from the European Commission's Perspective

Michael Niejahr

**European Commission
Directorate General for Agriculture and Rural Development**



Overview

- Principle of shared management
- Gradual development of the system
- General management and control framework
- Basis of DG AGRI's declaration of assurance
- Commission conformity audit work in practice
- DG AGRI's proposal for a reinforcement of assurance
- Perspectives post-2013



Principle of shared management

- Member States are solely responsible for implementation at final beneficiary level
- Commission retains overall responsibility for the implementation of the EU budget
 - Responsibility for the legal framework regarding the management and control of CAP expenditure
 - Operation of the clearance of accounts system



Gradual development of the system - Origins

- EU control rules limited to general principles
- Single annual clearance of accounts decision, including the legality and regularity of the underlying transactions
- Long delays in the adoption of the clearance of accounts decisions affecting their usefulness for the discharge procedure



Gradual development of the system – Belle-Reform

- Accreditation of paying agencies
- Certification of the paying agencies' annual accounts
- Annual financial clearance decision covering the completeness, accuracy and veracity of the accounts
- Multiannual conformity clearance excluding expenditure from EU financing which has not been effected in accordance with EU rules, including
 - 24-month-rule
 - conciliation procedure



Gradual development of the system – Prodi-Reform

- Resignation of the Santer-Kommission
- Management responsibility of Directors General
- Annual activity reports and declarations of assurance by Directors General
- Consequences for the clearance of accounts system
 - Double purpose of protecting the EU's financial interests and providing reasonable assurance on the proper management of agricultural expenditure
 - Administrative process without political interference



Gradual development of the system - 2007-Reform

- Alignment of EAGF and EAFRD management
- New responsibilities of competent authorities
- Declaration of assurance by head of paying agency
- Synthesis report of coordination body
- New tasks for certification bodies
- New clearance rules for irregularity cases



General management and control framework

- Compulsory administrative structure, centred around accredited paying agencies
- Detailed systems for controls of beneficiaries by paying agencies 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 (Regulation (EC) No 485/2008)
- Financial and conformity clearance of accounts by the Commission



Accreditation of paying agencies

- Paying agencies must comply with accreditation criteria related to their internal environment, control activities, information and communication system and monitoring activities (COSO model)
- Accreditation granted by competent authority at ministerial level based on audit by independent body
- Continued compliance controlled by competent authority, certification body and Commission
- Detailed rules and procedures for remedying any serious deficiencies



First level controls and sanctions - General

- 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 up to 100%)
- Sample selected through a risk analysis based on relevant criteria
- Increase of on-the spot checks in case of high number of irregularities
- Dissuasive, effective and proportionate sanctions



First level controls and sanctions - IACS

- Single most important system, covering all direct payments and certain rural development measures
- Covered 89% of EAGF expenditure and 60% of EAFRD expenditure in 2009 (84% of total expenditure)
- Computerised databases, notably LPIS-GIS
- System for the identification and registration of payment entitlements
- Integrated control system
- Single system to record the identity of each farmer who submits an aid application



Annual ex-post certification

- Annual exercise by independent audit bodies, public or private, called certification bodies
- Covers completeness, accuracy and veracity of the annual accounts and operation of the paying agencies' internal control procedures
- Detailed Commission guidelines on work to be done and on reporting
- Includes opinion on the director's declaration of assurance
- Forms the basis for the financial clearance decision



Clearance of accounts system

- Annual financial clearance
 - Covers completeness, accuracy and veracity of paying agencies' accounts
 - Based on audit opinion from certification bodies
- Multi-annual conformity clearance
 - Excludes expenditure from EU financing which has not been effected in accordance with EU rules
 - Strong incentive for Member States to improve their management and control systems
 - Thereby contributes to the legality and regularity of the underlying transactions



Basis of DG AGRI's declaration of assurance

- Functioning of the paying agencies
 - Annually audited by the certification bodies
 - Audited by the Commission on an ad-hoc basis
- Member States' control statistics
 - Verified and validated by the certification bodies
- DG AGRI's conformity audits



Commission conformity audit work in practice

- Compliance audits on Member States' management and control systems
- Annual audit programme established on the basis of a central risk analysis (covering 60% of 2009 expenditure)
- Administrative procedure, including conciliation, which may lead to calculated, extrapolated or flat-rate corrections
- Increased focus on “solving problems” (action plans)



DG AGRI proposal for a reinforcement of assurance

- Verification and validation of control statistics
- Full re-performance of a representative sample of files which the paying agency has checked on-the-spot
- Consequences for the conformity clearance procedure by limiting any financial corrections to the error rate indicated in the relevant validated control statistics



Perspectives post-2013

- Commission proposal for a revision of the Financial Regulation, including new rules for shared management
 - Accreditation of management bodies operating annual accounts
 - Management declaration of assurance and opinion thereon from independent audit body
 - Clearance of accounts by the Commission
- Policy proposal for the CAP post-2013 end of 2010
- Legislative proposals for the CAP post-2013 mid 2011



Thank You for Your Attention !