



UK Co-ordinating Body

UK Co-ordinating Body
Annual Report
2014/15

Table of Contents

Section 1 - Statement by the Chairman	2
Section 2 - Executive Summary	3
Section 3 - Constitution, Objectives and Performance Indicators.....	5
Section 4 - Resources and Staffing	7
Section 5 - Corporate Governance and Risk Management	8
Section 6 - Performance against Business Plan Targets	9
Section 7 - Harmonisation and Competent Authority Activity	10
Harmonisation Activity	10
Competent Authority Activity.....	17
APPENDIX I	19
Management Board Membership 2014/15	19
APPENDIX II	20
Director's governance statement 2014/15	20
APPENDIX III	24
Details of Key UK Co-ordinating Body Groups.....	24
APPENDIX IV	27

Section 1 - Statement by the Chairman

It has been a privilege to have served as Chairman for the past year. I have been hugely impressed by the high quality of output from the body and the professionalism of its staff. UKCB has been working closely with paying agencies in a drive to minimize disallowance, implement CAP reform effectively and lobby for simplification of the regulations.

On the wider front, UKCB continues to work closely with counterparts in other Member States on these issues. The Learning Network plays a vital role in ensuring that constructive dialogue is maintained with the Commission on key implementation issues and Michael's role as Chair of the body is a benefit to us all. This will enable the UK to play a key role in the evolution of the new aspects of the Common Agricultural Policy. The challenge now will be to ensure that these can be delivered in the current economic climate. This makes the drive for a proportionate approach so vital and as a Management Board this is a goal we are all determined to achieve.

Yet again this report records a high level of performance with UKCB meeting all of its performance targets for 2014/15. On behalf of my colleagues on the Management Board, I would like to offer my congratulations to all staff who have contributed to this success.

John Roberts
Chairman
2014/15

Section 2 - Executive Summary

UKCB has delivered 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, UKCB has played a significant role in ensuring that the Common Agricultural Policy is properly administered across the UK and that CAP reform is implemented effectively. This report provides details of how UKCB has performed against its Business Plan targets, managed resources and risks, and delivered activities to achieve its objectives.

UKCB has been actively involved in the CAP reform process, working closely with stakeholders during the negotiation and implementation of the delegated and implementing acts. Significant achievements include:

- active engagement with senior UK policy officials, providing advice as to the practical implications of EU CAP reform proposals;
- close involvement in the work of the Learning Network, which I chair, and the Conferences of Paying Agency Directors; and
- direct dialogue with senior officials in the Commission on the implications of CAP reform for paying agencies.

UKCB 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. In addition to the clearance of the accounts for financial year 2014, there has been significant engagement with the Commission, the Certifying Body, paying agencies and other Member States with regard to the new certification audit regime for financial year 2015 (claim year 2014). UKCB has been successful in influencing the content of the Commission's guidelines and has worked with the Certifying Body to develop an audit strategy for the re-verification of on-the-spot checks.

In addition to the introduction of a mandatory audit of legality and regularity, CAP reform has required UKCB to prepare for a number of other challenges. For example, the new 'Horizontal' Regulation has expanded the role of UKCB, introduced new requirements for the publication of CAP beneficiary data and created a regime relating to action plans and the suspension of reimbursements from the Commission. A new UK Statutory Instrument relating to the Competent Authority and UKCB has also been enacted.

As set out in section 7, the Paying Agency Directors' Forum (PADF), Paying Agency Co-ordination Board (PACB) and Accounts & Finance Working Group (AFWG) continue to promote the harmonized implementation of the Common Agricultural Policy by the four paying agencies and their delegated agents within the UK. They have focused in particular during the year on the implications of CAP reform. Following the publication of the basic regulations and the draft delegated and implementing acts, UKCB has worked closely with paying agencies on implementing the new regulations, with particular attention to ways of building regulatory compliance and assurance into this process from the start.

Aside from CAP reform there continues to be a very high level of audit activity by the Commission and the European Court of Auditors (ECA), involving extensive interaction with these bodies and the Conciliation Body to manage the significant risk of disallowance as far as possible. As well as co-ordinating the response to individual audits, UKCB has focused on analyzing the causes of financial corrections and promoting mitigating actions. 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. UKCB has been active with other Member States in lobbying for a more proportionate approach in this area as well as a more risk-based approach to audits.

As set out in this report, UKCB fulfils a number of other important responsibilities relating to UK CAP administration and I would like to thank all members of the team for their hard work during the year.

Michael Cooper
Director
May 2015

Section 3 - Constitution, Objectives and Performance Indicators

Ministers¹, have established UKCB 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 7.4 of Regulation No 1306/2013, that is, bring together information to be sent to the Commission, take or co-ordinate actions with a view to resolving any deficiencies of a common nature, and promote the harmonised application of EU rules and guidelines; and
- act as Secretariat to the Competent Authority for the granting, maintenance and withdrawing of paying agency accreditation under Article 7 of the Horizontal Regulation, based on the annual reports of the Certifying Body and reports from the European Commission's services.

UKCB reports to a Management Board (the 'Board') appointed by the Agriculture Ministers, consisting of a nominee from each of the four Agriculture Departments and the UKCB Director. The Chairmanship of the Board rotates between the four Ministers' representatives. The Board supports Ministers to discharge their obligations in respect of the financial management of the CAP, approves UKCB's Business Plan and oversees the way in which it discharges its functions.

UKCB's purpose is 'to monitor the accreditation of paying agencies and work with them to ensure that CAP expenditure is effectively controlled, thereby mitigating the risk of disallowance'. UKCB's vision is 'to be a highly-motivated, skilled and efficient team that helps UK paying agencies to improve their management and control systems, enhance their compliance with regulatory requirements and reduce their levels of financial correction'.

In 2014/15, UKCB's objectives were to:

- i. carry out the functions of the Co-ordinating Body as set out in the Horizontal Regulation, i.e. to:
 - a. collect and submit the financial, audit and statistical information required by the Commission;
 - b. coordinate actions with a view to resolving any deficiencies of a common nature and keep the Commission informed of the follow-up;
 - c. promote and, where possible, ensure the harmonized application of Community rules and guidelines in the UK;
- ii. provide the UK Competent Authority with advice and recommendations on paying agencies' corrective actions and accreditation and manage the service level agreement with the Certifying Body;
- iii. promote an effective financial control environment that protects EU funds and reduces the risk of disallowance;
- iv. set up and maintain the single CAP beneficiary website;
- v. deliver services efficiently and effectively.

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 in Northern Ireland, acting collectively under Statutory Instrument 2014 No. 3260: The Common Agricultural Policy (Competent Authority and Co-ordinating Body) Regulations 2014 (ISBN 978-0-11-112523-6).

The above objectives cover both business outcomes and the capability (financial/people/efficiency) to deliver them, now and in the future, using the skills and experience of staff within UKCB to maximum effect.

UKCB's key performance indicators (KPI), which help to assess the achievement of its objectives, were to:

- i. submit accurate monthly/annual accounting returns in support of CAP reimbursement claims within EU regulatory deadlines;
- ii. co-ordinate Commission and ECA audits within agreed deadlines, working with paying agencies to provide the information requested by the Commission, and thereby mitigate the risk of disallowance;
- iii. co-ordinate regulatory statistical returns, submitting these to the Commission within agreed deadlines, and analyze costs of controls;
- iv. represent the UK at the Agricultural Funds Committee, facilitate the harmonized implementation of CAP regulations in the UK, co-ordinate actions to resolve deficiencies of a common nature and liaise with other Member States; thereby supporting UK paying agencies to meet regulatory requirements and minimize 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;
- 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. publish CAP beneficiary data online in accordance with the requirements of the Commission's transparency regulation;
- viii. manage financial resources effectively and demonstrate year-on-year efficiency gains in the delivery of UKCB's services, including the delivery of the annual certification audit by the Certifying Body;
- ix. ensure that all of UKCB's staff have work objectives linked to the unit's objectives and are performing against their objectives to a high standard.

Table 1 maps these key performance indicators against UKCB's five objectives during the year under report:

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

Funding for UKCB's operations were provided by the Department for Environment, Food and Rural Affairs (Defra). The budget for the 2014/15 financial year (year ended 31 March 2015) was £1,977k, comprising £527k for running costs, £175k for IT contracts and £1,275k for work undertaken by the National Audit Office and its consortium partners in respect of the EU certification audit. Outturn for the year against the budget was £1,941k, a positive variance of £36k. In addition, costs of £1,228k were incurred in respect of re-verification work for FY 2015 under the new certification audit regime, which now covers a two-year cycle and includes the audit of legality and regularity. These costs were covered by Defra as an agreed budget pressure arising from CAP reform..

£	2014/15 Budget	2014/15 Actual	2014/15 Variance	2013/14 Actual
Running costs	527,000	527,000	0	528,000
IT Contracts	175,000	168,000	7,000	-21,000
Certifying Body Fees FY 2014 / FY 2013	1,275,000	1,246,000	29,000	1,253,000
Total expenditure	1,977,000	1,941,000	36,000	1,760,000
Certifying Body Fees FY 2015 (first half)	0	1,228,000	-1,228,000	N/A

UKCB remains co-located with RPA at its headquarters in Reading. RPA continues to be responsible for the provision of UKCB's corporate support services under an SLA. With the exception of the Director, who is a core-Defra Senior Civil Servant, UKCB staff are RPA employees in terms of their contracts of employment, pay and conditions of service, including retirement and redundancy policies.

Arrangements for the provision of legal services by Defra legal advisers, a division of the Treasury Solicitor's Department, also remain unchanged.

Staff in post at 31 March 2014 comprised 10.2 full-time equivalents:

1 Director (SCS), 1 Deputy Director (Grade 6), 1 Grade 7, 2 SEOs, 3 HEOs, 0.6 EOs and 1.6 AOs.

Staff at all levels are involved in all aspects of UKCB's activities. Monthly team meetings are attended by all staff. Procedures and desk instructions continue to be reviewed on a six-monthly basis.

In line with the system introduced by RPA, all annual appraisals of staff were based on a new Performance Management Framework. All staff completed Personal Development Plans, which form an integral component of the new Performance Management Record, and were subject to both in-year and year-end appraisals with line managers.

Section 5 - Corporate Governance and Risk Management

UKCB 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.

UKCB's direct costs are funded by Defra and there is recognition that these are substantially influenced by the requirements of the certification audit. UKCB's budget is set with due regard to the Certifying Body's audit work and UKCB's limited staff resources, although efficiency savings are sought where possible.

UKCB'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, UKCB's risk register includes certain key risks owned by paying agencies. UKCB identifies and manages risks and reports accordingly to the Board and to the Defra Accounting Officer via an annual Governance Statement.

UKCB maintains a risk register covering its own business and measures jointly owned with the four UK paying agencies. The risk register and management of internal controls are considered at the body's regular management meetings. All high-level risks identified continue to be directly linked to its objectives. Details of changes to the Risk Register are notified to the Board.

The Board also fulfils the role of UKCB Audit Committee. RPA's Internal Audit Unit (IAU) acts as UKCB's internal auditor and, if required, can seek access to the Board's Chairman. UKCB forms an element of the IAU's five-year audit plan and provides the Director and the Board with assurance as to the adequacy and effectiveness of its risk management, control and governance processes.

Risk assessment and management is integrated with UKCB's normal business, such as the management of EU audits and paying agency accreditation. Through its Annual Report, UKCB reports details of its activities and performance against agreed targets to Ministers and the Board. These are agreed in advance by the Board via an annual Business Plan.

In accordance with the 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 Board and Ministers for corporate governance through routine and annual reporting;
- Consideration jointly of risks to UKCB and paying agencies by assessing risk probability and impact;
- Delivery to the Defra Accounting Officer (and the 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

The Business Plan for 2014/15 set a number of targets in respect of UKCB's key performance indicators. The table below records performance against each target.

Target	Outcome
i) Submit expenditure reports and reimbursement claims to the Commission for Pillars 1 and 2 within regulatory deadlines.	Target met. All expenditure reports and reimbursement claims were sent within Commission deadlines.
ii) Provide formal responses to EU audit letters and minimize the level of financial corrections arising from Commission audit enquiries.	Target met. All formal audit responses were sent within prescribed timescales.
iii) Submit regulatory statistical returns within the relevant deadlines and analyze data supplied by paying agencies on costs of controls	Target met. All the statistical returns were submitted by the deadline of 15 July 2014.
iv) Contribute effectively to the Agricultural Funds Committee, arrange regular meetings of UK harmonization groups (with a particular focus on the compliance implications of CAP reform) and liaise with paying agencies and co-ordinating bodies in other Member States to exchange best practice and identify issues that need to be raised with the Commission.	Target met. UKCB made significant contributions in AFC debates regarding horizontal regulations and Commission Guidelines. UKCB has an ongoing engagement with UK paying agencies via PADF and PACB and with other Member States via the Learning Network and Conference of Paying Agency Directors.
v) Submit certified accounts and Matrix data for financial year (FY) 2014 for all UK paying agencies to the Commission by the regulatory deadline in February 2015, or such alternative deadlines as may be agreed with the Commission, and agree the audit strategy to be adopted for the new certification regime in FY 2015.	Target met. All FY 2014 paying agency certified accounts were submitted to the Commission before the deadline of 15 February 2015. The certification audit strategy for FY 2015 was agreed with NAO.
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 2013.	Target met. Submission sent to Competent Authority within deadline following clearance of FY 2013 accounts.
vii) Publish aggregated CAP Beneficiary data for FY 2013 by the regulatory deadline of 30 April 2014 and initiate a tender exercise for the contract by 31 March 2015.	Target met. FY 2013 data published by deadline of 30 April 2014. Tender exercise via G Cloud initiated with Defra Procurement by 31 March 2015.
viii) Negotiate a fee with the Certifying Body for the delivery of the FY 2014 and FY 2015 certification audits and obtain agreement from Defra on funding.	Target met. FY 2014 certification audit delivered within budget. FY 2015 audit fee agreed with NAO and funding agreed with Defra and devolved administrations.
ix) Ensure that all staff have work objectives and receive in-year appraisal in accordance with the performance management system.	Target met. All staff had agreed work objectives and in-year appraisal meetings under the performance management system.

Section 7 - Harmonisation and Competent Authority Activity

Harmonisation Activity

Paying Agency Director's Forum (PADF)

Details of PADF, including its objectives, can be found in Appendix III. Membership of PADF comprises the heads of each of the UK paying agencies or their nominated deputies, the Director of UKCB and one or more senior UK 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.

During the period under report, PADF had three formal meetings. These were held on 2 May 2014 at Brunel House, Cardiff; 11 June 2014 in Brussels and 10 March 2015 in Saughton House, Edinburgh. An additional meeting with the Commission was held at Stormont, Belfast on 6 October 2014 to discuss questions of interpretation arising from the CAP reform regulations and guidelines.

Tackling the challenges and inherent complexities of the CAP reform proposals has been the key focus of PADF throughout the year in question. The main issues covered during the year included:

- CAP reform implementation – including system developments and compliance with the IT Security Standards
- IACS/LPIS issues;
- customer registration;
- the mandatory audit of legality and regularity;
- CAP simplification;
- certification audit; and
- costs of control.

Paying Agency Co-ordination Board (PACB)

Details of PACB, including its purpose and objectives, can be found in Appendix III. During the period under report, PACB focused on operational issues arising from the implementation of CAP reform. For much of the year, PACB met fortnightly to discuss the main areas of concern, which included:

- greening;
- active farmers;
- the negative list;
- young farmers;
- minimum claim size;
- ecological focus areas;
- cross border applications;
- dual use of land; and
- crop diversification.

Accounts and Finance Working Group (AFWG)

The objectives of AFWG can be found in Appendix III. During 2014/15 the group met twice, on 15 April and 7 October 2014. Representatives from all paying agencies, as well as the Forestry Commission and Defra attended. The main discussion topics included:

- requirements for the certification audit;
- issues identified during the 2013 accounts clearance process;
- impact of the new Delegated and Implementing Regulations, including changes to monthly financial reporting;
- changes to irregularity reporting, including accounting for write-offs;
- application of Financial Discipline (FD) and FD reimbursement for scheme year 2014;
- EAFRD closure process for the 2007-2013 programme; and
- Funding body issues, including cash-flow

Information Technology Working Group (ITWG)

The purpose of ITWG can be found in Appendix III. In line with previous years, ITWG issues were handled by correspondence during the period under report. The following main issues were addressed:

- Panta Rhei¹ - updates on the meeting including the UK tour-de-table contribution; and
- IT Security - feedback on the Certification of Accounts audit findings and implementation of IT recommendations.

Conferences of Directors of EU Paying Agencies

Each Presidency hosts a Conference of Directors of EU Paying Agencies during its six-month period of office, where senior officials from all Members States and the main EU institutions meet to discuss key issues through plenary sessions and targeted workshops. UKCB is represented at all such conferences. During the period under report, the two conferences held were in Komotini, Greece (9 – 11 April 2014) and Rome, Italy (10 – 12 November 2014). The main themes for consideration were:

- implementation of CAP Reform 2014 – 2020;
- reduction of error rates;
- IACS - administrative and on-the spot checks;
- verifiability and controllability of RD Programmes;
- greening / EFA Implementation; and
- certification of accounts under the new audit regime.

¹ 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.

Learning Network

The Learning Network of EU Paying Agencies and Co-ordinating Bodies (Learning Network) was formed in 2009 with representatives from 9 Member States. It now has participants from all Member States and is currently chaired by the UKCB Director. Its main goals are to:

- be a network for Directors of EU paying agencies and co-ordinating bodies;
- initiate cooperation between paying agencies, co-ordinating bodies and EU institutions;
- respond to developments in the CAP, especially in relation to simplification and the reduction of implementation, control and administrative burdens;
- develop suggestions for improvements in the regulations and guidelines; and
- be a platform for sharing

The Learning Network continues to operate at several levels. A number of plenary sessions are held each year in Brussels. Over the last year meetings have been hosted by the Irish (May 2015), Greek (October 2014), Maltese (January 2015) and Danish (April 2015) Permanent Representations. The Commission (DG AGRI D3) attended some of these sessions. In addition, regular meetings were held between the Learning Network Steering Group and DG AGRI officials to discuss particular subjects. During the year under report, key areas of work included:

- CAP reform regulations and guidelines, especially greening and LPIS;
- CAP simplification;
- costs of control;
- audits and action plans;
- financial corrections and key and ancillary controls; and
- arrangements for the Conferences of Paying Agency Directors

Panta Rhei

Two meetings of Panta Rhei were held during the period under report. These took place in Prague, Czech Republic (May 2014) and Corsica, France (October 2014). UKCB participated along with representatives from the four UK paying agencies.

The main issues discussed were:

- implementation of CAP reform;
- electronic applications;
- IT security certification; and
- geospatial application requirements.

Agricultural Funds Committee (AFC) and Experts Meetings

UKCB continued to lead UK representation at the Agricultural Funds Committee (AFC), which meets monthly in Brussels. 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 24 hour report was produced by UKCB after each meeting and was circulated within 2 working days in all cases.

The main focus of AFC during the initial part of year under report concerned final negotiations on the draft Implementing Regulation supplementing the Horizontal Regulation (1306/2013). The key issues covered during discussions included:

- revised requirements for the publication of CAP Beneficiary data;
- new debt reporting requirements;
- criteria required for reducing the levels of on-the-spot controls; and
- revised conformity clearance and certification of accounts procedures.

The final text was formally adopted at the July meeting and the relevant Regulation (908/2014) was issued in August along with the associated Delegated Regulation (907/2014), negotiations on which were concluded in March 2014. Following adoption, the focus of AFC during the latter part of the year turned to the associated Guidelines underpinning the formal legislation. Particular attention was placed on the revised Guidelines for Financial Corrections and the updated definitions of the Key and Ancillary controls for all CAP schemes. The former included some significant provisions, including:

- an increase in proposed flat rates where three or more control weaknesses are identified;
- the introduction of a new flat-rate of 7%;
- the introduction of a 1% correction (as opposed to 2%) for a minor control deficiency under cross-compliance.

The Key and Ancillary Control guidelines provide insight into the areas where Commission audits will be focused. However, when linked to the new financial correction regime, all Member States expressed concerns. These were based on the fact that, given the number of separate key controls identified and the prospect of aggregation of financial corrections for deficiencies in three or more of these controls, the potential for increased financial corrections is considered a genuine risk. The Commission did not accede to requests from Member States, including the UK, to limit the number of over-arching key controls to no more than four, each with several control components. However, in view of these concerns, the Commission agreed to review these guidelines after a year of operation.

For standard AFC business, UKCB continued to represent UK paying agencies. Key topics discussed during the year included:

- Financial Discipline procedures (including re-imbusement);
- CAP transparency;
- RD Programme closure procedures;
- controls statistics, costs of control and quality of matrix data;
- late payment proposals;
- the impact of the Russian import ban;
- IT Security;
- OLAF issues; and
- Commission Ad Hoc Clearance Decisions;

Bilateral Meetings

- Cross Compliance (SGRPID)
- LPIS and Area Aids (RPA)
- Matrix (RPA)
- Clearance of Accounts (SGRPID)
- Rural Development (Axis 2) (RPA)
- Rural Development (Axis 4) (RPA)

Conciliation Body hearings

- Area Aids and Entitlements (RPA)
- Rural Development (RPA)

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

Publication of CAP beneficiary data.

UKCB has managed the UK's website for the publication of CAP beneficiary data since the regulation covering transparency was introduced in 2008. The 2013 financial year data was successfully published by the regulatory deadline of 30 April 2014.

Horizontal Regulation (EC) No. 1306/2013 and the associated Implementing Regulation have amended the rules for publication with effect from the 2014 financial year data. The requirement to exclude data for natural persons, introduced following a ruling by the European Court of Justice, has now been removed. The new criteria for publication are:

- payments to be published for all beneficiaries, both natural and legal;
- a breakdown of amounts paid, split by scheme or measure;
- a de minimis of €1,250 under which threshold payments will be published, but with the names of beneficiaries anonymised and replaced by a code reference.

Development of the new system by the current sub-contractor began in December 2014. UKCB produced an initial 'requirements' document and held weekly project calls with the developer. UKCB also obtained data from paying agencies, coordinated user acceptance testing of the new system and provided regular progress updates. The revised website, containing payments data for the 2014 financial year went live shortly before 31 May 2015, the new regulatory deadline for publication.

Discussions are also underway with Defra procurement over the re-tender of the contract, which expires at the end of September 2015, to host the CAP beneficiary website and process annual data.

Control Statistics

Article 84 of Commission Regulation (EC) No 1122/2009 and Article 31 of Commission Regulation (EC) No 65/2011 (now Article 9 of Regulation 809/2014) require Member States to provide control statistics on an annual basis. Responsibility for the collation and submission of such data continues to rest with UKCB. These returns are considered of the utmost importance by the Commission, as they indicate the underlying error rates in claims submitted by farmers. It is therefore essential that the data contained in the returns is quality assured and submitted on a timely basis.

The Pillar I returns cover SPS eligibility and cross compliance and cover information on the number of claims made, areas/amounts covered by claims and associated control measures and sanctions imposed. The Pillar II returns cover schemes under all four axes. The returns for the 2013 claim year were collated and sent to the Commission, on time, in July 2014.

Other issues

During the year under report, UKCB contributed to the work of a number of other groups including:

- the Defra CAP reform implementation programme and project boards;
- the Defra Disallowance Working Group;
- paying agency accreditation groups;
- the Commission Simplification Experts' Group
- a Commission seminar on the root causes for errors in the implementation of rural development programmes.

Competent Authority Activity

Certification of Accounts

i) Financial Year 2014

Under new Commission legislation, the outcomes of certification audits are required to be reported to Brussels by no later than 15 February each year as the basis for a Commission Decision on the clearance of the accounts for both Agricultural Funds (EAGF and EAFRD). This year, the FY 2014 accounts documentation in respect of all UK paying agencies was submitted to Brussels on 30 January 2015. All accounts had unqualified opinions. Whilst the Commission raised a few subsequent queries, these were all resolved swiftly and satisfactorily, allowing for formal clearance in May 2015.

In line with the revised Guideline No. 4, Heads of paying agencies also have to provide a Management Declaration (MD) to confirm that the accounts presented each year are true, complete and accurate and that systems are in place to provide appropriate assurance. As with previous years, all MDs were made without reservation or qualification. However, three Heads of paying agencies made use of the 'additional remarks' section within the MD designed for any issues not considered appropriate for a reservation, but which needed to be brought to the attention of the Commission. These covered the following issues, all of which were subject to ongoing improvement:

- RPA: Debt management; Quality of Control Statistics; Action Plans;
- SGRPID: EAFRD Error Rates
- DARD: SPS Area Aid disallowance

ii) Financial Year 2015

The introduction of the audit of legality and regularity has created a two-year audit process, with re-verification of on-the-spot checks undertaken in year 1 and the more standard financial and controls testing undertaken in year 2. Work supporting the FY 2015 certification audit started in the summer of 2014, with the initial focus on the re-verification of land-based schemes.

Certifying Body

For FY 2014, the UK Certifying Body conducted transaction testing in line with the then extant Commission Guideline No. 3. The total cost of the audit was £1,246k. This represents a reduction of 0.6% from the cost of the 2013 audit. However, under the mandatory requirements of the new audit of legality and regularity, the forecast costs for the 2015 audit over two budget years is £2,456k. This is due to the significant, and unavoidable, additional costs associated with on-the-spot re-verification work.

UKCB has an SLA in place with NAO as UK Certifying Body. Management of the SLA was handled in-year by meetings and correspondence. For 2014/15 the SLA continued to be underpinned by targets to be met as a condition of performance-related payments. These targets were unchanged from previous years, with the timely submission of Interim Management Letters and Draft Reports the main priority. All targets were met and all performance-related payments were made in full.

United Kingdom Accreditation Compliance Committee (UKACC)

Background to UKACC including its objectives can be found in Appendix III. One meeting of UKACC was held during the period under review, on 30th April 2014. The main issues discussed included:

- Certification of Accounts (2013 and 2014 exercises);
- monitoring of corrective actions;
- submission to the Competent Authority (including a formal assessment against accreditation criteria);
- Statements of Assurance;
- audit of Legality and Regularity; and
- new Commission legislation

APPENDIX I

Management Board Membership 2014/15

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

The Management Board met on 23 June 2014, 28 October 2014 (by conference call), 28 November 2014 and 18 February 2015 (by conference call).

APPENDIX II

Director's governance statement 2014/15

Corporate governance framework

UKCB 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 EU Regulation 1306/2013, SI 2014 No 3260 and its written Constitution and Procedures, as lodged with the Commission. In addition, it has recently taken on the role of UK Certifying Authority for the European Fisheries Fund/European Maritime & Fisheries Fund. It is subject to oversight by a Management Board, comprising the Director and a representative of each of the Ministers.

UKCB is co-located with the Rural Payments Agency (RPA) in Reading to facilitate close working relationships and shared use of resources. A Service Level Agreement (SLA) sets out the basis on which RPA provides common services to UKCB. A separate SLA is in place with Legal on the provision of legal advice.

Funding of UKCB's administration costs is provided by Defra (direct costs, including the cost of the annual Certification Audit – but see further below) and RPA (common support 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 Body's budget holder and receives a delegated budget from Defra.

The Director has responsibility for maintaining a system of internal control that supports the achievement of UKCB's objectives and targets and safeguards public funds and assets for which he has responsibility. Objectives and annual targets are approved by the Management Board and published in an annual Business Plan. Results are published in an Annual Report to Ministers.

The Board meets at least twice a year to review plans, performance and corporate governance. UKCB management monitors performance against targets and budgets on a regular basis. The monthly UKCB team meeting reviews performance against targets and budgets and discusses current and emerging risks.

System of internal control and risk management

The system of internal control is designed to identify and prioritize risks to the achievement of UKCB objectives and targets, to evaluate the likelihood of those risks materializing, and the impact should they be realized, 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 in question and accords with Treasury guidance.

UKCB 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 Body's exposure to risk in achieving its objectives and targets.

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 minimized 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 by the Risk Management Review Team and is against probability and impact.
- **Risk management:** Appropriate counter measures are implemented and monitored by named managers for each risk and sub-risk.
- **Contingency planning:** A contingency plan has been developed to ensure that disruption to services is minimized in the event of unforeseen circumstances.

Within UKCB, the Grade 7 holds responsibility for ensuring that the risk register is updated on a regular basis. This is done through regular risk review meetings with risk owners. The wider UKCB team is involved in the risk process through monthly UKCB team meetings. A second risk register, covering EFF and EMFF, is currently being drafted and will follow the same governance process.

As Director, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the scrutiny of UKCB and by the work of UKCB managers and RPA internal audit. If a risk may impact on UK paying agencies, UKCB liaises with them in the identification, assessment and management of the risk.

Significant risks and mitigating actions

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

- the interpretation of IACS and scheme regulations is unclear;
- failure by paying agencies to implement scheme/control requirements;
- inaccurate financial management;
- delays in supplying accounts / certification audit reports;
- Certifying Body recommendations not implemented;
- paying agencies fail to supply information requested by EU auditors;
- delays in supplying statistical returns and irregularity reports;
- complexity in CAP administration;
- failure to carry out mandatory audit of legality and regularity in accordance with Commission guidelines;
- crisis management measures invoked at short notice;
- paying agencies fail to comply with the LPIS quality assurance framework;
- Rural Development schemes not verifiable and controllable;
- insufficient budget allocation to meet UKCB objectives/targets (e.g. lack of funds for the certification audit);

- failure by the Commission to reimburse expenditure within regulatory deadlines;
- failure to publish CAP beneficiary data within deadline;
- deterioration in working relations between UK and EU; and
- new Finance System's ability to meet EU financial reporting requirements

Weaknesses in the implementation of CAP regulations by UK paying agencies, creates a risk to UKCB's objective to promote an effective financial control environment which protects EU Funds and thereby reduces the risk of disallowance. UKCB works with paying agencies during Commission audit missions and subsequent stages (correspondence, bilateral meeting, conciliation etc.) as well as through regular meetings and conference calls. The Paying Agency Directors Forum (PADF), Paying Agency Co-ordination Board (PACB) and Accounts & Finance Working Group (AFWG), promote regulatory compliance. UKCB provides input to administrations' disallowance mitigation strategies and committees, and continues to lobby the Commission for a proportionate approach to the calculation of disallowance.

There is a risk that the level of disallowance will increase, both because of the complexity of CAP reform (see further below) and because of changes to the rules. UKCB has sought to influence the text of the Commission's draft guidelines on the calculation of financial corrections, key and ancillary controls, accreditation, annual management declaration and certification audit.

DG AGRI made 62 reservations across the EU in their 2013 Annual Activity Report. In the UK, both RPA and SGRPID were subject to reservations and were requested to draft Action Plans detailing steps they will be taking to improve current control failures as perceived by the Commission. UKCB has been directly involved with the implementation of these Action Plans, working closely with business leads in order to complete updates to the Commission and carry out required analysis. Failure to implement the Action Plans adequately could lead to the suspension of reimbursements from the Commission.

The implementation of CAP reform, particularly new features such as greening, the active farmer test, capping and the young farmers' scheme, not only poses delivery challenges but also increases the risk of disallowance. This has been managed through co-operation between UKCB, the paying agencies and Defra Policy. The Learning Network of EU Paying Agencies and Co-ordinating Bodies, which I currently Chair, has taken a lead in clarifying the interpretation of the regulations and guidelines and in arguing for simplification of CAP rules.

The Commission's LPIS Quality Assurance Framework was completed by UK paying agencies for the fifth time in respect of 2015. Member States are required to undertake an annual comparison of 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 quality criteria.

The annual certification audit has been extended to cover legality and regularity on a mandatory basis from financial year 2015 (claim year 2014). Although UKCB has been successful in lobbying the Commission to reduce the amount of audit work required, there has been a substantial increase in the workload and costs of the Certifying Body. UKCB has been subject to a 10% budget cut for 2015/16, which exacerbates this problem further. Agreement was reached under which Defra continued to fund the certification audit work for Exchequer Year 2014/15. For 2015/2016, the additional cost (i.e. above the 2014 baseline) will be shared equally by Defra and the respective devolved administrations. However negotiations between Defra, devolved administrations and UKCB are ongoing for future years. Although the certification audit work is proceeding satisfactorily, there is a reputational risk that the Commission or ECA may not fully accept the Certifying Body's methodology and/or conclusions. The outcome of a Commission Audit in May 2015 should offer assurance that the work undertaken is satisfactorily.

The risk that control weaknesses might threaten a paying agency's accreditation status has historically been given a low likelihood rating. However, a number of factors may increase the severity of this risk, including Commission accreditation audits, more onerous accreditation criteria (particularly as regards IT certification) following CAP reform and domestic budget pressures. This risk will be managed through UKACC and ongoing monitoring of paying agencies' corrective actions.

Appropriate controls have been applied over data receipt, processing and transmission. The introduction of procedures for data handling, whereby all sensitive data that cannot be sent via the GSI network is sent by secure iron keys has been embedded in UKCB's procedures.

Significant internal control problems

There were no material internal control weaknesses.

Michael Cooper
Director - UK Co-ordinating Body
May 2015

APPENDIX III

Details of Key UK Co-ordinating Body Groups

Paying Agency Director's Forum (PADF)

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 Co-ordination Board (PACB). The purpose of PADF is to ensure a consistent strategic approach in implementing the Common Agricultural Policy across the UK, both regarding horizontal regulations and the regulations specific to individual schemes. This approach is subject to variation arising from the application of regional options permitted under EU legislation.

PADF promotes an effective financial control environment that meets the requirements placed on accredited paying agencies and ensures the legality and regularity of expenditure, thereby maintaining accreditation status, protecting EU funds and minimising the risk of financial corrections. In addition it tries to identify changes that will make the Common Agricultural Policy simpler and cheaper to administer and less burdensome for claimants and acts as a forum for discussion between policy and delivery colleagues on simplification principles and implementation issues.

To achieve its objectives PADF:

- promotes the harmonised application of EU regulations and guidelines by UK paying agencies and their delegated agents;
- identifies and monitors risks for UK paying agencies relating to accreditation, scheme compliance and disallowance and agrees appropriate mitigating actions;
- provides a forum to enable paying agencies to discuss the practical implications of CAP reform and other policy developments for delivery bodies, both regarding implementation and ongoing administration, and to discuss these matters with UK policy-makers;
- identifies opportunities for the simplification of CAP regulations;
- prepares for meetings of the EU Conference of paying agency Directors and the Learning Network;
- promotes common standards for controls and databases; and
- exchanges information and best practice between paying agencies

Paying Agency Co-ordination Board (PACB)

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

To meet these objectives PACB is mandated to:

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

Accounts and Finance Working Group (AFWG)

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.

Information Technology Working Group (ITWG)

The purpose of ITWG is to:

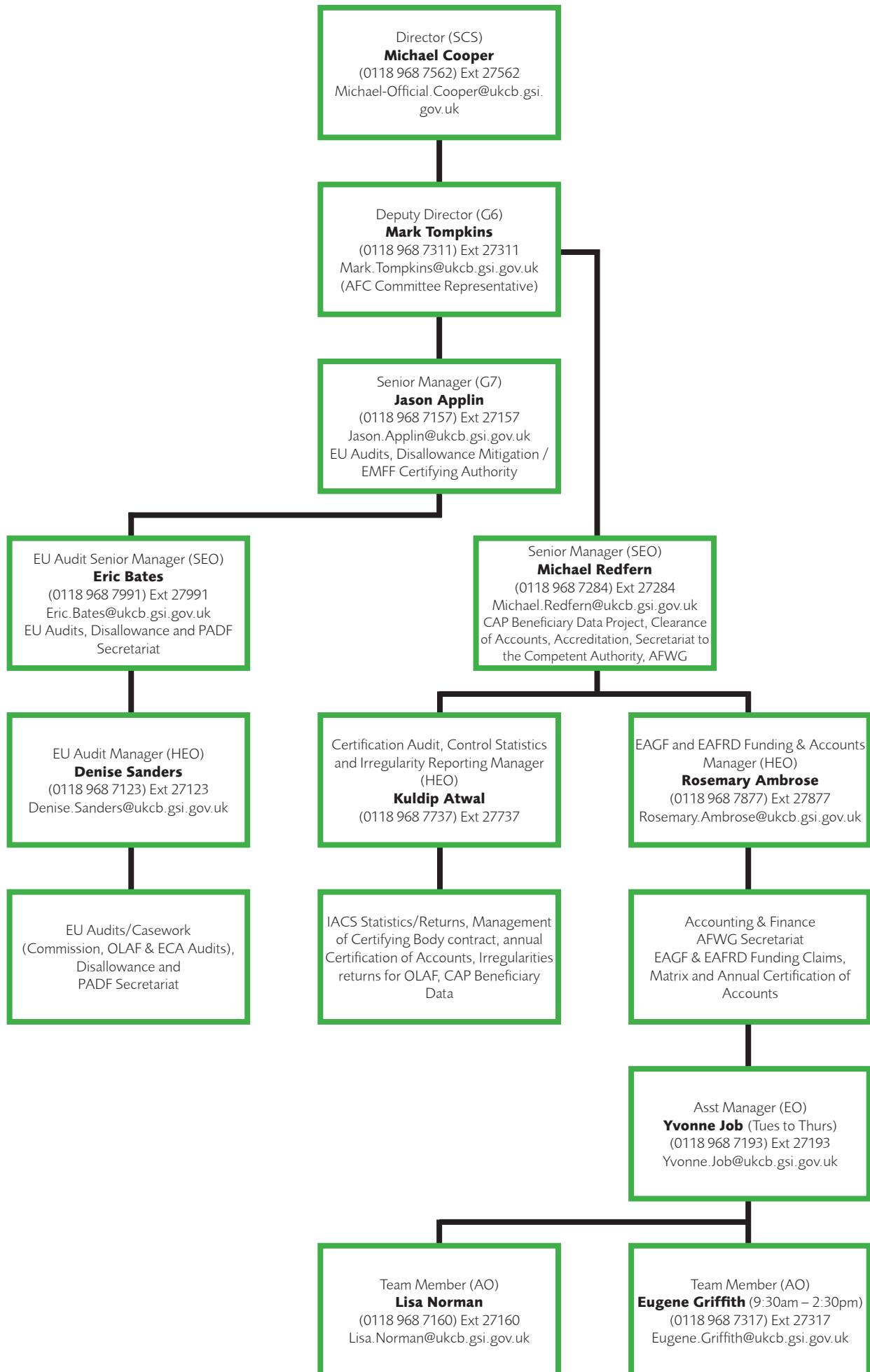
- encourage the efficient and effective exchange and dissemination of information concerning the development and implementation of E-Commerce and IT Security initiatives within accredited UK paying agencies;
- promote the development of practical, sensible and cost-effective solutions that deliver paying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

United Kingdom Accreditation Compliance Committee (UKACC)

UKACC was established in 2008 to consider matters concerning UKCB'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 UKCB guidelines;
- review the horizontal implications of recommendations made by the Certifying Body where they may impact on the work of other UK paying agencies;
- consider matters relating to the granting, review, downgrading and withdrawal of paying agency accreditation;
- discuss issues arising from the work of the Certifying Body; and
- consider ways of improving the delivery of paying agency data to the Certifying Body.

APPENDIX IV



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