



**UK Co-ordinating Body**

**Annual Report  
1 April 2016 – 31 March 2017**

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# 1 Executive Summary

1.1 UKCB has delivered high levels of performance during the year, meeting the targets set by the 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 following the introduction of new schemes in 2015 following CAP reform. 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.

1.2 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 audit and clearance of the accounts for financial years 2015, 2016 and 2017, 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 2018 (claim year 2017) onwards. UKCB has been successful in deferring the mandatory implementation of this regime until financial year 2019 and has made representations on the content of the Commission's guidelines.

1.3 As set out in section 6, 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. Implementing CAP reform created a number of challenges and delays in making some payments. UKCB worked closely with paying agencies on overcoming these issues, with particular attention on improving regulatory compliance and thereby mitigating the risk of disallowance.

1.4 There continues to be a very high level of audit activity by the Commission and the European Court of Auditors (ECA), involving extensive interaction with these bodies and the Conciliation Body to manage the significant risk of disallowance as far as possible. 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 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.

1.5 Although the UKCB continues to focus on fulfilling existing EU regulatory requirements, the outcome of the June 2016 referendum on UK membership – leading to the triggering of Article 50 of the Treaty on European Union in March 2017 – has required the initiation of work to prepare for the UK's withdrawal from the EU, including a smooth transition to domestic arrangements.

1.6 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, UK Co-ordinating Body**

**July 2017**

## 2. Constitution, Objectives and Performance Indicators

2.1 In 2016/17, UKCB's objectives were to:

- i) carry out the functions of the CAP Co-ordinating Body, 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 and suspension of reimbursements;
- iv) set up and maintain the single CAP beneficiary website;
- v) carry out the functions of the EFF/EMFF Certifying Authority;
- vi) deliver services efficiently and effectively.

2.2 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.

2.3 UKCB's key performance indicators (KPI), which help to assess whether 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 EU and ECA audits of the CAP 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;
- iv) represent the UK at the Agricultural Funds Committee, facilitate the harmonized implementation of CAP regulations in the UK (recognizing that devolved administrations have discretion in this area), 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 CAP 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) contribute to the successful closure of the EFF and effective administration of the EMFF;
- ix) manage financial resources effectively, including the delivery of the annual certification audit by the Certifying Body;

x) ensure that all of the Co-ordinating Body's staff have work objectives linked to the unit's objectives and are performing against their objectives to a high standard.

2.4 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)	xi)	x)
Objective 1	✓	✓	✓	✓						
Objective 2					✓	✓				
Objective 3		✓	✓	✓		✓		✓		
Objective 4							✓			
Objective 5								✓		
Objective 6									✓	✓

### 3. Resources and Staffing

3.1 Funding for UKCB's operations were provided by the Department for Environment, Food and Rural Affairs (Defra). The budget for the financial year ended 31 March 2017 was £3.3m, comprising £0.7m for running costs, £0.1m for IT contracts and £2.5m (£3.1m less a contribution of £0.6m from the devolved administrations) for work in respect of the EU certification audit. Outturn for the year was £3.3m, matching the budget.

3.2 Other than EMFF staff who are based in London, UKCB remains co-located with RPA at its headquarters in Reading. RPA continued to be responsible for the provision of UKCB's corporate support services under an SLA. With the exception of the Director and the SEO and HEO for the EMFF Certifying Authority, who are all core-Defra civil servants, UKCB staff are RPA employees in terms of their contracts of employment, pay and conditions of service, including retirement and redundancy policies.

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

3.4 During the year under report, one SEO from UKCB transferred to core-Defra. In the light of the UK's exit from the EU this post will remain vacant. Staff in post at 31 March 2017 therefore comprised 11.2 full-time equivalents: 1 Director (SCS), 1 Deputy Director (Grade 6), 1 Grade 7, 2 SEOs, 4 HEOs, 0.6 EOs and 1.6 AOs.

3.5 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.

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

## **4. Corporate Governance and Risk Management**

4.1 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;
- UKCB identifies and manages risks and reports accordingly to the Board and to the Defra Accounting Officer;
- Maintenance of routine and regular review and assessment of risk by the Director and management team;
- Internal audit by RPA IAU (from April 2017 the Government Internal Audit Agency); and
- Maintenance of procedures for monitoring and managing performance against targets and for managing risks at all levels to support the Governance Statement.

## 5. Performance against Business Plan Targets

5.1 The Business Plan for 2016/17 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	<p>Statistical returns were submitted to the European Commission deadline of 15 July 2016 with the exception of the following:</p> <p>Direct Aid (SPS) return for England sent on 26 September 2017; for Scotland sent on 13 January 2017.</p> <p>Cross-compliance return for Wales sent on 14 October 2016; England sent on 8 August 2016; Northern Ireland sent on 19 July 2016.</p> <p>Rural Development return for Wales sent on 1 August 2016.</p>
iv) Contribute effectively to the Agricultural Funds Committee, arrange regular meetings of UK harmonization groups to exchange best practice and identify issues that need to be raised with the Commission.	Target met. UKCB made significant contributions in AFC debates, in particular regarding the proposed new Certification Guidelines which were to come into effect for FY 2018. The Commission subsequently agreed to defer introduction pending further review. 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) 2016 for all UK paying agencies to the Commission by the regulatory	Target met. Accounts documentation in respect of WG and DAERA were submitted to Brussels on 8-9 February 2017. A derogation

deadline in February 2017, or such alternative deadlines as may be agreed with the Commission	was agreed by the Commission for RPA and SG permitting an extension until 1 March 2017. All RPA documents, and SG accounts were submitted on 1 March. The SG certification report followed on 2 March.
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 2015, or such alternative deadlines as may be agreed with ministers' offices.	Target met. Submission sent to Competent Authority within deadline following clearance of FY 2015 accounts.
vii) Publish aggregated CAP Beneficiary data for FY 2015 by the regulatory deadline of 31 May 2016.	Target met. FY 2015 data added to the website on 19 May 2016.
viii) Certify fisheries funds expended by the four UK intermediate (delivery) bodies and submit reimbursement claims to the Commission on a timely basis.	Target met.
ix) Negotiate a fee with the Certifying Body for the delivery of the FY 2017 certification audit.	Target met. Gross fee of £3.0m agreed for FY 2017, which is within budget.
x) 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.

## **6. Harmonisation and Competent Authority Activity**

### **6.1 Harmonisation Activity**

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

6.1.1 Details of PADF, including its objectives, can be found in Appendix II. Membership of PADF comprises the heads of each of the UK paying agencies, 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.

6.1.2 During the period under report, PADF had three meetings. These were held on 27 July 2016 at Northgate House, Reading, 27 October 2016 at Satellite Applications Catapult Ltd in Harwell and 7 March 2017 at the Department of Agriculture, Environment and Rural Affairs in Belfast.

6.1.3 Tackling the challenges and inherent complexities of delivering against procedures introduced through CAP reform has been the key focus of PADF throughout the year in question. The main issues covered during the year included:

- Direct aid payment issues (Paying Agencies)
- IACS/LPIS/ OTSC issues (Paying Agencies)
- Managing the risk of disallowance
- EU Audits
- Greening simplification measures

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

6.1.4 Details of PACB, including its purpose and objectives, can be found in Appendix II. During the period under report, PACB met formally on eight occasions. Outside these meetings it continued to operate as a communication

network addressing issues in real time. The board focused on operational issues arising from the delivery of core business, including:

- Cross compliance
- Audit information sharing
- Rural development
- Cross border applications;
- Duplicate claim identification
- Dual use of land; and
- Crop diversification.

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

6.1.5 The objectives of AFWG can be found in Appendix II. During 2016/17 the group met three times, on 26 April and 11 October 2016, and on 21 March 2017. The meetings were attended by representatives from all the paying agencies, as well as the Forestry Commission and core-Defra. UKCB prepares the agenda and leads discussion on most items. The main topics covered included:

- EAGF and EAFRD accounting requirements for the FY 2016 Certification audit;
- Issues identified during the FY2015 and FY2016 accounts clearance process;
- Proposed changes to Certification guidelines;
- Application of Commission irregularity debt reporting requirements;
- Application and reimbursement of Financial Discipline;
- EAFRD closure process for the 2007-2013 programme;
- EAFRD new programme accounting issues, including capping;
- Calculation and application of late payment penalties;
- Basic Payment Scheme budget coding and ceiling monitoring;
- OLAF fraud and irregularity reporting arrangements; and
- Funding Body issues, including hedging and reconciliation of balances.

## **Conferences of Directors of EU Paying Agencies**

6.1.6 Each Presidency hosts a Conference of Directors of EU Paying Agencies during its six-month period of office, where senior officials from all Member 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 Amsterdam, The Netherlands (25 – 27 May 2016) and Bratislava, Slovakia (12 – 14 October 2016). The main themes for consideration were:

- Improving the efficiency and reduction of On-the-Spot Controls;
- Reducing RD Error Rates;
- The Single Audit Concept;
- More proportionate controls
- Mutual assistance;
- Simplification – Cross Compliance; and
- Practical experiences of managing crisis measures

## **Learning Network**

6.1.7 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 was chaired by the UKCB Director until June 2016. 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 best practices and solutions.

6.1.8 A number of meetings have been held this year including three formal plenary sessions, two held in Brussels (4/10/16 and 25/1/17) and one in Sweden (4/7/16). The Commission attended the session in Sweden and were also involved in 3 Learning Network Steering Group meetings in Brussels on 13/4/16, 5/10/16 and 26/1/17. There was also a bespoke meeting in Brussels on 24/3/17 between the Learning Network and the Commission, co-chaired by the UKCB Director, to discuss the proposed revised Certification Guidelines. This had been a major issue of concern for the Learning Network during the year under report and further dialogue is planned during 2017/18.

6.1.9 Other key areas of work discussed included:

- CAP simplification (Omnibus Regulation; Greening; X/C);
- CAP implementation (BPS payments 2015/2016 and Active Farming);
- planning for CAP 2020
- costs of control;
- Commission Annual activity Report;
- Key Commission Audit Findings; and
- arrangements for the Conferences of paying agency Directors

### **Agricultural Funds Committee (AFC) and Experts Meetings**

6.1.10 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.

6.1.11 In 2016/17, AFC was consulted on three Commission ad hoc Clearance of Accounts decisions, all of which were subsequently adopted. These applied around €1.1 billion in financial corrections. From the UK perspective, these contained just over €26m (gross) of disallowance. The relevant breakdown by UK paying agency was as follows:

- RPA €24.7m (Cross compliance; Fruit and Veg)
- DAERA €0.2m (Rural Development)
- SG €1.3m (SPS; Cross compliance)

6.1.12 A new system for the application of financial corrections was introduced in 2015, augmented by revised Commission guidance setting out the various 'Key and Ancillary Controls' for each CAP scheme. This is designed to speed up the 'contradictory' process with the aim of concluding the outcome of any Commission audit within two years. Whilst the Commission has cleared all old files covered by the previous legislation, this new system has inevitably increased pressures on both paying agencies and the Commission. Nevertheless, following a review of the process, AFC members concluded that this was a positive initiative.

6.1.13 The main issue discussed at AFC during the year was the Commission's proposal to amend the Certification Guidelines for Financial Year 2018. These were also examined in detail at two Certification Experts Meetings held in June and November at which UKCB led UK representation. Under the proposals, the Certification Body's re-verification work of the on-the-spot checks initially conducted by the paying agency would increase significantly. Not only would this place even greater burden on CBs, paying agencies and beneficiaries but there was general scepticism that the proposals were workable. The UK position was:

- The Guideline would not accord with the requirements of Commission Regulations;

- There were significant gaps, without which it would not be possible to plan the proposed work and ensure suitable coverage;
- The proposal was not deliverable and unlikely to provide the desired level of assurance;
- It was too soon to deliver the new Guideline given the significant changes proposed and the lack of consultation time which would be required to ensure a quality result could be achieved (i.e. the correct level of assurance to deliver an opinion);
- The proposed timetable would not allow for the terms of reference and audit planning to be fully developed, particularly for contracted out audits;

6.1.14 The UK argued that implementation of the revised Guidelines should be deferred to allow for additional consultation. This position was supported unanimously by other Member States and, as a result, the Commission agreed that mandatory implementation of the proposed Guidelines should be deferred until FY 2019 to allow for further review.

6.1.15 Other key topics discussed during the year at AFC included:

- Financial Discipline procedures (including re-imburement);
- Financial Clearance of Accounts;
- Suspension of payments (not UK);
- Rural Development Programme closure and clearance;
- Analysis of controls statistics, control data and matrix requirements;
- Late payment proposals including the derogation granted for Direct Payments, allowing claims to be paid up to 15/10/16 without penalty;
- The continued impact of the Russian import ban;
- Conciliation Body membership;
- Budget forecasts; and
- ISO 27001 Certification;

## EU Audits

6.1.16 During the period under report there were 10 missions by the Commission and 4 by the ECA (including the annual statement of assurance), the latter involving 9 visits. UKCB also provided, or arranged for, secretariat support at all start-up and wash-up meetings and accompanied paying agency officials at an additional 8 Commission bilateral meetings and 4 Conciliation Body hearings during this period. The audits and bilateral meetings covered the following:

### Commission Audits:

- Area Aids (DAERA)
- Beef Scheme (DAERA)
- Area Aids (WG)
- Cross Compliance (RPA)
- Area Aids (RPA)
- ISAMM (Desk Check) (SG & RPA)
- Entitlements (RPA)
- IT Security (DAERA)
- Rural Development IACS Measures (SG)
- Certification (WG)

### ECA Audits

- Statement of Assurance 2016 (EAGF) – 3 visits (RPA)
- Statement of Assurance 2016 (EAFRD) – 3 visits (RPA/SG)
- Statement of Assurance 2016 (Fruit & Veg) – 2 visits (RPA)
- Introduction of BPS (RPA/SG)

### Bilateral Meetings

- Beef Scheme (SG)
- Cross Compliance (RPA)
- Area Aids (RPA)
- ISAMM (SG)
- Fruit & Veg (RPA)

- Rural Development (Axis 4) (SG)
- Rural Development (Axis 2) (SGRPID)
- Rural Development (Axis 1 & 3) (SGRPID)

### **Conciliation Body Hearings**

- Debtors (Clawback) (RPA)
- Fruit and Vegetables (x2) (RPA)
- Rural Development (Axis 2) (RPA)

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

### **Publication of CAP beneficiary data**

6.1.18 UKCB has managed the UK's website for the publication of CAP beneficiary data since transparency requirements were introduced in 2008.

6.1.19 Horizontal financing Regulation (EC) No. 1306/2013, and the associated Implementing Regulation No. 908/2014, amended the rules for publication with effect from the 2014 financial year data, removing the requirement to exclude data for natural persons that had been introduced following a ruling by the European Court of Justice. The current criteria for publication are:

- for 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 these beneficiaries anonymised.

6.1.20 The contract for the website hosting and annual data upload was re-tendered during 2015 under the government's G-cloud procurement process. The two-year contract expires in September 2017 and preparations are in hand to re-tender the contract again.

6.1.21 The FY 2015 payments data was added to the website in May 2016, and the website was refreshed to improve clarity and allow for use on tablet and mobile devices.

6.1.22 The project to upload the FY 2016 financial year data began in January 2017. UKCB has obtained data from paying agencies, co-ordinated user acceptance testing and provided liaison between the contractor and paying agencies to resolve queries. The FY 2016 data is on course to be added to the website by the end of May 2017.

### **Control Statistics**

6.1.23 Article 9 of Regulation 809/2014 requires 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.

6.1.24 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 all rural development measures. Statistical returns were submitted to the European Commission by the deadline of 15 July 2016 except as noted below:

- Direct Aid (SPS) return for England sent on 26 September 2016 and for Scotland on 13 January 2017.
- Cross-compliance return for Northern Ireland sent on 19 July 2016, for England on 8 August 2016 and for Wales on 14 October 2016.
- Rural development return for Wales sent on 1 August 2016.

## **Other issues**

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

- Defra Disallowance Steering and Working Groups;
- Defra disallowance forecasting group;
- Paying Agency accreditation groups;
- Commission seminar on the root causes for errors in the implementation of rural development programmes;
- Inter-Departmental Audit Group (IDAG)

6.1.26 The decision by the UK Government to leave the European Union, following the referendum in June 2016, has also had an impact on UKCB activities as noted above.

## **6.2 Competent Authority Activity**

### **Certification of Accounts.**

#### **i) Financial Year 2016**

6.2.1 Commission legislation requires the outcomes of certification audits 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 2016 accounts documentation in respect of WG and DAERA was submitted to Brussels on 8-9 February 2017. For RPA and SG, the implementation of BPS and introduction of new IT systems caused delays, and UKCB therefore sought and obtained a derogation which permitted a later delivery.

6.2.2 For RPA, the position was further impacted as the CB had to perform additional audit testing at the end of the process to ensure that ring-fencing work undertaken by the PA was satisfactory. UKCB also had to work closely with SG to ensure that the CB's final audit conclusions were proportionate.

All RPA documents, and SG accounts were subsequently submitted on 1 March.

6.2.3. This was the second year for which the Commission required the Certification Body to provide an opinion on the legality and regularity of the underlying transactions. This continued to have a substantial impact on both the scope and cost of the work required, as the main focus remained the re-verification of the on-the-spot-checks initially carried out by each paying agency. Nevertheless, all UK accounts had unqualified opinions, although there were two emphases of matter; the first on the RPA's EAFRD IACS expenditure, where certain expenditure controlled by Natural England was withdrawn from the accounts as claims had been paid before the full suite of controls had been finalized; the other on DAERA's EAGF debtor's population (although this was very much a technical requirement and the CB stressed that this issue was insignificant in terms of the value of the Fund).

6.2.4 In line with the revised Guidelines, Heads of Paying Agencies also provided a Management Declaration (MD) to confirm that the accounts presented were true, complete and accurate and that systems were in place to provide reasonable assurance on the legality and regularity of the underlying transactions. Whilst all MDs were made without reservation, the CB qualified its opinion in respect of the SG MD because of doubts concerning the accuracy and completeness of the control statistics.

6.2.5 All HoPAs made use of the "additional remarks" section within the MD to note issues not considered appropriate for a reservation, but which were considered prudent to be brought to the attention of the Commission. These covered the following issues, all of which were noted as subject to ongoing improvement:

#### **RPA**

- Bridging Payments;
- Planned Reconciliation;
- Inspections and Control returns; and
- Adjustment to EAFRD Account.

**SGRPID:**

- IT system underpinning the administration of the Basic Payment Scheme, Greening, Young Farmers and Voluntary Coupled Support;
- EAFRD – Issues included in the “live” Action Plan;
- Control Statistics; and
- Internal Audit

**DAERA**

- LFACA Debts

**WG**

- EAFRD Administrative Processing

6.2.6 Whilst the Commission raised a number of queries following submission, these were all responded to swiftly. The subsequent Article 33 Clearance letters were issued in April and proposed clearance of all four UK paying agencies’ accounts for both the EAGF and EAFRD Funds.

**ii) Financial Year 2017**

6.2.7 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 financial and controls testing undertaken in year 2. Work supporting the FY 2017 certification audit started in the late summer of 2016, with the initial focus on the re-verification of land-based schemes. The introduction of BPS and the associated new Direct Payment elements (such as Greening) for Claim Year 2015 created an increased inherent audit risk for Financial Year 2016, particularly in respect of new IT solutions needed to facilitate more complex scheme administration. As a consequence, additional testing was required as there was a reduction in the overall levels of controls assurance. Whilst the outcome of the FY 2016 audit was generally positive, the levels of inherent risk will remain for Financial Year 2017 and costs are not forecast to fall.

## **Certification Body**

6.2.8 The total gross cost of the 2016 exercise was confirmed at £2,946,435, a little higher than original forecasts, as NIAO (£43,000), NAO (£63,000) and WAO (£15,470) incurred additional costs in order to complete the audit to required Commission standards. The final total represents an increase of 17% from 2015 and highlights the additional costs of the requirement for Certification Bodies to re-verify on-the-spot inspections.

## **United Kingdom Accreditation Compliance Committee (UKACC)**

6.2.9 Background to UKACC, including its objectives, can be found in Appendix III. UKACC met once during the period under review, on 18<sup>th</sup> May 2016. The main issues discussed included:

Certification of Accounts (2015, 2016 and 2017 exercises);

Monitoring of corrective actions;

Rural Development Programme Closure

Submission to the Competent Authority (including a formal assessment against accreditation criteria);

Management Declarations;

IT Security and other Accreditation Issues.

## APPENDIX I

### Management Board Membership 2016/17

Michael Cooper	Director, UK Co-ordinating Body
Graeme Wilkinson	Department of Agriculture, Environment and Rural Affairs, Northern Ireland (DAERA)
Karen Lepper / Mike Rowe	Department for Environment, Food and Rural Affairs (Defra)
Trudi Sharp	Scottish Government (SG)
Dean Medcraft	Welsh Government (WG)

The Management Board met on 6<sup>th</sup> July 2016, 12<sup>th</sup> August 2016 and 25<sup>th</sup> November 2016 and held a teleconference on 17<sup>th</sup> January 2017 to discuss the implications of the Commission's draft certification guidelines for financial year 2018.

## APPENDIX II

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

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

1. PADF was established in 2010 under the rotational chairmanship of the UK paying agencies. It meets three times a year and is timetabled to follow the Paying Agency Coordination Board (PACB). The purpose of PADF is to ensure a consistent strategic approach in implementing the Common Agricultural Policy across the UK, both regarding horizontal regulations and the regulations specific to individual schemes. This approach is subject to variation arising from the application of regional options permitted under EU legislation.

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

3. 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)**

4. 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.

5. 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)**

6. 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.

### **United Kingdom Accreditation Compliance Committee (UKACC)**

7. UKACC was established in 2008 to consider matters concerning the 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 III

### European Maritime Fisheries Fund (EMFF) UK Certifying Authority

#### 1 Purpose & Aim of the Organisation

1.1 This is the second year the UK Certifying Authority has resided within the UK Co-ordinating Body. It holds responsibility for the accurate certification of funds expended by the four UK intermediate bodies in England, Scotland, Northern Ireland and Wales, and the subsequent submission to the European Commission of a payment claim requesting re-imburement of expended monies through the administration of the UK European Fisheries Fund 2007 – 2013 and the EMFF 2014 - 2020.

1.2 Working closely with the UK Managing Authority and the UK Audit Authority, the UK Certifying Authority agrees the frequency of claims based on the need to close the programme on an annual basis. This decision is made primarily on spend and timing can include other factors such as exchange rate fluctuations and progress towards achieving the yearly spend as detailed in the Operational Programme. It is driven by the progress recorded on the financial monitoring system held and administered by the UK Managing Authority which is discussed on a regular basis between the two authorities.

1.3 This year saw the Closure of the European Fisheries Fund 2007 to 2013 which brought to an end 7 years of funding. The programme at commencement was worth €137 million, this amount was divided between the four intermediate bodies as follows:

Scotland: €55,140,000

England: €47,927,889

Northern Ireland: €18,100,000

Wales: €16,660,000

The total benefit to the UK from this programme amounted to €103,858,872.30 broken down across the UK as follows:-

Scotland: €47,555,027

England: €36,271,993

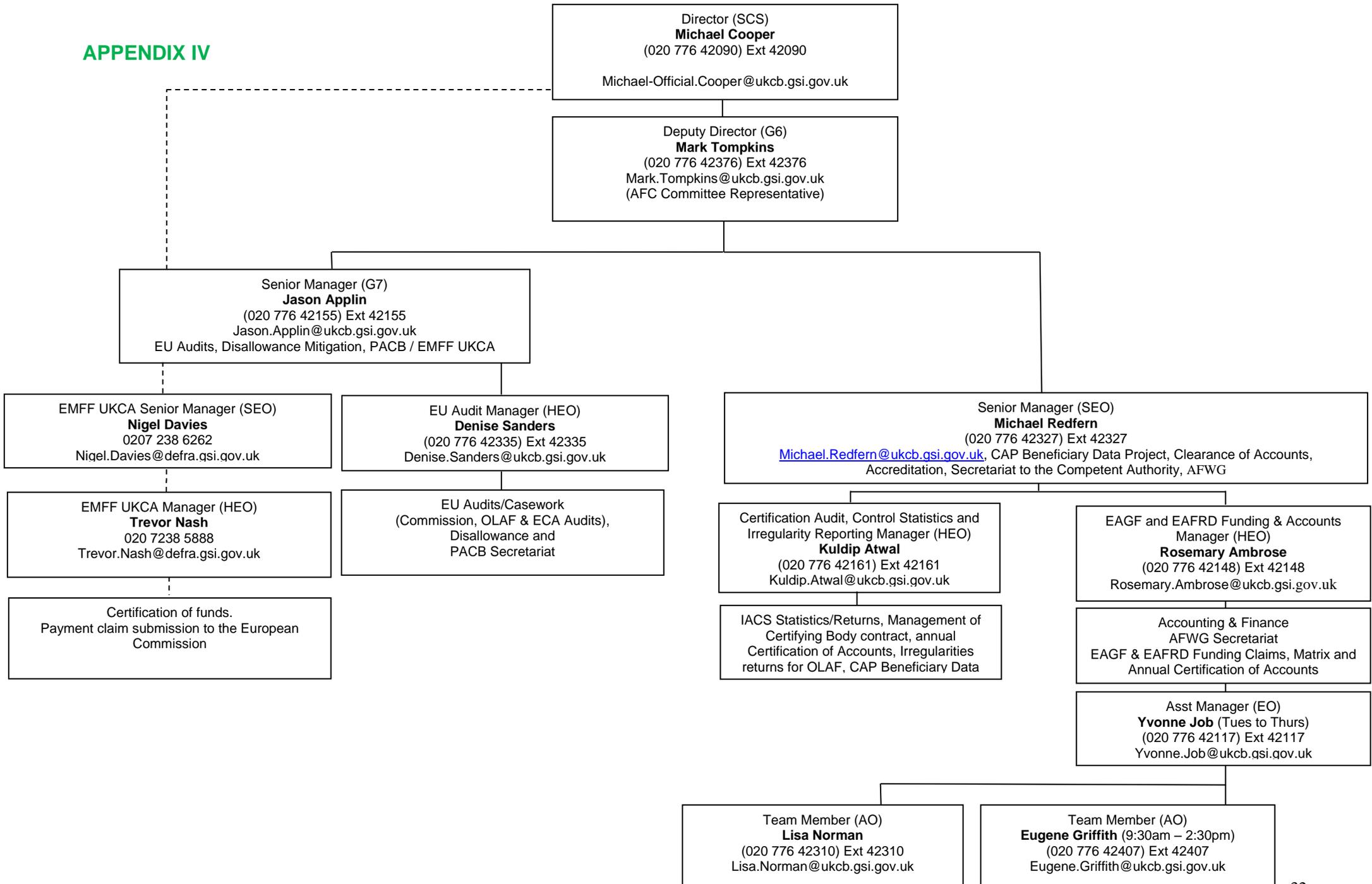
Northern Ireland: €8,870,878

Wales: €11,160,973

## **2 The European Maritime Fisheries Fund 2014 to 2020**

2.1 This programme has yet to submit a claim for reimbursement. However, Defra Internal Audit has now designated the UK wide authorities responsible for the governance of this programme and the UK expects to submit a claim by the end of June 2017. The UK has been allocated €243 million. This amount is further broken down by core EMFF, Enforcement & Control and the Data Collection Framework.

**APPENDIX IV**



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